



1st FORUM  
On Population Dynamics  
and Economic Prosperity  
NOVEMBER 4, 2024  
Center of Mediterranean Architecture  
Chania



OECD Crete Centre



# ADDRESSING THE FISCAL IMPLICATIONS OF POPULATION AGEING

FIRST OECD CRETE CENTRE FORUM ON POPULATION  
DYNAMICS AND ECONOMIC PROSPERITY

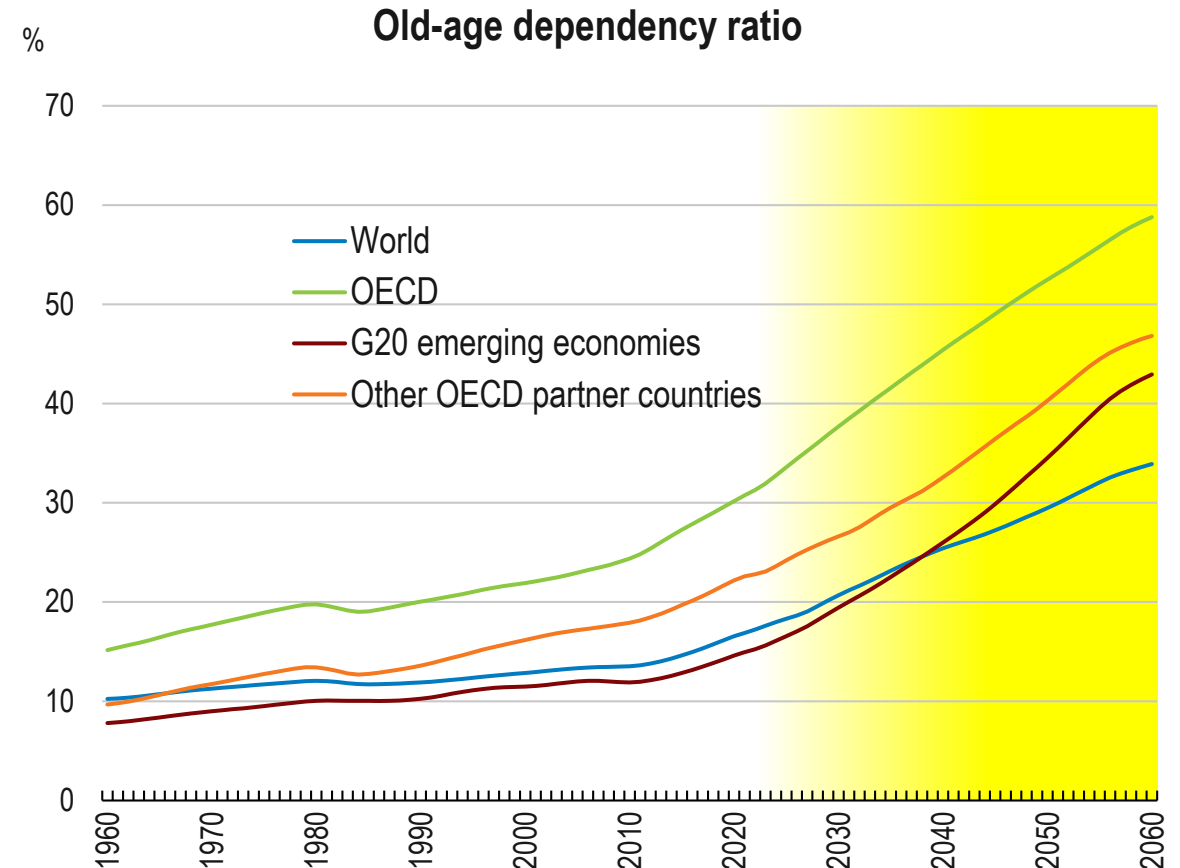
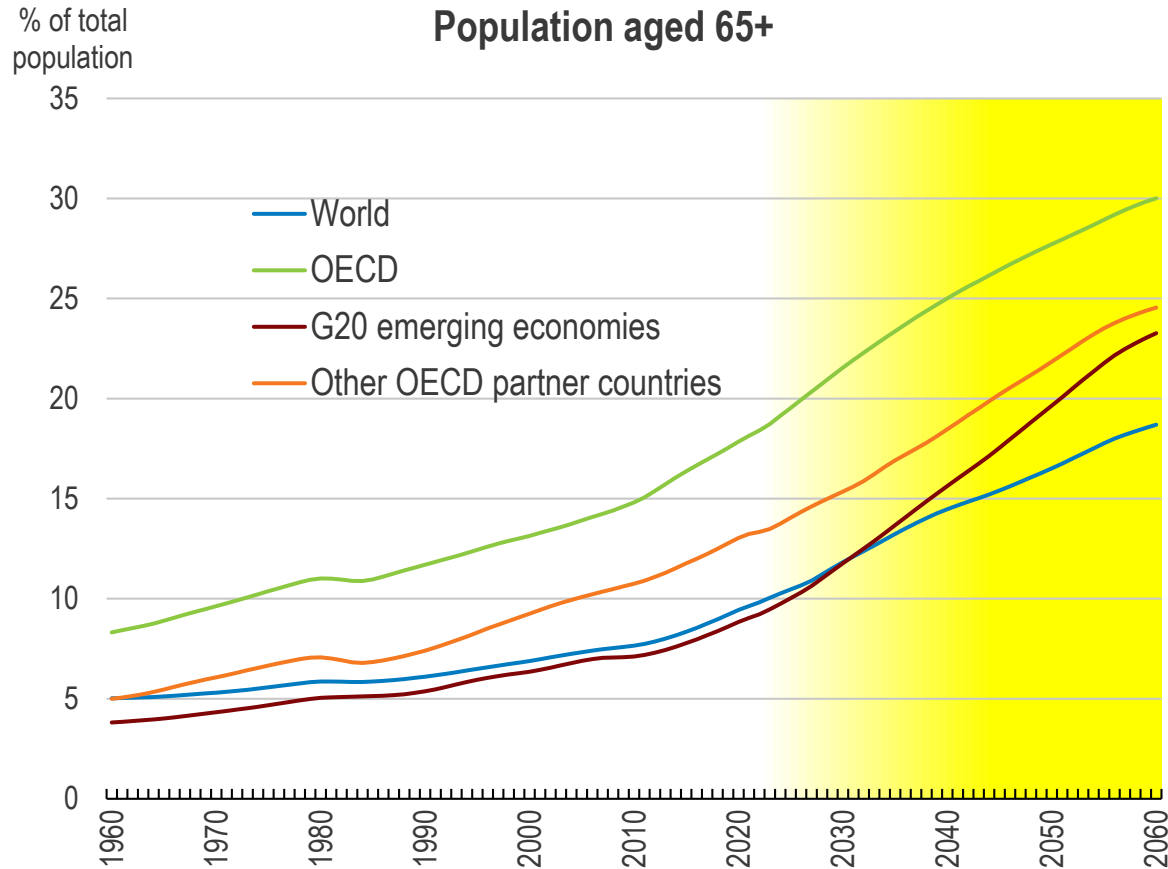
4<sup>TH</sup> NOVEMBER, CHANIA  
CRETE

**Filiz Unsal**

Head, Structural Policy and Research  
Economics Department, OECD



# Populations around the world are ageing rapidly.

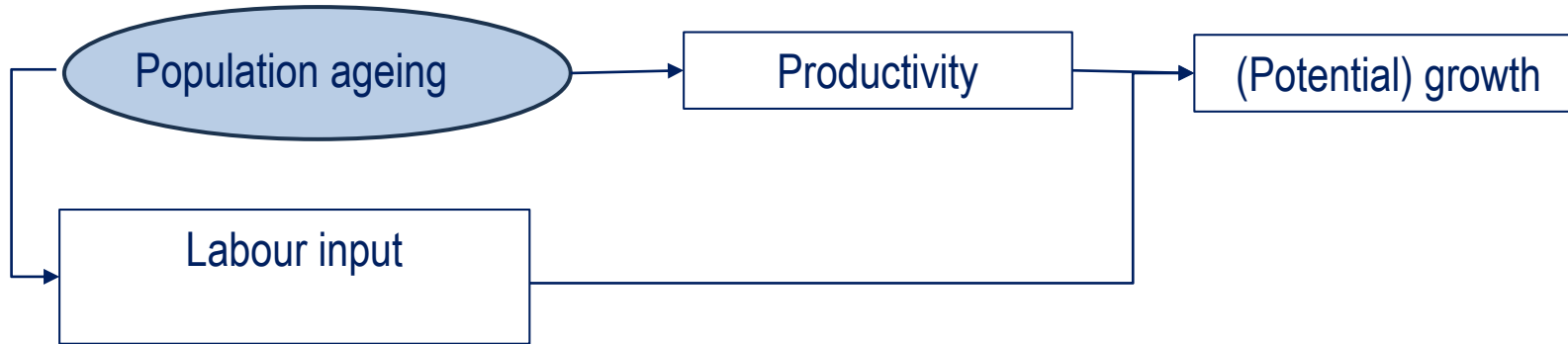


Note: G20 emerging economies include Argentina, Brazil, China, India, Indonesia, Russia, Saudi Arabia, and South Africa. Other OECD partner countries include Bulgaria, Croatia, Romania, Peru, Maroc, Tunisia, and Egypt. The highlighted area refers to the projection period. Projections are based on the “medium variant” population projections from the United Nations.

Source: United Nations World Population Prospects: The 2022 Revision.

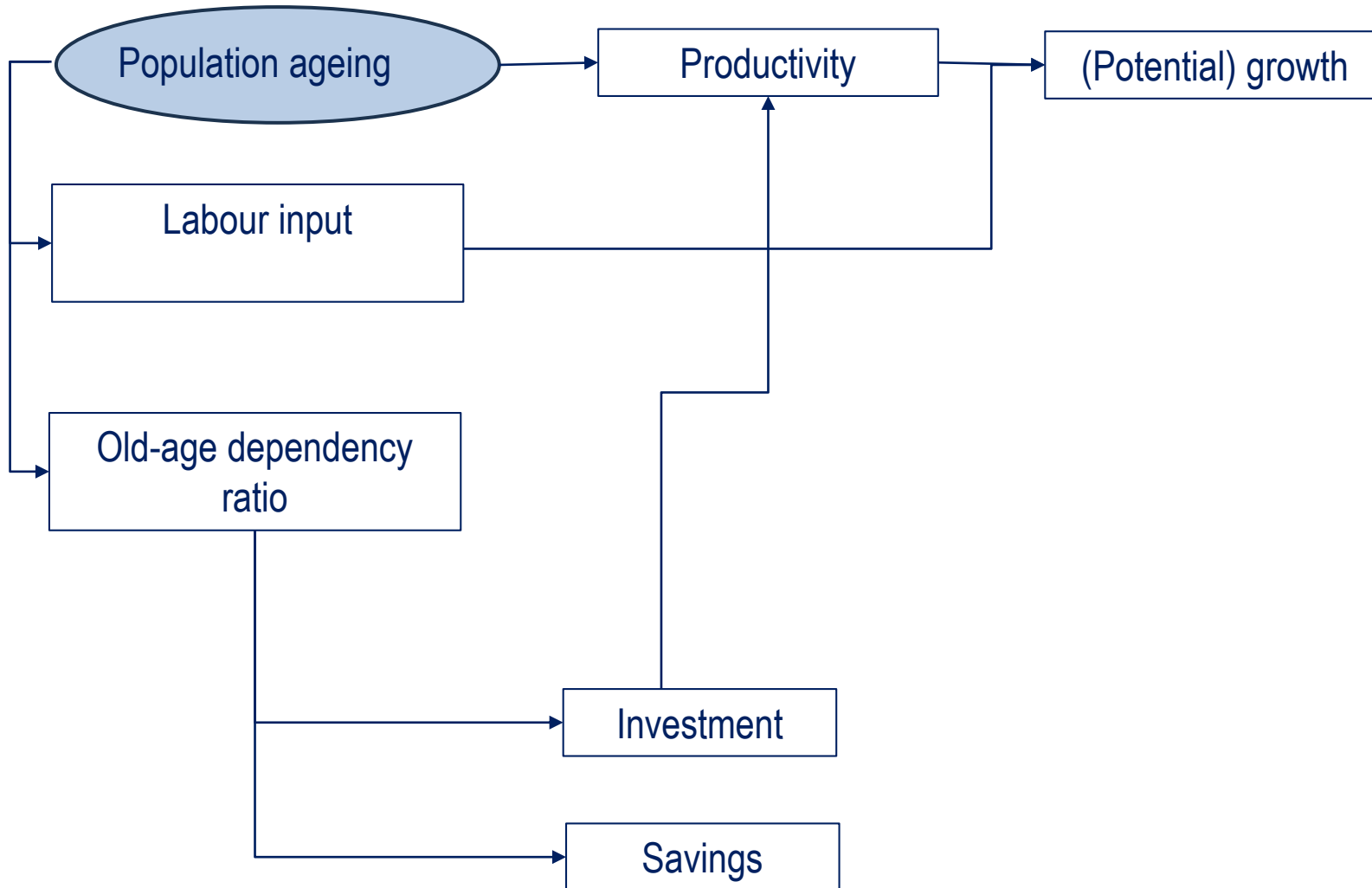


# Population ageing impacts public finances through multiple channels.



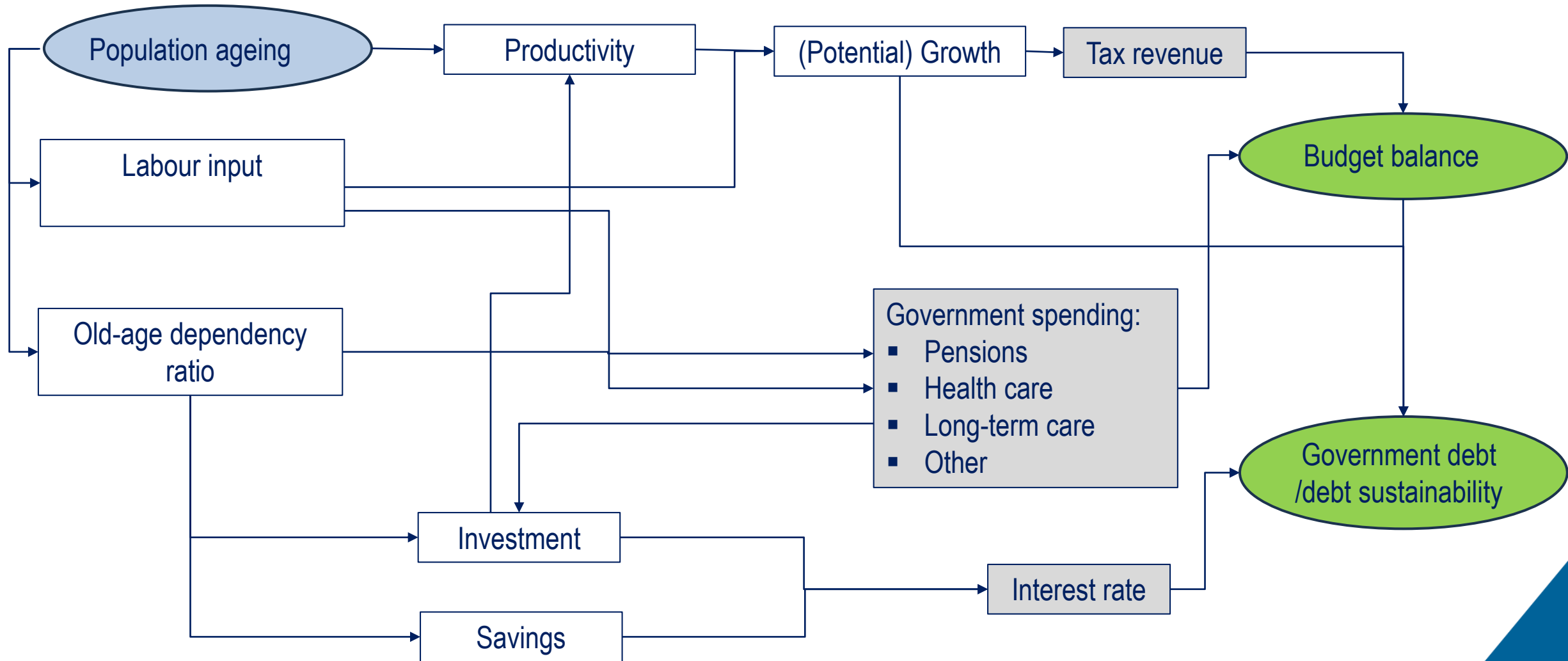


# Population ageing impacts public finances through multiple channels.



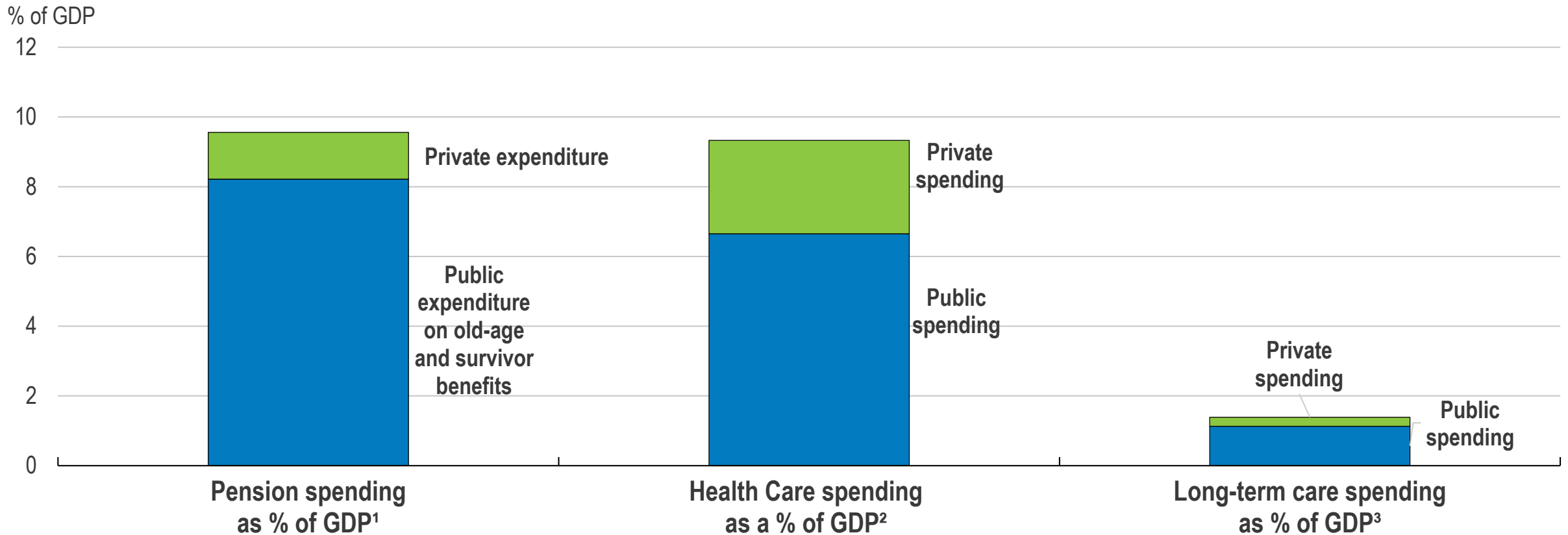


# Population ageing impacts public finances through multiple channels.





# Most ageing-related spending is publicly financed.



Note: 1. Pension includes both old-age and survivors' benefits. The private expenditure refers to the pension expenditure financed by mandatory private schemes. Data refer to 2019.

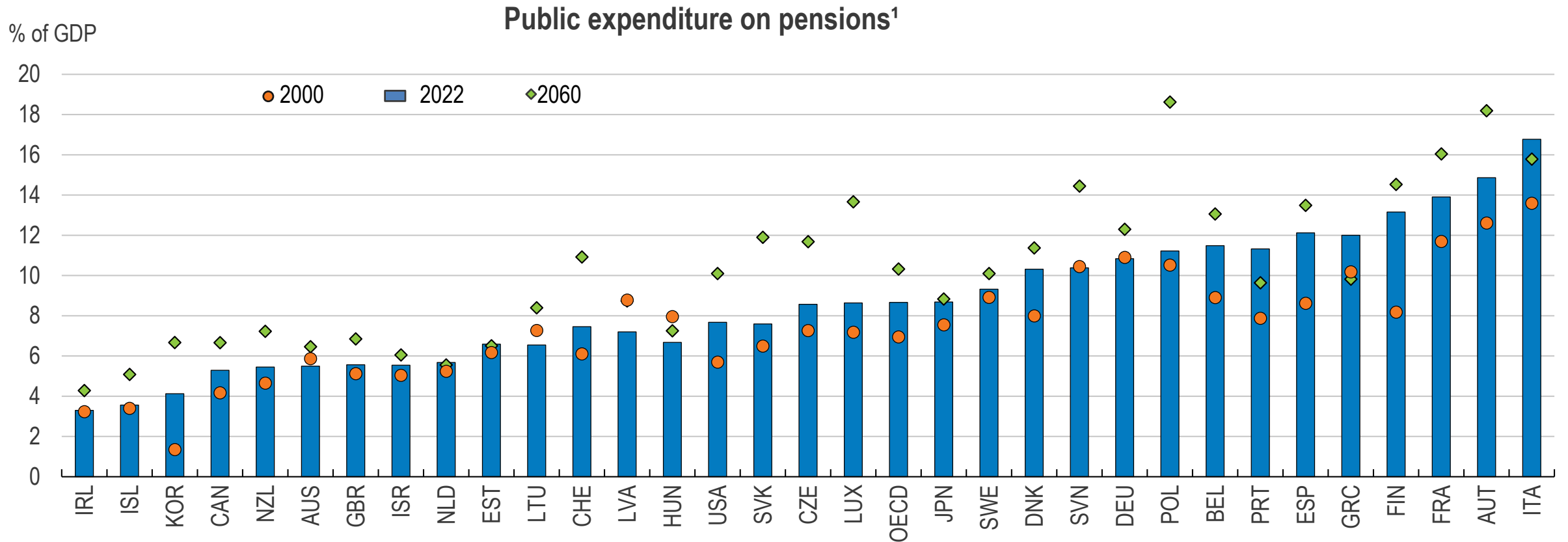
2. Data refer to 2022 or latest year available and include the health component of long-term care.

3. Data include both the health and the social component of long-term care. Data refer to 2021 or latest year available.

Source: OECD Social protection and well-being database; and OECD Health database.



# Ageing will put pressure on public pension spending.



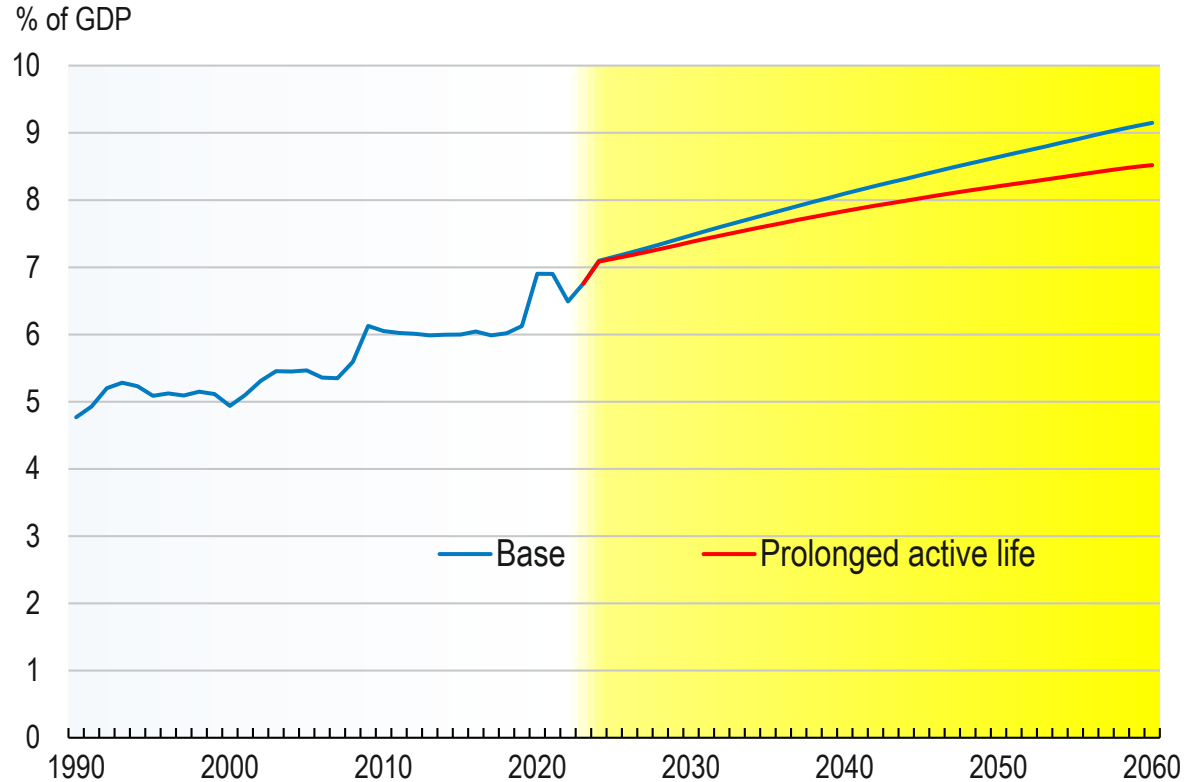
Note: 1. on old-age and survivor benefits

Source: OECD Social expenditure aggregates database; and OECD Economic outlook database.

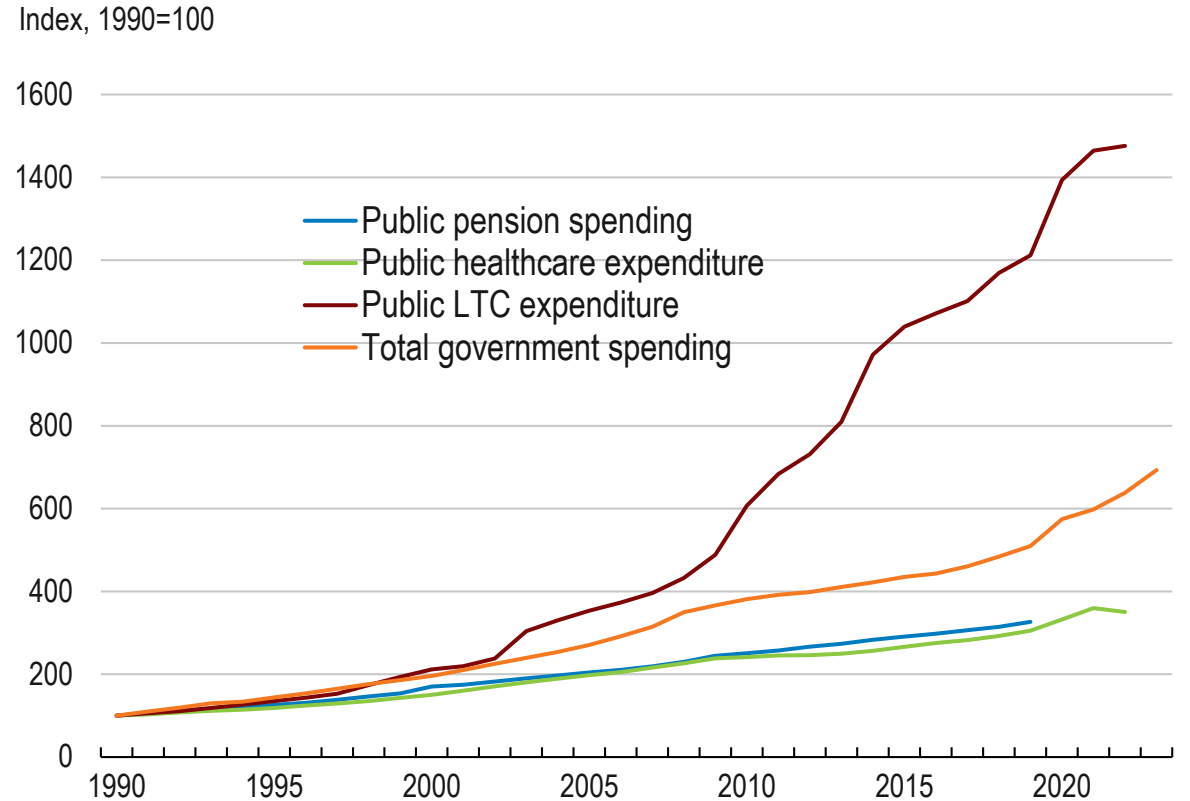


# Public health costs will rise, but long-term care costs will surge faster.

### Public spending on health care



### Public expenditure



Note: Public health expenditure includes the health component of the long-term care expenditure.  
Source: OECD Economic Outlook database; and OECD Health database.





# Addressing the fiscal impact of population ageing requires a comprehensive strategy.

---

## Reforming pension, health care and long-term care systems:

- Align effective and statutory retirement ages
- Link retirement to life expectancy
- Promote healthy ageing
- Promote home-based long-term care

## Structural reforms to help boosting participation at older ages:

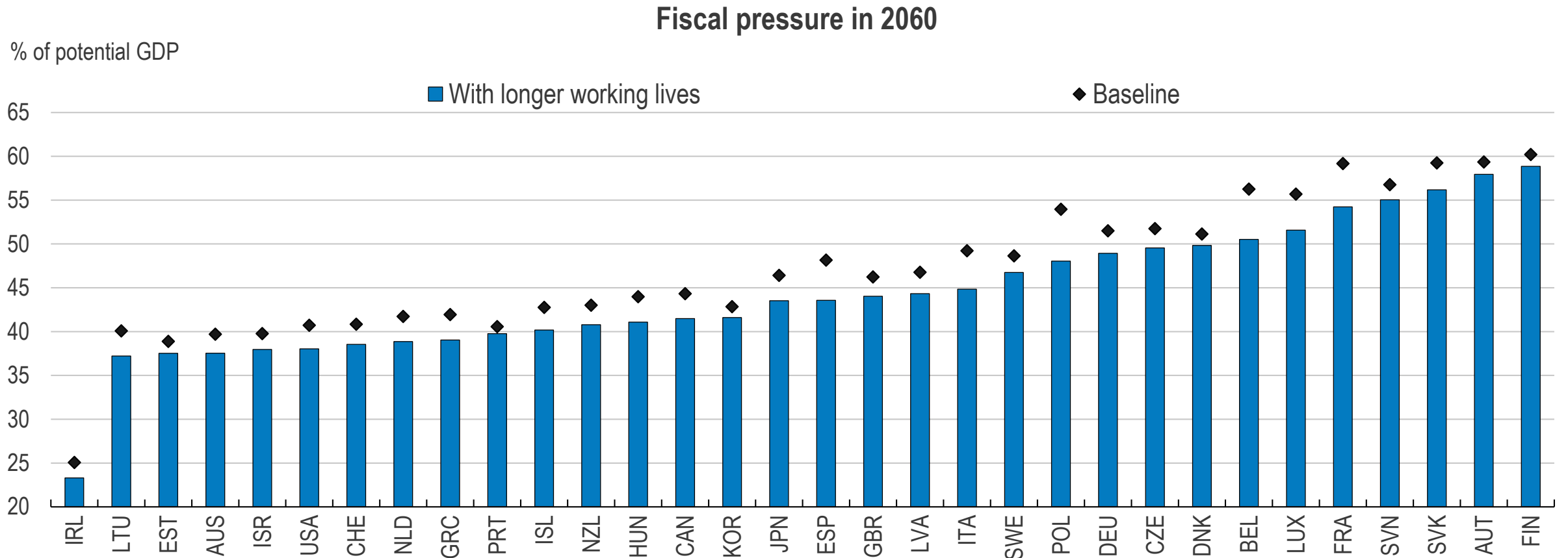
- Flexible work-retirement transitions
- Remove employment barriers for older workers
- Support skill development for older workers
- Promote healthy ageing

## Making the most of immigrant skills:

- Effectively integrate immigrants through adult language training
- Recognize foreign qualifications timely



# Longer working lives could ease fiscal pressures.



Note: The diamonds show projected structural primary revenue in 2060 in the baseline scenario and the bars the projected structural primary revenue in 2060 in the alternative scenario where reforms would close any initial shortfall between average effective and normal statutory retirement ages for men and women, as well as keep future increases in average effective retirement ages equal to two thirds of projected gains in life expectancy. These reforms would lead to the reduction in fiscal pressure in the median OECD country by around 2 ¾ percent of GDP in 2060, compared to a baseline (no policy change) scenario.

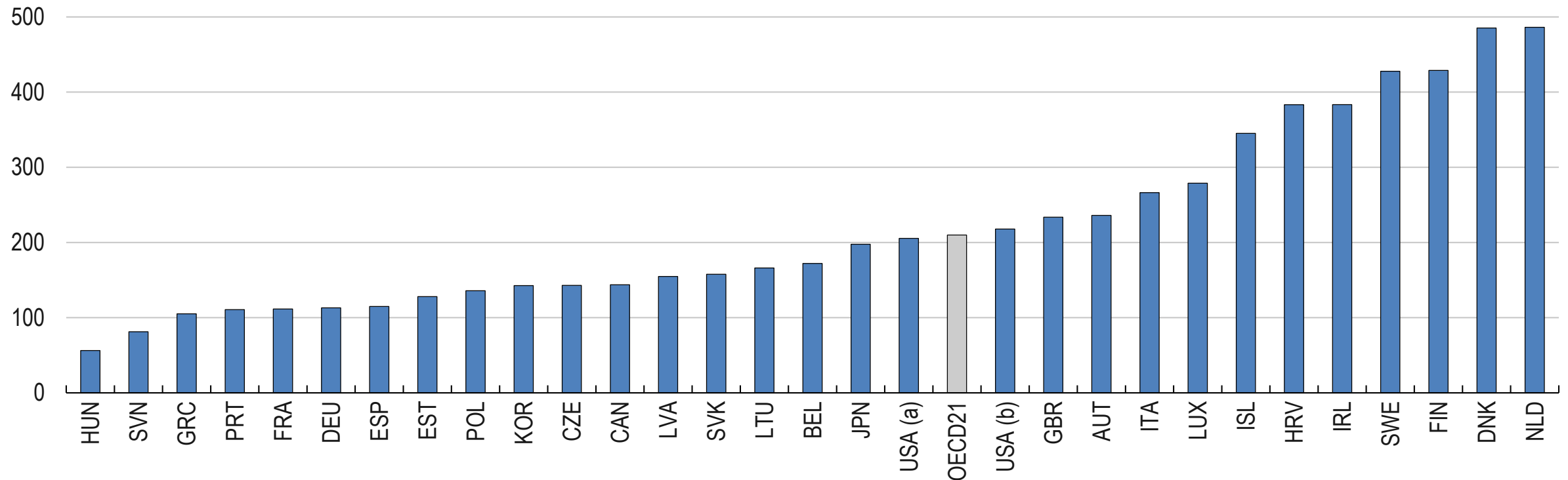
Source: Update of Guillemette and Turner (2021). The long game: Fiscal outlooks to 2060 underline need for structural reform”, OECD Economic Policy Papers, No. 29, OECD Publishing, Paris.



# Public support is key to make long-term care affordable.

Costs of institutional long-term care for people aged 65 and over with severe needs, 2022 (or nearest year)

% of median income

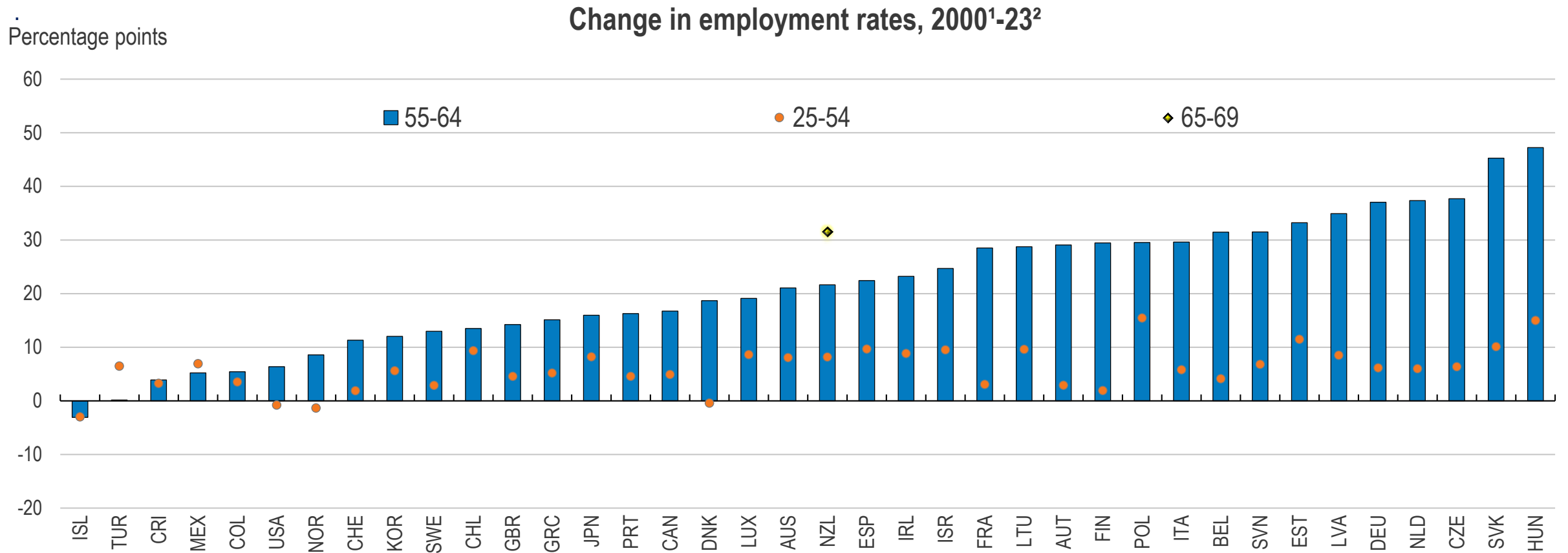


Note: Data for Belgium refer to Flanders, for Iceland refer to Reykjavik, for Canada refer to Ontario, for Austria refer to Vienna, for the United States refer to (a) California and (b) Illinois, for Italy refer to South Tyrol and for the United Kingdom refer to England.

Source: OECD Long-Term Care Social Protection questionnaire (2022) and OECD Income Distribution Database (2022).



# There is scope to further increase the employment rates of the elderly groups.



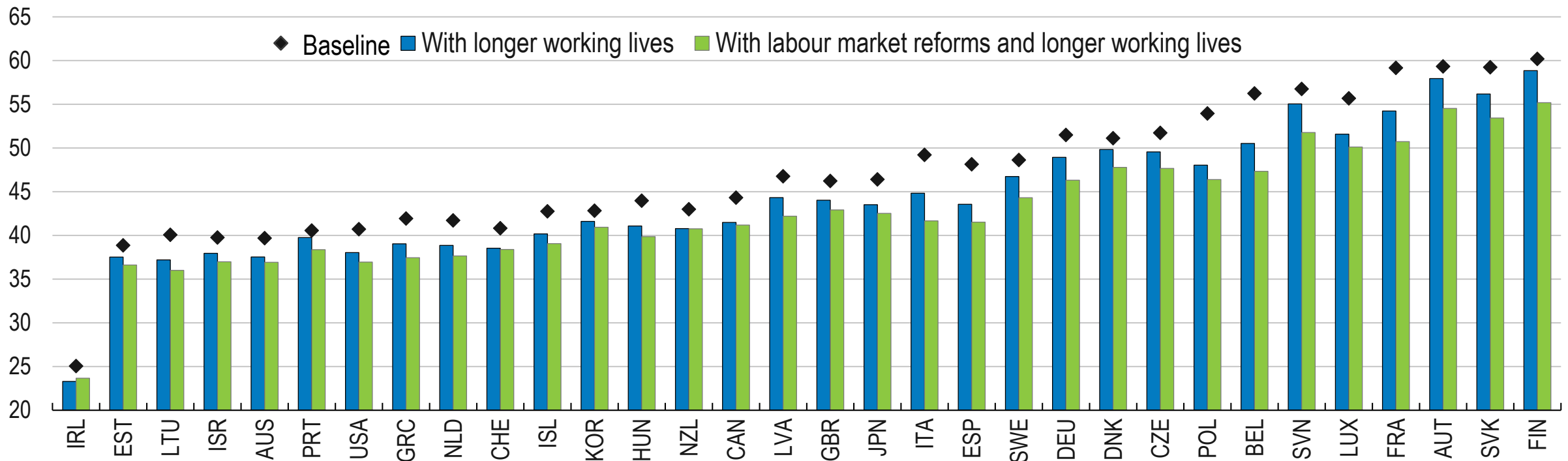
Source: OECD labour force survey database.



# Structural reforms to activate older workers and other under-represented groups would bring fiscal gains.

Fiscal pressure in 2060

% of potential GDP



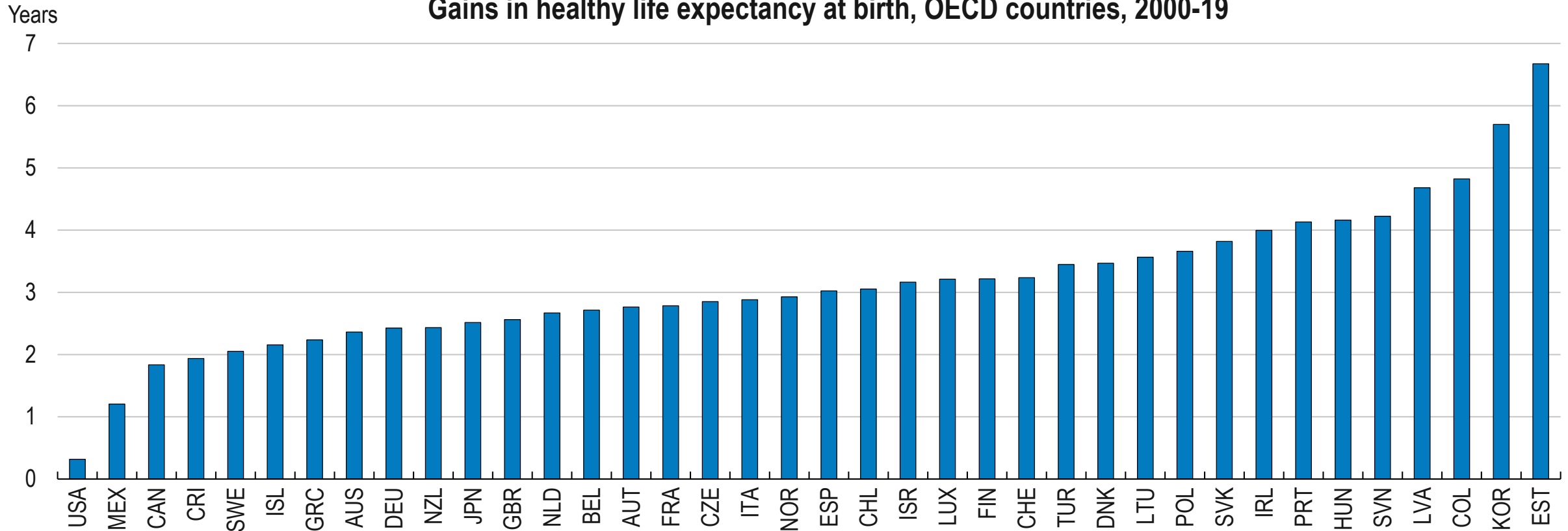
Note: the chart shows the projected structural primary revenue in 2060 in the base scenario and in an alternative scenario with a package of pension labour market and pension reforms. In combination, such reforms would lower the fiscal pressure in 2060 by around 4 percentage points of GDP for the average country compared to a baseline no-policy change scenario.

Source: Update of Guillemette, Y. and J. Chateau (2023), "Long-term Scenarios: Incorporating the Energy Transition".



# Higher healthy life expectancy promises more productive older populations and longer working lives.

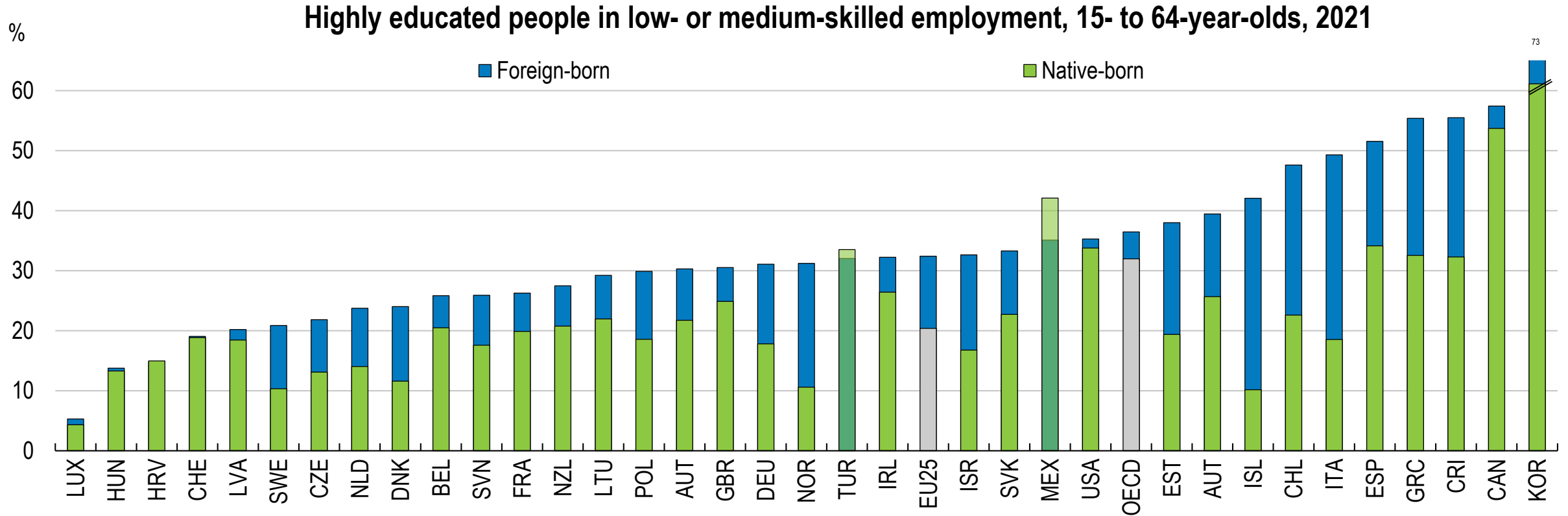
Gains in healthy life expectancy at birth, OECD countries, 2000-19



Source: WHO database.



# While not a long-term solution, a better use of immigrants' skills can help addressing skill shortages in ageing societies.



Note: The over-qualification rate refers to the share of highly educated (ISCED 2011 Levels 5-8) who work in a job that is ISCO-classified as low- or medium-skilled (ISCO Levels 4-9). The United States only excludes people who are still in education for the age group 16-54. Korea determines who is an immigrant on the basis of nationality and additionally includes immigrants who have been naturalised in the past 5 years in the immigrant population. Korea includes individuals with level of education ISCED 4 among the highly educated. Japan determines who is an immigrant on the basis of nationality, not on the basis of country of birth. Finland is not included in the EU & OECD total due to a reliability issue in educational attainment information for people with foreign credentials. Recent migrants refer to less than 10 years of residence for Canada, Korea and New Zealand. The United Kingdom calculates rates for the age group 16-64.  
 Source: Settling In 2023: Indicators of Immigrant Integration.



**Thank you!**