

Advance Planning Needed to Adapt to Ageing Populations, UN Report Says

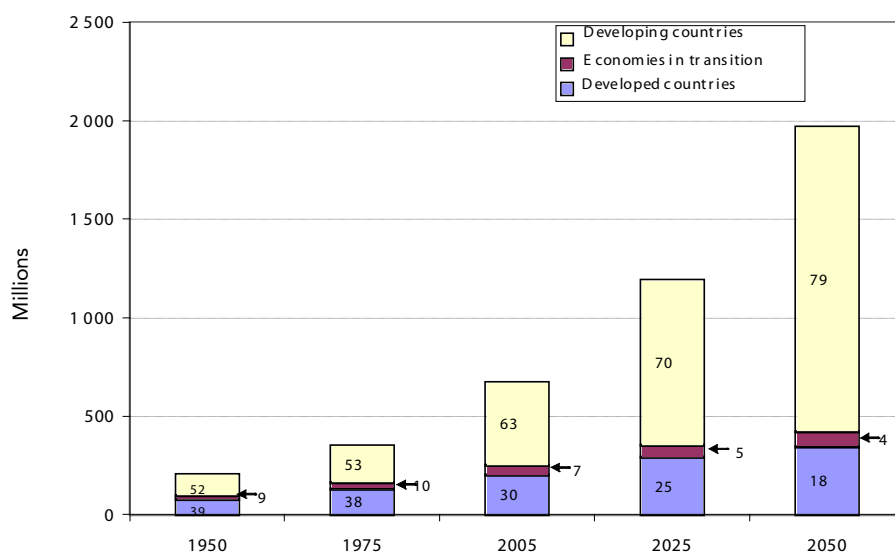
United Nations New York, 19 June: With ageing having a profound impact on economic and social development worldwide, policy responses put in place ahead of time could ease adaptation and harness the benefits of long-term demographic changes, the United Nations announces in a new report launched today.

As the proportion of older persons continues to increase at unprecedented rates worldwide, the share of the population of working age will shrink and the labour force itself will grow older, the *World Economic and Social Survey 2007 (WESS)* says.

Developing countries that still have a growing youth population, especially low-income economies, will experience a strong growth in their labour force until 2050. And that growth may open a unique window of opportunity for economic development if required policies are put in place, says the *WESS*.

At the same time, the report notes that in many developing countries the process of population ageing is already taking place and at a much faster pace and at lower levels of income than it did in developed countries. At current trends, by 2050 almost 80 per cent of the world's population of 60 years and older is expected to live in what are now developing countries. (See figure1)

Figure 1: Size and distribution of world population aged 60 years or over, 1950, 1975, 2005, 2025 and 2050



Note: (1) The graph shows estimates (until 2005) and medium-variant projections (after 2005).
(2) Percentages are shown inside the bars. Source: UN/DESA.

While many responses to overcome the possible negative consequences of ageing on economic growth, including international migration and outsourcing of employment, have been suggested, measures geared toward stimulating productivity growth may have to carry

the most weight, the *Survey* concludes. In most cases, increases in productivity would need to be coupled with measures aiming to stem the fall in labour supply, such as raising the participation rates of women and older workers. According to the *Survey*, between 60 to 85 per cent of the required increase in productivity to maintain a given rate of output growth in developed countries would be needed to offset possible negative effects of a slower growing labour force on income growth.

International migration is unlikely to provide a solution to the decline of labour force in developed countries because it is not expected that any country would admit the massive amount of migrants needed to fill the gap. To offset the projected increase in the old-age dependency ratio, the *Survey* estimates that the European Union, for instance, would require a constant net inflow of 13 millions immigrants per year in the next 50 years while Japan and the United States would each have to absorb 10 millions migrants per year.

On the other hand, outsourcing of employment to off-shore locations may alleviate labour shortage by shifting production abroad, yet it will not reduce the pressure on old-age pension system because it does not lead to the necessary expansion of the contributory base in the home country.

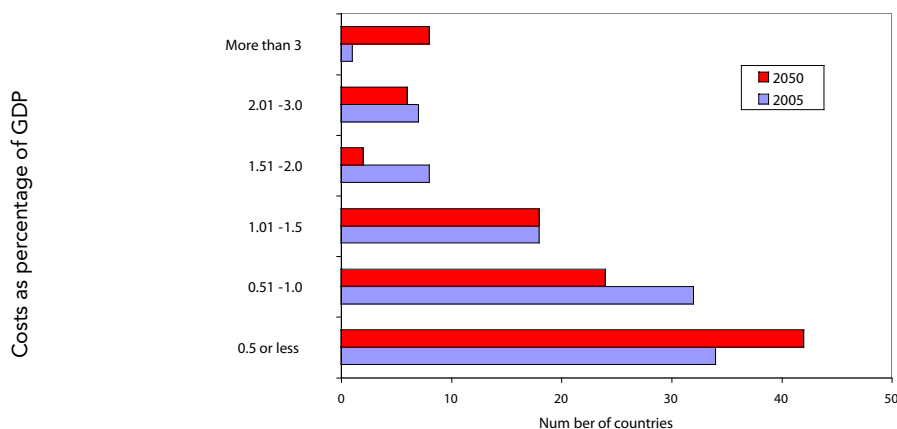
Social security and health care systems under additional strain

Ageing will also affect the income security of older persons and the financial viability of pension systems and costs of health-care systems.

Living standards often decline for people at older ages. And 80 per cent of the world's population does not have adequate protection in old age against health, disability and income risks. In developing countries alone, an estimated 342 million older persons currently lack adequate income security. The number will rise to 1.2 billion by 2050, if the coverage of current pension schemes is not expanded.

Old age poverty tends to be high in countries which lack a comprehensive formal pension system; the introduction of old age pensions and/or cash transfers towards older persons have been a powerful instrument to reduce poverty in old age both in developing and developed countries. In most contexts, a universal social pension which offers benefits equivalent to the international extreme poverty line (\$1 a day) seems to be affordable, even in low income countries, according to estimates presented in the *Survey* (see figure 2). Expanding coverage, though, is a major challenge for the poorest countries.

Figure 2: Simulated costs for developing countries of universal social pensions designed to keep older persons out of extreme poverty, 2005 and 2050.



Note: Universal pensions are estimated at \$1 per day for all persons aged 60 years or over. The annual rate of GDP growth for the period 2005-2050 is assumed to be equal to that observed in the period 1990-2005. Source: UN/DESA.

At the same time, in countries with extensive coverage, pension schemes are under pressure because of increased longevity, faulty programme design, mismanagement, insufficient economic growth and inadequate employment generation. Reforms are urgently needed.

The design of pension systems and their reform need to be based on a broad approach argues the *Survey*. Pension systems have to be tailored to country-specific conditions. In this regard, pension system can be seen as constructions consisting of multiple layers or pillars adjusted to the prevailing characteristics and needs of different segments of society. Financial sustainability is an important guiding principle in the design of a pension system, but not the only one: providing minimum economic security for all is the ultimate goal. Thus ensuring solidarity, accessibility and adequacy of benefits are other relevant principles to take into account. Overall, the *Survey* says, the demographic dynamics do not pose an insoluble problem for old-age pension schemes.

Population ageing poses challenges to national health care systems. For developed countries, ageing may imply rising health costs and attempts to maintain adequate levels and quality of health and long-term care for an ageing population. The challenge for many developing countries is even larger as, counting on fewer resources, they still have to resolve many basic health issues while addressing the increase in the demand for health care services brought about by increasingly older populations.

The challenge of adapting existing health and long-term care systems to the ongoing demographic and epidemiological changes is large. Yet, the demographic impact on health spending over the next 50 years or so would account for no more than a few percentage points of gross domestic product. As argued in the *Survey*, other factors than ageing turn out to be more important in driving up the future cost of health care, such as changes in health-seeking behaviour by individuals, inefficiencies in the delivery of health services, introduction of new medical technologies, price increases of pharmaceuticals and health insurance policies.

Population ageing will definitely influence health care expenditures, but need not consume unsustainably large shares of national income in the future. The composition of health care spending will have to undergo substantial changes with increasing importance to medical and long-term care services. In addition, policy makers should consider focused interventions in preventive health care and education, such as discouraging smoking and excessive drinking and encouraging physical exercise to reduce obesity. These measures could help to reduce the risks of developing chronic illnesses such as cancer, diabetes and cardiovascular diseases later in life and be part of the actions towards containing the rise in health costs.

Challenges are surmountable and opportunities should be seized

The World Economic and Social Survey 2007 emphasizes that the challenges posed by rapid population ageing, while large, they can be overcome through well-focused policies and without excessive strain on available resources. The *Survey* calls on Governments and the international community to redouble efforts to incorporate ageing into the international development agenda to realize the objectives of the Madrid International Plan of Action on Ageing.

Summing up:

- Population ageing reflects development and is inevitable.
- Fertility and migration policies could delay, but will not avoid population ageing.
- Negative effects of slower labour force growth can be offset by increasing both overall labour productivity and participation rates for women and older workers in ageing societies

- Improved working conditions for older persons can extend working life and enhance their contribution and participation in the economy.
- Old age pension systems must be based on multi-pillar systems, but with a universal social pension scheme at its basis to provide a minimum of income security and keep older persons out of poverty.
- Health and long-term care systems need to be reformed and adapted to ageing populations. Health cost will likely rise in coming decades, but ageing is not the principal factor. Health and long-term care cost may be contained by focusing on preventive action, measures that limit rising costs of drugs and treatments and promotion of home-based care systems.

For further information, please visit <http://www.un.org/esa/policy/wess/> or contact Rob Vos, UN Department of Economic and Social Affairs, + 1 212 963 4838, vos@un.org or Franck Kuwonu, UN Department of Public Information, +1 212 963 8264, email: kuwonu@un.org.