European Centre for Social Welfare Policy and Research, Vienna

Mainstreaming Ageing

Winter 2010/2011

Supporting the UNECE Regional Implementation Strategy for the Madrid International Plan of Action on Ageing

Dear Reader,

As a response to rising pension expenditures and the new fiscal challenges created by the financial crisis and economic downturn, a number of countries have introduced changes in their pension system. The raising of the retirement age in France, for instance, has received much media attention. In this newsletter issue, we present information on recent policy changes and research in Austria, Hungary, Norway and the UK.

Eszter Zólyomi
Project Coordinator

News in brief...

US – Retirement Reality Study 2010

Published by AXA Equitable, the report for the US indicates that Americans are more prepared towards their retirement and start planning earlier than their counterparts in other countries. The study is based on a large global survey on retirement.
More

UK – How can local authorities with less money support better outcomes for older people?

Written by the Centre for Policy and Ageing (CPA), the paper provides examples of imaginative, affordable and effective ways of supporting older people's health, well-being, social engagement and independence. It highlights projects with local authority involvement from across the UK. The paper was launched by the Joseph Rowntree Foundation as part of its Solution series.
More

World – The Role of Migrant Care Workers in Ageing Societies

A new report from the International Organisation for Migration presents the comparative results of a research project on the role of migrants in the workforce of caregivers for the elderly in the United Kingdom, Ireland, Canada and the United States.
More

Ageing, Health and Pensions in Europe

An Economic and Social Policy Perspective

The book, edited by Lans Bovenberg, Arthur Van Soest and Asghar Zaidi, presents an overview of the future research challenges for economists and other social scientists concerning population ageing, pensions, health and social care in Europe.

Various experts discuss how scientific research can provide cutting-edge evidence on income security of the elderly, well-being of the elderly, and labour markets and older workers: three themes dominating the current European economic and social policy debate.

The book develops a research agenda that exploits the diversity of welfare-, health-, and pension-systems in Europe to better understand the key relationships between institutional arrangements, individual decision-making, labour force transitions, income security, health and well-being of older age groups.

By adopting a forward-looking approach, the book discusses the remaining knowledge gaps and research opportunities. In the final chapter of the book the editors review data needs and other infrastructure requirements and explore the implications for research policy.

For more information visit the website or contact Asghar Zaidi.

Living longer and prospering?

A new study by the Oxford Institute of Ageing and Club Vita explores the possibility of a variable state pension age in the UK.

In their study, the authors (Sarah Harper and Kenneth Howse from the Oxford Institute of Ageing, and Steven Baxter from Club Vita) argue that the state pension system in its current form is unsustainable and the Government´s plan to increase the pension age to 66 by 2020 will not be enough to achieve a sustainable system alone. The study suggests that instead of paying state pensions at a fixed age other mechanisms, such as linking pension payments to healthy life expectancy or lifetime earnings, should be considered. According to the authors, using health adjusted life expectancy as a mesaure is more relevant to decisions on reforms to state pension and to changes to state pension age than average life expectancy given the wide variations in life expectancy accross the UK. A 65 year old woman living in Kensington or Chelsea, for instance, can expect to live nine years longer than a woman from Glasgow City.

The study also provides analysis on the possible benefits and shortcomings of introducing a universal flat-rate state pension as proposed recently by the Government.

The importance of policies to incentivise the labour force participation of older people is also emphasised by the authors.

Key measures of the Pensions Bill 2011 include the following:

- Implement workplace pension reform measures from the Making Automatic Enrolment Work Review;
- Bring forward the timetable for increasing the State Pension age to 66; and
- Allow contributions to be taken towards the cost of providing personal pension benefits to current judicial pensions scheme members.

More on the publication

Further information on the UK Pensions bill can be found here.

Norway implements pension reform

On 1 January 2011, substantial changes to the National Pension Insurance Scheme were introduced.

As in many other European countries, increasing longevity and rising pension expenditures in Norway were the main drivers for the reform, which is expected to result in lower benefits, particularly for high-earners.

The main changes include:

- Old age pension benefits to be calculated based on average lifetime contributions instead of the previously used best 20 years.
- Retirement age changed from a fixed 67 years to a flexible retirement age (ranging from ages 62 to 75).
- Using life expectancy at the age of retirement as a basis to calculate the level of pension.
- Pensions in payment to be indexed in line with wage growth minus 0.75% points annually.
- The flat-rate contributory pension was replaced by an income-tested pension.

The reform will be phased in based on the year of birth.

For more information visit the following website.

Flexi-Pension:
Model of a New Pension System for Austria

Evaluating the need for action in the existing Austrian pension system.

In 1970, 43 working years were followed by 15 pension years in Austria. In 2010 the figures are 35 working years and 25 pension years with an increasing tendency. More than 2.5 million pensions are paid out but the number of persons 65 years and older is less than 1.5 million. The pension payments, in total, amount to 42 billion EUR or 15% of the GDP per year (2010). Till 2014, the subsidy requirement by the state will increase to almost 16 billion EUR or 4.8% of the GDP.

Almost every third pension will not be covered by contributions (all figures including civil servants).

In response to these (problematic) trends, the European Centre developed a "Flexi-Pension"-Model. Its main features are:

- Contributory-defined personal pension account.
- Flexible pension age if at least a pension above the amount of the minimum pension top-up has been accrued.
- For the annuities, the remaining life expectancy at retirement age is taken into account.
- After at least 7 working years, employed persons can take a paid sabbatical (for family reasons, etc.) of up to one year.

The model has been developed on the basis of central pension parameters, such as total costs of the pension system, subsidy requirements by the state, system dependency ratios etc., today and in the future. The model, on the one hand, enables extensive flexibility for insured persons and, on the other hand, safeguards the financial sustainability of the pension system.

For more information, contact **Michael Fuchs**.

The model has been developed for the Management Club, an Austrian platform for managers interested in political issues.

Should I stay or should I go?

The big Hungarian pension dilemma

The three million private pension fund members have until the end of January 2011 to decide about their future old age pension.

According to new legislation, passed by the Hungarian Parliament on 13 December 2010, members of the mandatory private pension funds have to decide whether they opt out and join the first pillar state pension scheme or stay in their private pension fund. Those who choose to remain are required to submit a declaration to the Statutory Pension Funds by the end of January 2011. Failing to do so, they will be automatically moved to the state pension scheme.

Those staying in the private pension fund will loose entitlement to any state pension in the future even though employers will have to continue paying pension contributions based on the salary of the individual. These employer contributions will, however, be diverted to the state pension fund with no benefit to the employee. Under these conditions there is hardly anyone for whom it would be worth to stay in the private pension fund.

Private pension fund members by age groups (%)

Age groups	1998	2008
<20	4.8%	1.3%
20-30	46.7%	32.7%
31-40	35.2%	37.7%
41-50	13.2%	21.6%
51-60	0.1%	6.5%
60 plus	0.0%	0.0%

Source: Ministry for National Economy, Hungary.

Pension fund members who have a longer period until retirement face the highest risk if they choose to stay, according to pension expert Agnes Matits. It is particularly true for those who do not yet have the minimum 20 years required to receive a state pension in Hungary (15 years for a partial pension). The expected loss is lower for those who are close to retirement, but it is unlikely that this loss could be compensated by any private pensions.

There seems to be hardly any choice to be made here, but to opt out of the private pension scheme, which was clearly the Government´s intention with the new legislation. For, in that case all their private pension fund assets will be moved to the state budget.

The Government´s decision essentially means the end of the private pension pillar and as such it is a complete reversal of the pension reform implemented more than a decade ago.

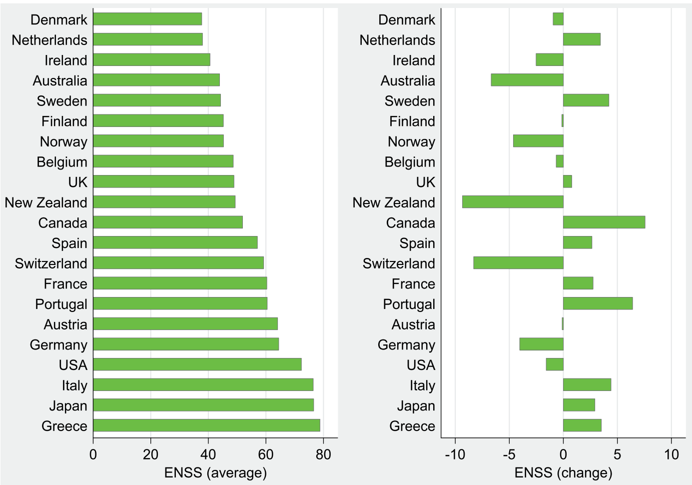
The 1997 pension reform (implemented on 1 January 1998) established a multi-pillar pension system in Hungary. In addition to the existing public pay-as-you-go scheme (1st pillar), a second mandatory funded private pension pillar was introduced. Joining to this mixed system was obligatory for those entering the labour market, and optional for the current labour force.

Information provided by **Eszter Zolyomi** (European Centre, Vienna)

Investigating the relative pro-elderly bias of OECD welfare states

OECD democracies have been coping with accelerating population ageing, as a combined result of longer life spans and lower fertility rates. This has led to a rise in the demand for old-age in-cash and in-kind benefits and health care spending, and possibly also to a lower pressure for spending on younger generations. Many studies have investigated how welfare spending towards particular programs, such as health, pensions and elderly care, has evolved over time as a result of population aging. But with rare exceptions (e.g. Lynch 2006), few scholars have investigated how welfare state as synthetic ‚wholes', or ‚models' have evolved. Has population aging over the last few decades led to more pro-elderly biased patterns of welfare spending in the OECD world? Which particular countries are the most pro-elderly biased – and which the least?

To answer these questions, Pieter Vanhuysse from the European Centre Vienna, together with Markus Tepe (University of Oldenburg), has computed an aggregate measure of the relative overall spending bias towards elderly age groups of 21 OECD welfare states between 1980 and 2003. Their first results on the elderly/non-elderly spending share, henceforth the ENSS, have been published in the Journal of European Social Policy (Tepe and Vanhuysse 2010). The ENSS is defined here as the total spending share of two clearly pro-elderly programs (pensions and survival benefits) within a larger, eight-program welfare state' consisting, in addition, of spending on less clearly pro-elderly programs such as incapacity benefits, family programs, active labor market programs and unemployment benefits. The Figure shows average values for the ENSS between 1980 and 2003 (left panel) as well as changes in these values between the periods 1998-2003 and 1986-1991 (right panel).



Source: Tepe and Vanhuysse (2010, p. 223)

Exploring changes over time, it is clear that there have been mostly relatively small changes in ENSS in both directions in the OECD world in recent decades. But four salient outlier cases serve to qualify this statement. Canada and Portugal have both seen large increases in the relative pro-elderly bias of their welfare states, while the welfare state in New Zealand and Switzerland has actually become much less pro-elderly biased since the late 1980s. Another inte resting observation is that the variance in average ENSS values within the OECD world is remarkably large. Averaged over the entire period considered, the countries most heavily biased in their public policy spending patters towards elderly as opposed to non-elderly generations clearly tend to be the USA, Japan, Switzerland, Austria, and all Southern European welfare regimes, most notably Greece and Italy. By contrast, Scandinavian and Anglo-Saxon countries, the USA excepted, all figure among the least pro-elderly regimes.

At first glance, spending patterns might seem to reflect spending needs. High-ENSS countries such as Italy and Japan are clearly among the most elderly societies in the OECD world, whereas a low-ENSS country such as Ireland also happens to be demographically relatively young. But, perhaps counterintuitively, population aging cannot explain much of the variance among ENSS values. In fact, Tepe and Vanhuysse (2010) even show that once one controls for other relevant socio-economic factors such as GDP growth and the size of the service sector economy in between-country regression models, demographically older OECD countries simply do not turn out to have significantly more pro-elderly biased welfare states. Take countries such as Finland and Sweden, which have demographically older societies than, for instance, the USA. Yet Finland and Sweden nevertheless boast much lower ENSS values than the USA, in great part thanks to their greater and longstanding commitment to investment in family allowances, active labor market policies and similar human capital policies. Looking towards future work, historically informed and explicitly political research focusing on the role of cultures of governance and electoral coalitions at historically critical junctures as they have crystallized over time in different institutions, or even 'worlds,' of welfare may furnish promising alternative hypotheses for understanding the deeper causes of old-age bias in OECD welfare states.

For more information, contact **Pieter Vanhuysse**

References:

Lynch, Julia (2006) Age and the Welfare State, Cambridge, Cambridge University Press.

Tepe, Markus & Vanhuysse, Pieter (2010), ‚Elderly Bias, New Social Risks, and Social Spending: Change and Timing in Eight Programs across Four Worlds of Welfare, 1980-2003', Journal of European Social Policy, Vol. 20, No. 3, pp. 218-234.

Upcoming events

- ### *ERA-AGE2 Forum*

  1 March 2011, Vienna, Austria
  The overall theme of the forum will be based around Ageing and Technology. The event is organised by the European Research Area in Ageing 2 (ERA-AGE2) and hosted by the Austrian Academy of Sciences. Prokect partners as well as a wide range of scientists, academics and other interested parties are invited to participate.
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- ### *Ageing in America: 2011 Annual Conference of the American Society on Aging*

  26-30 April 2011, San Francisco (CA), US
  The Aging in America conference is the gathering of a diverse, multidisciplinary community of professionals from the fields of aging, healthcare and education. The conference provides a forum for policy discussion and advocacy, and it is a prime source of information on new research findings in aging with a focus on research to practice. More

- ### *1st User Conference of the GGP – Demographic and Social Challenges in an Ageing Europe*

  23-25 May, Budapest, Hungary
  The conference will provide a platform for the presentation of research based on the Generations and Gender Survey (GGS) and the GGPContextual Database and be a forum for exchanges between existing and potential GGP users. More

- ### *British Society of Gerontology (BSG) 40th Annual Conference*

  5-7 July, University of Plymouth, UK
  The theme of the conference is "Understanding and promoting the value of older age" covering a wide range of issues such as social and community engagement, innovations in health and social care, intergenerational relations, well-being and quality of life, and the role of technologies. More

The European Centre for Social Welfare Policy and Research, an intergovernmental organisation affiliated to the United Nations, has been mandated to undertake various follow-up activities of the Madrid International Plan of Action on Ageing since 2002.

The Mainstreaming Ageing: Indicators to Monitor Implementation (MA:IMI) project is an institutionalised collaboration between the European Centre and the United Nations Economic Commission for Europe (UNECE).
Eszter Zólyomi is the Project Coordinator.
For further information please visit the Monitoring RIS website

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Financed by:

Austria, Belgium, Cyprus France, Luxemburg, Spain, Switzerland