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Editorials

Welfare and the Wealth of Nations

With this issue of the European Papers on the New Welfare, we again try to stimulate research, discussion and practical solutions on one of the key issues of our society: the lengthening of the life cycle which little by little is extending the world over. The present financial turmoil is also adding particular significance to the subject, and we would like here to stress some major points:

• Several ‘experts’ warn of the possibility of a high inflation, or, on the opposite side, of a real deflation. In the course of the industrial revolution, in fact, the latter was the rule until 1929. But with the quantity of debts at all levels (personal and institutional), exacerbated by a superficial analysis of keynesianism and real social and political pressures, we rather face the possibility of a devastating inflation. Maybe a tsunami of liquidity injected by several means.

• The question of money and monetary stability is more than ever fundamental, and with it the stability of the key currencies. The value of pensions (private and public), savings, reserves of all sort, incomes must be preserved and with them a reasonable and acceptable fiscal justice.

• Strangely enough many economists these days underline the idea that the financial world is different from the ‘real’ economy. This is rather odd, as if production, distribution, utilisation of any economic system would not work with money. At the end money makes even machines work.

• The real point is first a question of ethics: the financial world has given too much space to speculators and manipulators, like wizards, hiding themselves behind apparently scientific simulation models.

• In these days when you can still buy a Mercedes with 100 euro a month, demand has extended to outer space limits. Those who lend money should be more responsible for the credit they give. And accumulation and selling of assets must be controlled as to their quality, instead of including so many rotten apples in packages with good ones. One should remunerate the quality and not the quantity of transactions, and not give prizes and money for short term results.

• Faced with all this, we are surprised by the fact that almost one issue is constantly mentionned by ‘experts’: maintaining a high level of demand. Economics (and in particular macro-economics) is then just the extrapolation of the easy to understand problem of any commerce (from the bread shop to the aviation producer): sell as much as possible. This is understandable at the individual level. But at the general, global level, it is necessary that the demand itself is not destroyed by an inflation wave.

• What about ‘real’ economics then? In recent decades this discipline has priviledged demand over supply (considered as ‘given’), whereas in fact it is this latter which has profoundly modified the conditions for the creation of ‘the wealth of nations’.

• In a situation in which services respresent, in a modern economy, about 80% of the ‘production costs’ (research, planning, security control, storage, distribution, publicity, financing, costs in utilization up to the disposal process, — which all happen over a period of time), it is difficult, almost impossible to have an adequate global view of the ‘production’ process of the ‘wealth of nations’. A process based on uncertainties (no equilibrium price). The tools for quantifying economics (in particular macro-) cannot be those of the times of Adam Smith or Ricardo (when services were considered of little or no value).
• GDP indicators do not provide adequate information: the value added on which they are based very often quantifies costs which represent a value deducted to wealth (i.e. the costs of all sorts of disposals). In compensation modern technology provides many improvements in the production of wealth which are never or very little accounted. The present economic turmoil, in our view is very closely linked to the interpretation of the economic system which should be updated. We need better tools to measure the real added value to peoples’ life.

• All this has very much to do with the issue of welfare, which can only be based on an adequate understanding of the system producing the ‘wealth of nations’.

• Going back to the issue of ageing and of the lenghtening of the life cycle, the specific analysis of all the functions of work involved in the production of economic wealth, would provide better evidence for the productive activities for the older generations (which are mainly services).

Behind the issue of the counter-ageing society, we discover then a key reference for our economic and social world: the human capital on which a lenghtening life cycle is based, for an economy rediscovering the supply side and the value of things.

Orio Giarini

* * *

“New Age for All Ages”: The Counter-Ageing Society

“It is fitting for the last year of the millennium to be the International Year of Older Persons, with the theme “towards a society for all ages” — a society that does not caricature older persons as pensioners, but sees them as both agents and beneficiaries of development”.

This is the first issue of the European Papers on the New Welfare, the Counter-ageing Society in 2009. On behalf of all the team of the European Papers on the New Welfare, I wish you all the best for the New Year.

Almost four years have passed since the first issue of the European Papers on the New Welfare, the Counter-Ageing Society in May 2005. The publication has become a key reference point concerning the question of the lengthening of life cycle and its social and economic repercussions. The European Papers have the aim of making this revolutionary phenomenon better understood and of stimulating a discussion on the active role of the elderly, passing from the old idea of the ageing society to the promotion the new concept of the counter-ageing society (Giarini, 2005).

Eleven issues have been published so far and each number has about 1.000 printed copies addressed to international Universities, public and private research institutions and financial enterprises. We have created a website www.newwelfare.org, where all issues and articles published, in English and Italian, are fully and freely available.

The European Papers have been privileged to benefit from the skills and knowledge of experts and academics all over world.

Kofi Annan’s message for the International Year of Older Persons, 1999
Number 11 of the European Papers on the New Welfare opens with an article by Milton Nektarios “The European Social Pension: A Theoretical Exercise”. The focus of the paper is on the idea of establishing a European Minimum Pension (Atkinson et al., 2002). This requires that all current pensioners with incomes below the minimum standard would be brought up to this standard by means of a supplementary pension, financed by the corresponding Member State. The author suggests that the supplementary pension be named European Social Pension and be provided by the EU.

The paper by Aleksander Zidanšek and Ivo Šlaus “Intertwining of Ageing and Sustainability in Eastern Europe” analyzes the demographic transition of most Eastern European countries. They state that this demographic transition must be accompanied by the creation of a knowledge-based society. Such a transition will require an increase in life-long learning and in the importance of the role of science in our societies. In those countries, where this transition to knowledge-based societies will be successful, the obtained changes will be beneficial both to economic performance as well as to the sustainability of these societies.

The article by Martin Hutsebaut “Pension System Reforms and Trade Union Policies Overview of EU — Western Europe” presents the major pension reform trends in Western Europe and highlights the European Trade Union position in relation to pensions. The pension reform policies put into place differ from country to country: they are determined by the construction of systems, by the policy conceptions of governments and social partners and by the economic and fiscal resources available.

Yung-Ping Chen, Eskil Wadensjo and Andrea Tull in their paper “Potential Labor Supply and Flexible Work Option for all Workers: An Exploratory Essay” look at the issue of encouraging older people to work longer and consider it a worthy goal. The article is intended to introduce the concept of flexible work options for all workers, i.e. young people, women, persons with disabilities, as well as older workers. Flexible work options would include such practices as part-time work, flex-time, intermittent leave for childcare or eldercare, phased retirement, and telecommuting, among other arrangements.

Asghar Zaidi’s paper “Multidimensional Perspective on the Well-Being of Older People” emphasises the importance of adopting a multidimensional approach when evaluating the personal well-being of older people. This study emphasises the importance of adopting the multidimensional approach when evaluating the personal well-being of this particular subgroup. It uses income and health as the two single dimensions, each chosen for their importance to the well-being of older people.

Andrea Principi and Giovanni Lamura in their article “Towards the Improvement in working conditions for older workers: empirical evidence from Maltese companies” underline that in Malta the issue of working at a mature age is starting to be approached at the company level. While the Maltese Government has mainly concentrated on the question of reforming the pension system, and although the retirement age has been raised, there are still some regulatory contradictions to be resolved in order to guarantee older workers better work prospects and conditions.

Dallas Salisbury’s article “USA Retirees 2008 Survey: Summary Report” is an excerpt from the 2008 Recent Retirees Survey, which has the objective of a better understanding of the tools and practices that might encourage workers to postpone their retirement and remain longer with their company.

Roger Hessel in his article “The need for Age-Neutral Training in the Silver Society” highlights the European Employment Strategy, the concept of “active ageing” and the question as to whether the productive potential of older people does not appear to be substantially impaired by ageing per se. The paper advocates an age-neutral approach to vocational
training: learning must become a habit for all ages aiming at delivering a base of competences and skills relevant to all stages of working life.

The paper of James C. Capretta “Medicare in USA: Present and Future” points out that the primary focus of American health-care policy debates in recent years has been over what to do about the nation’s 46 million uninsured residents. The new President’s campaign plan proposed major revisions in the regulatory structure for health insurance for the working age (under age 65) population and their families. But the plan does very little by way of reform of Medicare, the insurance program already in place for those citizens age 65 and older, or for the disabled.

Giuseppe Turchetti “The Interaction of Public and Private Systems in Health Care Provision: The Italian Two-Faced Janus” presents and discusses an extreme case of co-existence between public and private regimes in providing healthcare — the Italian intramoenia. Although the intramoenia regime presents numerous advantages for the patient, the doctor, the hospital, the payer, and the whole healthcare system, it has not spread as much as might be expected.

The last section of the publication presents some documents and opens with the report by Richard Jackson and Neil Howe “The Graying of the Great Powers — Demography and Geopolitics in the 21st Century” on the geopolitical implications of “global aging”. It not only assesses the direct impact of demographic trends on population numbers, economic size, and defence capabilities, but also considers how these trends may indirectly affect capabilities by altering economic performance, social temperament, and national goals. This overview summarizes the report’s main findings under two headings: findings about the demographic transformation and findings about its geopolitical implications.

Christopher Ball in “Clinical Aspects of Long — Term Risk Management” investigates the relationship between life/health underwriting and the medical profession that may seem simple at first sight. However there is a complex dynamic between the two that is at its most intricate in the assessment of Long Term Care (LTC) risk. Most of the difficulties arise from the way that the different professions know things and the need for one to adapt this knowledge to the paradigms of the other. Developing a shared language between underwriter and physician is at the heart of growing the expertise in managing LTC risk.

The last document of this volume by Ross Campbell “Long Term Care Underwriting and Claims Assessment Protocols — The UK Experience” presents a critical look at some weaknesses in LTC underwriting and claims protocols that developed in the UK market against a backdrop of a collapsing demand for pre-funded LTC products. Although these products have all but disappeared from the UK market, important lessons can be learned to help new entrants deal more effectively with risk management of any second generation LTC products.

We express our deep gratitude to all the experts for their contributions, they have been so lavish in their efforts and we hope you will enjoy reading their work.

We thank our readers very much again and we invite them to contribute to the next issue of the European Papers in Italian, which is already under preparation.

Mara Tagliabue
The European Social Pension: A Theoretical Exercise

by Milton Nektarios*

Abstract

The innovative work of Atkinson et al. (2002) put forward the idea of establishing a European Minimum Pension, which required that all current pensioners with incomes below this minimum standard would be brought up to the limit by a supplementary pension, financed by the corresponding Member State. In this article it is suggested that the supplementary pension be named European Social Pension and be provided by the EU, with a corresponding increase in the EU Fiscal Budget. The basic characteristics of the proposed scheme are described in detail. It is argued that the proposed scheme could eliminate poverty among the retiring generations of European pensioners who were the founders of the Union, and at the same time it would send the message out across the Continent that a ‘New Beginning’ is underway in the EU, with beneficial effects on the social acceptance of its political evolution.

1. Introduction

In the European Union social policy remains firmly a national responsibility, under the principle of subsidiarity. Even harmonization of nationally conducted policies appears a long way off. Yet the Lisbon European Council in March 2000, stressed the need to promote social cohesion of the EU by eradicating poverty. The procedure proposed for doing that was the benchmarking policy of the Open Method for Coordination.

Atkinson et al. (2002) have suggested an innovative approach to reduce poverty in retirement, by establishing a ‘minimum standard’: the European Minimum Pension. This would be a supplementary benefit to be offered to each pensioner by member-countries to meet the shortfall, when his/her income from pension sources falls short of the European minimum standard.

The aim of this paper is to set out on a theoretical exercise. That is, to propose the financing of the European Social Pension (the supplementary benefit required to reach the European Minimum Pension standard) by means of the EU Fiscal Budget, even though such a prospect may appear far removed from current policy concerns.

At the level of constitutional reform the EU is at a stalemate. There is no consensus on the direction of the Union’s political evolution. Therefore, the EU has become a common currency area where national governments have been deprived of any monetary policy tools, whereas the Fiscal and Stability Pact has effectively eliminated the possibility of using fiscal policy measures. In such an economic environment, the relative competitiveness of the

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member-states determines the real distribution of incomes and, moreover, all adjustments take place at the level of employment. But labour market integration, which has been attained in all other common currency areas (U.S.A., Australia, Canada), is a very remote goal for the EU. The situation is exacerbated by the forces of globalization. The most likely outcome of this process will be increased social tensions and endangerment to social cohesion in all member-states.

Despite the fact that a federal union appears remote, it is argued that the establishment of a European Social Pension will be viewed across the continent as the first step in shaping the Union’s missing core identity: cooperation on a continent-wide level to improve people’s lives.

The next section reviews the limited literature that deals with the issue of harmonization of pension systems in general in the EU and the issue of the European Minimum Pension in particular. The third section provides the basic arguments for the establishment of the European Social Pension and describes the basic characteristics of the proposed scheme. The last section contains the conclusions.

2. Review of the Literature

Dréze in a seminal paper (2000) argues that the goal of alleviating future uncertainties can be fostered through mutual insurance. Such a system, whereby the lucky ones who will do well tomorrow help out those who will do poorly, enhances ex ante the prospective welfare of all, at a gain of overall efficiency. The ex ante viewpoint suggests a high degree of ex post equality, driven by considerations of risk-sharing efficiency. But ex post equalizing transfers raise issues of moral hazard, productive efficiency, fiscal competition, etc. Reconciling the two conflicting efficiency motivations brings us into the realm of second-best analysis.

This analytical framework may be applied directly to the European level, by suggesting guidelines for a Union-wide social security system for pensions or disability allowances or unemployment benefits (Dréze, 2000, p. 336). This would result in substantial redistribution between member-states — exactly the kind of transfers which the union has so far rejected — limiting itself instead to the targeted programs covered by the so-called structural funds.

In this framework, two more points are relevant. The first is about fiscal competition. The process of European integration carries the threat of depriving national member states of the ability to pursue autonomous social insurance policies (Sinn, 1990, 1998; Atkinson, 1995, ch. 14). For example, a member-country implementing a social insurance scheme which redistributes income from highly skilled workers to less skilled workers induces at equilibrium a more compressed wage distribution in the Union as a whole, thereby reducing the cost of implementing similar policies in other member countries. That is, there is an externality, not captured by the first country. Superior equilibria require cooperation, either in the form of an integrated Union-wide social insurance scheme, or in the form of lump sums or matching grants from the Union to member-states. Sooner or later the EU will have to face the problem of promoting efficiency in markets for private goods while accepting inefficiency in the area of social insurance.

The second point is a direct result of Dréze’s analysis. Risk sharing at the European level could be achieved on a two-tier basis, with the countries sharing macro-economic risks in addition to organizing domestic social security. He proves, however, that efficient risk-sharing is not feasible, because of moral hazard and adverse selection problems. In such a case, one might look for a second-best solution. But then there are serious practical problems, such as: choice of instruments, estimation of parameters, and concerns regarding political feasibility.
In this framework, Dréze states a benchmark of second-best policies, with reference to federal nations, like the U.S.A. and Canada. In these nations the federal tax-and-benefit systems imply a form of mutual insurance among the member states. A standard reference figure for the US is that 30-35% of idiosyncratic shocks affecting value added in an individual state are absorbed by the federal tax-and-benefit system. In other words, there is a mutual insurance scheme pooling 30-35% of state incomes. In EU-15, it has been estimated that some 45% of medium-income risks could be eliminated through mutual insurance (Forni and Reichlin, 1999).

Holzmann (2006) makes the case for a coordinated pension system in Europe. He argues that the current trends in pension reforms in the EU are based on the Open Method for Coordination, which is inadequate because: a) it takes the diversity of European pension systems as given, and b) it is still limited to fiscal issues at national levels. His main argument is that a Pan-European pension reform approach resides in European economic integration. The objective of common markets for goods, services, and factors of production under a common currency, has implications for provision of retirement income: a) budgetary implications, b) the need for more labour market integration, and c) the need for enhanced labour supply in an ageing population.

The first implication of the operation of pension systems is on the ‘growth and stability pact’ which requires a structural budget deficit of zero%. But many countries will not be able to achieve a zero budget deficit in a sustainable manner, unless the pension system is reformed and explicit or implicit transfers from the budget are curtailed. In a common currency area there is a need for budgetary adjustments to deal with asymmetric shocks hitting some member-states and not others. Given the limited effectiveness of fiscal policy and the non — availability of exchange rate and interest rate policies, the only other main policy instrument, labour market flexibility, has to come into play.

The need for labour market flexibility is very important in the European economic integration framework. Labour market flexibility implies wage flexibility and migration. Both of these factors are of little importance in the EU because of rigid labour markets and cultural and linguistic barriers. One important mechanism to support a common currency and adjustments after shocks is a pension system that does not lock persons into sectors and countries, but instead supports full labour mobility across professions and states. Such a harmonized pension system characterizes other economically integrated areas under a common currency, such as Australia, Brazil, Canada, Switzerland, and the United States. Finally, the long-term value of the euro is likely to be determined or at least co-determined by the growth expectations of the EU. If falling population and ageing are not better compensated for through increased labour supply, resulting from higher labour market participation, delayed retirement, and increased external migration, the impact on GDP growth will be substantial.

Having made his case, Holzmann admits that while a Pan-European pension system would help remove current constraints on labour mobility, by reducing the relative transaction costs, in and by itself it would be insufficient. Other national social programs must be harmonized, as well.

Atkinson et al. (2002) have made the strongest case, so far, for a European Minimum Pension (EMP). Assuming that the process of harmonization of the European pension systems is a long way off, they adopt the benchmarking approach of the Open Method for Coordination and suggest that the European Union sets a ‘minimum standard’ requiring the member-states to provide a minimum old-age pension, the European Minimum Pension. The aim of such a pension is to ‘target’ public spending on the elderly in order to reduce poverty among this group. If income from pension sources in a member-state falls short of the
specified level, then a pension supplement is paid to meet the shortfall. A pension guarantee would be provided and financed by national governments. The role of the EU is purely in setting the minimum standard. The redistributions that take place within each national economy are estimated on the basis of a prototype Europe-wide tax-benefit microsimulation model. The model is applied to five countries (France, Germany, Ireland, Italy, and the United Kingdom). The results have demonstrated the sensitivity of the conclusions about the effect of the anti-poverty reform to assumptions made in determining a common poverty line and in identifying poor households. It was proven that the use of a common instrument does not necessarily lead to the uniform achievement of a common objective. The most important aspect of the innovative work of Atkinson et al. is in the completeness of the methodology. All possible parameters of such an anti-poverty scheme are identified and evaluated in a Pan-European context. We use most of the findings of this study to formulate our proposals in the next section.

3. The Case for a European Social Pension

This exercise is less ambitious than that of Holzmann (who advocated the need for a harmonized Pan-European pension system) and more ambitious than that of Atkinson et al. (who suggested an EMP financed by member states). We propose the establishment of a European Social Pension which would be financed by the EU Fiscal Budget.

Implementation of this proposal would require expansion of the fiscal budget of the EU and, therefore, more redistribution of income. There are two crucial issues: (a) why more redistribution, and (b) why this redistribution should be directed to reduce poverty in retirement. The argument for more redistribution is based on both economic and social grounds. Holzmann’s analysis has reiterated the fact that the EU has become a common currency area where national governments have limited use of fiscal policy and no access at all to monetary policy. Therefore, economic adjustments are made mainly at the level of employment; but even there, there is not a Pan-European policy of labour market integration. The most likely outcome of this process will be increased social tensions and endangerment of social cohesion in the less productive member-states. But even national anti-poverty policies are most likely to be prevented by fiscal competition from achieving their objectives (Atkinson, 1998). Such economic reasoning has led to the proposal for the adoption of a federal system for the EU; the central government will have fiscal powers similar to those of the federal governments of Australia, Canada, and the United States. Since this option looks very remote, we suggest that a first small step in this direction, with the adoption of a European Social Pension, will send the message out across the Continent that the EU does not stand only for free markets but for social solidarity too. The first application of the new principle would be for the retiring generations of Europeans who managed to overcome historical obstacles and build a unique geopolitical experiment that has spread peace and prosperity across a continent that, within living memory, had little of either. Provision of the European Social Pension, financed by the EU Fiscal Budget, may be viewed as a first step in forming the Union’s missing core identity: cooperation on a continent-wide level to improve people’s lives.

The specific proposal for a European Social Pension is based on Dreze’s second-best analysis that risk sharing at the European level could be achieved on a two-tier basis, with the countries sharing macroeconomic risks, in addition to organizing domestic social security. Moreover, Lindbeck and Persson (2003) have proved that the establishment of a minimum pension scheme in a multi-pillar pension system represents a Pareto improvement.

The proposed European Social Pension is in essence a mutual insurance for retirement poverty at the EU level. Dreze has shown that such a scheme is a second-best, because of
moral hazard and adverse selection problems. The precise design of second-best schemes raises a number of problems. One set of problems concerns the choice of instruments (pension subsidies, minimum pension, tax credits, lump-sum transfers, etc.) suited to minimizing distortions. A second set of problems concerns the estimation of parameters entering into the definition of the second-best policy (poverty threshold, exchange rate parity, definition of unit of recipient, etc.). A third set of problems concerns political feasibility within the EU. To resolve those problems in such a way as to maximize the impact of the proposed scheme on poverty reduction in retirement, as well as to minimize the distortions of the system, the basic design characteristics of the proposed scheme are outlined here.

3.1 Determination of European Minimum Pension Threshold

This threshold is proposed to coincide with the official definition of the European poverty threshold; that is, 60% of mean equivalent disposable household income. The poverty threshold is revised annually.

3.2 Establishment of the European Social Pension

If income from national pension sources falls short of the European Minimum Pension Threshold, then the European Social Pension, in the form of a supplementary pension, is paid to meet the shortfall.

3.3 Targeting Retirement Poverty

The main goal of the European Social Pension would be to reduce poverty among the retired people of the EU. The eligible retirees will be those of age 65 and over. The age limit of 65 years may be gradually adjusted upwardly.

3.4 Financing by the EU

The required expenditure is financed by the EU, which has to increase its fiscal budget accordingly.

3.5 No Means Test

The European Social Pension will be provided without a means-test.

3.6 Adjustment of the European Minimum Pension at the national level

The annual poverty threshold should be adjusted at the national level on the basis of purchasing power parity (PPP) exchange rates, published by Eurostat. It is well known that national parity estimates and particularly cross-country comparisons of poverty, are sensitive to the choice of assumption and income concept used in ranking households (Atkinson et al., 1998). It has been shown that if we want to maximize the reduction in retirement poverty, it is preferable to convert incomes in different countries by using PPP-adjusted rates, instead of nominal exchange rates (Atkinson et al., 2002).
3.7 Determination of Recipient Units

There are two options here. The first considers per capita income and weights by the number of people in the household. The second option uses the ‘modified OECD scale’ (a value of 1 for the first adult, 0.3 for children aged under 14, and 0.5 for remaining people in the household) to equivalize household income. A sensitivity analysis of the alternative options has shown that the second option has the greatest reduction impact on retirement poverty (Atkinson et al., 2002).

3.8 Minimizing Distortions of Proposed Scheme

The optimal design of the proposed scheme requires the minimization of potential distortions. A first distortion may result from moral hazard problems at the national level: attempts to shift pension burdens from the national to the EU level. This moral hazard problem should be addressed carefully at the design level, taking into consideration the fact that the proportion of beneficiaries from the proposed scheme depends on two things: (a) the relative generosity of the existing pension payments compared with the ‘minimum standard’, and (b) the coverage of the existing pension systems. A second distortion may result when conflicts arise with national rules on ‘other incomes’ for the application of means-tests, or with rules about deferring retirement.

3.9 Institutional Capacity for Implementation

There is adequate institutional and technical capacity at the EU level for the organization and operation of a pension scheme along the lines proposed here. It should be noted that the optimal design of the proposed scheme may be attained on the basis of sensitivity analyses of alternative options, by employing the ‘prototype European tax-benefit model’ developed by Atkinson et al. (2002) on the basis of the microsimulation model EUROMOD (Sutherland, 1997).

3.10 Political Issues

The main political issue is whether there is a strong argument for additional redistribution of income in the current political environment within the EU. In fact the official redistribution of income by means of the EU Fiscal Budget amounts to 1.24% of the GNI of the EU. Of course, the real redistribution of income across the Union is determined by the relative competitiveness of the national economies, and this must far exceed the aforementioned nominal percentage. Therefore, there is a question of fiscal feasibility of the proposed scheme. A preliminary estimate of the cost of a similar scheme (with a poverty threshold at 40% instead of 60%) has been made in Atkinson et al. (2002) for five European countries. The required increase in a uniform rate of VAT (on all household expenditures) that would be needed to finance the European Minimum Pension in each country ranges from 1.7% in Ireland to 0.6% in Germany (the average for the five countries is 0.9%). In other words, some average of these numbers represents the additional uniform European VAT tax that would be required to finance the proposed scheme. It is suggested that an additional tax on the GNI, instead of the VAT, should be used to finance the proposed scheme.
4. Conclusions

International economics suggest that the free trade of goods and services or alternatively free flows of capital may be sufficient to lead to equalized factor prices and maximize welfare. However, in the real world of externalities and imperfect competition, it is quite likely that the performance of all markets needs to be improved and integrated more strongly, and improvement of welfare requires some type of redistribution. The attainment of such goals requires political processes and second-best policies.

In the Age of Globalization the European Union has only one option: to move forward to some type of political union; otherwise, the prospects of the common currency union will be undermined by social and economic tensions. Today all other common currency areas have some type of federal political system in place, to balance the political and economic trade-offs.

It is suggested that the establishment of the European Social Pension will be a turning point in the historical evolution of the EU toward a political union. The proposed scheme will tout the message across the Union that the policy of redistribution, mainly through the structural funds, is being gradually supplemented by social policies that aim to improve the quality of life of those citizens in greatest need. And the first priority is given to the reduction of poverty among the retiring generations of pensioners, who were the founders of the European Union.

In the 21st century the EU needs a strong narrative about the Union’s core identity that will engage people in European affairs. The European Social Pension will certainly signal the ‘new beginning’ the EU needs.

REFERENCES


Intertwining of Ageing and Sustainability in Eastern Europe
by Aleksander Zidanšek and Ivo Šlaus

Abstract

According to a recent World Bank report most East European countries are expected to experience a population shrinking and aging by 2025. They call this effect a transition from red to gray. An analysis of the sustainability of this demographic transition is presented here. We demonstrate that in order to mitigate most of the negative effects of this transition it must be accompanied by the building of a knowledge-based society. If the development of a knowledge-based society is successful, East European countries have an opportunity to overcome many challenges and improve their economic performance and simultaneously achieve sustainability.

1. Introduction

Former communist countries in Eastern Europe have recently been undergoing four major transitions. First, almost 20 years ago they transformed from a one party state to a democracy. The level of democracy varies. In some countries for quite a long period there were some kinds of authoritarian systems, and in some this is still the case. A large fraction of East European countries are already members of the European Union (EU), and most of the remainder are striving to become members. Second, they transformed from either planned (all former Warsaw Pact countries), or from special forms of self-management based economies (in countries of the former Yugoslavia) to a market economy. Third, the financial instabilities of 2007 have become a significant global economic crisis (albeit different in different countries) causing specific changes in the free market economy, e.g. large interventions by states. One of the most relevant socio-economic consequences is an appreciable increase in all forms of socio-economic inequalities (GINI indices, ratios of incomes and wealth of the richest 10% relative to the poorest 10% of the population, and particularly the ratio of the salaries of chief executive officers (CEOs) to average workers’ salaries, which is as much as 500:1, while Plato argued that the optimal ratio for a stable society should be 5:1. Even J. P. Morgan at the turn of the 19/20 century argued for a 20:1 ratio. Fourth, their populations are shrinking; the average age and the share of population over 65 years are increasing. Increasing inequalities are different for different age groups.

Table 1 summarizes the gains (left column) and losses (right column) in population in millions. There is also a remarkable change in the percentage of the population older than 65.

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1 World Economic Outlook, (2008): Financial Stress, Downturns, and Recoveries, International Monetary Fund, October, Washington, DC.
In 2025 in Slovenia, Croatia, Czech Republic, Bulgaria, Hungary, Latvia, Poland, Ukraine and Serbia 20% of the population will be over 65, and it will be similar for the Slavic population of FYR Macedonia and for Serbs and Croats in Bosnia and Herzegovina. In the year 2000 only Croatia, Bulgaria, Latvia and Ukraine had over 15% of those older than 65, and in 1950 none of these countries had more than 10% of their populations older than 65, demonstrating that the demographic transition is occurring quite rapidly. In addition, there are differences between male and female life expectancies affecting the working-age population. Of course, the population projections are not only influenced by the fertility and mortality rates but also by migrations. Migration itself is influenced and generated by economy (e.g. current economic crisis) and politics (e.g. integration into the EU).

During 2000-2025 the population of most East European countries will decrease by about 5-20%, and it will age by 15-25%. In most of these countries the working-age population, defined as the cohort including 15-64 age, will decrease by up to 5%. The most severe decrease is for the age cohort of 20-40 years: about 2 millions in Poland and Romania, and about 200,000 and 150,000 in Croatia and Slovenia, respectively. There is also a significant difference between East European countries and OECD countries in the age of entry and age of exit. While average entry ages are about the same, the exit age in OECD countries is 60.6 vs. 56.9 for East European countries.

In a global world demographic transition in a given country or in a given region is influenced by global demographic trends. Global fertility rate has decreased from 5 in 1950-65 to just below 3 in 2000, and it will decrease to barely above 2 in 2050. Global life expectancy has increased from 47 in 1950 to 65 in 2000 and it will increase to over 75 in 2050. Differences among various regions, countries and even within a country (as we have already pointed out) have dramatic effects on migrations.

| Table 1: Projected Change in Population (in millions) 2000-2025 |
|------------------|------------------|
| Turkey           | 22.33            | Czech Republic  | 0.514 |
| Azerbaijan       | 1.45             | Lithuania       | 0.371 |
| Albania          | 0.422            | Latvia          | 0.314 |
| Macedonia        | 0.038*           | Moldova         | 0.308 |
| Russian federation | 17.3          | Serbia and Montenegro | 0.31** |
| Ukraine          | 11.8             | Croatia         | 0.234 |
| Romania          | 2.259            | Armenia         | 0.174 |
| Poland           | 1.554            | Estonia         | 0.119 |
| Bulgaria         | 1.445            | Slovak Republic | 0.114 |
| Belarus          | 1.394            | Bosnia and Herzegovina | 0.11*** |
| Georgia          | 0.803            | Slovenia        | 0.084 |
| Hungary          | 0.79             |                |      |

* The population of FYR Macedonia is composed of two main ethnic groups: Slavs and Albanians and their fertility rates differ considerably. It can be estimated that the Slavic population by 2025 will decrease by about 0.2 millions, while the Albanian population will increase by 0.25 millions.

** Serbia and Montenegro has transformed into three states: Serbia, Montenegro and Kosovo. It can be estimated that by 2025 the population of Serbia will decrease by 0.4 millions, that of Montenegro will remain almost constant while that of Kosovo will increase by 0.1 million.

*** The population of Bosnia and Herzegovina is composed of three ethnic groups: Bosniaks, Serbs and Croats living in two so called 'entitites' — Federation (mainly Bosniaks and Croats) and Republika Srpska (mainly Serbs). Fertility rates of these ethnic groups differ: those of Bosniaks are above 2.1 and those of Serbs and Croats about 1.3.

2. Effects of Demographic Transitions

An aging demographic structure has a strong effect on workforce productivity, health care and pension systems as well as on the educational system. These effects will be analyzed in more detail in Sections 3, 4, and 5.

According to the World Bank study, the economic growth (measured as gross domestic product (GDP)/capita) of East European countries has been affected much more by labor productivity than by demographic transition. However, this analysis depends on a number of factors that are constantly changing and will be grossly affected by the current economic crisis. Namely, labor productivity which is assessed from the ratio of GDP to employment depends on two factors: GDP which is known to be inadequate and employment. One of the goals of the EU is to increase employment to above 70%, but presently only Denmark is above 70%, while Croatia, Hungary and Poland are at the bottom of the table of European countries with 50-60% employment. It is easy to see that labour productivity can be artificially increased by the selective dismissal of those who are less productive. The concept of the working-age population needs major discussion, and we will address it in Section 5.

The contemporary world characterized by globalization and rapid changes has already reached a level where the use of resources and the produced waste is considerably greater than the capacity of our Earth by over 27%. The world is dangerously in a state of overshoot and it is imperative that the number of Earths required to provide resources used by humanity and to absorb their emission for each year is reduced to 1 by the year 2050. Then we will satisfy the condition of sustainable development expressed in the Brundtland’s Report.

Demographic structure of each individual country obviously influences sustainability due to differences in productivity, consumption, needs and demands of different age cohorts. In addition, previous economic activities accumulated for instance in savings are different for different age pyramids.

Effects of the demographic transition on sustainable development have been analysed by Ono and Maeda. They have argued that aging can be beneficial both to economic growth and the environment, albeit only under perfect annuitization, while it could be possibly harmful under imperfect annuitization. They also found that aging could be beneficial to growth and the environment even when the annuitization rate is zero, on the condition that the original longevity is low and consumption is low. This provides a possible recipe for the path to sustainable development for aging economies. Namely, in this case an industrialized country with high longevity must lower the degree of consumption externality and set the annuitization rate at zero. While this suggestion is interesting, it seems very unlikely that it could be implemented in most countries, particularly in East European countries.

The saving pattern in general has an inverted U shape achieving maximum at the age when a person reaches a career peak. However, there are appreciable differences among East European countries reflecting different experiences that people in various countries have with the stability and reliability of their personal savings.

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3. Consequences for Health Care and Pension Systems

Demographic transition affects health care and pension systems.

Most East European countries have already undergone several reforms of their health systems, typically transferring the health care cost to the patients, and additionally increasing inequalities, sometimes particularly painful inequalities. Health care expenses include treatment cost, hospitals, ambulances, physicians, nurses, technical support and administrative support. Health care cost is also affected by rising pharmaceutical and technological costs and these are even higher than those due to population aging. Similarly, the labor cost in all these components is appreciable. Alternative medicine is increasing sometimes having good but also bad effects on the health of the nation.

Healthy aging is the most important factor, which will determine the effect of aging on health care expenditure. Namely, if an older population remains reasonably healthy, it will be able to contribute productively to society without increasing their health care costs. On the other hand, unhealthy aging would be very bad for public finances. Healthy aging is however also related to questions of lifestyle and life purpose, which can be significantly improved with availability of high quality life long education.

Large pension obligations will significantly increase public spending in many East European countries, since - as we have already pointed out — there will be a significant increase in their over 65s. The typical system is the Pay-as-you-go system, i.e. a method of financing in which current outlays on pension benefits are paid out of the current revenues from an earmarked payroll tax, sometimes with indexation. Indexation includes increases in benefits by reference to an index, usually of growth in prices, although in some cases growth in average earnings. Pension system dependency rate is defined as the ratio of persons receiving pension from a certain pension scheme divided by the number of workers contributing to the same scheme in the same period. The old-age dependency rate is defined as the number of persons older than age 65 divided by the number of persons age 15 to 64. Although the vast majority of the region’s elderly population collect pensions, the majority of the working-age population does not contribute to a pension system. This situation results from the low employment rates among some age groups, lower retirement ages and early retirement provisions still prevalent in the region, but even more from the growing informalization of the labor market. There is a system of social pensions, i.e. pension solely on the basis of age and citizenship without regard to work or contribution records, are given in several East European countries. Table 2 gives the population dependency rates and pension system dependence rate for several East European countries.

Table 2: Population dependency rates (PDR) and pension system dependency rates (PSDR)

<table>
<thead>
<tr>
<th>Country</th>
<th>PDR</th>
<th>PDSR</th>
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<tbody>
<tr>
<td>Albania</td>
<td>13</td>
<td>95</td>
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<tr>
<td>Bulgaria</td>
<td>22</td>
<td>80</td>
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<td>Slovakía</td>
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</table>
Pension system dependency rates in East European countries are more than three times the population dependency rates; in individual countries, they can be even higher. As the pension system dependency rate rises, expenditures rise relative to revenues, thereby raising substantial fiscal problems for the system.

Pension spending as a percentage of GDP in 2004 has been 15% in Ukraine, 14% in Poland, 12% in Croatia and 10% in Slovenia, and it is projected that it will increase by 2025.

There are actually many possible and well known solutions to this challenge. These, however, are not very popular, e.g. making the retirement age for male and female equal, increasing the retirement age, and introducing various pension reforms. All these reforms put a heavier load on workers and imply stability of the saving system. The public feeling is that all these reforms reduce the existing social security rights and therefore, they are difficult to implement. However, the most dangerous situation is that the policy-makers and decision-makers do nothing, and allow the rapidly increasing ratio of retired over active population to continue.

The best solution would be to ensure certain earnings for all individuals throughout their lifetime requiring that they all do some economically useful work. This solution is based on two assumptions. The first assumption is that everybody, including those who are disabled, can do economically useful work, and this is corroborated by the fact that monetized work (i.e. standard employment) is only a fraction of the total productive work. The second assumption is that individuals will change their work many times throughout their lives and in order to be able to do so, they will have to learn continuously, implying that their original education has to enable them to learn later in their lifetime.

4. Consequences for the Educational System

Demographic transition is producing two competing effects on education, which work in opposite directions. As there are fewer young people, traditional education will become cheaper. However, mature people too will need to learn new skills in order to remain competitive in the labor market. This will mainly happen outside the traditional educational system, thereby offering many possibilities for innovations and cost savings. Currently, life-long learning is nonexistent and adult education is very rare in East European countries, and mainly limited to people with the highest education, who make use of their personal initiative to take care of their educational needs.

The existing lack of life-long learning activities also presents excellent opportunities for educational entrepreneurs. There are many possibilities for innovative educational services from low price internet based courses to intensive workshops in some area of highly specialized knowledge. Here the initiative to learn is left to the individual. However it is necessary to create and stimulate a creative environment, where learning is not only desired but becomes a necessity. Such an environment can on one hand be created by fiscal measures and on the other hand a grass root movement of concerned citizens can have an important effect on learning culture. While at the moment these measures do not appear urgent, it is very dangerous to wait for their implementation as it takes time before their effect becomes visible, and the speed of aging clearly demonstrates that we are already running out of time.

5. Work Force Productivity Effects

The usual definition of the working-age is the age between 15 and 64. Both limits are incorrect. First, contemporary global society requires much more knowledge than could be
provided by the age of 15, even if the educational process would start considerably earlier, say at the age of 4-5. It is reasonable to design the total educational system in such a way that necessary fundamental knowledge and necessary basic skills are given to individuals by the age of 20, so that persons could start their employment, continue to learn and be educated throughout their employment and their life. Second, the age of 65 should be the age at which individuals are entitled to receive some compensation so that they can work part-time, with no requirement for their complete retirement, since total disconnection from the working process is not healthy.

Aging brings significant changes to the labor force. In principle a worker should be improving his/her skills until a certain age, after which the effects of aging start decreasing these skills. In this way one obtains an inverted U curve for work force productivity as a function of age. However, studies on aging effects on aggregate productivity do not find strong correlations between age and productivity. Because of the recent transition from an industrialized society to a service economy, traditional effects of aging may no longer be very important. It is therefore possible that in certain professions aging does not decrease productivity, but only increases experience. Such an increase in productivity is only possible with a concerted effort to considerably strengthen lifetime learning activities.

The above analysis clearly demonstrates that significantly strengthened life-long learning activities are necessary to mitigate negative effects of the expected demographic transition. This is such an important task that it cannot be successfully solved by any individual country in Eastern Europe. Therefore, at least a Europe wide effort to build the knowledge-based society remains the only reasonable solution, which could to some extent mitigate the negative effects of expected aging and maximize its positive effects. We discussed possible steps toward a knowledge-based society in detail at the Dubrovnik 4th Conference on Sustainable Development of Energy, Water and Environmental Systems and present here some of the most important findings relevant to aging in Eastern Europe.

6. Knowledge-Based Society

The contemporary world is interconnected and interdependent becoming the first global civilization. Globalization is generated by science and represents a shrinking in space and in time, where changes in a small subsystem cause effects in large and remote systems. Therefore, it is incorrect to identify globalization with endeavors to conquer and rule the world, which are rooted in human fear and in the desire to control nature. Globalization encompasses biological, social, cultural, economic and political spheres. Our world is changing rapidly; unexpectedly causing instabilities and uncertainties — and most of these changes are science-generated. Quantum physics, the theory of relativity and life sciences have changed our worldview. Our behavior is changing drastically, as demonstrated for example by the use of mobile communications, Google and transition to healthy lifestyle without smoking. The revolution in communications allows even less developed countries to rapidly catch up and leap-frog over more expensive but no longer necessary technologies such as landline telephones. The number of mobile phones has for example increased in Morocco from 2 per 100 inhabitants in 1999 to 25 in 2003 compared with Finland where

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it increased from 5 in 1991 to 93 in 2003, and with Croatia, where in 2003 there were 50°. It is becoming more and more obvious that the only unlimited resource is knowledge and becoming a knowledge-based society is not only a desirable future but an urgent necessity.

The term knowledge society was first used in 1969 by P. Drucker and in the 1990s it got its present meaning. Knowledge society identifies, produces, processes, transforms, disseminates and uses information and knowledge for human development. Knowledge society provides ways to humanize globalization. The fundamental feature of the knowledge society is the knowledge-development link. Knowledge is the main resource in a knowledge-based society permeating life and culture, policy and decision-making. Knowledge-based society is constantly changing maintaining a long-term and global perspective. Knowledge includes science, humanities and technology, ongoing and planned R&D, innovations, education, languages, literature and art, and also traditional and hidden knowledge. Different from all other resources knowledge is not only inexhaustible, it is increased by sharing. Knowledge is becoming the main political power. Of course, in a knowledge society other resources will be used, and some of them are non-renewable. Their use in a knowledge-based society is reduced and frequently substituted with other resources. Many modern technologies are dangerous and many more dangerous technologies will be forthcoming. Nevertheless, it is not possible to refrain from using modern technologies. Therefore, we need more research and much more knowledge so that we could know how to use these technologies for the benefit of humanity.

Individuals and human groups in a knowledge society will still behave and act irrationally and make numerous mistakes. It is the responsibility of a knowledge society to develop ways of minimizing the resulting harm and to maximize possible benefits. Just as the market provides an invisible hand channeling selfish behavior and interest into a common good, so does the Earth system operate through positive and negative feedbacks between its non-living and living parts to ensure that the Earth is always fit for life. In our hubris we believed we can be stewards of the Earth as we believed we could experiment with “civilization that has grown from the efforts of millions of individuals” (F. von Hayek). Knowledge and understanding are needed for us to be wise enough to know how to act and when not to act. Wisdom is imbedded in our various cultures, in our indigenous, traditional and hidden knowledge and scientific research, and knowledge increases wisdom and freedom. The introduction of new resources has always resulted in quantitative and qualitative leaps in the GDP/capita, and it can be argued that knowledge will lead to about a 30-50% increase in wealth and much more in other welfare indicators. Significant rises in quality of life, wisdom and freedom can be the outcomes of the culture of knowledge and peace.

Knowledge differs from all other resources in two significant characteristics. First, it is understood and contextualized only within a cultural system. Knowledge and culture are intertwined and the increase of knowledge demands that all cultures change. Second, while most resources exist separately from people, knowledge resides in people. Throughout history knowledge has been important, but a knowledge society is distinctly different since it focuses on human rights and on freedom of opinion and expression, and since it integrates all its members promoting new forms of solidarity involving present and future generations. Destroying human capital, suffocating freedom, human and social group rights and dignity hinders and prevents establishing a knowledge society. Developing a knowledge society will stop the destruction and the erosion of human capital.

12 Lovelock, J. (2004): The Selfish Green, talk given at the Adam Smith Institute, March 15.
7. Roadmap — How to Build a Knowledge-Based Society

Building a sustainable knowledge-based society is a goal and an imperative. It is a common goal of humankind, but each country, each culture has to develop its own efficient way. Hopefully, this task can be accomplished in the next fifty years. We outline here a roadmap describing immediate essential milestones that each country has to accomplish to achieve this goal:

1. Establishing a sustainable knowledge society requires political decision-making and political actions, political will at all levels including public, politicians, entrepreneurs, workers, producers and consumers and it requires the intertwining of knowledge-governance-economy. The task is difficult, but it is achievable even in a rather short period, as progress in Ireland, Finland and South Korea, but also in China and India demonstrate, albeit none of them is even close to becoming the knowledge-based society. In 1960 South Korea had the same GDP as Afghanistan, and less than those of Latin American countries.

2. Ensuring security for individuals, social groups, nations and countries.

Contrary to the view that security requires military dominance and consequently more and more powerful weapons, the existence of such weapons is a threat in at least three ways: accidental use of weapons of mass destruction (WMD), possession of such weapons by rogue and failing states, and WMD terrorism. Though circumstances beyond our current imagination might require use of some WMD, the current stock of over 30,000 nuclear devices with a destructive power that is not much less than it was at its peak in 1985, is absolutely unnecessary and dangerous. We propose that each sovereign state reduces its total military power by half every three years. Specifically, every three years states with nuclear weapons should reduce the number and destructive power of their WMD by half. We acknowledge the need for further R&D in military weapons, but a roadmap should require international control by multiple international organizations. Only such a procedure can make the Nonproliferation treaty (NPT) meaningful.

Some conventional weapons should be completely eliminated within three years. The damage already done by, and the danger of, antipersonnel mines coupled with the fact that their production and deployment is quite inexpensive, while de-mining is about hundred times more expensive and linked with loss of life imperatively demands that all countries, notably the USA, Russia and China ban the production and use of antipersonnel mines.

3. Ensuring freedom, dignity and rights to individuals and social groups thereby helps create opportunities for increased human options and increased human responsibilities.

Amartya Sen argues that development is freedom. Freedom is correlated with happiness and life satisfaction: correlation coefficient of 0.74 between perception of one’s own freedom at work and happiness, compared to 0.58 between tolerance and happiness. Freedom and knowledge are intertwined with the basic value — the golden moral law biologically rooted and contained in all major religions and cultures. Rules, however, reflect not only this golden moral value, but also prescriptions, many of them historically justified, but now obsolete. A global world possibly demands different and/or additional social structures from those currently in use. For instance, are sovereign states doing what they are supposed to do, i.e. protect individuals, and maintain and strengthen cultural diversity? Shouldn’t we design structures above and beyond sovereign states?

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A relevant indicator is the quality and resilience of these institutions and the creation of new structures and institutions - especially network\textsuperscript{15} type - new knowledge-intensive innovative governance including freedom and order. Most of the existing and recent laws did not take into account scientific and technological progress. It appears that some laws are a barrier preventing and slowing rapid changes. Actually, the law should facilitate accommodation between rapid changes caused by science and technology and a naturally inert human behavior. This requires that a significant percentage of lawmakers are active scientists. It is necessary to reach beyond tolerance to cultural understanding.

4. Working a person enlarges his freedom and contributes to his wellbeing and that of fellow human beings. Everybody, including ill and disabled people can and do enjoy some work. The concept of contemporary employment is less than two centuries old. Shorter and shorter person-hours are required to perform the same task: a century ago most of the population worked in agriculture, now barely 5% feeds everybody. Similarly, the necessary person-days in manufacturing are reduced. Currently, unemployment is very large, e.g. in France there is 23% unemployed youth. The knowledge-intensive sector will keep increasing. Now it amounts to 33% in EU, and 41% in the UK. Therefore we propose:

4.1. Employment is a basic human right that has to be socially guaranteed. Human resources development is the responsibility of each country’s government and of the international organizations.

4.2. Each country has to reduce unemployment by 2% every two years mainly by increasing employment in education and R&D. Since lifelong education implies about 60 years of education instead of the 12-16 years of education of today, and since it is necessary to educate everybody, it follows that the demand for educators is about ten times larger than today.

4.3. In a rapidly changing world individuals, for their own benefit, change employment and migrate implying the necessity of lifelong education, liberal firing with the responsibility of various institutions to assure job search assistance and job finding. Such an approach works in Denmark and it is dubbed “flexicurity” — intertwining flexibility and security.

4.4. Living in a modern world requires constant learning. At the time of enormous increase in knowledge a broadly educated person with understanding of global and local issues is needed. Knowledge society requires that most persons obtain their Ph.D. degree. A current sequential model of education followed by employment and then retirement is not sustainable because knowledge doubles every 5-10 years, postponing first employment to the age of about 30 hinders normal family life particularly putting women at a disadvantage. Therefore, each country has to ensure intersecting employment and education with no discrimination with respect to age, gender or disability.

5) Knowledge society cannot be the elite on an island in a sea of mediocrity. The spirit of knowledge has to permeate the entire society. Social, economic and political climate should be innovative and creative. Therefore, life-long education encompassing the entire society is a condition for building a knowledge society. All countries are very far from that goal. Only 16% of the working age population in Croatia has achieved tertiary education, compared to 15% in Serbia and Montenegro, and 14% in Romania and to 21% of the EU, 38% in the USA, 43% in Canada, 36% in Japan and 26% in South Korea. In the EU about 52% of the age group is enrolled in higher education which is higher than Japan’s 49%, but lags behind 59% in Canada, 81% in the USA and 82% in South Korea. EU has

5.5% researchers per 1000 employees marginally less than Canada or South Korea, but well below the 9.0 in the USA or 9.7 in Japan. Large groups of people are smarter, better at solving problems, fostering innovation, coming to wise decision than an elite few. The conditions are that the group be composed of diverse persons so that they bring different information, that no one is dictating the answer, and that each individual is independent. The wisdom of the crowd is the basis of the democratic sustainable knowledge society.

Evidence shows that countries that invest heavily in education and skills benefit economically and socially: workers with higher education earn higher wages. Countries that give individuals one additional year of education boost productivity and raise economic output by 3-6%. Each country has to increase tertiary education enrolment, percentages of Ph.D. degree holders and of researchers to reach the figures of 75%, 3% and 3%, respectively within ten years. This requires flexible and effective schools and universities, so that education is focused on pupils’ and students’ capabilities, talents and needs, on choice, and that it is completed within a given time interval with no drop-outs. Spending per student/pupil, now almost twice as little in EU as in the USA, has to be increased everywhere. Among the 20 leading universities two UK universities are from Europe. Any budget type allocation suffers from misdirection and waste, and it is necessary to establish mechanisms that ensure that money is indeed spent on education measuring quality and length of education, success and speed in getting new, different jobs.

6) We are experiencing a scientific revolutions in all scientific disciplines and development of interdisciplinary and trans-disciplinary domains. The Lisbon agenda requires that each EU country allocates at least 3% of their GDP for R&D. This goal is not sufficient. R&D output indicators should be high: top 5% and 1% cited papers, number of Nobel laureates and recipients of distinguished honours, fellowship in international and regional academies, number of leading research universities and research institutes. Knowledge-economy-governance intertwining can be assessed by evaluating the contribution of the private sector to human resources development. Human and social capital is not only of national but of global concern and various international/regional programs like the EU Marie Curie program have to be carried out.

7) Any component of the roadmap, regardless how temporary it is, should never adversely affect the human potential.

8. Conclusions

A transition from red to gray leading to an increased aging population will bring significant challenges to Eastern European societies. It also represents a major test for their economic and social structures. The only way to avoid major problems, in particular with the pension and health care systems and given the lack of an educated workforce is the building of a knowledge-based society. Such a transition will require a significant increase in life-long learning and in the importance of the role of science in our societies. Here we presented an outline of practical steps by which such a transition could be achieved. In those countries, where this transition to knowledge-based societies will be successful, the obtained changes will be beneficial both to economic performance as well as to the sustainability of these societies.

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25
The Transition to Retirement: A Problem or a Resource?

by Carla Facchini

1. The Reasons Behind the Research

In the early 1950s most old people did not have a seniority pension and the levels of active employment remained high even after age 65. Today instead, the vast majority of the elderly, particularly males, do have seniority or old age pensions. Also in 1950-51 average life expectancy and the average retirement age coincided, both being at around 65 years. Currently the former is calculated to be around 78 years, while the latter is, as a rule, below 60.

This intertwining of these facts means that currently, not only does the ending of working lives on reaching a determined age concern the vast majority of people, but so also does the fact that the period following it is not short. On one hand this creates new social scenarios, and on the other the very ‘mental maps’ with which individuals plot their own lives. It is relevant therefore to analyze how this passage is experienced and what resulting expectations and critical situations develop, so as to better prepare adequate strategies and make the period following retirement a resource both for individuals and for the community.

The research carried out during 2004 on 1000 subjects aged between 50 and 65, retired or still employed, all resident in Lombardy, and which we present in the following pages, is centred on this scenario.

We have concentrated on this age group as we were interested in gathering experiences of the retirement period in the years immediately following retirement or in those immediately preceding it. As a rule it is between the ages of 50 and 65 that one gives up the role of the active person who produces and contributes to the creation of wealth. This passage is crucial for those who have strongly identified with their work and have had a ‘career’ within which they have found self-realization. However it is also important for those who primarily experience effort, constrictions and obligations in work (Accornero, 1997). Certainly, in the first case retirement is seen above all as the end of a strong and structured identity and the subsequent life phase can be seriously problematical, viewed as an ‘empty’ time, difficult to overcome. In the second case, the end of work is viewed as the end of constrictions and the availability of the time thus obtained when one can finally dedicate oneself to areas of one’s life considered more important. Both cases however, relate to a fundamental transition that requires a further reworking.

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1 Carla Facchini, University of Milan-Bicocca.
2 It was only in the 1950s that the pension was set up for tradesmen and craftsmen as well as for farm workers, who in 1951 still made up almost half those in employment.
3 The research was promoted by the Associazione Nestore di Milano and was partly financed by Regione Lombardia and the Fondazione Cariplo. Cf Facchini, 2006.
4 The sample is characterized by a total homogeneity among the population of reference with regard to professions, family typology, sex, age group and education. Moreover it is representative of the various territorial areas of Lombardy both in geographic terms and the demography of the communities.
5 The subjects taking part in the research were chosen by random sampling and interviewed by telephone using the CATI method which, with an excellent cost/benefit ratio, allows the researcher to reach those who live in even small communities.
Besides its impact on the individual identity and the use of time however, retirement also impacts on income, often resulting in its decrease. In other cases instead, especially in the context of widespread ‘informal’ economy, for those who have competences which can be used in those areas, the end of ‘formal’ working activity can bring with it the passage to a more blurred working situation and the addition of income gained from ‘informal’ work to that of the pension, thus permitting an overall increase in economic resources obtained. On the other hand, in Italy the existence of the Severance Indemnity lump sum means that this amount set aside during their working lives is also available to individuals. In some cases these are limited amounts, in others the amount can be considerable and allows those who receive it a certain economic liquidity (Pace e Pisani, 1999; Maltby et al., 2003).

The period around the age of 60 however is also marked by important changes in family roles: the role of ‘child’ changes or ceases, the role of parent changes. On one hand, since life expectancy is currently around 77 years, the average age at which children ‘lose’ their parents is between 50 and 60 years. On the other hand since the age at which young people become economically independent and form their own family nucleus occurs around 30 years (Barbagh et al., 2003, Facchini and Villa, 2005). Their parents are usually around 60 years old when these events occur. Around the age of 60, with the loss of parents a strong point of reference to their past is also lost and with the ‘adultness’ of the children their own role in the family changes. The intertwining involved results in the redefinition of their own position within family relationships. They are no longer the middle generation; instead they become the older generation. They are no longer contemporaneously children and parents, but they become parents-grand parents. This double passage in its turn, impacts on conjugal relations, necessitating a redefinition of the roles and relations of the couple (Barnes, 2004).

Late adult age therefore is characterized by an overlapping of changes and one of budgets, crucial to the redefinition of personal identity (Neugarten and Moore, 1974). This allows, and at the same time necessitates both a comprehensive stocktaking of one’s own past choices, and a rethinking of one’s future, in a kind of budgeting. Today this last aspect is even more crucial due to the widespread awareness of the increase in life expectancy, as a result of which around the age of 60 there is the likelihood of twenty more years of life, a good part of which will be lived in good health and reasonable economic conditions. If in the past the ‘short’ period subsequent to retirement made it unnecessary to plan strategies for living it to the best, the current awareness that we are dealing with a period likely to be ‘long’ makes early planning of strategies on how to use this period not only possible but essential. Therefore retirement and the children’s departure from home can also be positive opportunities for making plans. Often these can involve taking up some of those activities which, because of work and family responsibilities had not been possible during adult life (Laslett, 1989; Friedan, 1993; Gaullier, 1998; Tramma, 2000; Guillemard, 2002; Billé, 2004; Facchini and Rampazi, 2006).

At the same time the subjects interviewed belong, though with important internal variations5, to the generation most involved in the modernization processes in our recent history, in which they have played a part. They are people therefore, touched, albeit in often unclear or fragmentary ways, by the modernization processes, by the ‘laicization’ of social life, by the fall of the old certainties (Touraine, 1994; Giddens, 1999) and by having to face the new precariousness (Bauman, 1995; Beck, 1999). They are people who only with difficulty take (or have taken) their identity for granted, who relate to widespread social change and to

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5 Since schooling and industrialization occurred in Italy only in 1950s-1960s this mainly involved the current 50-54 year olds (who at that time were still young children) rather than the current 60 -64 year olds who instead, had often, if only by a short time, already completed their education and had already entered the world of work. This means that in the age group considered by us, not only do different cohorts, but even different generations co-exist (Gilleard and Higgs, 2002; Facchini and Rampazi, 2008). In analyzing data we must bear in mind that if some differences between one and another are to be read in terms of ‘age group’, other differences should be read in the light of the different generational histories.
the problems related to it, including through processes of individual reasoning and reflection (Crespi, 2004).

Today’s 50-65 year olds therefore, are, on the whole people who not only have crucial problems redefining their own identity, but who experience such problems in completely new ways compared to previous generations. Not only does the manner in which changes occur have an effect on how individual lives are led, but so too do economic and cultural resources as well as the ‘social capital’ at their disposal. Having a satisfactory income and a relative certainty of guaranteeing it even after retirement allows subjects to face the end of their working role with a greater peace of mind compared to those who might fear a decrease in an already modest income. Living in a family context, marked by loving relationships full of meaning presumably facilitates not only the various transitions in the course of a family life, but also the transition to retirement. Being part of a rich and diversified network of friends constitutes an important fundamental support in daily life, but is still more important in critical situations in which subjects must redefine their roles and their personal identity (Bolwby, 1989).

2. The Different Generation Profiles

If the period around the age of 60 is seen as marked by a plurality of transitions, it is nevertheless evident that neither the times nor the scansions with which these transitions occur are homogenous.

The role played by the ways in which working and family life are constructed is considerable. First and foremost, retirement age is strictly linked to when one began to work, to one’s sphere of work and professional position, and to the amount of work not covered by welfare compared to that covered by payments of contributions. This is especially so in our country where most retirement packages have, in recent decades been tied to the attainment of a determined length of working service, rather than to the attainment of a specific biographical age. Fundamental to this point are social position, the generation to which one belongs and gender. Entry into the labour market occurred, as has been seen, very early for the generations born in the first decades of last century, especially among those who came from disadvantaged families. Instead for those born in the 1940s and 1950s, especially if they belonged to families in better social conditions, it occurred at an older age (Schizzerotto, 2002). With regard to ‘gender’ it is enough to remember that women were more often employed in sectors characterized by particularly favourable retirement packages (one thinks specifically of those who, in these generations enjoyed such packages, teachers and female workers in the public sector), which in many cases included notably early retirement.

Faced with this connection between generation, gender and social position and how working life scans out, the first aim of the research has been to trace the main distinctions.

Let us consider first of all the socio-professional condition of the subjects interviewed according to age group. 75.9% of the 50-55 year olds are employed, but only 41% of the 56-59 year olds, and only 4.6% of those over 60. 45.1% of the oldest women compared to 21.9% of the youngest men have at best an elementary school leaving certificate; 17.2% of the former and 38.4% of the latter have a high school diploma or degree. These trends hearken back to the varied collective ‘history’ of the different generations of the elderly and to the fact that for the beginning among the lower social classes early on the schooling processes concerned only males. Only later were they extended to females.

*Since gender and professional position constitute the main central threads of our analysis, from these two variables a third one has been created which has four groups, employed men, retired men, employed women, retired women. 17.4% of the sample are in the first group, 27.9% in the second 24.5% in the third, and 30.2% in the fourth.*
The data relating to schooling are interlinked with those relating to entry into the labour market and to the profession practised. Concerning the former, entry into the labour market was, as a rule very early. Overall 26.5% began to work before the age of 15, 27.1% between the ages of 15 and 16, 21.7% between the ages of 17 and 20 and only 18.1% after that age. Once more the differences were very great depending on the level of education, sex and age group. Those who were at best elementary school leavers almost always began work before the age of 16 — but often even before 14. Those instead who had a higher level of schooling entered the working world at a older age level. On the other hand ‘extra early’ entry into the work place refers above all to the oldest generations, particularly women, among whom almost 20% began work before the age of 15. It was the youngest generations, above all the males, who began work later. Among these almost a quarter began work after 20 years of age.

Early entry into the labour market often meant a long employment service. 8.5% worked for over 40 years, 36.2% 36-40, 30.3% 31-35; almost 20% between 10 and 20, and only 5% for less than 20 years. These however, are only the average figures including those from people still in work, who haven’t yet completed their working history. If, more correctly only those who have retired are considered then we see that 6.6% of men, and 30.3% of women have worked less than 30 years and; for those who have worked over 40 it is 5.8% and 7.6%. The data also show important differences depending on age group: men, especially, the oldest ones have longer working lives while women, especially those less old have shorter working lives. It is important to underline that despite the fact that the greater part of the working lives of those interviewed had been contractually and welfare protected, periods of unofficial, or at least unprotected work were not infrequent. In fact 7.4% had had 1-2 years of undeclared work, 9.7% had had it for 3-5 years, 7.6% for at least 6 and finally 6.2% had such periods but could not remember for how long. In total a little over 30% had had periods of unofficial employment, but this percentage rate is greater among women who had experienced even longer periods.

Concerning employment status the most common occupations were those of clerical worker and labourer (respectively 27.7% and 27%) followed by those of teacher and executive (7.6% and 6.8%). There were few trades people, craftsmen or self-employed people. In this regard too there were marked differences, depending on level of education, age group, and even more so, gender. As is easily understandable graduates or those with generally higher levels of education were employed above all as executives or clerical workers (around 80%), while those with more modest education worked mainly as unskilled labour and as farm labourers (around 75%). However what is most interesting to note is that even among those in clerical positions there was a sizeable number with modest educational qualifications — almost 10% of those who were, at best, elementary school leavers, and almost 40% of those having a middle school leaving certificate.

Early entry into the labour market and long extensions of welfare covered work translate into widespread seniority pensions, which 81% of those interviewed in retirement possess, and into a small number of old age and invalidity pensions. Obviously the relationship between contributive seniority and age group is a strong one. Seniority pensions relate to only 10.7% of those who have a modest contributive seniority, but to 53.4% of those who have

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8 In the sample, the relatively smaller amount of data concerning self employed is presumably due to their continued presence in the labour market beyond the formal retirement age, and therefore to the lesser likelihood of the interview centre contacting them at their homes.
9 Among women in the oldest age group manual work, especially unskilled, is particularly prevalent, while among the less old women there is an increase in clerical workers and teachers. Among men, instead, there is a prevalence of skilled manual labourers on the one hand, and self employed on the other (tradesmen and craftsmen in the older age groups, self employed professionals among the younger). Territorial differences are small, though it is noticeable that the more qualified professions are mainly present in Milan and in provincial capitals.
10 Reading this fact together with those which show how few of those with higher education have practiced modest professions, it is clear how for these generations, not only has higher education, as a rule, guaranteed access to ‘good’ professional positions, but also how access to these positions has been possible even in the absence of formal educational qualification.
an average seniority and 82.8% of those who have a contributive seniority of more than 35 years. Although most of the work histories of those interviewed took place within a welfare covered structure, periods of contributory evasion are not infrequent and these will effect pension cover. Among those who have had periods of undeclared work, especially if they were long, seniority pensions, though still existing for the majority, become less frequent (70.1% against the average of 75.6%) while there is an increase in old age pensions and particularly reversionary and invalidity pensions, which rarely occur among those who have had only structured work situations.

If age and working protection are the factors which most influence the type of pension received, level of education and professional positioning are those most relevant when it comes to determining income received. As easily guessed, the most substantial incomes are mainly earned by those subjects with the most skilled professional positions and with the greatest education11. Poverty levels therefore appear fairly limited, and relate mainly to the female population in the older age groups. The factors responsible for the economic weakness of women are different, especially among the oldest (Facchini, 2000): greater frequency in poorly qualified jobs, due in its turn, at least in part, to lower levels of education undertaken; more widespread jobs in the less contractually protected work sector (one thinks of domestic helpers), or less well paid work (such as the textile industry); shorter work spans, often linked to the female’s responsibility for care and management of the home. The point that must be made here is that on average, women’s pensions are inferior to those of men.

3. Temporal Scansion and Experience of Retirement

Let us now consider more directly the transition from work to retirement, it’s motives and it’s timing, the experiences linked to it, the activities taken up following it.

With regard to the decision making processes and their timing those already retired were asked when and why they had done so, while those still employed what thoughts they had on it. In the former it is an event which has already taken place; in the latter it is a matter of conjecture which can be altered as a result of a changed regulatory or work framework, or family or personal factors.

The data demonstrate both the tendency to early retirement and the fact that a not derisory number link this passage to events involving family reasons or to economic difficulties on the part of the company. But they also reveal substantial differences between employed and retired. Among the latter the role assigned to the attainment of a satisfactory pension is marked (48.5% against 15.1% of the ‘employed’) while among the former both the tendency to retire as soon as possible (61.7% against 29.7% of the retired) and, though to much more limited degree, the tendency to get out ‘as late as possible’ (17.9%) are stressed. Certainly the conceptual framework in which the answers of the employed and the retired are gathered is different. In one case the questions poll the intentions of the subjects while in the second the reasons for something that has already happened, reasons which may not be attributable to the subjects but to external conditions, endured rather than wanted. 8.6% retire early for family reasons, 4.8% because of company difficulties. Certainly the fact that the employed are younger as a rule and so have had a different generational history contributes to the differences between them and the retired. Nevertheless the tendency on the part of the interviewees still employed to retire

11 For example 64.8% of labourers have a monthly family income of less than 1,500 euros, 42.2% of tradesmen and craftsmen, 57.2% of other self employed workers, 28.8% of clerical workers, 25% of teachers, 14.6% of self employed professionals and 12.5% of executives. Respectively 9.9%, 15.6%, 14.3%, 27.4%, 36.5%, 56.1% and 57.2% have a monthly income of over 2,500 euros. Meantime 44.% of those without any school certificate have a monthly family income of under 1,000 euros, as do 28.9% of those who have an elementary school leaver’s certificate, 14.5% of those who have a middle school certificate, 3-4% of holders of high school diplomas and degrees. Respectively 10%, 16%, 19.9%, 32.1% and 68% have a monthly income of over 2,500 euros.
as soon as possible is clear, and appears, due, at least in part to worries concerning current changes and to the fear of a worsening of retirement conditions — age and the calculation of the provision for pension liabilities. However this widespread tendency does not alter the fact that for a not small number of the interviewees retirement is seen as an event to be delayed as long as possible. 

Let us now concentrate on these data, considering firstly the retired. The most relevant differences are those linked to employment seniority and hence to age. Obviously it is those with less employment seniority, and hence the youngest who have more frequently retired as soon as possible, often for family reasons. Conversely long service is connected to the goal of developing a financially satisfactory pension. The differences according to gender, level of education and profession carried out are limited, but still interesting. Thus it is shown that, among women, the number of those who retire as soon as possible, especially for reasons of family necessity, is on the increase. At the same time, while among those with medium-low levels of education and who have been involved in manual work there is an increase in reasons based on having built up a ‘good’ pension, among high school and university graduates there is an increase in reasons based on ‘pre-retirement’ and family needs. But really the differences relating to social conditions, in large measure, are due to the characteristics of the age group being considered, that is to say to the fact that among 50-64 year olds it is much more probable, given the characteristics of the Italian pension system (Benassi et al., 2006), that labourers and people with less schooling rather than self employed professionals, executives or at any rate those with higher levels of education would be retired. Actually as a rule it is mainly those with lower levels of education who, at around the age of 55, have had a working history capable of allowing them to have a ‘good’ pension. Conversely holders of high school diplomas, and even more so university graduates in the age range we have studied, would have difficulty attaining sufficient length of service to assure them of a high level of pension. It follows that those most educated on one hand are more frequently still ‘active’, or on the other, if already retired have difficulty justifying their transition with satisfactory retirement benefits, thus giving rise to family or work difficulties. 

The relations between timing of retirement, level of education and gender are confirmed in the replies to the question regarding thoughts on retirement given by those still in work. Firstly it emerges that for reasons symmetrical to those of the retirees, it is above all the oldest who state that they wish to postpone the choice for as long as possible. As written earlier, especially in Italy, only those who haven’t attained sufficient length of service to retire, or whose identity is strongly based in their work, are still employed at age 60-65. Again, It is above all women who consider retirement as early as possible while men tend to make it depend on achieving a more sizeable sum or to delay it as long as possible (24.8% against 12.3% of women). There are two elements that explain the differences between the male and female data. The first relates to the structure of the family budget, i.e. to the fact that, as a rule, the man’s income is greater, if not the only one; the second relates to the woman’s role of homemaker and carer. It follows that for a couple, the woman’s early retirement has, on the one hand lesser negative effects, given that the reduction in the sum received has less impact on the family budget, while, on the other hand it has more positive effects, making the overall daily organization easier. That women’s early retirement and the consequent reduction of their overall work load results in their being less tired, rather than in less negotiations with other family members over family chores, or yet, in a greater attention to the ‘quality’ of domestic life, is relatively secondary. What is important is that retirement models prove to be strongly conditioned by the roles within a couple: by the centrality of the male in producing income and the woman’s central role in reproduction. 

Gender, therefore is crucial, but level of education and profession exercised are also very important. The propensity to retire as early as possible increases in considerable measure among those who have, at best, an elementary school leaver’s certificate and among those
involved in labouring jobs. For example those who have retired or are thinking of retiring as early as they can account for 75.3% of those who have an elementary school leaver’s certificate, but 63.7% of those who have a middle school certificate, 56.6% of those with high school diplomas and 50% of graduates. Likewise those who have retired or are thinking of retiring as late as possible go respectively from 5.2% to 12.9% to 22.5% to 35.2%. At the same time, among professional self employed the percentage of those who delayed retirement for as long as possible, or intend doing so is 52.6% for self employed professionals and entrepreneurs, but drops to 22.2% of tradesmen and craftsmen, to 10.3% of clerical workers and to 4.1% of labourers. Conversely the percentage of those who have retired or are thinking of doing so as early as possible rises respectively from 34.2% to 44.4%, to 65.8% and to 79.5%. Such different intentions are due both to the varying lengths of employment service, and hence to the considerations already made, and to the characteristics of one’s work. It only needs mentioning that, as a rule, jobs carried out by those with high school diplomas and graduates are not only better paid, but are marked by a less physical hardship and a greater autonomy and possibility for self-fulfilment. It follows that since unskilled jobs are more tiring, more repetitive and bring less self-fulfilment (Mingione, 2003), those who do them, regardless of ‘gender’, tend to stop working as soon as length of service accumulated makes a satisfactory pension possible, with the general effect of blurring the differences between men and women. Conversely the gender differences are magnified among those who have a higher level of education and carry out qualified professions. It is certain that for female graduates too the likelihood of long stays in the labour market is greater than that of women with low levels of schooling, but this occurs to a much lesser extent compared to what happens for men. Even for women graduates the difficulties in reconciling professional and family work persist, difficulties often particularly onerous in late adult groups due to requirements that can arise from the enlarged family, i.e. from non self-sufficient parents, or from children who have formed, or intend to form their own family and begin the reproductive processes.

Finally, it is interesting to note that, social position being equal, widowers, the separated and the divorced show a significant tendency to delay retirement: This fact is presumably due to the role that integration in work has in terms of use of time and social integration for those who find themselves faced with a condition of solitude (Pitaud, 2007).

Besides involving different timings, the different work experiences and conditions of the interviewees have repercussions on the opinions stated on the changes going on in the pension system. In general, 60% of the interviewees consider that the pension system should not be changed since ‘35 years of work are already a lot’, 23.5% believe that delaying retirement should not be imposed, but encouraged by the use of economic incentives, and 4.9% state that the age should depend on the work actually carried out. A little over 10% agrees with the raising of the retirement age, considering it to be a ‘necessary choice for the maintenance of the pension system’. Criticism of the reforms is greater among women, especially if still employed, among labourers and generally those who entered the labour market early, while it is less marked among men still in employment, and above all among the self-employed professionals, executives and in general among those graduates who entered the labour market late. The number of those who express their perplexity, considering ’35 years of work to be already a lot’ is equal to 65.7% among those who began working by 16, but drops to 47.1% among those who entered the work place when over 21. Among those entered the work place

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12 It is opportune to point out that the research was carried out during a period of transition from a pension system characterized by a high level of retirement pension cover in relation to salaries or wages received and by the presence of seniority pensions (which involved the possibility of ending working activity at ages below 55 years) to a system which provides for a more modest income cover and a progressive increase in the age at which retirement is possible. This timing of the research has made the subject treated more interesting, probably making its realization easier and it certainly influenced the opinions of the reforms going on, especially on the part of ‘employed’.

13 The marked relationship between opinions on the reform and the age of entry into the labour market is clearly summarized by the fact that the chi square is decisively high (equal to 41.9) and greater than that corresponding to the relationship between this variable and the others considered so far.
after age 21 there is an increase, though still in the minority, both in those who believe it would be preferable to influence the retirement age through economic incentives and those who believe that a reform of the pension system cannot be postponed.

Table 1: Opinions on the pension system reform* Age group beginning work

<table>
<thead>
<tr>
<th></th>
<th>&lt;17</th>
<th>17-20</th>
<th>&gt;20</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Against: 35 years of work is a lot</td>
<td>65.7</td>
<td>59.2</td>
<td>47.1</td>
<td>60.1</td>
</tr>
<tr>
<td>Incentives are better</td>
<td>20.1</td>
<td>26.6</td>
<td>27.8</td>
<td>23.4</td>
</tr>
<tr>
<td>A necessary choice</td>
<td>8.3</td>
<td>11.6</td>
<td>19.8</td>
<td>11.5</td>
</tr>
<tr>
<td>Other (it depends on job)</td>
<td>5.9</td>
<td>2.6</td>
<td>5.3</td>
<td>4.9</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

The strong relationship between opinions on the reform and the age of entry into the work place is due to the different effect caused by the increase in the length of service necessary for retirement according to the age at which one began to work. Those who entered the ‘structured’ labour market at a very young age complete the 35 years of length of service till now required for retirement at age 50-55: those who instead entered at a later age, at around age 60-65. The change from a system based on working length of service to a system based on biographical seniority results therefore in a delay in retirement, even by as much as over ten years in one case, and by very few years in another.

4. Retirement As Problem or As Resource?

That retirement is, as a rule experienced in a very positive way emerges clearly from the answers given to specific questions, in which the degree of agreement was sought, on a scale of one to five, on some statements on how retirement affects people’s lives. The following tables which report the mean results, the higher the points the greater the agreement with the statements offered, clearly show that the majority of the interviewees link this event to decisively positive aspects. There was very significant agreement concerning the possibility of dedicating oneself to one’s personal interests -3.4-, or to one’s family -3.3-, ‘freedom from one’s work -2.6-, but drops to values equal to 1.7 when it comes to a sense of ageing and uselessness14.

Table 2: Degree of agreement with some statements on retirement (average points) *typology

<table>
<thead>
<tr>
<th></th>
<th>Emp men</th>
<th>Ret men</th>
<th>Emp women</th>
<th>Ret women</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>freedom from work</td>
<td>2.6</td>
<td>2.7</td>
<td>2.6</td>
<td>2.5</td>
<td>2.6</td>
</tr>
<tr>
<td>more time for the family</td>
<td>3.2</td>
<td>3.3</td>
<td>3.2</td>
<td>3.4</td>
<td>3.3</td>
</tr>
<tr>
<td>more time for one’s own interests</td>
<td>3.5</td>
<td>3.3</td>
<td>3.6</td>
<td>3.2</td>
<td>3.4</td>
</tr>
<tr>
<td>economic problems</td>
<td>2.0</td>
<td>2.0</td>
<td>2.1</td>
<td>2.1</td>
<td>2.0</td>
</tr>
<tr>
<td>sense of uselessness</td>
<td>1.6</td>
<td>1.7</td>
<td>1.6</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td>sense of ageing</td>
<td>1.7</td>
<td>1.8</td>
<td>1.8</td>
<td>1.7</td>
<td>1.7</td>
</tr>
</tbody>
</table>

14 In practice those who agreed ‘very much’ with these statements were almost exclusively those who had been sent into early retirement by their companies.
The transition from work to retirement therefore proves to be considered a positive experience and offers elements of ability to plan, in family and individual terms, though there are also some problems and difficulties connected to a ‘sense of uselessness and ageing’ (Caradec, 2004).

The differences both between retirees and employed and between men and women are slight. Among the retired, there is less agreement, albeit to a limited extent, with the statement that the end of work allows one to dedicate oneself to one’s own interests. Among women there is greater agreement that it offers ‘more time to dedicate to the family’. These differences, in the order of a few decimals, suggest, on the one hand that retirement gives rise in the employed to expectations which a later reality tends to put into perspective. On the other hand they confirm a greater centrality of women in the work of caring and in family solidarity networks (Facchini, 2001). Nevertheless the most notable aspect isn’t so much the existence of such differences, but how small they are, which suggests an actual reduction of gender differences, not only with regard to this transition but also more generally, in the overall models of identity.

The differences resulting from social characteristics and family typology are more marked. It is in effect the more educated individuals and those with a better socio-economic condition, in whom one more often finds more ‘individual’ planning ability and problematic aspects relating to retirement (Lalive d’Epinay, 2001; Kima and Moen, 2002; Censis, 2005). For example the possibility of developing one’s own interests have an average agreement level of 3.2 for those with only an elementary school leaver’s certificate, and 3.6 for graduates; the sense of uselessness is respectively 1.6 and 1.9. Those in modest social conditions dwell more on a sense of freedom from work and the possible economic difficulties. The average agreement value drops respectively from 2.6 for those with little education to 2.4 for graduates, and from 2.2 to 1.4.

Table 3: Degree of agreement with some statements on retirement (average marks)* Level of education

<table>
<thead>
<tr>
<th></th>
<th>Emp men</th>
<th>Ret men</th>
<th>Emp women</th>
<th>Ret women</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>freedom from work</td>
<td>2.6</td>
<td>2.7</td>
<td>2.6</td>
<td>2.5</td>
<td>2.6</td>
</tr>
<tr>
<td>more time for the family</td>
<td>3.2</td>
<td>3.3</td>
<td>3.2</td>
<td>3.4</td>
<td>3.3</td>
</tr>
<tr>
<td>more time for one’s own interests</td>
<td>3.5</td>
<td>3.3</td>
<td>3.6</td>
<td>3.2</td>
<td>3.4</td>
</tr>
<tr>
<td>economic problems</td>
<td>2.0</td>
<td>2.0</td>
<td>2.1</td>
<td>2.1</td>
<td>2.0</td>
</tr>
<tr>
<td>sense of uselessness</td>
<td>1.6</td>
<td>1.7</td>
<td>1.6</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td>sense of ageing</td>
<td>1.7</td>
<td>1.8</td>
<td>1.8</td>
<td>1.7</td>
<td>1.7</td>
</tr>
</tbody>
</table>

On the other hand, while those who live ‘in family’ emphasize the aspect of individual planning as well as that concerning the family, those who live alone dwell on the negative elements of retirement, from the ‘sense of ageing’ (for which the level of agreement rises to 1.9) to the ‘sense of uselessness’, (1.8), and to economic worries (2.2). In particular and independent of gender 30% of singles, 48% of those living in couples, 55% of those who also live with their children and over 60% who regularly look after their grandchildren agree with the statement that retirement brings the possibility of dedicating oneself more to the family. Conversely, but still homogenously for men and women, the percentage of those who do not ‘at all’ share the statement that retirement brings a ‘sense of uselessness’, rises from 35% among singles, to 44% of those living in couples, to 58% of those living with a partner and children, to over 60% of those who regularly care for their grandchildren.
Taken together these data bear witness to how the ending of the work role significantly affects not only economic conditions and ‘cultural’ capital, but also one’s belonging to a family. They particularly suggest that for both men and women, family membership and the existence and ‘quality’ of the couple relationship are crucial to individual identity (Donati, 1991) and to the working out of the processes of ‘all’ life-marker passages (Smith and Moen, 2004).

Moreover, they cast a fine light on the change going on in identity models. The substantial homogeneity of the replies from men and women actually gives a glimpse of the passage from very different gender identity models — men based on professional work, women on family and caring — to models in which, though still marked by differences, the work sphere becomes important for women too, and likewise the sphere of family life becomes so for men (Piccone, Stella, and Saraceno, 1996). Not only, but one can also hypothesize that alongside these two spheres, but again of equally importance to men and woman there is ever greater attention to ‘oneself’, the importance given to one’s own individuality and to time for oneself and for one’s interests (Piazza, 2005).

5. Activities After Retirement: Between Saying and Doing...

This planning dimension is seen clearly in the activities carried out or which one considers doing following retirement.

As the following table shows the activities most mentioned are ‘dedicating more time to one’s family’, and reading (40.3% and 38%), followed at a distance, with values on average equal to 20%, by activities such as ‘travel’, ‘helping children or grandchildren’ ‘attending cultural activities’, ‘gymnastics or sport’, ‘fitness activities’. The number of those who link retirement to activities such as ‘caring for elderly parents or parents-in-law’, ‘knitting’, or ‘do-it-yourself activities’, ‘getting involved in an association’ or ‘doing paid work’ is less, around 15%. Finally the number of those who mention helping their children in their work or attending specific cultural activities such as the University of the Third Age is around 5%.

Table 4: Rate of activities carried out or considered after retirement* Typology

<table>
<thead>
<tr>
<th>Activity</th>
<th>Emp men</th>
<th>Ret men</th>
<th>Emp women</th>
<th>Ret women</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>helping one’s children with housework</td>
<td>12.</td>
<td>17.2</td>
<td>16.7</td>
<td>21.9</td>
<td>17.7</td>
</tr>
<tr>
<td>helping one’s children in their work</td>
<td>14.4</td>
<td>7.9</td>
<td>7.8</td>
<td>8.6</td>
<td>9.2</td>
</tr>
<tr>
<td>help one’s children care for their children</td>
<td>14.4</td>
<td>19.0</td>
<td>29.0</td>
<td>24.8</td>
<td>22.4</td>
</tr>
<tr>
<td>taking care of elderly family members</td>
<td>15.5</td>
<td>15.4</td>
<td>18.4</td>
<td>23.8</td>
<td>18.7</td>
</tr>
<tr>
<td>carrying out a work activity</td>
<td>28.7</td>
<td>13.6</td>
<td>14.7</td>
<td>7.6</td>
<td>14.7</td>
</tr>
<tr>
<td>more time for family and home</td>
<td>35.6</td>
<td>41.2</td>
<td>42.9</td>
<td>40.1</td>
<td>40.3</td>
</tr>
<tr>
<td>reading books</td>
<td>35.6</td>
<td>30.1</td>
<td>43.7</td>
<td>42.1</td>
<td>38.0</td>
</tr>
<tr>
<td>knitting do-it-yourself</td>
<td>9.8</td>
<td>17.9</td>
<td>11.8</td>
<td>22.5</td>
<td>16.4</td>
</tr>
<tr>
<td>attending cultural activities</td>
<td>23.6</td>
<td>19.4</td>
<td>27.3</td>
<td>14.6</td>
<td>20.6</td>
</tr>
<tr>
<td>attending Third Age University</td>
<td>4.0</td>
<td>1.8</td>
<td>5.3</td>
<td>5.341</td>
<td>5.341</td>
</tr>
<tr>
<td>more time taking care of one’s body</td>
<td>26.4</td>
<td>18.6</td>
<td>20.8</td>
<td>19.5</td>
<td>20.8</td>
</tr>
<tr>
<td>getting involved in an association</td>
<td>25.3</td>
<td>16.8</td>
<td>16.7</td>
<td>16.7</td>
<td>17.1</td>
</tr>
<tr>
<td>travel</td>
<td>35.6</td>
<td>21.1</td>
<td>34.7</td>
<td>20.9</td>
<td>26.9</td>
</tr>
<tr>
<td>none of these</td>
<td>10.9</td>
<td>21.9</td>
<td>11.4</td>
<td>12.3</td>
<td>14.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>
If these activities are aggregated according to their areas of reference it is seen that, on one hand, the activities most mentioned bear witness to the continuity of ‘traditional’ interests and the willingness to be a resource for one’s family, and on the other, the importance given to more ‘innovative’ areas, such as ‘care of oneself’, or social commitment. What is more important to highlight however, is that as a rule many activities are mentioned (three on average), and that the differences between men and women and between retired and employed are slight. Certainly, activities such as travel, membership of associations, attendance at cultural activities, or ‘body care’ are mentioned more by the employed than by retirees, among whom there is an increase in activities such as do-it-yourself, or in the case of women, helping the elderly family members who are not self-sufficient or helping family with housework (McConnell, 1988; Sgritta, 2007). Nevertheless, even these differences, which are related to the difference that often occurs between plans and reality, are limited. This is especially the case if one considers that the employed are, as a rule younger than retirees. These differences have also more often been associated with a model marked by a greater attention to ‘oneself’, and, thanks to the higher level of education, they more often also have those tools to allow them access to culturally demanding activities (Balthes and Mayer, 1999; Lalive d’Epinay, 2001; Censis, 2005; Verbrugge et al., 2006).

Overall the data seem on the one hand, to bear witness to a reduction in the differences between men and women when it comes to the use of ‘free’ time following retirement. On the other it seems to confirm that sizeable differences based on levels of education remain. Some of these differences relate to the subjects’ different ‘capital culture’ and to their ability to relate to cultural activities. For example reading is mentioned by 7.9% of those with elementary education, but by 25.3 of graduates, and attendance at cultural activities by 21% and 63.6 respectively. Other differences instead show the existence of different identity models. On one hand there are activities such as support given to children with housework or in looking after grandchildren. These are more present among those who have little schooling. On the other hand, among graduates and holders of high school diplomas there is greater attention to care of one’s body or participation in associations. In other words it is clear that among those in modest social positions there is a greater concentration on the family and the responsibilities connected to it, while those in higher social positions give more attention to ‘themselves’ and to non family networks (Bourdieu, 1983).

The last questions relating to social integration surveyed the practice of getting, or the readiness to get, involved in volunteer activities. These data too highlight a strong social rooting: to the 17.3% who still carry out some activity must be added the 3.9% who did so in the past and the 7.8% who say they are interested in doing so. If those who most frequently carried out these activities or are more interested in doing so are retirees, it must be pointed out that around half those in employment put their lack of involvement down to the shortage of time available. It can also be noted moreover that the rate of membership in voluntary associations increases among those with higher levels of education, among those who live alone and, above all among those who take active part in parish, cultural or political associations (in these cases the rate of almost is almost 50%). This shows how membership of an association makes one more likely to be a resource for the community.

6. Elements of Reflection

This generally positive picture is not exempt, however from some points for reflection.

15 The subjects or groups with which the interviewees say they would be most likely to get involved are: those with a handicap (37.5%), young people (27.4%), conditions of poverty (14%), children (9.4%), the elderly (8%). Also notable were civil rights (6.5%) and the environment (5.9%).
Firstly retirees as a rule have experienced this transition for a only few years and therefore are in a phase in which one better appreciates the lightening of the work load and the opportunity to dedicate oneself to often long planned or dreamed of activities. The possibility cannot be excluded therefore that the picture might have been different, and less positive, if the study had included those who were long retired and who, having had more experience of the difference between the dreamed of activities and the real daily life ‘as a retiree’, grasp the problematic aspects of retirement and are more subject to the risk of the weakening of social relations (Facchini, 2003; Guillemand, 2003; Caradec, 2004; Delbes and Gaymu, 2004). In any event the fact that the majority of the subjects in this age group, and of retirees in particular, have integrated well and live the transition in a peaceful way should not distract our attention from those who, instead, have an experience marked by problems and discomfort.

Secondly, if the sample is extremely representative of the population of reference it should be pointed out that Lombardy, especially for the generation investigated, has seen widespread contractually and welfare protected work. This has had the important consequence that the pensions received here are, as a rule, substantially greater than the national rate (Benassi et al., 2006), leading to a substantial limiting of pockets of poverty. It follows that the considerations coming out of the research aren’t necessarily applicable to the rest of the country, especially to the southern regions, marked, as is well known, by a sizably greater presence of unprotected jobs and by situations of poverty (Benassi, Facchini, 2008).

Finally, while most ‘current’ 50-60 year olds made an early entry into the work place and carried out tiring and unskilled jobs, future 50-60 year olds will much more often have ‘belated’ work histories, more frequently marked by greater professionalism and less difficulty. The positive retirement experience, seen as freedom from work might therefore fade away and allow more problematic experiences and opinions to emerge, especially if one considers that current demographic trends show an increase in the number of people who live the second half of their lives alone. And all this in a situation generally ever more marked by increased possibilities but also by a still greater increase of uncertainty and risk (Bauman, 1999, Rampazi, 2002, Jedlowski and Leccardi, 2003).

For this reason actions and policies which, besides supporting those subjects particularly ‘at risk’ of social exclusion are committed to the objective of supporting the formation of social links, strengthening the social identity of those involved are essential (Charbonneau, 1998).

REFERENCES


Abstract

Demographic, economic and societal changes over the next 50 years will affect pension systems in many different ways.

Developing countries are expected to face rapid population growth.

Developed countries on the contrary will face a population ageing marked by a massive increase of the population aged 65 and older. That means that the old age dependency ratio will increase. However, the age structure does not tell the whole story: much will also depend upon the employment rate in the different countries and in particular upon the employment rate of older workers. Higher employment rates will have a positive effect on the economic dependency ratio of the pensioners.

The employment rate plays a major role in coping with the financial consequences of our ageing societies in relation to pensions. But its increase will not solve all the problems which emerge due to the phenomenon of ageing; moreover, it can offer only a temporary respite. The formation of the pension systems too will have to contribute in order to deal with the consequences of the ageing phenomenon, as well as with other aspects of social change.

Pension reform policies put into place differ from country to country: they are determined by how the systems are constructed, by the policy conceptions of governments and social partners and by the economic and fiscal resources available.

In this article we wish to present the major pension reform trends that can be observed in Western Europe and to highlight the European trade union position in relation to pensions.

1. Europe Is Ageing and the European Workforce Is Ageing Too

Between 1950 and 2000, the percentage of people over 65 years of age in EU25 increased from 9.1% to 15.7%. By 2025 this group will represent 22.7% of the entire population.

Between 2010 and 2030 the EC expects an increase in EU25 in the number of
1. Older workers (55-64 y) by 15.5%,
2. Elderly people (65-79 y) by 37.4%.

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* Secretary to the Directors’ Committee, European Trade Union Institute, Brussels.
1 Number of people aged 65 and over as a percentage of people aged 15-64.
2 Number of pensioners as a percentage of contributors.
These demographic shifts are due to:
1. Continuing low birth rates,
2. Continuing increase in longevity.

The result of these demographic trends will be that we will have more pensioners in the future and pensioners who live longer.

2. Average Exit Age from the Labour Force and Economic Dependency Ratios of Pensioners

While the European population has grown older, the average effective exit age from the labour market has fallen dramatically during recent decades, mainly due to the development of pre- and early retirement systems created in an effort to combat youth unemployment. In this way, the number of contribution years has decreased while the number of years spent in receipt of pensions has been growing. This has created tremendous pressure on pension systems and made reforms of the employment and pension policies unavoidable.

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td></td>
<td>Male</td>
<td>Female</td>
<td>Male</td>
<td>Female</td>
</tr>
<tr>
<td>Germany</td>
<td>65.7</td>
<td>62.7</td>
<td>60.5</td>
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<td>67.1</td>
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<td>59.4</td>
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<td>68.1</td>
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<td>France</td>
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<td>69.0</td>
<td>59.2</td>
<td>58.3</td>
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<td>64.0</td>
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<td>64.1</td>
<td>58.8</td>
<td>55.3</td>
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<td>Norway</td>
<td>67.6</td>
<td>69.0</td>
<td>63.8</td>
<td>62.0</td>
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<td>UK</td>
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<tr>
<td>EU 27</td>
<td>-</td>
<td>-</td>
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</tr>
</tbody>
</table>

* EU25 - Source: Eurostat (2007), Structural Indicatory; OECD

<table>
<thead>
<tr>
<th>Country</th>
<th>2004</th>
<th>2010</th>
<th>2020</th>
<th>2030</th>
<th>2050</th>
</tr>
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<td>134</td>
<td>125</td>
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<td>France</td>
<td>191</td>
<td>187</td>
<td>161</td>
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<td>146</td>
<td>155</td>
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<td>122</td>
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<tr>
<td>The Netherlands</td>
<td>364</td>
<td>363</td>
<td>317</td>
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<td>Finland</td>
<td>180</td>
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<td>439</td>
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<td>205</td>
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<td>EU15</td>
<td>141</td>
<td>141</td>
<td>128</td>
<td>107</td>
<td>92</td>
</tr>
</tbody>
</table>

3. A Two-Track Approach

The challenges resulting from these demographic changes could cause a dramatic fall in annual economic growth rates in Europe. This reduction in economic growth could affect the sustainability of our social systems in general and of the pension and health systems in particular. Since the 1990s EU governments have followed a two-track approach: reform of the pension systems has gone hand-in-hand with policies intended to push up the total employment rates and those of older workers (55-64 years) in particular. These reforms have resulted, since the beginning of the 21st century, in a reversal of the trends in exit age and employment rates.

4. The European Employment Strategy

The Lisbon European Council of 2000 adopted an ambitious plan for the future of Europe: the overall aim of employment and economic policies should be to raise the employment rate as close as possible to 70% by 2010 and to increase the employment rate for women to more than 60% by the same year.

In addition to the 2010 Lisbon targets, the Stockholm European Council of 2001 set a new target of raising the average EU employment rate for older men and women (aged 55 to 64) to 50% by 2010.

Another target relating to older workers was set by the Barcelona European Council in 2002. It focuses on the average labour market withdrawal age which is meant to rise by 5 years by 2010.

As can be seen from the European Commission’s employment report 2007 and from the most recent Eurostat-figures, the EU is still far short of the original objectives set in Lisbon, Stockholm and Barcelona. In 2007 the overall employment rate in EU15 was 66.9%, the female employment rate was 57.1% (figure for 2006), while the employment rate among older workers was 46.6% (figure for 2007). The average exit age from the labour force rose to 61.2 years in 2006, less than one year higher than in 2002! It is important to observe the huge differences in exit age between countries: e.g. between France (58.9 years) and Sweden (63.9 years) there was a difference of 5 years in 2006.

All these figures prove that progress towards the quantitative objectives of the European Employment Strategy is a slow process.

5. Pension System Reforms

In 1999 the European Commission presented its Communication on a Concerted Strategy for Modernising Social Protection. This communication was the start of a long-term Europe-wide reform process in the pensions area.

The Laeken European Council of December 2001 decided that Member States should cooperate on the question of reform of pension systems by seeking to achieve common objectives, namely: the adequacy of pensions, the financial sustainability of pension systems and the adaptability of pension systems (modernisation). The method to be used was the open method of coordination (OMC).

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3 This section draws upon the EC report Adequate and sustainable pensions — synthesis report 2006 and on the OECD report (2007) Pensions at a glance. Public policies across OECD countries.
Since the 1990s substantial pension reforms have taken place.

A first important reform concerns the increase in the statutory pension age. Most EU15 countries have now a standard retirement age of 65 years for men. France is a notable exception with a pension age of 60. Efforts are being made to raise this age. Denmark, Germany and the UK are in the process of increasing the retirement age to 67 years. In most countries the retirement age for women is the same as for men: 65 years. Some countries, such as Belgium and the UK, are gradually equalising the retirement ages for women with those of men.

Governments are also trying to discourage early retirement and to encourage people to work longer, at least until the statutory retirement age. This is done either by raising the age at which early retirement may be taken or by applying actuarial reductions for early retirement and by offering bonuses or higher accrual rates to workers who continue to work after a certain age (e.g. in Belgium after 62) or after having reached the statutory retirement age (e.g. in the UK).

Recent reforms have also strengthened the benefit/contribution link of pension systems. This has mainly occurred through the introduction of longer contribution periods for entitlement to a full pension and by calculating full pensions on the basis of lifetime earnings instead of final salary. Finland, Portugal and Sweden are all moving to a lifetime average earnings measure. France is moving from the best 10 years to the best 25 years in the public scheme, while Austria is extending the averaging period from the best 15 to the best 40 years.

Taking more care of non-standard careers is a further measure. Public pension schemes, unlike private schemes, often allow people to acquire pension credits for periods of short-term contracts, part-time and voluntary work as well as for some types of break in the working career such as child and old-age care, education and unemployment. Only some countries (e.g. Sweden, Austria, Denmark) provide State- or employer-financed contributions into second-pillar schemes for periods of maternity or parental leave. Some other countries plan the introduction of such allowances or have developed measures with a similar effect (UK, Ireland, Germany, Luxemburg).

Workers who change employer frequently are better served by statutory schemes, and many statutory schemes have moved towards accommodating short-term and part-time contracts, while supplementary pension schemes often work to the detriment of mobile workers.

Given the rising importance of workers’ mobility, some Member States (Belgium, Germany, Denmark, the Netherlands and the UK) have improved the portability of supplementary pension rights. The EU has not yet managed to devise a global solution to this problem.

The introduction of unisex-tariffs in second-pillar provisions or in the mandatory funded part of the first-pillar provisions is an important measure in addressing the gender imbalances in relation to pensions. Such a measure has been introduced in several Member States: in the Netherlands, Denmark, Ireland, Sweden, Greece, Luxemburg and Germany (for the ‘Riester’ voluntary savings).

More and more countries have switched to price- or close-to-price indexation of benefits, both for earnings-related schemes and for minimum pension schemes. Some countries, such as, Finland, for example, use a mixed index composed of wage growth and price developments. Other countries, Italy for example, increase high pensions at a lower rate than medium-level and small pensions, with only the two latter categories receiving full price compensation. The same applies to Austria.

However, in order to better protect non-standard workers, some countries have increased the levels of the guaranteed minimum pensions beyond the statutory index adjustments (e.g. in Belgium, Spain, Portugal and Ireland). This measure is also intended to combat poverty in old age.
Some systems have introduced a life-cycle approach. As a response to future increases in life expectancy, a number of countries have undertaken reforms which are designed to stabilise pension systems and to safeguard financial sustainability. This is done by the introduction of automatic adjustment mechanisms (e.g. a ‘life-time coefficient’ which adjusts future pensions automatically to increases in life expectancy) or of periodically required reviews and adjustments: in Spain, for example, Parliament reviews reform measures every five years. In Sweden national account schemes have been introduced. Germany will adjust benefits in the points system. Denmark has introduced a direct link between increasing life expectancy and the pension eligibility age. In 2003 France linked the number of contribution years required for entitlement to a full pension with life expectancy.

A large number of countries have also created public pension reserve funds in order to guarantee the future solvability of their public pay-as-you-go systems. Every year countries like the Netherlands, Belgium, Spain and Portugal set aside part of their budget in order to be able to meet future pension liabilities.

Several countries see a role for funded private pension provision as part of the total pension provision. This has traditionally been the case in the UK, the Netherlands and Denmark. Moreover, the importance of private pension provision has essentially been increased by the introduction of a funded tier in the statutory schemes in a number of Member States including Sweden. Furthermore, numerous countries have increased provisions for occupational or private schemes that complement public pensions (Germany, Austria, Belgium, Italy). The reason for this increased interest in funded (second- and third-pillar) pensions is the decrease in replacement rates expected to occur in most Member States. However, in all but a few Member States public pay-as-you-go pension schemes are expected to remain the principal source of income for pensioners. This will allow Member States to maintain a degree of redistribution and solidarity that is necessary to provide fair incomes for all older people.

6. Main Results of the Pension Reforms

Besides the effects of policy changes on the sustainability of pension systems, pension reforms in EU15 have had certain positive consequences for the transparency of the systems, for the information of future pensioners on their rights, for the correction of gender imbalances and for the rights of pensioners on minimum pensions and of non-standard and low-income workers.

As to the adequacy of pensions, nearly all EU15 countries may in the future expect a decline in the gross replacement rates of the statutory pension schemes. In order to try to fill the expected pension gaps and to ensure the adequacy of future pensions, governments and social partners have developed occupational and individual pension schemes. However, only three countries (Denmark, the Netherlands and Sweden) provide nearly all workers on occupational pension insurance. In all other countries only part of the workforce is covered by a complementary scheme, which means that in these countries a large share of the working population will be exposed to the full financial impact of the reforms of the statutory system. This situation can lead to poverty in old age.

Another aspect which has to be looked at is the level of contributions to occupational schemes: in some countries this contribution is still very low. In only five countries of EU15 (Denmark, Ireland, the Netherlands, Sweden and the UK) are contribution levels to occupational and voluntary schemes higher than 10%.
Table 3: Theoretical replacement rates of pensions (*)

<table>
<thead>
<tr>
<th>Country</th>
<th>Gross replacement rate 1st pillar (statutory pensions)</th>
<th>Gross replacement rate 2nd/3rd pillar (occupational and voluntary pensions)</th>
</tr>
</thead>
<tbody>
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<td></td>
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<td>2030</td>
</tr>
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<td>France</td>
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<td>Finland</td>
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<td>Sweden</td>
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<tr>
<td>UK</td>
<td>17</td>
<td>18</td>
</tr>
</tbody>
</table>

(-) means ‘negligible proportion’
(*): Theoretical replacement rate of a male worker with a career length of 40 years full-time work at average earnings with contributions to first- and second-pillar pension schemes, retiring at the age of 65 years. Prospective theoretical replacement rates are calculated at the moment of pension take-up by dividing the pension income during the first year of retirement by the income during the year preceding retirement. The calculations refer to pension outcomes of people retiring in 2004 and who will retire at up to two points in time in the future (i.e. 2030 and 2050), assuming that only the reform rules already legislated by mid-2005 at the latest will apply.


Table 4: Coverage rates of private pensions

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage of employees contributing to a private pension scheme (2005)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>About 40-45% for occupational pensions and for individual pensions.</td>
</tr>
<tr>
<td>Denmark</td>
<td>Around 95%.</td>
</tr>
<tr>
<td>Germany</td>
<td>About 60% of people covered by the first-pillar scheme are also covered by occupational schemes and about 13% make individual provision according to the Riester legislation.</td>
</tr>
<tr>
<td>Spain</td>
<td>Around 44% of the employed for the second or third pillar were estimated in 2004 (10% for occupational provisions).</td>
</tr>
<tr>
<td>France</td>
<td>Around 10% for occupational provision, while around 8% have taken out a life insurance plan specifically for retirement purposes.</td>
</tr>
<tr>
<td>Ireland</td>
<td>About 52% of the workforce, including occupational and individual schemes.</td>
</tr>
<tr>
<td>Italy</td>
<td>Around 8% of the employed population for occupational schemes and 2% for individual provision.</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>Around 90% of employees for occupational pension schemes.</td>
</tr>
<tr>
<td>Austria</td>
<td>Around 35% for occupational provision and around 10% for individual provision.</td>
</tr>
<tr>
<td>Finland</td>
<td>Around 5% of the population aged 15-64 for occupational schemes and 12% for individual provision.</td>
</tr>
<tr>
<td>Sweden</td>
<td>About 90% of the workforce for occupational schemes and 40% for individual schemes.</td>
</tr>
<tr>
<td>UK</td>
<td>Around 50% of the employed population currently contribute to supplementary pension schemes (about 45% contribute to occupational and about 14% to personal pensions).</td>
</tr>
</tbody>
</table>

Note: Figures for coverage from different types of scheme do not necessarily add up (there can be double counting).
7. European Trade Union Views On Social Protection And Pension Policies

7.1 The Defence of the Statutory Social Protection Systems

In the view of the European trade union movement, the statutory pension and social protection systems should remain the core of the European welfare state. These systems guarantee, better than any other, social welfare, social cohesion and social justice. They are also highly efficient in terms of poverty prevention and cost-effectiveness through their low administrative costs and non-profit-making status. In order to maintain and to increase their efficiency, the statutory social protection systems need to adapt both to the major changes in the labour market and new forms of work, and to the profound societal changes such as ageing, changes in family structures and the individualisation of our societies.

Our systems should fully integrate the growing number of non-standard workers and of so-called ‘self-employed’, offering them equal rights and contribution obligations (see, in this context, the Preamble to the two framework agreements on atypical employment signed by the European social partners, in 1997 on part-time work and in 1999 on fixed-term work). Greater flexibility in the labour market means higher economic insecurity and should go hand in hand with greater social security. In order to reconcile professional and family life, it is important that the social protection systems provide for the maintenance of social security entitlements during periods of parental leave and other types of career break (see, in this context, the European Framework Agreement on Parental Leave signed by the European social partners in 1996).

7.2 The Development of Occupational Pension Schemes

The European trade union movement continues to give absolute priority to the public pension schemes based on solidarity between generations and financed on a ‘pay-as-you-go’ basis. Provisions for the development of second-pillar pension schemes are welcomed so long as they do not infringe on the statutory systems, are not considered as alternatives to these systems, result from collective agreements and guarantee real rights to their members. Occupational pension funds should be organised on a collective basis, provide for compulsory membership and be accessible to non-standard workers. Mobile workers should be able to take full advantage of these supplementary schemes. The EU should set (and has partially done so) the legal framework for occupational pension schemes: guaranteeing workers’ rights and financial interests, equal rights for men and women, and portability rights; recognising the place and the role of the trade unions in the implementation, monitoring and investment policies of the supplementary schemes; and defining prudential, transparency and taxation rules. In their investment policies and choices the management of these funds should ensure a proper return on their investments as well as respect for social and ethical standards.

7.3 Towards Progressive and Flexible Retirement

The European trade union movement is also very concerned about the huge number of older workers leaving the labour force well in advance of the statutory retirement age. While statutory retirement ages are reviewed in an upward direction, increasing numbers of older workers are faced with early exit from the labour market. The employment rates for older workers decrease sharply after the age of 55. The European trade union movement cannot accept HR policies that involve systematically removing older workers from employment. In specific circumstances (high levels of unemployment, industrial restructuring, hard or stressful
labour, long employment and contribution record) full-time early retirement schemes are justified. Preference should be given to a system of flexible and gradual retirement, whereby reduced working time is combined in a flexible manner with partial retirement.

7.4 Strong Incentives Needed

Incentives and disincentives deriving from the social security and taxation system are crucial for the success of active ageing. The main challenge for EU countries is to redesign their social security and taxation systems in such a way as to encourage older workers to remain in or to re-enter the labour market. Substantial tax and pension incentives can be convincing. ‘Carrot’ reforms seem to be more successful then ‘stick’-based reforms. Increasing the statutory retirement age does not seem to be the best way forward in tackling this problem: this measure could lead to ‘inactive’ ageing instead of ‘active’ ageing, especially if other pathways out of work are available.

7.5 Keeping Workers Employable

Policies should be directed towards keeping workers ‘employable’ at all ages and preventing workers from getting ‘old’. Lifelong learning and vocational training are essential to keep up the employability of older workers. Too often older workers are excluded from training programmes. Skills need to be upgraded throughout the life course: starting training at age 50 will never compensate for the lack of training during the earlier years. Collective agreements have to make provisions for and invest in lifelong training for all workers.

7.6 Flexible Work Organisation Needed

Good working conditions and flexible work organisation also contribute to keeping older workers longer at work. Ergonomic measures and health and safety policies are important; greater autonomy in work (organisation) combined with a reduction in working hours are also important in order to persuade workers to stay on board.

7.7 Reconciliation of Work and Family Life

Policies to reconcile work and family life are relevant for all age groups. Different life-cycle leave arrangements such as sabbaticals, career breaks, parental leave, time credits, educational leave and care leave are important instruments which can contribute to keeping workers longer in employment.

7.8 Active Labour Market Policies Are Crucial

Active labour market policies are also of crucial importance, especially in cases of restructuring and redundancy: instead of offering only passive financial support to the unemployed, part of the available budget should be used for active measures such as re-training, personal guidance and job-creation schemes.
7.9 Changing the Attitudes of Employers

Negative attitudes of employers towards older workers are often based on myths but can have far-reaching consequences for older workers. M. Leibold and S. Voelpel, (Managing the Ageing Workforce. Challenges and Solutions, Wiley, 2006) analysed the myths and realities about older workers and found that very often they do not correspond to the reality.

7.10 Safeguarding the Future Financing of Social Protection

Safeguarding the financial viability of social security systems in the long run is a basic concern of the European trade union movement. Governments should guarantee that the financial resources of the social protection systems grow in line with current and future needs. The best way to achieve this objective is through the promotion of sustainable economic growth and the expansion of employment. In this context it should be stressed that the European trade union movement has strong reservations about many of the arguments put forward in favour of a reduction of non-wage labour costs and of income and company taxation. Any proposal in this direction should be linked to job creation. To help promote employment, the long-term trend toward high taxes on labour should be reversed by shifting the tax burden towards other factors of production and by broadening the financial base of social protection. The erosion of the traditional tax base has to be reversed by increased efforts on the part of the EU towards tax co-ordination and convergence. Broadening the financial base of social protection presupposes that all forms of income, and not only income from labour, and all kinds of labour, and not just employed labour, should contribute equally to the financing of social welfare. Governments should therefore examine critically all existing tax exemptions, as well as all tax expenditures, especially those in favour of third-pillar provision (private pensions, life insurance policies, etc).

The full potential of the European single market and of the EMU in the areas of economic growth and job creation should be used not only for budgetary consolidation, but also for the consolidation of the social protection systems in the light of the ageing of our populations, and this must take place without weakening the redistribution effect and the solidarity principles which characterise the systems. The establishment of demographic reserve funds for public retirement pensions based on the increasing margins in the state budgets under EMU conditions (as has been done in the Netherlands, France, Belgium, Spain and Ireland) is an excellent example of such a policy.

Governments should also guarantee the financing, on the basis of general tax revenues, of all non-contributory solidarity measures introduced into the social security systems.
Potential Labor Supply and Flexible Work Options for All Workers: An Exploratory Essay

by Yung-Ping Chen’, Eskil Wadensjo” and Andrea Tull***

Abstract

To encourage older people to work longer is a worthy goal. But it would not stem the impending worker shortage due to baby boomer retirement. There is a need therefore to draw more workers from among young people, women, persons with disabilities, as well as older workers. This essay explores the concept of flexible work options for all workers as an additional strategy to increase labor supply; it also discusses some of the arguments for and against such a strategy.

Keywords: baby boomer retirement; potential labor supply; older workers; young workers; women workers; persons with disabilities; flexible work arrangements

1. Introduction

“Live longer, work longer” is an expression often used to urge older people to keep working, as boomers (those born from 1946 through 1964, commonly known as baby boomers) begin to reach customary ages for retirement in the near future, leading to potential labor shortages in key industries. Keeping older people working would also benefit age-based social insurance programs facing long-term solvency issues in an era of rapid population aging. Moreover, encouraging older people to remain in the workforce would serve to maintain their integration within the community well into older age.

Although there appear good reasons for encouraging older people to extend their working lives, there are also explanations why some older people will not or cannot continue to work. To the extent that older people may remain in the workforce, many would be working part-time. Consequently, the strategy to encourage older workers to remain in the labor force, while useful for reducing the number of fully retiring individuals, would not suffice to forestall impending worker shortages in certain industries due to boomers retiring. It may therefore be necessary to seek more workers from the general population. But where are the potential workers? It may be instructive to seek answers by reviewing labor force developments in the past half century and those projected for the near future.

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During the past 50 years, labor force growth was especially rapid due to boomers entering the labor force and women joining the workforce, both in large numbers. Both trends, however, ‘have run their course’, according to a recent study by the Bureau of Labor Statistics (Toossi, 2007). The study reports on labor force projections to the year 2016. Among its major findings are that (1) the growth rate of the labor force will slow significantly, (2) the rate of growth of women in the labor force is expected to decline, (3) the participation of youths (ages 16 to 24) and their share of the labor force are projected to decline, (4) the participation rate of prime-age workers (age 25 to 54) is expected to increase slightly but their share in the labor force will decline, and (5) although the participation rate of older workers (age 55 or older), rising since the end of the 1980s, is projected to continue increasing, the older workers’ rate is still only half the participation rate of the prime-age group. The net result is that there will not be enough workers of younger ages to replace the large proportion of boomers expected to exit the workforce. Some believe the problem could be solved by a combination of strategies including outsourcing, developing new technologies, and immigration reform. Yet, these tactics may not be enough. Population aging is occurring in many parts of the world; there exists a global competition for workers. It appears that the US economy will require additional workers to remain competitive, regardless of immigration, technological advances, and outsourcing.

Even though the labor force grew rapidly during the past 50 years, the last 25 years witnessed declines in participation rates among people under age 55, especially those under age 25, as well as among working-age people with disabilities. As for women, after rapid growth during the preceding several decades, their participation rates slowed somewhat in the last 10 to 15 years, especially among those with higher levels of educational attainment. The impending retirement of boomers would create labor shortages in the next several decades, despite the impressive growth in older workers (age 55 and older) in recent decades (Toossi, 2006). It bears repeating that the labor force participation rate of older workers is still only half the rate of the prime-age group.

Therefore, to replenish the labor shortage resulting from boomers retiring, it would be necessary to encourage greater labor force participation rates by groups such as young people, women, and persons with disabilities, in addition to older workers.

Yet, workers of different ages, gender, physical and mental conditions, and skill sets are not fully substitutable for one another, although some skills are transferable and other work-relevant attributes could be acquired through education, training, and retraining. Moreover, the ability and willingness of these groups of potential workers to enter the labor force are affected by special circumstances unique to them. To induce them to join the workforce, a strategy to create more work options for people regardless of age, gender, or disability status may be needed. To be more specific, a policy of ‘flexible work options for all workers’ may be one possible solution (Chen, 2007). Flexible work options would include such practices as part-time work, flex-time, intermittent leave for childcare or eldercare, phased retirement, and telecommuting, among other arrangements.

This brief essay is intended to (a) introduce the concept of flexible work options for all workers, (b) illustrate the special circumstances affecting specific groups of potential workers and their employers’ responses, (c) point out some of the arguments for and against providing flexible work options, (d) explore a possible policy direction for funding ergonomic initiatives, and (e) conclude with a thought about the receptivity of the idea of flexible work options for all.
2. Flexible Work Options for All Workers: The Concept

The concept of flexible work options for all workers may be likened to the idea of universal design. Basically, universal design refers to the design of products and environments to be user-friendly for all people; it is an approach to designing products and environments that takes into account a large range of abilities and backgrounds among the users (Burgstahler, 2007; Holm, 2006).

One example of universal design is the use of automatic doors in public buildings. While automatic doors were originally intended for persons using wheelchairs, other groups also benefit. Curb cuts are another example. Curb cuts were a modification to increase access to sidewalks by those in wheelchairs. However, curb cuts are also beneficial to cyclists, parents pushing strollers, or persons of any age with mobility impairments, using walkers or canes. More recently, there is increasing attention to the use of universal design features while modifying existing houses or building new ones, features that would make a house safer and more easily accessible as its inhabitants age. Once such features are installed in the house, it will benefit people of all ages (Wasch, 1996).

Thus, it can be seen that many different people may benefit from a solution aimed at a particular group. The concept of flexible work options clearly fits into this paradigm. Not only older workers, but workers of different ages or at various stages in life or career, could benefit from some measure of flexible arrangements in their jobs. As we enter an economy where labor supply in the traditional age groups is becoming relatively scarce due to the retirement of boomers, providing flexibility in jobs could be an important vehicle to enable employers to retain current workers and to attract employees from groups of people heretofore limited or not in the labor pool.

3. Special Circumstances Affecting Labor Force Participation of Potential Workers and Responses by Employers

Older workers, women, persons with disabilities, and youth represent four sources of potential labor supply, but these population subgroups have unique needs that might affect their availability for work. Briefly discussed below are some of the special circumstances that would affect the ability and willingness of potential workers from different groups to enter the labor force, as well as employers’ responses to these circumstances.

3.1 Older Workers

Elder advocacy groups have long publicized the advantages of older workers, mainly their experience, commitment, and reliability, and institutional memory in the case of long-term employees. Yet, there persists a negative side to employing older workers. At the risk of simplification, employment of older people is faced with three broad sets of challenges. One challenge is that many older workers seem to desire to phase down work. Another is the greater cost of employing older workers (both perceived and real) as a barrier to employment, since employers would rather hire a younger person at a lower salary with lower health care costs. Finally, some older workers may need ergonomic adjustments to accommodate their changing abilities and physical conditions.

To accommodate the desire to phase down work, phased retirement would appear an example of an effective strategy for enticing older persons to work beyond the ages at which people customarily retire. However, employers would want to choose which employees should receive this benefit, and the question about the legality of only offering this benefit to certain
employees persists (Gegelman, et al., 2007; Masling, 2007). In addition, some positions do not lend themselves to part-time work. Questions remain whether employers would have the right to insist that phased retirees receive assignments to another job function in some cases. Internal Revenue Service guidelines are complicated, leading to increased employer costs in terms of tracking salaries and pension withdrawals (Bartl, 2006). There are also questions about how to deal with health insurance for phased retirees, and whether employers would be required to offer health insurance to all part-timers if this benefit is offered to phased retirees (Carlson-Shepherd, 2007).

3.2 Women Workers

The chief obstacle to the labor force participation by women in younger ages may be succinctly stated as an issue of balancing work and family life. Parental leave and day care are of primary concern to this group of potential workers, as is the need for family leave for eldercare. It should be noted that achieving work-life balance is also important to men. Helping workers (both male and female) balance work and family life could lead to increased worker productivity and would be beneficial to various stakeholders. Family-friendly employers are often cited as the best companies to work for, and would therefore be in a better position to recruit and retain workers (Shellenberger, 2006). Research from Japan suggests that companies offering a high degree of flexibility and equal opportunity also enjoy higher sales and productivity (Wakisaka, 2007; Atsumi, 2007).

Despite the benefits that would accrue, costs remain an important obstacle to strengthening family policy in the United States. It is unlikely that U.S. taxpayers would be willing to pay the tax rates needed to support European-style child care programs, as child care is still viewed as a personal responsibility in this country. Offering parental leave to all employees for longer periods of time would pose some scheduling challenges for employers. Research in Japan, a nation that has recently mandated family leave, has resulted in the troublesome finding that companies with generous parental leave policies are not energetically recruiting women (Kodama, 2007).

3.3 Persons with Disabilities

With respect to persons with disabilities, their labor force participation rates have declined. For example, the employment rate of working-age men with a disability has fallen both absolutely and relative to working-age men without a disability, since the passage of the Americans with Disabilities Act (ADA) in 1990. As a corollary, since the ADA, persons with disabilities are securing a greater percentage of their household income from public benefits (Supplemental Security Income, SSI, and Social Security Disability Insurance, SSDI) as opposed to earnings from work (Burkhauser et al., 2006). Should their potential as workers become reality, persons with disabilities could prevent labor shortages in key industries (US Department of Health & Human Services, 1990). There is also evidence suggesting that employing individuals with disabilities may improve profits. For example, a recent public opinion poll showed that businesses employing people with disabilities enjoyed greater favorability ratings among consumers (Siperstein, Romano, Mohler, & Parker, 2006).

Employing persons with disabilities presents a different set of challenges for employers, however. Some people with disabilities have special needs requiring accommodations at work, and many employers may require financial assistance to provide these accommodations. Although federally funded vocational rehabilitation programs could provide some assistance with reasonable accommodations, these agencies lack the resources to finance accommodations on a broad scale. In addition to these financial issues, some employers might be reluctant to
hire people with disabilities for fear of discrimination lawsuits. Finally, people with disabilities have health issues that could result in periodic absences from work or drive up the cost of health insurance.

3.4 Youth Workers

Lastly, employing young workers. As noted, the labor force participation rate of young people has been on the decline over the past 25 years. Strategies to boost their labor force participation could benefit both employees and employers. Students would earn money, learn new skills and develop an early connection to the workforce that would hopefully last a lifetime. Employers would benefit from the participation of a labor pool that is under-tapped. It is entirely possible that young people may find work in these fields rewarding and choose to further their careers in these sectors. Offering part-time work opportunities to young people is a possible solution to help businesses fill the gaps left by the full or partial retirement of older workers.

On the other hand, employers must balance the fact that school will likely be the first priority for these employees. Younger employees will require more flexibility in scheduling due to the need to facilitate their studies, especially for exams and other school-related activities. Employers might be unwilling to mentor or otherwise invest in younger workers, knowing that they are likely to seek other types of employment following graduation. It might be difficult to recruit young people because they (and in some cases, their parents) do not see the value of working while in school and would rather participate in sports and other extracurricular activities than work.

4. Some Arguments for and against Flexible Work Options

To accommodate special circumstances that may reduce or inhibit labor force participation rates of potential workers, work flexibility could help. Flexibility in work arrangements may take many forms. They may be grouped under either flexibility in the time of work or flexibility in the location of work. Some of the pros and cons concerning flexible work arrangements are briefly discussed below.

Flexibility in the time of work refers to part-time, flex-time, intermittent leave, or phased retirement (Christiansen, 2005; Pitt-Catsouches & Smyer, 2006; Workplace Flexibility 2010). Work-time flexibility is a convenience or an accommodation many workers desire. Offering this type of flexibility to all employees would make an employer more attractive to workers at all stages of life or career. It could also boost employee morale and loyalty and possibly enhance productivity by improving work-life balance.

Employers, however, may be expected to be less than enthusiastic about offering flexible work arrangements to all employees. Some jobs are not suited to flexible schedules. Offering this option to all employees could result in difficulties for employers in ensuring that critical work functions are covered at all times. This also poses challenges for supervision if employees and supervisors are working different schedules. Finally, there could be a bias against workers who opt for part-time employment when they are considered less committed and thus passed over for promotion or pay raises (Clay, 1998).

Another method of offering flexibility to workers pertains to flexibility in the location of work. It refers to telecommuting or work from other office locations or partner agencies (Christiansen, 2005; Workplace Flexibility 2010). Work location flexibility is a convenience or accommodation that would benefit workers. Working from home or other locations would assist workers with special needs for additional flexibility, including working parents, older
workers, persons with disabilities, or young persons. Offering such a benefit could help recruit or retain workers who might otherwise not be working. Allowing employees to work from alternate locations could save money by reducing the amount of office space necessary. This would also reduce the need for commuting or the distance of commutes, thus reducing traffic congestion and pollution (Barr, 2007). Technology has advanced to the point where work can be completed remotely. Web-based conference calling allows people to ‘meet’ without being in the same room. This could ultimately control travel and overhead costs for employers.

Although flexibility in work location is attractive to workers and it may benefit employers as well, it raises important issues for employers. First, work location flexibility presents a challenging matrix for supervision when employees are not centrally located. Furthermore, the initial costs in terms of computer hardware and software may be prohibitive for some employers. There may also be possible negative consequences for workers. Employees would forego workplace interaction, networking, and a feeling of being a part of an organization. This could ultimately affect their prospects for advancement within the organization and their job satisfaction.

5. How to Pay for Ergonomic Adjustments: A Possible Policy Direction

One of the key issues surrounding the implementation of broad-scale ergonomic adjustments is who would bear the costs. If employers are expected to pay for these adjustments, then there would be reasons for employers opting for employing workers that do not require modifications. Such a consideration might make businesses postpone making any ergonomic adjustments for as long as possible. Research indicates that accommodations to workers with disabilities increased after the passage of the Americans with Disabilities Act. The typical accommodation was more in terms of flexibility in job requirements rather than in terms of changes in the physical environment of the job place (Burkhauser, 2008). This finding implies that the costs to ergonomic adjustments may be a concern to businesses.

Inasmuch as ergonomic adjustments are needed to accommodate some workers because their participation would benefit the economy, there is a broader societal interest along with a narrower interest on the part of individual business. A role for the government may thus be indicated. The government could offer a program of competitive grants for businesses that need ergonomic modifications. It may be further suggested that such a role is not confined to the federal government alone and that state and local governments could also play an important role (Chen, 2003).

6. Concluding Remarks: Receptivity of Flexible Work Options for All

Much of recent literature on flexible work options has come from gerontologists and economists interested in retaining workers beyond the age at which they normally retire (Penner, Perun, & Steuerle, 2003; Chen & Scott, 2003; Reday-Mulvey, 2005; Christensen, 2005; Hutchens, 2007; Pit-Catsouphes, 2007). From a political perspective, however, adoption of any social policy must enjoy broad-based, bipartisan support. In that light, some may resist or object to policies aimed specifically at one group, such as older workers. The same reservation or objection may be expected to face special workplace policies designed to meet the needs of women, persons with disabilities, or young people on the grounds that these policies support the special interest of one group or another.

Therefore, instituting work flexibility for all workers could avoid pitting one group against another in terms of policymaking. Moreover, offering flexible work options to all would also eliminate the legal obstacles facing flexible work options such as phased retirement that is based
on age. It would also avoid intra-group resentment among employees in the same workplace.

Flexible work options for all, while not without significant challenges, has the potential to be a win-win strategy for all stakeholders involved, particularly for employers experiencing worker shortages and for employees needing flexibility. Universal flexibility holds the promise of attracting new workers, retaining current employees and promoting a culture of work/life balance, all of which tend to boost workforce morale. And it is possible that these policies might result in improved productivity among workers.

The federal government is in a unique position to set an example for employers in the private sector, since some federal agencies have already adopted flexible work options such as telecommuting and part-time work. There are also recent initiatives by the Federal government for creating job opportunities for people with disabilities. These agencies could serve as models for private-sector employers. The Government Accountability Office is undertaking a review of flexible work practices in federal agencies to identify best practices and areas in need of improvement (Bovbjerg, 2007).

The attraction of flexible work options for all workers is that everyone has the opportunity to benefit, including parents, older workers, caregivers of any age and either gender, young people, or persons with disabilities. Legal scuffles over discriminatory practices or animosity among employees may be avoided because all workers will have access to a similar array of work options. While challenges to flexible work options indeed exist, they do not appear insurmountable. It is likely that firms choosing to offer greater flexibility to their employees will be more successful in recruiting and retaining workers. Moreover, a strategy of flexible work options for all might well be an additional human-resource vehicle needed for mitigating labor shortages and boosting worker productivity. Finally, what is being proposed is not that work flexibility be imposed by government regulation. Rather, what is being envisioned is that employers and employees would consider the salubrious consequences of workplace flexibility after weighing the costs and benefits of flexible work options from viewpoints of both management and labor.

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Multidimensional Perspective on the Well-Being of Older People

by Asghar Zaidi

1. Introduction

The ageing process begins in childhood and by passing through all different phases of life, and accumulating life experiences along the way, we end up living in old age. The focus of the research work reported here is this old age phase of life. The emphasis on older people is motivated by some well-known stylised facts of contemporary societies.

• Firstly, the fact that an increasingly longer time of our life is spent in older age makes it more important to gain a holistic understanding of the adequacy of the economic and social resources available and of the dynamics of resources during this phase of later life.

• Secondly, individual entitlements in old age are, in general, linked to experiences during earlier phases of life, such as the work history, marital association, care responsibilities and residence in the country. An evaluation of personal welfare in old age offers insights into how differential experiences of earlier phases of life and their treatment by the welfare system impact upon resources in old age.

• Finally, during the latter part of the past century, the trend in longevity gains has been accompanied by a drop in fertility rates. Together, these trends shift the distribution of the population in most developed countries in such a way that the ratio of elderly to non-elderly people, and therefore the average age of the population, is rising. Nor are these trends likely to abate in the near future, so that societies experiencing this demographic shift — commonly referred to as ageing societies — now face new challenges, new policy directions. In this environment, a research focus on older people’s resources is required to design and reform social and economic policies to guard against the unprecedented rise in social expenditures and avoid the moral hazard of poverty in old age.

With these broad motivations in mind, one can identify three specific research issues that are of crucial significance.

1. Multidimensional perspective on older people’s well-being: how is the information base on older people’s personal resources enriched when economic and health well-being are combined by adopting a multidimensional perspective?

2. Income experience in old age: what is the income experience during old age, and what factors are associated with income dynamics during the ageing process in the old age phase of life?

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The views expressed in the book are those of the author, and neither the OECD nor the other organisations with which the author is affiliated take any responsibility with regard to data used and/or interpretations made. The author takes full responsibility for any remaining errors and/or omissions.
3. Comparative perspective on income dynamics in old age: what is the relative importance of various individual attributes and life events in determining the income experience of older people who live in different regimes of social insurance systems and social assistance provisions?

Research on these three themes is undertaken in Zaidi (2008), and this paper summarises the work carried out under Theme I. Within the context of this research on the well-being of older people in ageing societies, a wide range of definitional, conceptual and methodological issues must be resolved. This involves, among other things, how to define old age, what do we mean by ageing societies, what concepts or theoretical approaches will define the well-being of older people, what empirical methods need to be adopted in measuring well-being of older people, what datasets to use and how best to summarise results and draw conclusions for policymakers. In the rest of this introductory section, the most essential base definitions are discussed, i.e. the definition of older people used and an explanation of what do we mean by ‘ageing societies’.

1.1 Older People

When is someone old? The question seems simple, yet there is no universally accepted age above which a person can be considered ‘old’. The choice most researchers make depends on the nature of the research issue in question rather than on some abstract conception of old age.

For reasons discussed below, this paper makes use of the definition whereby an entry into the old age phase of life is approximated by the chronological age at which people become entitled to the old-age pension. Any such chronological demarcation of old age has a clear implication: old age starts at a fixed age for all people of the same gender, irrespective of their labour market status (e.g. retirement status), state of health (e.g. physical frailty) and family status (e.g. widowed). Thus, tremendous heterogeneity exists from one individual to the other in such a definition of older people.

One vital advantage of the chronological age definition is that age is by definition an exogenous attribute of individuals, whereas other indicators of ageing are endogenously determined. Adoption of this definition allows us to capture diversity within older populations, in terms of labour market activity, health status and income (i.e. the endogenous variables). This choice also enables us to provide important policy-relevant information for the statistical group identified as ‘pensioners’. Moreover, this choice is free from negative biases that arise from common myths and misconceptions about ageing and older people, such as the perception that older people are likely to be frail, ill or disabled, and may thus be a burden on communities and societies.

1.2 Ageing Societies

As mentioned above, during the past two decades, the average age of population is rising in most developed countries. There are two factors behind these trends.

The first factor for an ageing population is increasing life expectancy. The second factor for an ageing population is declining fertility rates. Together, these two trends are shifting the demographic structure of the population so that a greater fraction of the population will be formed by an older population. Between 2000 and 2020, the relative size of the population aged 65 or older in the United Kingdom is projected to increase from 16% to 19.8%, whereas Germany and Japan will observe a much sharper increase (from 16.4% to 21.6%, and from
17.1% to 26.2%, respectively). In 2020, about one-fifth of the population in most of the developed countries will be aged 65 or older. The societies that are experiencing these trends are referred to as ageing societies in the research work reported here.

1.3 Datasets in Use

For all empirical results reported here, the ninth wave of the British Household Panel Survey (BHPS), carried out in 1999, is used. This is because the 1999 wave contains the most relevant information for health as well as income data required for the intended empirical analysis. The net income data used are made available by Bardasi, Jenkins and Rigg (2003). Next, the essential choices concerning the conceptualisation and measurement of the personal well-being of older people are discussed.

2. Conceptualising and Measuring Older People Well-Being

2.1 Concepts

The concept of well-being has different meanings for different people, as each will have its own interpretation of what constitutes different domains of well-being, what are the important determinants of well-being in each domain and the relative weight that should be assigned to each of these dimensions. Moreover, different disciplines (most notably, economics, psychology, philosophy, and sociology) provide different notions of what constitutes and determines personal well-being. The coverage here is selective in reviewing approaches to conceptualising economic well-being only, and in extending it to well-being with respect to health.

In the strictest utilitarian tradition of welfare economics, well-being is argued to be the utility derived from consumption. In understanding consumption, one needs to review the salient features of the life-cycle hypothesis. The conclusion that can be drawn from such a review is that the consumption of older people will be determined not solely by their current pension income but by their past and expected streams of income. Assets and wealth that are accumulated during the higher income periods of working age will serve as possible means to finance consumption in old age. The phenomenon of consumption smoothing is very relevant in the study of personal welfare, and for that reason, consumption can be considered a preferable measure of older people’s well-being.

Sticking to the sphere of economic well-being, standard of living is the other often used concept. Standard of living can be seen in terms of command over economic resources, along with the rate at which individuals can convert these resources into a standard of living. Given its emphasis on the outcome measure, the standard-of-living approach is in line with the first approach in which the utility drawn from the actual consumption has been emphasised. The parallels between the two approaches discussed above are apparent from the fact that consumption is also a measure of the standard of living attained.

Income also serves as a measure of the standard-of-living attained, and it is preferred principally on the account that it assigns importance to capturing the economic distress that may be caused by short-term fluctuations in resources, irrespective of whether those variations are smoothed by consumption or not. Thus, the economic disutility caused by income shocks will be fully accounted for, irrespective of the experience of consumption smoothing during periods of income volatility. Based on these arguments, and because of constraints on the

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1 For a discussion on features and challenges of population ageing using the European perspective, see Zaidi and Sidorenko (2008).
availability of data on personal total consumption, income is used as a measure of personal well-being of older people in the empirical research reported here.

Health is also identified as an important dimension of the personal well-being of older people. This is mainly because health affects individuals directly as well as through its impact on other dimensions of well-being. Thus, well-being with respect to health should be assessed in its own right and on how it affects economic well-being. In measuring health, the analysis of physical and mental dimensions of health should be supplemented with the analysis of social health that includes wider considerations of independent living and social interactions.

The conceptual advantages offered by the capability approach of Sen have also been reviewed in detail in the book. The approach provides additional, and compelling, arguments to identify variations in individual attributes and circumstances, and how these differences explain varying degrees of utilization of means to the specific end of well-being in terms of living standards attained. It also brings to the fore the element of freedom that people may exercise in choosing a life they have reasons to value, thus it is the opportunity or freedom aspect that determines well-being, and not what is revealed in a person’s actual preferences.

The review of the capability approach, for its emphasis on attributes that affects one’s capability in converting economic resources to the end of standard of living, has shown that health attributes are important factors in attaining, or have the opportunity to attain, the goal of a decent standard of living. It can be concluded that the multidimensional measure, in which well-being with respect to health is combined with the economic well-being, will provide a useful approximation of the capability-based measure of older people well-being.

2.2 Measurement

We report on generic considerations concerning the definition of income to be used in measuring economic well-being. The preferred definition of income is that of the ‘Annual Household Net Income’. Thus, household is preferred over benefit-unit as an income unit, since it captures more meaningfully the sharing of economic resources that older people experienced. Annual income is preferred over current income as it provides a more reliable measure of a household’s financial situation, and similarly net income is a better proxy of a household’s disposable resources than the gross income. Income before deducting housing costs is preferred over income after housing costs, and it is desirable, when possible, that the imputed rent be included in this measure.

The British Household Panel Survey is chosen as the preferred database, mainly because it is the survey that provides annual income data in Britain, and also due to the fact that it offers detailed health data in its 1999 wave. The annual income available in the BHPS is synthetic, as it is generated based on data on receipt of different sources of income throughout the year and the information on benefit values and their uprating. The health variables and their aggregation into health indicators are derived from the SF-36 questionnaire in the 1999 wave of BHPS.

3. Assessment of Income Deprivation and Limiting Health

Given the link between advancing age and physical frailty and the onset of ill health and disability — which are debilitating as well as costly — it is essential to understand how factors such as health relate to and impinge on older people’s welfare. Multidimensional analysis sets out to capture these insights, by using health and income as the base dimensions for measuring personal well-being of older people in Great Britain. The analyses here are structured in such a way as to allow three distinct result sequences to emerge.
First, in subsection 3.1, we summarise the findings on the extent to which health restricts the positive functionings of older people in their normal economic and social activities. By analysing the diversity of older people with respect to their physical, mental and social functionings, we identify those characteristics that are most commonly associated with limiting health and/or disability in old age.

Next, in subsection 3.2, we shift the focus towards measuring the economic well-being of older people. These analyses demonstrate the relative position of older people as a whole, as well as the relative position of older people’s subgroups within the society as a whole. The income-based analyses help us identify those attributes associated with high risks of financial poverty in old age.

Finally, in subsection 3.3, these analyses — assessing older people’s well-being unidimensionally with respect to their economic and health status — are complemented by the estimation and use of the financial costs of disability. This work aims at aggregating the two dimensions of economic and health well-being for the purpose of the multidimensional measurement of older people’s well-being. This work also makes headway towards providing an ‘equivalisation’ of incomes that accounts for not only differences in household size and composition but also other sources of variation in household needs such as disability. It can therefore be argued that identifying and accounting for a fuller set of peoples’ needs through equivalisation leads us towards the operationalisation of Sen’s capability approach.²

As mentioned above, all empirical work on multidimensional analyses makes use of data from the BHPS. The empirical analyses are derived from the 1999 data, the year for which the BHPS included detailed information on health.

3.1 Health Well-Being: The Unidimensional Measure

The empirical results included in this section examine older people’s well-being using the health dimension alone. These analyses are based on various individual indicators of health, as well as on aggregated indices derived from these indicators. Alternative analytical techniques based on descriptive statistics as well as on multivariate regression analyses are used in order to identify the factors associated with a high incidence of limiting health in old age. The most notable findings to emerge are:

- Older women are worse off compared to older men in terms of physical health, and this result holds true when controlling for other attributes (such as age, marital status, living arrangements, job status and housing tenure).
- For physical health, older age groups (aged 80 to 84, and aged 85+) are clearly worse off compared to younger age groups (aged 65 to 69). Again, this result holds true when controlling for other attributes of older people.
- Housing tenure as a tenant is one other attribute that stands out in identifying older people with poor health.

3.2 Economic well-being: the unidimensional measure

Here, we concentrate on the economic aspects of older people’s well-being. For this purpose, we use equivalised household income as an indicator of economic well-being. First, results of relative ranking of various subgroups of older people are analysed. This is followed by statistics on the poverty incidence and the poverty severity for the same subgroups.

² Sen himself makes this suggestion: “the income level of a family may be adjusted downwards by illiteracy and upwards by high levels of education, and so on, to make them ‘equivalent’ in terms of capability achievement” (Sen 1997: p. 215).
a. Relative ranking of subgroups

Here, we show how older people as a whole and various subgroups of older people are ranked in the decile cumulative distribution of income, which is derived on the basis of income of the overall population. The results in Table 1 demonstrate that older people are disproportionately represented in the bottom parts of the overall income distribution. This result is a known phenomenon in the case of Great Britain. Next, we summarise results that are further subdivided in subgroups, based on sex, marital status, living arrangements, job status, housing tenure and age group.

Results show that older women are clearly worse off as compared to older men since they are more often represented in the bottom part of the income distribution. Moreover, the cumulative share for older women are everywhere greater than that for older men, which is another indication of older women being more deprived than older men. Results also identify widow(er)s as the group that experiences low-income status more often than others: about one-third of all widow(er)s are found within the bottom one-fifth of the overall population. Those who are classified as ‘divorced, separated or never married’ are also found more often amongst the low income groups within older people.

Results also show that older people who live independently are more likely to have a lower income status. Those who live with others appear to do much better, as they are less often in the bottom part of the income distribution. As can be expected, older people who are economically active are found less often in the bottom part of the income distribution than those who have retired from the labour market. Tenants are also identified as the high-risk group. Homeowners, on the other hand, enjoy just about the same economic ranking as the whole group of older population. The oldest age group is also more often in the low-income status than younger age groups: about one-fifth of all people who are aged 85+ are found in the bottom decile group.

b. Poverty statistics for older people's subgroups

Poverty results for subgroups of older people are presented by making use of the 0% of median income for the overall population. This practice has now become a most accepted way of defining the poverty threshold in the context of computing financial poverty for the European countries (see Atkinson et al. 2002). The poverty incidence refers to the head-count measure (i.e. the proportion of people below the poverty line), whereas the poverty intensity is measured by the average gap between the income of the poor and the poverty threshold. Results are presented in Table 2.

Using the 60% cut-off, almost 23% of all older people can be identified as falling below the poverty line. The poverty incidence is relatively high for widow(er)s (29.6%), those who are divorced, separated or never married (26.6%), those who live independently (23.3%), those who live as tenants (25.9%), and those in the two oldest age groups (about 30%). Not surprisingly, these patterns of poverty risk groups are in line with the detailed analysis of the relative ranking of different subgroups of old age people in Table 1.

To sum up, results for both dimensions suggest deprivation in terms of health and income for the subgroup of older age groups (aged 75+) as well as for those who live as tenants. In contrast, an association with the labour market is associated with a positive outcome in terms of both health and income. Women — when compared to men, and after controlling for other important attributes (age, marital status, living arrangements, job status, and housing tenure) — are worse off in different dimensions of health. Those who live independently (e.g. single elderly persons) are more likely to be deprived in terms of income but do as well as others in terms of health.

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3 The decile cumulative distribution provides the cumulative shares of the population up to (and including) each decile.
Table 1: Relative position of subgroups of older people within the overall population: cumulative shares in income decile groups

<table>
<thead>
<tr>
<th>Population group</th>
<th>Cell size</th>
<th>D1</th>
<th>D2</th>
<th>D3</th>
<th>D4</th>
<th>D5</th>
<th>D6</th>
<th>D7</th>
<th>D8</th>
<th>D9</th>
<th>D10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall population</td>
<td>7,506</td>
<td>10.0</td>
<td>20.0</td>
<td>30.0</td>
<td>40.0</td>
<td>50.0</td>
<td>60.0</td>
<td>70.0</td>
<td>80.0</td>
<td>90.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Older population as a whole</td>
<td>1,705</td>
<td>11.6</td>
<td>27.3</td>
<td>42.5</td>
<td>55.6</td>
<td>66.3</td>
<td>75.6</td>
<td>82.5</td>
<td>88.6</td>
<td>94.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Men</td>
<td>612</td>
<td>9.1</td>
<td>25.1</td>
<td>39.5</td>
<td>52.8</td>
<td>63.5</td>
<td>73.3</td>
<td>80.8</td>
<td>86.4</td>
<td>93.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Women</td>
<td>1,093</td>
<td>13.0</td>
<td>28.5</td>
<td>44.2</td>
<td>57.2</td>
<td>67.7</td>
<td>76.9</td>
<td>83.4</td>
<td>89.7</td>
<td>94.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Couple</td>
<td>922</td>
<td>6.7</td>
<td>22.1</td>
<td>36.5</td>
<td>48.8</td>
<td>59.5</td>
<td>69.5</td>
<td>76.5</td>
<td>84.4</td>
<td>91.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Widow(er)</td>
<td>566</td>
<td>17.8</td>
<td>33.6</td>
<td>48.8</td>
<td>62.4</td>
<td>73.2</td>
<td>82.4</td>
<td>89.1</td>
<td>93.8</td>
<td>96.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Divorced/separated never married</td>
<td>217</td>
<td>13.3</td>
<td>29.7</td>
<td>47.8</td>
<td>62.5</td>
<td>72.4</td>
<td>79.9</td>
<td>87.0</td>
<td>90.4</td>
<td>96.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Living independently</td>
<td>1,461</td>
<td>12.1</td>
<td>28.0</td>
<td>43.8</td>
<td>56.5</td>
<td>67.1</td>
<td>75.9</td>
<td>82.6</td>
<td>88.5</td>
<td>94.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Living with others</td>
<td>244</td>
<td>5.8</td>
<td>19.3</td>
<td>28.7</td>
<td>45.6</td>
<td>57.3</td>
<td>72.5</td>
<td>81.9</td>
<td>89.5</td>
<td>93.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Economically active</td>
<td>148</td>
<td>2.8</td>
<td>7.4</td>
<td>17.0</td>
<td>27.3</td>
<td>34.1</td>
<td>48.3</td>
<td>58.0</td>
<td>65.9</td>
<td>80.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Retired, or family carer</td>
<td>1,557</td>
<td>12.4</td>
<td>29.1</td>
<td>44.8</td>
<td>58.1</td>
<td>69.1</td>
<td>78.1</td>
<td>84.7</td>
<td>90.6</td>
<td>95.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Home owner</td>
<td>1,208</td>
<td>10.2</td>
<td>25.0</td>
<td>36.9</td>
<td>47.2</td>
<td>58.0</td>
<td>68.4</td>
<td>76.0</td>
<td>84.4</td>
<td>92.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Tenant</td>
<td>497</td>
<td>14.4</td>
<td>31.8</td>
<td>53.5</td>
<td>71.9</td>
<td>82.3</td>
<td>89.5</td>
<td>95.0</td>
<td>96.6</td>
<td>98.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Aged 60-64</td>
<td>188</td>
<td>7.6</td>
<td>12.7</td>
<td>24.4</td>
<td>37.6</td>
<td>47.7</td>
<td>58.4</td>
<td>65.5</td>
<td>77.2</td>
<td>86.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Aged 65-69</td>
<td>381</td>
<td>6.9</td>
<td>18.0</td>
<td>36.1</td>
<td>49.4</td>
<td>59.5</td>
<td>69.0</td>
<td>76.4</td>
<td>83.7</td>
<td>92.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Aged 70-74</td>
<td>410</td>
<td>11.1</td>
<td>28.2</td>
<td>41.9</td>
<td>53.4</td>
<td>64.7</td>
<td>75.6</td>
<td>83.3</td>
<td>90.1</td>
<td>95.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Aged 75-79</td>
<td>387</td>
<td>11.9</td>
<td>33.8</td>
<td>48.6</td>
<td>62.4</td>
<td>72.4</td>
<td>78.5</td>
<td>84.8</td>
<td>89.6</td>
<td>95.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Aged 80-84</td>
<td>186</td>
<td>14.6</td>
<td>34.1</td>
<td>49.2</td>
<td>58.9</td>
<td>74.0</td>
<td>87.4</td>
<td>92.3</td>
<td>95.5</td>
<td>98.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Aged 85+</td>
<td>153</td>
<td>21.8</td>
<td>34.7</td>
<td>52.0</td>
<td>69.8</td>
<td>77.3</td>
<td>84.9</td>
<td>92.9</td>
<td>95.6</td>
<td>96.4</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Notes: (1) Income deciles are calculated based on net household income before housing costs for the overall population.

Source: Author’s calculations from the 1999 BHPS.
### Table 2: Poverty incidence and poverty intensity amongst older people

<table>
<thead>
<tr>
<th></th>
<th>Poverty incidence</th>
<th>Poverty incidence</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>50% cut-off</td>
<td>60% cut-off</td>
</tr>
<tr>
<td>Older population as a whole</td>
<td>11.9</td>
<td>22.6</td>
</tr>
<tr>
<td>Men</td>
<td>9.2</td>
<td>19.7</td>
</tr>
<tr>
<td>Women</td>
<td>13.3</td>
<td>24.2</td>
</tr>
<tr>
<td>Couple</td>
<td>6.7</td>
<td>16.6</td>
</tr>
<tr>
<td>Widow(er)</td>
<td>18.3</td>
<td>29.6</td>
</tr>
<tr>
<td>Divorced/separated/never married</td>
<td>14.0</td>
<td>26.6</td>
</tr>
<tr>
<td>Living independently</td>
<td>12.4</td>
<td>23.3</td>
</tr>
<tr>
<td>Living with others</td>
<td>6.2</td>
<td>15.6</td>
</tr>
<tr>
<td>Economically active</td>
<td>2.6</td>
<td>4.9</td>
</tr>
<tr>
<td>Retired, or family carer</td>
<td>12.7</td>
<td>24.2</td>
</tr>
<tr>
<td>Home owner</td>
<td>10.4</td>
<td>21.0</td>
</tr>
<tr>
<td>Tenant</td>
<td>14.7</td>
<td>25.9</td>
</tr>
<tr>
<td>Aged 60-64</td>
<td>7.8</td>
<td>10.1</td>
</tr>
<tr>
<td>Aged 65-69</td>
<td>6.8</td>
<td>14.0</td>
</tr>
<tr>
<td>Aged 70-74</td>
<td>11.3</td>
<td>23.8</td>
</tr>
<tr>
<td>Aged 75-79</td>
<td>12.1</td>
<td>26.2</td>
</tr>
<tr>
<td>Aged 80-84</td>
<td>15.1</td>
<td>30.6</td>
</tr>
<tr>
<td>Aged 85+</td>
<td>22.7</td>
<td>31.4</td>
</tr>
</tbody>
</table>

Notes: (1) Poverty intensity refers to ‘median’ poverty gap, which is preferred over ‘mean’ poverty gap since it provides a better measure of the average income of poor people.

Source: Author’s calculations from the 1999 BHPS.

#### 3.3 Older People’s Well-Being: The Multidimensional Measure

This subsection reports on the empirical work towards incorporating financial costs of disability for older people. By ‘costs’ it is meant here all those extra expenses that people incur as a result of their disability. Thus, focus is exclusively on the extra costs of living that people incur because of their disability, such as additional heating, laundry and transport costs, or special equipment. It does not include the opportunity cost of ill health and disability — i.e. loss of personal earnings, or earnings foregone by friends and relatives in providing unpaid care, nor does it reflect any loss in subjective well-being as a
direct result of being disabled.\textsuperscript{4}

Here, results shown are restricted to illustrating how the relative ranking of various subgroups of older people is affected when we take into account differences in disability status and costs associated with disability in the interpersonal comparison of economic well-being. The actual measurement of costs of disability are reported in detail in Zaidi (2008, pp. 129-140).

As is obvious from the specification of the income term in Model 10 of Table 5.8 (Zaidi 2008, pp. ), the additional costs of disability varies with income. Therefore, the additional-needs factor arising due to disability is calculated separately for each income decile group, using the average income of each of these income groups as the reference income. These computations, reported in Table 3, show that the disability equivalisation factor is different for different income groups. For a single disabled person, the factor ranges from about 1.65 to 1.25 from the bottom income group to the top income group, implying that a disabled person in the bottom income group needs about 65\% more than his current income and a disabled person in the top income group needs about 25\% more than his current income in order to maintain their living standards. For pensioner couples, the factors are smaller if only one of them has a disability (ranging from 1.29 to 1.11), but they are larger if both of them have a disability (ranging from 1.87 to 1.34). The revised income definition, referred to as needs-adjusted income, is calculated using these disability equivalisation factors for single persons and for multi-person households in different income decile groups, as well as equivalisation factors for household size and composition.

\textit{Table 3: Equivalisation for disability, subdivided across income decile groups}

<table>
<thead>
<tr>
<th>Decile Group</th>
<th>Average Income</th>
<th>Single person disabled</th>
<th>One disabled in a couple</th>
<th>2+ disabled in household</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>5,275</td>
<td>1.648</td>
<td>1.287</td>
<td>1.866</td>
</tr>
<tr>
<td>2</td>
<td>7,750</td>
<td>1.535</td>
<td>1.237</td>
<td>1.714</td>
</tr>
<tr>
<td>3</td>
<td>9,150</td>
<td>1.492</td>
<td>1.218</td>
<td>1.657</td>
</tr>
<tr>
<td>4</td>
<td>10,350</td>
<td>1.463</td>
<td>1.205</td>
<td>1.618</td>
</tr>
<tr>
<td>5</td>
<td>11,530</td>
<td>1.439</td>
<td>1.194</td>
<td>1.585</td>
</tr>
<tr>
<td>6</td>
<td>12,800</td>
<td>1.416</td>
<td>1.184</td>
<td>1.556</td>
</tr>
<tr>
<td>7</td>
<td>14,475</td>
<td>1.391</td>
<td>1.173</td>
<td>1.523</td>
</tr>
<tr>
<td>8</td>
<td>16,650</td>
<td>1.365</td>
<td>1.161</td>
<td>1.487</td>
</tr>
<tr>
<td>9</td>
<td>20,740</td>
<td>1.327</td>
<td>1.145</td>
<td>1.437</td>
</tr>
<tr>
<td>10</td>
<td>34,565</td>
<td>1.253</td>
<td>1.112</td>
<td>1.338</td>
</tr>
</tbody>
</table>

Notes: (1) Average income corresponds to average annual household income, expressed in nominal prices of 1998-99.

Source: Author’s calculations from the 1999 BHPS.

\textsuperscript{4} A full-scale discussion of this approach, as well as a discussion on how it distinguishes itself from other approaches, is beyond the scope of the work reported in this subsection. For this purpose, see author’s other work (Zaidi and Burchardt 2005).
The rest of this section is subdivided into two parts:

- First, we analyse the proportion of different subgroups of older people in the cumulative income distribution derived on the basis of the same decile-thresholds as used in the earlier analysis (the thresholds defined based on income of older population, used in Table 1). These analyses highlight the shift in income ranking as a result of the correction on the basis of the financial costs of disability.

- Second, we examine the poverty status computed on the basis of the same poverty line as used in Table 2. These analyses show how the poverty incidence and the poverty intensity change when we account for additional costs that arise due to disability.

a. **Incorporating costs of disability: income ranking of subgroups**

In this subsection, it is examined how the relative economic positions of various subgroups of older people change when we take into account the differences in their disability status. Results show that a greater fraction of older people is found among low-income groups when corrected for differences in disability across households. About 20% of all older people are found below the first decile-threshold (see Table 4 below), which almost doubles the fraction below the first low-income cut-off used in Table 1. Likewise, the proportion below the second decile-threshold has risen: almost one-third of all fall below this threshold as opposed to about 27% of all without the disability equilibration. Looking at the situation of various subgroups, close to one-fourth of all widow(er)s, those aged 80 or more, and those who live as tenants are found below the first low income threshold. These groups were already identified as the high-risk groups when using income adjusted for household size only, and these results provide a clear indication of the coupling of disadvantage in terms of income and disability for these subgroups.

b. **Incorporating costs of disability: poverty results**

Using the 60% cut-off, the poverty incidence amongst older people almost doubled (from 22.6% to 36.5%) when using the needs-adjusted income instead of the size-adjusted income. These results, reported in Table 2, are based on the same poverty threshold as derived using the median level of size-adjusted income, mainly for the fact that these poverty thresholds are rather close to the minimum income guarantee in Great Britain. High poverty groups remain those who are widow(er)s, divorced, separated or never married, those who live as tenants, and those who are in the oldest age groups (aged 75-79, 80-84, and 85+).

The poverty intensity results, as given by the median poverty gap, show that there are not only more poor but also the average level of resources of the poor are much lower when using the needs-adjusted income as the measure of household resources. As noted in earlier results, the relative ranking of the subgroups for poverty incidence and poverty intensity is not affected by the use of the needs-adjusted income instead of size-adjusted income. However, it is safe to conclude that unadjusted incomes significantly understate the problem of low income amongst older people.

---

5 By decile-thresholds we mean the maximum income that a decile income group has. For instance, in terms of 1998/99 prices, the first decile income group has about £100 per week as the maximum income (per adult equivalent).
Table 4: Incorporating costs of disability: relative position of subgroups of older people within the overall population
(cumulative shares in income decile groups of the overall population)

<table>
<thead>
<tr>
<th>Population group</th>
<th>D1</th>
<th>D2</th>
<th>D3</th>
<th>D4</th>
<th>D5</th>
<th>D6</th>
<th>D7</th>
<th>D8</th>
<th>D9</th>
<th>D10</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall population</td>
<td>10.0</td>
<td>20.0</td>
<td>30.0</td>
<td>40.0</td>
<td>50.0</td>
<td>60.0</td>
<td>70.0</td>
<td>80.0</td>
<td>90.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Older population as a whole</td>
<td>18.8</td>
<td>32.4</td>
<td>41.7</td>
<td>51.3</td>
<td>58.8</td>
<td>65.9</td>
<td>74.8</td>
<td>82.3</td>
<td>91.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Men</td>
<td>15.7</td>
<td>28.8</td>
<td>38.8</td>
<td>47.9</td>
<td>55.6</td>
<td>63.3</td>
<td>72.5</td>
<td>80.7</td>
<td>89.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Women</td>
<td>20.5</td>
<td>34.4</td>
<td>43.3</td>
<td>53.1</td>
<td>60.6</td>
<td>67.3</td>
<td>76.1</td>
<td>83.2</td>
<td>91.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Couple</td>
<td>14.0</td>
<td>26.7</td>
<td>36.4</td>
<td>45.4</td>
<td>53.1</td>
<td>59.1</td>
<td>68.8</td>
<td>77.2</td>
<td>88.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Widow(er)</td>
<td>25.0</td>
<td>39.4</td>
<td>48.0</td>
<td>59.4</td>
<td>66.2</td>
<td>74.2</td>
<td>82.1</td>
<td>88.6</td>
<td>94.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Divorced/separated/never married</td>
<td>21.9</td>
<td>36.7</td>
<td>46.2</td>
<td>53.3</td>
<td>62.4</td>
<td>71.0</td>
<td>79.5</td>
<td>85.7</td>
<td>92.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Living independently</td>
<td>19.5</td>
<td>34.0</td>
<td>43.5</td>
<td>53.1</td>
<td>60.6</td>
<td>67.3</td>
<td>75.2</td>
<td>82.5</td>
<td>91.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Living with others</td>
<td>13.1</td>
<td>18.8</td>
<td>25.6</td>
<td>35.0</td>
<td>43.8</td>
<td>53.8</td>
<td>71.3</td>
<td>80.0</td>
<td>88.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Economically active</td>
<td>4.6</td>
<td>10.8</td>
<td>16.2</td>
<td>25.4</td>
<td>30.0</td>
<td>33.1</td>
<td>42.3</td>
<td>53.8</td>
<td>71.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Retired, or family carer</td>
<td>20.1</td>
<td>34.4</td>
<td>44.0</td>
<td>53.6</td>
<td>61.5</td>
<td>68.9</td>
<td>77.7</td>
<td>84.8</td>
<td>92.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Home owner</td>
<td>16.9</td>
<td>29.2</td>
<td>35.8</td>
<td>44.4</td>
<td>51.5</td>
<td>58.3</td>
<td>67.5</td>
<td>76.6</td>
<td>88.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Tenant</td>
<td>23.4</td>
<td>39.7</td>
<td>55.2</td>
<td>67.3</td>
<td>75.8</td>
<td>83.4</td>
<td>91.7</td>
<td>95.3</td>
<td>97.2</td>
<td>100.0</td>
</tr>
<tr>
<td>Aged 60-64</td>
<td>11.1</td>
<td>20.4</td>
<td>26.5</td>
<td>30.9</td>
<td>37.0</td>
<td>47.5</td>
<td>57.4</td>
<td>66.7</td>
<td>82.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Aged 65-69</td>
<td>11.6</td>
<td>23.2</td>
<td>32.8</td>
<td>43.5</td>
<td>53.3</td>
<td>59.1</td>
<td>67.8</td>
<td>76.2</td>
<td>88.4</td>
<td>100.0</td>
</tr>
<tr>
<td>Aged 70-74</td>
<td>17.1</td>
<td>30.6</td>
<td>39.3</td>
<td>51.2</td>
<td>57.7</td>
<td>65.6</td>
<td>75.9</td>
<td>85.1</td>
<td>92.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Aged 75-79</td>
<td>23.0</td>
<td>39.2</td>
<td>49.3</td>
<td>57.0</td>
<td>64.4</td>
<td>70.7</td>
<td>78.6</td>
<td>84.4</td>
<td>92.6</td>
<td>100.0</td>
</tr>
<tr>
<td>Aged 80-84</td>
<td>26.0</td>
<td>41.0</td>
<td>49.7</td>
<td>60.1</td>
<td>68.2</td>
<td>75.7</td>
<td>84.4</td>
<td>90.8</td>
<td>97.1</td>
<td>100.0</td>
</tr>
<tr>
<td>Aged 85+</td>
<td>29.7</td>
<td>44.6</td>
<td>56.8</td>
<td>67.6</td>
<td>73.6</td>
<td>79.1</td>
<td>86.5</td>
<td>91.2</td>
<td>94.6</td>
<td>100.0</td>
</tr>
</tbody>
</table>

(using income before housing costs)

Notes: (1) Income deciles are calculated based on net household income before housing costs for the overall population.

Source: Author’s calculations from the 1999 BHPS.
Table 5: Incorporating costs of disability: poverty incidence and poverty intensity amongst older people

<table>
<thead>
<tr>
<th></th>
<th>Poverty incidence 50% cut-off</th>
<th>Poverty incidence 60% cut-off</th>
<th>Poverty incidence 50% cut-off</th>
<th>Poverty incidence 60% cut-off</th>
</tr>
</thead>
<tbody>
<tr>
<td>Older population as a whole</td>
<td>23.0</td>
<td>36.5</td>
<td>20.6</td>
<td>23.9</td>
</tr>
<tr>
<td>Men</td>
<td>19.2</td>
<td>32.2</td>
<td>20.6</td>
<td>22.2</td>
</tr>
<tr>
<td>Women</td>
<td>25.0</td>
<td>38.9</td>
<td>20.6</td>
<td>24.3</td>
</tr>
<tr>
<td>Couple</td>
<td>16.7</td>
<td>29.9</td>
<td>19.7</td>
<td>20.2</td>
</tr>
<tr>
<td>Widow(er)</td>
<td>29.5</td>
<td>43.9</td>
<td>22.6</td>
<td>26.5</td>
</tr>
<tr>
<td>Divorced/separated/never married</td>
<td>29.0</td>
<td>41.3</td>
<td>20.6</td>
<td>24.5</td>
</tr>
<tr>
<td>Living independently</td>
<td>23.7</td>
<td>37.8</td>
<td>19.7</td>
<td>23.6</td>
</tr>
<tr>
<td>Living with others</td>
<td>14.1</td>
<td>22.3</td>
<td>24.3</td>
<td>26.5</td>
</tr>
<tr>
<td>Economically active</td>
<td>6.4</td>
<td>10.4</td>
<td>19.8</td>
<td>20.6</td>
</tr>
<tr>
<td>Retired or family carer</td>
<td>24.5</td>
<td>38.9</td>
<td>20.6</td>
<td>24.0</td>
</tr>
<tr>
<td>Home owner</td>
<td>20.5</td>
<td>31.8</td>
<td>21.1</td>
<td>24.4</td>
</tr>
<tr>
<td>Tenant</td>
<td>27.8</td>
<td>45.6</td>
<td>19.7</td>
<td>23.3</td>
</tr>
<tr>
<td>Aged 60-64</td>
<td>12.4</td>
<td>21.3</td>
<td>28.6</td>
<td>25.8</td>
</tr>
<tr>
<td>Aged 65-69</td>
<td>15.9</td>
<td>27.2</td>
<td>20.7</td>
<td>19.5</td>
</tr>
<tr>
<td>Aged 70-74</td>
<td>20.1</td>
<td>33.9</td>
<td>22.3</td>
<td>22.7</td>
</tr>
<tr>
<td>Aged 75-79</td>
<td>26.8</td>
<td>43.4</td>
<td>17.9</td>
<td>23.6</td>
</tr>
<tr>
<td>Aged 80-84</td>
<td>32.5</td>
<td>44.8</td>
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<td>26.8</td>
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<tr>
<td>Aged 85+</td>
<td>33.3</td>
<td>49.3</td>
<td>24.5</td>
<td>26.6</td>
</tr>
</tbody>
</table>

Notes: (1) Poverty intensity refers to ‘median’ poverty gap, which is preferred over ‘mean’ poverty gap since it provides a better measure of the average income of poor people.

Source: Author’s calculations from the 1999 BHPS.

4. Conclusions

This paper reports on the multidimensional analyses of older people’s well-being as undertaken in Zaidi (2008). It uses income and health as the two single dimensions, each chosen for their importance to the well-being of older people. These analyses are then supplemented by the multidimensional measurement analysis, which brings these two dimensions together.

This study emphasised the importance of adopting the multidimensional approach when evaluating personal well-being of this particular subgroup. A clear policy conclusion is the need that older people’s income entitlements ought to be duly adjusted to take into account...
additional needs arising due to additional costs of living associated with disability and limiting health. An important extension of this work is an expansion to include other base dimensions of older people’s well-being, and an examination of the dynamics of needs-adjusted resources during old age.

REFERENCES
USA Retirees 2008 Survey: Summary Report

by Dallas Salisbury

1. Introduction

The 2008 Recent Retirees Survey was sponsored by the Employee Benefit Research Institute (EBRI) to better understand the tools and practices that might encourage workers to postpone their retirement and remain longer with their company. It finds that retirees typically retired from employers for one of four reasons: retirement becomes affordable, lack of job satisfaction, a desire for more personal or family time, and/or their health status. One of the major findings of the survey is that employers have a narrow window of up to two years in which they may be able to intervene to change retiring workers’ decisions by offering them incentives to remain with the company. Although no single incentive is likely to motivate a majority of retirees to stay longer with their employer, it appears that employers may be able to assemble a toolkit of alternatives that would be effective in retaining substantial numbers of workers at retirement age.

Among the key findings of this survey:

1. Many retirees report they would have been open to an approach from their employer asking them to stay longer with the company. 61% say they would have viewed the experience positively. Just 10% indicate they would have reacted negatively to an approach asking them to delay their retirement.

2. The survey tested a total of 19 possible incentives that might encourage retiring workers to postpone retirement. Four of these appear especially likely to be successful:
   a. Half of retirees (48%) indicate that feeling truly needed for an assignment would have been extremely or very effective in encouraging them to delay their retirement. Moreover, of those ranking this as one of the top two most effective incentives, 72% say it might have prompted them to stay at least two more years with the company.
   b. Half of retirees with a defined benefit pension state receiving a full pension while working part time would have been effective in delaying their retirement (50%), and almost as many feel this way about receiving a partial pension while working part time (44%). Seven in 10 of those rating each among the top two most effective incentives report they would probably have stayed at least two more years if it had

*Dallas Salisbury is president and CEO of the Employee Benefit Research Institute. The full report by a group of authors is available at www.ebri.org as the July 2008 EBRI Issue Brief Number 319. Thus summary is an extract.

It should be noted that the population for this survey was drawn from companies within the aerospace, defense, and national security industries and focused on engineering and technical workers. This means the sample is somewhat atypical of the ‘average’ private-sector worker: Levels of education, training, and pay are higher than average, and pension recipiency is much higher than average in this sector. Also, a significant factor in this industry is the need for government security clearances for the vast majority of workers (since defense and aerospace projects are generally classified). This can have a significant effect on job requirements, working conditions, and pay. The time it takes to hire new workers, the level of skill needed, the difficulty of obtaining security clearances, and the need to facilitate the gradual transfer of institutional knowledge are reasons why employers may want to retain older workers, particularly those eligible for early retirement. Nevertheless, many of the factors identified within this group of workers have obvious relevance to the work force at large and other employers looking to retain older, experienced, or skilled workers.
been offered to them (72% for full pension, 71% for partial pension). However, this would necessitate a change in federal law and several other compensation-related incentives noted below may be almost as compelling.

c. 38% report that being able to work seasonally or on a contract basis would have been effective in encouraging them to delay retirement. Among those rating this as one of the top two incentives, more than three-quarters (77%) say it might have prompted them to stay with the company two years or more.

3. Other highly rated incentives include a pay increase (33% of all retirees say it would have been effective, 56% ranking it among the top two most effective incentives might have stayed two years or longer); continuing to receive company subsidized health insurance benefits at the same level as full-time workers while working part time (46% effective, 56% two years or longer); doing more meaningful work (36% effective, 67% two years or longer); locking in pension benefits that were already earned (42% of those receiving pension effective, 54% two years or longer); telecommuting (28% effective, 68% two years or longer); and being able to work part time rather than full time (36% effective, 64% two years or longer).

4. The timing of the offer of a delayed retirement incentive is important. Nearly two-thirds of retirees (63%) report that these offers would have been a lot more effective if the retiree had known about the possibility in the two years before they communicated their intention of retiring.

5. In general, workers begin thinking seriously about retirement not long before they actually retire. 22% of the surveyed retirees first began thinking seriously about retiring only six months before they left the company, while another 22% began thinking seriously about it approximately a year beforehand. 38% started thinking about it 12 months (10%) or two years (18%) before.

6. One of the primary reasons that aerospace and defense industry company workers retire when they do is because retirement becomes affordable (76% rate it as extremely or very important). The two other reasons for retiring mentioned by a majority of retirees are their job satisfaction (63%) and a desire for more personal or family time (60%). Almost half (46%) say their health was an extremely or very important factor.

7. 36% of retirees with a pension report that a pension-related issue was an extremely or very important factor in their decision to retire. Among those saying this reason was at least somewhat important, 72% indicate that reaching the pension eligibility age was important in their retirement decision. In addition, 46% say they wanted to lock in the benefits they received so that they would not have to worry about changes the company might make. This suggests that some workers may be making retirement decisions based on erroneous assumptions since employers cannot legally reduce pension benefits for past service.

8. While a majority (54%) was either extremely, very, or somewhat satisfied with their job at the time they made their decision to retire, a sizable minority (46%) indicate they were not too or not at all satisfied. A number of factors appear to contribute to decreased satisfaction among this minority, including not feeling valued by the company or feeling that the work did not have long-term value (64% rate it a ‘4’ or ‘5’ on a 5-point scale), stress (47%), no longer growing or learning (45%), and not enjoying work (45%). In addition, not getting along with co-workers or not sharing their values (30%) appears to be associated with increased levels of dissatisfaction.
2. The Retirement Decision

Reasons for Retirement—Workers of aerospace and defense industry companies retire for many different reasons. Foremost among these reasons, however, is that retirement becomes affordable. Three-quarters of retirees (76%) report that their ability to afford retirement was an extremely or very important factor in their decision to retire. Two other factors are also mentioned by a majority of retirees as reasons for retiring: their lack of job satisfaction (63% extremely or very important) and a desire for more personal or family time (60%) (Figure 1).

Nearly half (46%) say that their health was an extremely or very important reason for their retirement, while roughly one-third each indicate that a consideration related to their pension (36% of those with pension), a desire to do something different (32%), and the health of a spouse or another family member (31%) played a major role. Fewer report that other factors, such as their spouse’s retirement status (20% of married respondents), an early retirement incentive (10%), and other career opportunities (8%), were important.

Figure 1: Factors in Retirement Decision

<table>
<thead>
<tr>
<th>(n=4981)</th>
<th>Extremely Important</th>
<th>Important Not too</th>
<th>Very Important</th>
<th>Important Not at All</th>
<th>Somewhat Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your ability to afford retirement</td>
<td>42%</td>
<td>34%</td>
<td>14%</td>
<td>3%</td>
<td>7%</td>
</tr>
<tr>
<td>Your job satisfaction</td>
<td>38</td>
<td>25</td>
<td>18</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td>A desire for more personal or family time</td>
<td>30</td>
<td>30</td>
<td>19</td>
<td>7</td>
<td>13</td>
</tr>
<tr>
<td>Your own health</td>
<td>24</td>
<td>22</td>
<td>18</td>
<td>13</td>
<td>24</td>
</tr>
<tr>
<td>A consideration related to your pension (among those with pension, n=4877)</td>
<td>16</td>
<td>20</td>
<td>21</td>
<td>13</td>
<td>30</td>
</tr>
<tr>
<td>The health of spouse or other family member</td>
<td>15</td>
<td>16</td>
<td>14</td>
<td>15</td>
<td>40</td>
</tr>
<tr>
<td>A desire to do something different</td>
<td>14</td>
<td>18</td>
<td>22</td>
<td>15</td>
<td>31</td>
</tr>
<tr>
<td>Your spouse’s retirement status (among those married, n=4139)</td>
<td>9</td>
<td>12</td>
<td>15</td>
<td>14</td>
<td>50</td>
</tr>
<tr>
<td>An early retirement incentive offered by your company</td>
<td>5</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>77</td>
</tr>
<tr>
<td>Other career opportunities</td>
<td>4</td>
<td>4</td>
<td>8</td>
<td>15</td>
<td>69</td>
</tr>
</tbody>
</table>

Source: Employee Benefit Research Institute, 2008 Recent Retirees Survey.

Overall, the propensity to say each reason is important tends to increase with the amount of time spent deliberating the retirement decision and the number of years spent working for the company. It also tends to be higher among those saying their health was a reason for their retiring than among those who did not cite their health.

In addition, the propensity to report each reason as important is generally higher among those at least somewhat satisfied with their job than among those not satisfied. There are several notable exceptions, however. First, the likelihood of citing job satisfaction as an important factor in their retirement decision increases sharply as job satisfaction decreases,
from 29% of those extremely or very satisfied to 96% of those not at all satisfied. In a similar but much less extreme fashion, those satisfied with their job are less likely than those who are not to indicate that other career opportunities were important (6% extremely/very satisfied vs. 12% not at all satisfied). Finally, the desire to do something different was more often rated highly by retirees somewhat or not too satisfied with their job (36%) than by those extremely or very satisfied (27%) or those not at all satisfied (30%).

Retirees who do not work for pay in retirement are more likely than their counterparts who do work for pay to give the following reasons were important in their decision to retire: their ability to afford retirement (80% vs. 64%), a desire for more personal or family time (64% vs. 49%), their health (49% vs. 38%), the health of a spouse or family member (33% vs. 24%), and their spouse’s retirement status (23% vs. 14%). On the other hand, those who worked for pay more often report that factors playing an important role were their job satisfaction (66% vs. 62%), a desire to do something different (35% vs. 31%), and other career opportunities (22% vs. 4%). Moreover, larger shares of those who worked for an aerospace/defense industry competitor in retirement than those working somewhere else indicate their job satisfaction (72% vs. 64%), a consideration related to their pension (43% vs. 34%), and other career opportunities (33% vs. 17%) were important.

Married women are approximately three times as likely as married men to give weight to their spouse’s retirement status when considering their retirement decision (45% vs. 16%). Women are also more likely than men to say a desire for more personal or family time was important (64% vs. 59%), but less likely to mention other career opportunities (5% vs. 9%). Those who retired before age 58 are more likely than those retiring later to cite a desire to do something different (36% vs. 30%) and other career opportunities (13% vs. 7%).

3. Delaying Retirement

Current Approaches — Currently, only about one-quarter of workers retiring from the aerospace and defense industry (26%) are approached and asked to delay their retirement. These approaches are typically made by the worker’s supervisor (79%) rather than another executive in the company (33%) or someone from human resources (7%).

The majority of retirees who report an approach say that no incentives were offered to delay their retirement (72%). However, modest percentages indicate they were offered a move to part-time status (9%), a pay increase (7%), or increased flexibility in scheduling working hours or time off (6%).

Seven% of those approached report they delayed their retirement as a result. However, these retirees delay their retirement for a median (midpoint) of only six months. Surprisingly, although retirees who were at least somewhat satisfied with their job are more likely to have been approached than those who were not satisfied (30% vs. 21%), both groups are equally likely to have delayed their retirement when asked (7% vs. 6%).

Nevertheless, retirees say they are open to such an approach and many would view the experience positively (61%) (Figure 2). Just 10% indicate they would react negatively to an approach asking them to delay their retirement and only 29% say they would be neutral. Even among those who were not satisfied with their job, only 14% state they would have reacted negatively to such an approach.
Retirees more likely to say they would react positively to an approach asking them to delay retirement include those who worked for pay in retirement (67%, compared with 59% who did not), those who were not asked to delay retirement (64%, compared with 51% who were), and men (62%, compared with 56% of women). In addition, those with income replacement levels under 60% are more apt than those with higher replacement to say they would have reacted very positively (28% vs. 23%).

**Most Effective Opportunities** — When retirees are asked which of the opportunities presented would be most effective at encouraging them to delay retirement, they most often say feeling truly needed for an assignment (29% say it is one of the top three most effective, 12% say it is the most effective). Other incentives that retirees rank highly are receiving a full pension while working part time (24% top three, 9% most), a pay increase (22% top three, 7% most), continuing company-subsidized health insurance at the same level as full-time workers (21% top three, 5% most), and receiving a partial pension while working part time (21% top three, 6% most). No other incentives were ranked among the top three by 20% or more of retirees.

Although the data demonstrate a positive relationship between job satisfaction and most retention incentives, there is an inverse relationship between job satisfaction and the incentives of feeling truly needed for an assignment and doing more meaningful work. That is, as job satisfaction decreases, the likelihood of responding to these two incentives increases. Conversely, as job satisfaction increases, the effectiveness of these factors decreases.

An alternate measure of incentive effectiveness would be how much longer retirees remain with the company when offered these incentives. Using this measure, three-quarters of retirees ranking each opportunity as most or second-most effective say they might have stayed with the company at least two more years if they had been offered training that would have enabled them to move into new areas of the company (79%) or had been offered seasonal or contract work (77%). Large percentages of those rating an assignment where they feel truly needed (72%), receiving their full pension while working part time (72%), and receiving a partial pension while working part time (71%) as most or second-most effective also say they would probably have stayed at least two more years with the company. Roughly two-thirds might have stayed this much longer if they had been able to change their position to decrease their management responsibilities (69%), had the option to telecommute (68%), do work they felt was more meaningful (67%), and part-time work instead of full-time work (64%).

Although at least half of retirees rating most of the other options as most or second-most effective think they might have stayed two years or longer, fewer believe they would have stayed this long if they had been able to shift their work hours from week to week (40%), received additional paid time off each year (35%), or received a one-time cash bonus (32%).
should also be noted that 8% of retirees report they would not have stayed any longer with the company even if they had been offered the incentive they rated as most effective.

However, a more effective measure of incentive effectiveness might combine the previous two, weighting the percentage of workers likely to stay two years or longer by the percentage likely to give the offer the most serious consideration. Using this weighted index, it appears that the most effective incentive would be feeling truly needed for an assignment (index of 17), followed by receiving a full pension while working part time (13), receiving a partial pension while working part time (10), and seasonal or contract work (10) (Figure 3). Other effective offerings might be a pay increase (9), providing part-time workers with health insurance benefits at the same level as full-time workers (8), and more meaningful work (8).

While no single incentive is likely to persuade a majority of retiring workers to remain longer with the company, it is likely that a carefully constructed package of incentives could persuade a substantial number to delay their retirement. Based on the survey results, however, about half of retirees would likely stay two years longer if they were offered a choice of one of the following options: an assignment for which they feel truly needed, a pay increase, seasonal or contract work, and health insurance benefits at the same level as full-time workers while working part time. Educating workers about the fact that pension benefits cannot be changed retroactively may also further increase the percentage of those who stay.

**Figure 3: Incentive Effectiveness Index**

<table>
<thead>
<tr>
<th>Index Value</th>
<th>Incentive</th>
</tr>
</thead>
<tbody>
<tr>
<td>17</td>
<td>Feeling truly needed for an assignment</td>
</tr>
<tr>
<td>13</td>
<td>Allowing you to receive your full pension while working part time</td>
</tr>
<tr>
<td>10</td>
<td>Allowing you to receive a partial pension while working part time so that your total income remains the same</td>
</tr>
<tr>
<td>10</td>
<td>Being able to work seasonally or on a contract basis</td>
</tr>
<tr>
<td>9</td>
<td>A pay increase</td>
</tr>
<tr>
<td>8</td>
<td>Continuing to receive company subsidized health insurance benefits at the same level as full-time workers while you work part time</td>
</tr>
<tr>
<td>8</td>
<td>Allowing you to do work you feel is more meaningful</td>
</tr>
<tr>
<td>7</td>
<td>Allowing you to lock in the pension benefits you had already earned so you could be sure the company could not modify or reduce them</td>
</tr>
<tr>
<td>7</td>
<td>Giving you the option to telecommute</td>
</tr>
<tr>
<td>7</td>
<td>Being able to work part time rather than full time</td>
</tr>
<tr>
<td>5</td>
<td>Being able to take time off for extended periods of time</td>
</tr>
<tr>
<td>4</td>
<td>Receiving training that will enable you to move into new areas of the company</td>
</tr>
<tr>
<td>4</td>
<td>Being able to compress your work week into three or four days</td>
</tr>
<tr>
<td>3</td>
<td>Changing your position to decrease your management responsibilities</td>
</tr>
<tr>
<td>3</td>
<td>Being able to take a paid sabbatical</td>
</tr>
<tr>
<td>2</td>
<td>Protecting you against the possibility of a lower pension payment due to a change in interest rates</td>
</tr>
<tr>
<td>2</td>
<td>A one-time cash bonus</td>
</tr>
<tr>
<td>2</td>
<td>Receiving additional paid time off each year</td>
</tr>
<tr>
<td>1</td>
<td>Being able to shift your work hours from week to week so they better fit</td>
</tr>
<tr>
<td></td>
<td>with activities in your personal life</td>
</tr>
</tbody>
</table>

*Source: Employee Benefit Research Institute, 2008 Recent Retirees Survey*

2 The index was created using the following formula: (percentage rating incentive most effective + (percentage rating it 2nd most effective .75) + (percent rating it 3rd most effective .5)) *.5 likely to stay two years or longer. The weights are arbitrary; however, alternate schemes using different weights yielded similar results. While a perfect score on this index would be 100 (all retirees rate incentive most effective and all would stay two years or longer), it would be virtually impossible for any incentive to achieve this score. A more reasonable reference point would be a score of 33, where 50% of retirees rate the incentive among the top three most effective (25% most, 13% second most, 12% third most effective) and 80% would stay at least two years longer.

3 Payment of full or partial pension benefits to retirees working part time would be slightly more effective than the pay increase option and could be substituted if current law is changed.
Timing of Offer — The timing of delayed retirement incentives is important. Nearly two-thirds of retirees (63%) report that these offers would have been a lot more effective if they had known about the possibility in the two years before they communicated their intention of retiring. Another quarter (25%) indicate the offers would have been much more effective. Only 12% say it would have made no difference.

Those who worked for pay in retirement (67%, compared with 61% who did not) and those who are not satisfied with their job (65%, compared with 60% at least somewhat satisfied) are particularly likely to say the offers would have been a lot more effective if they had been aware of them in the two years before retirement.

Appendix 1: Methodology

This report presents the results of a survey conducted by Mathew Greenwald & Associates, Inc., on behalf of the Employee Benefit Research Institute (EBRI) to examine the factors that cause aerospace and defense industry workers to retire when they do and what might prompt them to delay their retirement.

The questionnaire for the study was designed by Greenwald & Associates, in cooperation with EBRI, the American Benefits Council, HR Policy Association, and the aerospace and defense industry companies participating in the project: BAE Systems Inc., Ball Corporation, The Boeing Company, General Dynamics Corporation, Harris Corporation, Honeywell International Inc., Lockheed Martin Corporation, Northrop Grumman Corporation, Raytheon Company, Textron Inc., and United Technologies Corporation.

Information for the study was gathered through online interviews lasting an average of 20 minutes. Invitations asking retirees to participate in the study were mailed to retiree homes by the participating companies. To qualify for the study, respondents had to have retired from a participating company in 2000 or later and currently be between the ages of 55 and 65. Where possible, engineering and technical retirees were targeted for participation in the study, but retirees were not qualified on this basis.

Online interviewing for the survey was conducted by Greenwald & Associates between March 24 and April 7, 2006. Completed responses from 5,722 retirees were received on the survey, for an overall response rate of 30%. Individual company response rates ranged between 22 and 41%. A total of 741 surveys were later discarded due to nonqualification, for a final sample size of 4,981 (3,321 engineering/technical retirees and 1,660 retirees in other occupations).

The margin of error (at the 95% confidence level) for the total number of respondents in the survey is plus or minus 1 percentage point. There are other possible sources of error in all surveys, however, that may be more serious than theoretical calculations of sampling error. These include refusals to be interviewed and other forms of nonresponse, the effects of question wording and question order, and screening. While attempts are made to minimize these factors, it is impossible to quantify the errors that may result from them.

Percentages in the figures may not total to 100 due to rounding, multiple response, and/or missing categories.
1. Introduction

The election of former Illinois Senator Barack Obama as the next president of the United States has pushed health-care back to the top of the national agenda, although the exact timing of a legislative initiative remains unclear.

Most of the policy attention in the short-term will necessarily focus on how to pull the U.S. out of the most precarious financial crisis in many decades. And it is possible that pre-occupation with restoring economic growth could delay consideration of a health-care plan for several months or even years. However, key players in the new Administration are eager to move quickly on health-care, regardless of other economic conditions.

The primary focus of American health-care policy debates in recent years has been over what to do about the nation’s 46 million uninsured residents. Mr. Obama considers that to be the number one failing of current U.S. health-care policy. His campaign plan, released as a white paper in mid-2007, proposed major revisions in the regulatory structure for health insurance for the working age (under age 65) population and their families. He would also provide substantial new subsidies for households with incomes below 400% of the poverty line to make insurance more affordable. But the Obama plan does very little by way of reform of Medicare, the insurance program already in place for those citizens age 65 and older, as well as for the disabled.

That is not likely to be a sustainable position over the long-run. Left unchanged, Medicare spending will push the federal budget into sustained deficits that could spiral out of control. Many economists consider Medicare’s rising costs to be the number one threat to the long-term strength of the U.S. economy.

It is also not yet well understood among health-care policy analysts that Medicare provides a serious disincentive to continued work past age 65. Thus, Medicare reform needs to be considered not only to make the budgetary outlook more favorable, but also to take steps to address the issue of an aging society and the need to encourage work for as long as possible past age 65.
2. Medicare’s Current Design and Financing Gap

The U.S. has the very unusual situation of two large health-care entitlement programs but not universal entitlement to health care. This came about because President Lyndon Johnson believed in 1965 it would be better to pass coverage for seniors and the poor than a plan to cover everybody.

The result was legislation creating Medicaid and Medicare.

Medicaid is a joint federal-state program aimed at providing health insurance for those who are either enrolled in welfare programs or working but very poor. The program is funded mainly with general revenue funding from the federal government, with states expected to pay for a portion of the costs as well. On average, the federal contribution covers 57% of total costs. Medicaid’s enrollees pay very low cost-sharing when they use health-care services.

Medicare is built more like the Social Security program, with trust funds tracking income and outgoings and eligibility determined by worker contributions and premiums. Currently, workers and their employers each pay taxes on wages — 1.45% — to gain eligibility for hospital insurance. At age 65, senior citizens must also pay a premium equal to 25% of costs for coverage of physician services, and a 35% premium for coverage for prescription drugs.

The latest report from Medicare’s Board of Trustees, issued in late March 2008, revealed that the program’s unfunded liability now stands at an astounding $86 trillion, and the trust fund which pays for hospital services is expected to go bankrupt in 2019. Total Medicare spending is projected to more than triple over the projection period as a share of the national economy, from 3.2% of GDP in 2007 to 6.3% in 2030, 8.4% in 2050, and 10.7% in 2080. Federal individual income tax collections only amount to about 8.5% of GDP. Covering just the increase in Medicare spending expected by 2030 would require a 36% across-the-board individual income tax hike.

Many analysts in the U.S. have put forward plans to restore financial balance to Social Security, but there are very few credible Medicare reform proposals to examine.

Why?

Because Medicare’s financial problems are much more severe, and the policy environment is much more complex as well.

Medicare is a pay-as-you-go program too, and the aging of population is an important reason program costs will soar in coming years, especially as the baby boomers head into retirement in the next two decades. But, unlike Social Security, Medicare’s problems go well beyond shifting demographics.

The Medicare entitlement is not defined by a mathematical formula tied to payroll taxes. Rather, enrollees get government-sponsored insurance coverage, the cost of which is mainly a function of ever-changing standards and technologies of medical practice. Today, Medicare pays for many services, diagnostic tests, operating procedures, and products that did not exist yet when the program was created by Congress in 1965. And there is no limit on the quantity of services Medicare beneficiaries can use each year, so both the volume and intensity of care provided can go up over time without Congress passing benefit expansions.

Still, it is possible to see Medicare’s financial problem as fairly simple math. The Congressional Budget Office (CBO) estimates that, between 1975 and 2005, Medicare’s cost per enrollee went up, on average, 2.4 percentage points faster than per capita GDP growth each year. Medicare’s Trustees make the reasonable assumption that, new information being absent, this long-standing trend of costs outpacing the source of program income (i.e.,
the U.S. economy) will continue into the indefinite future (though the Trustees do expect cost growth will moderate somewhat from its recent trajectory). Compounding is indeed a powerful force; even a small differential in cost and revenue growth rates will, if assumed to continue over many years, produce a massive projected deficit, especially when such a differential is applied to sums as large as those involved in the Medicare program.

Medicare was never expected to be fully funded like Social Security. Federal taxpayers have always subsidized coverage for physician services, and Congress extended this subsidy, much to the chagrin of many fiscal conservatives, to prescription drug coverage in 2003. Enrollees are required to pay their own premium if they elect to enroll in these parts of Medicare, but these premiums now cover only about 25% of costs, with the balance financed automatically from the U.S Treasury. This annual subsidy is set to rise dramatically in coming years, from 1.5% of GDP in 2007 to 4.7% of GDP in 2050. The entire budget for the Department of Defense now stands at about 4.0% of GDP.

Some health-care analysts argued that it would be unfair to focus reform efforts just on Medicare because the problem of rising costs is really everyone’s fault and everyone’s to solve. To these analysts, Medicare is just one of many rail cars hooked onto a runaway cost train. The solution is therefore not Medicare reform but a concerted effort, led by the government, to implement reforms that will improve efficiency and eliminate low value services for everyone buying insurance and services, including employers.

This is the kind of thinking behind the health care plan of president-elect Barack Obama. To slow costs, he supports a list of measures: more and better health information technology, new efforts to coordinate care for those with chronic illnesses, and better prevention efforts. These efforts in fact enjoy broad support from politicians, but they are unlikely to solve the problem of costs rising faster than income. Indeed, there is certainly no expectation that they would narrow Medicare’s financing gap in any significant way.

To slow health-care costs appreciably in the U.S., policymakers are likely to be forced to adopt much stronger measures. For instance, the U.S. could impose tighter budgets for hospitals and other provider groups, as many European countries do today. But there is concern among many in the U.S. that such arbitrary limits would damage quality and lead to rationed care. Many U.S. voters react negatively to the prospect of the government having the power to deny access to health care to a citizen based on a perceived need to keep total costs down.

Implementing a different approach to cost control, one more in line with U.S. values, requires a deeper understanding of why costs are high and rising in the first place.

An important 2006 study by Amy Finkelstein, an economics professor at the Massachusetts Institute of Technology, demonstrated that the creation of Medicare in the mid-1960’s triggered an explosion in the health care infrastructure in regions with previously low levels of insurance enrollment among seniors. Hospitals were built, and physicians and others opened up offices to provide newly enrolled Medicare beneficiaries with a much improved level of service provision. This was, of course, generally to the good, as the primary purpose of Medicare was to improve the quantity and quality of health care services provided to seniors. But, four decades later, with cost escalation now the cause of so much financial distress for families and governments, policymakers must also understand that expansive insurance is the fuel for expensive care and rising costs.

Medicare is not solely to blame of course. Employer-provided insurance also expanded rapidly in the post-war era. And demand for more and better health care naturally rises with increasing wealth and higher incomes. But Medicare is unquestionably a large part of the cost problem. In her paper, Finkelstein offers the rough estimate that about half of the real cost increase in health care spending in the United States from 1950 to 1990 can be attributed to
the spread of Medicare and other, expansive third-party insurance.

Medicare is the largest purchaser of services in most markets today. Four out of five enrollees are in the traditional program, which is fee-for-service insurance. That means Medicare pays a pre-set rate to any provider for any service rendered on behalf of a program enrollee, with essentially no questions asked. Nearly all Medicare beneficiaries also have supplemental insurance, from their former employers or purchased in the Medigap market. With this additional coverage, they pay no charges at the point of service because the combined insurance pays 100% of the cost. This kind of first-dollar coverage provides a powerful incentive for beneficiaries to use as many services as their physicians suggest might help improve their health. Whole segments of the U.S. medical industry have been built around the incentives embedded in these arrangements. To be sure, Medicare’s payment rates are low, but political pressure ensures they are just high enough to protect the status quo and allow doctors and hospitals and others to continue operating autonomously, thus underwriting continued fragmentation.

3. Medicare’s Tax on Work

Medicare’s current rules are also a deterrent to long careers and continued work. This tax occurs because of Medicare’s complex interaction with the dominant employer-based insurance arrangements for the American workforce.

Under current law, Medicare becomes the ‘secondary payer’ when a person age 65 and older continues to work for a firm with at least 20 employees and a company-sponsored health insurance plan. In those cases, the company’s health insurance for workers pays for medical care for the workers first (the ‘primary payer’) and Medicare only pays for those portions of the bills not covered by the company plan.

This rule was put in place to reduce Medicare costs and allow a focus on insuring those without access to an employer-sponsored plan.

But this approach is short-sighted because it imposes an onerous tax on work for those Medicare-eligible people who choose to continue working. Most economists assume that, when an employer pays for health insurance for a worker, those costs reduce what can be paid in cash wages. Consequently, when an employer must assume primary responsibility for the health insurance premiums of an older worker, that means there is less funding available for that worker’s wages.

A 2007 analysis by economists at Harvard, Stanford, and Occidental College shows this ‘tax on work’ to be quite considerable. These researchers found that, at age 65, Medicare’s ‘secondary payer’ rule imposes a 15 to 20% tax on wage income, and this implicit tax rises to 40 to 75% for those approaching 80 years old. Such high marginal tax rates are a significant disincentive to work.

The problem is compounded by Medicare payroll tax financing. Workers age 65 and older who are already getting Medicare benefits must nonetheless continue paying Medicare’s payroll tax (2.9% of wages, for the combined employee-employer tax) even though they get no additional benefit for paying it.

The authors of the 2007 paper suggest that reforming these anti-tax provisions of Medicare could provide much stronger incentives for continued work. One approach would be to make the Medicare program the primary payer for all workers, even though with access to an employer-sponsored plan, and repeal of the payroll tax for workers who have already worked for forty years. The authors estimate that this kind of reform would increase the total labor supply from the eligible population by over 1%.
4. The Challenge

The federal government is taking on substantial new debt in response to the crisis in the financial sector. Even so, these costs, though high, are likely to be temporary, which cannot be said of rising costs for Medicare.

Federal government spending on Medicare increased from 1.0% of GDP in 1975 to 3.1% in 2008, according to CBO. Projections indicate the U.S. will be facing public expenditures on Medicare that are double and triple the rate of today’s spending, and these additional costs would occur every year, not once.

To find a solution to this problem, it’s important to understand that Medicare is really two programs. The most important feature of Medicare is that it is guaranteed-issue, community-rated insurance. Everyone age 65 and older gets their insurance for the same premium, and they cannot be denied coverage based on their health status. These features of Medicare are highly valued by beneficiaries, and for good reason. Without a regulatory structure putting all seniors into the same risk pool, insurance would naturally move to cover healthier seniors at lower premiums than the unhealthy.

But Medicare is also a large tax-and-transfer program. And it is this feature of Medicare that is substantially out of balance.

Medicare’s unfunded liability could be contained with a simple change in program structure. The program could continue to provide guaranteed issue, community-rated insurance, but future retirees would be eligible for premium subsidization commensurate with tax contributions during each generation’s working years (a large exception would be made for seniors in the lowest fourth or fifth of the wealth distribution). This change would ensure that program spending rose in tandem with the program’s revenue base. And it could be designed to be more neutral toward continued work by the elderly, thus providing a strong incentive for higher labor force participation among Medicare enrollees.

Opponents would immediately argue that this kind of reform would be dangerous for future retirees because health-care costs might rise faster than the premium subsidies. But it does not make good sense for the government to pre-commit health entitlement spending twenty-five and fifty years from today that is unaffordable. It would be better to build a program that is solvent by definition, with ample room for future policymakers to make adjustments if evidence indicates that seniors need more subsidization to secure appropriate health care.

The country can provide generous health insurance coverage for seniors in the future, even coverage that costs much more than it does today. But the program can’t double or triple in a generation. The sooner U.S. policymakers face up to this reality, the better.

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The Need for Age-Neutral Training in the ‘Silver Society’

by Roger Hessel

Abstract

With the ageing of society, pension reforms loom over the policy agenda of industrial countries. A core element of most pension reform packages is the increase of the pension age. Both policy makers and enterprises are, thus, aware that lifelong learning and the need to retain older workers in employment takes on ever more importance. Adults who are remaining in the active population longer need (re-)training in their fifties and sixties in order to maintain their productivity. Companies will increasingly have to rely on the experience of older workers. However, the incidence of vocational training tends to decline with age. This paper analyses the European Employment Strategy, the concept of ‘active ageing’ and later examines the question whether the productive potential of older people does not appear to be substantially impaired by ageing per se. The implementation and success of vocational training programmes rely on the involvement in particular of the social partners at European, national and sectoral level. The article analyses therefore the role of the social partners with regard to the possible benefits of vocational training. The traditional mind-set about older workers is challenged. Instead, the paper advocates an age-neutral approach to vocational training: learning must become a habit for all ages aiming at delivering a base of competences and skills relevant to all stages of the working life.

1. Recent Labour Market Changes in Europe

1.1 Main Employment Policy Developments Across the EU

Within the European Union, the labour markets are experiencing substantial and rapid change. Key drivers include high-tech technology and innovation, which facilitate the tradability of services to an ever-increasing extent. The revised European Employment Strategy has taken these developments into account and foresees a significant increase in the employment rate of workers. Increasing the employment rates of all workers, in particular women and older people, is a key element in the EU strategy for making social security systems sustainable at the height of population ageing.

While the need to boost employment participation is an urgent issue of common European interest, employment policies — including vocational training programmes — come within the exclusive competence of the Member States and national social partners. For this reason employment policies at European level remain rather vague about how to promote training programmes. With the Open Method of Coordination, the European Commission

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1 The Open Method of Coordination was laid down at the Lisbon Council meeting in 2000. The summit proposed that this method should facilitate work on social protection “as a means of spreading best practice and achieving greater convergence towards the main EU goals” in areas where Community powers are limited. See also: Philippe Pochet (2001): “Social Benchmarking, Policy Making and New Governance in the EU”, Journal of European Social Policy 2001: pp. 291-307.
certainly encourages Member States to engage in close cooperation on social policy issues. However, training practices in companies and training institutions differ widely from one country to another. Countries in northern Europe, make a rather high use of training. In Scandinavian countries adult education is particularly well developed and institutionalised for a large proportion of the population. In Austria, Germany and the Netherlands, flexible working practices — such as gradual retirement schemes - are a frequently used feature of age management. Southern European countries, by contrast, are typified by limited resources to training. This great variety reflects different training cultures and concepts among Member States. Julien Machado argues that less developed training attitudes in Greece and Portugal, for instance, may be partly explained by lower levels of technological sophistication of their production infrastructure, which is known to be a crucial factor in the use of training.2

According to the European Employment Guidelines, European Member States should provide incentives for employees to retire later and in a more gradual way and incentives for employers to retain older workers, i.e. workers aged 55-64.3 The Guidelines lay out different but complementary approaches: employment policies should promote training, lifelong learning strategies and active labour market policy measures for everyone regardless of their age.

The focus of the European Employment Strategy is on raising employment and not just on reducing unemployment. Increased employment of older workers is seen as a lever to ease the burden of societal ageing and demographic change in Europe.4 The two largest groups considered were women and older workers. But while promoting employment opportunities for women has ranked high on the European Employment Strategy agenda from the very beginning, this has not been the case with the employment of older workers.5 Since 2002, the European Employment Guidelines contain two quantitative targets in respect of older workers, which were both introduced as part of the Lisbon strategy: the first is to raise the employment rate of older workers in the EU to 50% on average by 2010; the second target is to increase by 2010 the effective average retirement age from the labour market by five years. The EU average employment rate was 59.9 years in 2001; the total employment rate should be increased to 70% by 2010.

In line with its objective of becoming the most competitive knowledge-based powerhouse by 2010, the renewed Lisbon Strategy prioritises national ‘ownership’ and reform commitments: the strategy stresses the need for concrete structural labour market reforms combining market flexibility and security of working conditions.6 In its Annual Progress Report on the Lisbon Strategy of 2007, the European Commission acknowledged that progress on growth is still uneven and the spotlight is now moving to delivery of results. The Commission has redefined investment in education and research as the first of four priority areas, which should be stepped up to 2% of the growth domestic product (GDP) from the current 1.28% by 2010. Improving the adaptability of workers covers a broad range of action, supported by the EU through legislation and Community funds.7

A new programming period for the European Structural Funds started in 2007 for all Member States: a new set of regulations governing the Funds brings some of the biggest changes in over a decade. The European Social Fund (ESF) should contribute to achieving

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3 “Some 79.7 million older workers had a job or a business activity in the EU-25 according to a Eurostat survey of 2004”, News Release 112/2005, 8 September 2005.
5 The first Employment Guidelines for 1998 virtually did not refer to them.
7 The New European Structural Programme 2007-2013.
the objectives of the ‘Lisbon Strategy for Growth and Jobs’. The new regulatory framework is more focused than the current one: the ESF will be a significant funding and policy tool for the promotion of human capital and workers’ skills development.

As an important part of the EU’s Social Agenda 2005-2010, the European Commission had launched in 2006 and 2007 a consultation process on the need to review current labour law systems. One of the policy questions of the “Green Paper on Modernising labour law to meet the challenges of the 21st century” concerned the role national labour law and collective agreements might play in promoting access to training over the course of a fully active working life. Further to this consultation process the European Commission has presented the ‘Flexicurity Concept’, a rather broad strategy to combine and at the same time enhance both flexibility and security for workers and companies. This initiative has the merit of having launched a large policy debate which boosts a benchmarking process between the rather different national labour market policies. The Flexicurity concept also deserves credit with regard to one of its four outlined policy components: “lifelong learning strategies to ensure the continual adaptability and employability of workers”. However, it lies within the responsibility of the Member States to implement country-specific reform measures. For the time being, only the highly-developed welfare states which can afford generous social security benefits seem to find the right balance between rights and obligations, security and flexibility.

1.2 The Active Ageing Concept

Demographic changes in the 21st century are confronting European countries with a substantial challenge. These developments are part of a wider trend: all parts of the world are witnessing or will witness demographic ageing over this century. Age has by its nature an impact on the ability to work. According to research provided by the Finnish Institute of Occupational Health, individual differences in work ability — a sum of individual and work-related factors — are more pronounced after the age of 55 years. With regard to physically demanding work, work ability tends to decrease between 51 and 62 years. While a decline may occur in physical work capacity, mental work performance are maintained and cognitive and social skills may even be enhanced. The research findings underline the need for individual solutions to work when people are getting older. Proper training programmes and individual training incentives would also fit with the increased heterogeneity of the older labour force at a higher age. New forms of so-called end-of-career management must take these differences into account so as to avoid resistance from parts of the working community and the costly strikes that European countries have already experienced for example by truck drivers, craftsmen and firemen.

The concept of ‘active ageing’ was originally developed by the World Health Organisation (WHO) and launched at the Second Assembly on Ageing in Madrid in April 2002. The WHO defines active ageing as “the process of optimising opportunities for health, participation and security in order to embrace quality of life as people age”. The WHO underlines the very close link between activity and health. The concept suggests how important it is to enhance the quality of life far into old age by maintaining mental and physical well-being throughout the life cycle. It is a preventive concept which means involving all age groups in the process.

10 Website of the WHO: www.euro.who.int/ageing.
of ageing actively during the entire course of life. The focus is on enablement — restoring function and expanding the participation of older people — instead of disablement, the increasing needs of the elderly and the risk of dependence.

Since 1999, the European institutions have also taken the active ageing strategy on board. In its active ageing strategy the European Commission emphasises a participatory approach giving citizens adequate opportunities to develop their own forms of activity. The focus is shifted from the elderly as a separate group and directed at all citizens, since everybody is ageing all the time. From 2001 onwards, ‘active ageing’ was given more prominence by making it a separate guideline. The 2001 Guidelines stress the need for “in-depth changes in the prevailing social attitudes towards older workers (...) to raise employers’ awareness of the potential of older workers”, as well as a revision of tax-benefit systems in order to reduce disincentives and make it more attractive for older workers to continue participating in the labour market”. The report of the Employment Taskforce “Jobs, Jobs, Jobs: Creating More Employment in Europe” of 2003 paved the way for active ageing to become a top priority for the EU. It remains to be seen if the active ageing approach will gradually help to replace today’s glorification of youth with values of solidarity and a more age-neutral approach in employment and human resources practices. To recapitulate, the European Commission’s orientation towards active ageing policies, i.e. the strategy of mobilising the full potential of people of all ages, seems to be the right policy for the future.

2. The Need for Continuous Vocational Training

2.1 Adapting Education and Training for the Knowledge Society

Direct worldwide competition implies that a country’s competitiveness largely depends on the quality of its supply activities. The globalisation process and the intensification of direct competition have had a large impact on work organisation. Vocational training practices and policies have to be embedded in a world of fast changing working conditions. Main developments in the late twentieth and early twenty-first centuries have been characterised by the term ‘Knowledge Society’. In the literature to date, there appears to be no clear definition of what the knowledge society might be. Large parts of academia however suggest that the term knowledge society involves a number of significant trends which have been summarised by the European Foundation for the Improvement for Living and Working Conditions: the development of the information society and of information technologies, the increased importance of knowledge management and innovation, the increase of service economies and the need for lifelong education and training empowering people to become adaptable and to acquire new skills and knowledge.

Wim Kok’s High Level Group set up by the European Commission recommended in its mid-term review “Facing the challenge: The Lisbon strategy for growth and employment” to foster lifelong learning for all and to adapt education and training systems to the knowledge society, since investment in human capital becomes thus condition a sine qua non for future competitiveness. By extending training opportunities and making employees more employable, the stage can be set for more flexible and hence more productive employment systems. However, it appears crucial that (re)training opportunities be extended until the end of people’s careers and that they are not reduced them from the age of 50 onwards.

### 2.2 The Horizontal Distribution of Activities During the Course of Life

Most industrial societies have been experiencing a trend towards diversification and individualisation of leisure time activities and training patterns. Traditionally, citizens’ life-cycles have been vertically divided into periods of education, work, and retirement. This perspective no longer corresponds to the course of life of today’s workers. The transitions between the various stages of life have become more complex. Entering into the labour market and pursuing a career is often interrupted by periods of vocational training or maternity/paternity leave. Likewise, discontinuity through new employment arrangements such as short-term project contracts or unemployment plays an increasing role in work biographies. The demarcation line between working as an employed wage earner and being self-employed has become difficult to draw in many countries. In addition, continuous vocational training has gradually become a common feature of modern working life.

A new perception of the course of work/life is needed. In its *Green Paper on Demographic Change*, the European Commission concludes that one of the key priorities for the return to demographic growth is to find “new bridges between the stages of life” and to alter “the frontiers (...) between activity and inactivity”. For more than 16 years, Geneviève Reday-Mulvey from the International Association for the Study of Insurance Economics (Geneva Association) argued for promoting a *horizontal life cycle approach* (see Figure below).

*Figure 1: Activities over Life Cycles*

Source: Geneviève Reday-Mulvey, International Association for the Study of Insurance Economics; further developed by the author

To transform the horizontal life cycle approach into concrete, consistent practice, large advances must however be made to implement and co-ordinate employment, family, social and financial policies. Serious knowledge gaps still persist in regard of new work biographies in a comparative perspective. Each generation ages differently. According to the ‘cohort...

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14 Communication of the European Commission Increasing the Employment of Older Workers and Delaying the Exit from the Labour Market, p. 10-11.
factor’ each generation is affected by its own history. It is therefore very unlikely that today’s children will have the same sort of life cycle as today’s adults. Correspondingly, social expectations of workplace training are inappropriate and take time to change. Society is still geared to the ageing patterns of the previous generation. Every generation perceives itself as justifiably different from the preceding generation, but plans as if the succeeding generation will be the same as their generation.

According to Art. 137 para. 1 EC Treaty, the European Community shall support and complement the Member States’ activities with regard to working conditions. Research provided by the EU agencies in Bilbao (European Agency for Safety and Health at Work) and Dublin (European Foundation for the Improvement of Living and Working Conditions) indicate that older workers’ employability can be enhanced by improving the quality of workplaces. One of the findings demonstrated that older wage-earners in low-quality employment with limited training possibilities withdraw from the labour market before the statutory retirement age much more than workers who profit from extensive training programmes until the end of their career.

2.3 Less Vocational Training for Older Workers

In the OECD member states, on average 26% of employed persons participate in employer-sponsored continuous vocational training each year. Each participant receives on average about 68 hours of training per year (approx. nine working days). In all OECD countries, the incidence of training tends to decline with age. In particular, the average training participation rate of workers aged 56-65 is about three-quarters that of workers aged 36-45. However, the country with the highest continuous vocational training volume (CVT) and the highest participation rate is Denmark, where workers receive on average 36 hours of employer-sponsored CVT per year. This translates into about two working weeks per participant per year. In France, since 2004 all employees are on average entitled to 20 hours’ training per year by law. Legislation also obliges companies to earmark financial resources for training purposes: the equivalent of at least 1.6% of salary. In French companies, works councils have to be informed about the aim of the various training programmes.

In the Member States of the EU, only 10.8% of workers and non-active adults participate in formal, non-formal and informal lifelong learning, a long way short of the EU benchmark of 12.5% participation by 2010. The Member States with the highest attainment in lifelong learning are Finland, Sweden, Belgium, the United Kingdom and Austria (see Figure 2). In these countries, between 40 and 56% of workers reported to receive paid training at work. The EFTA-countries Switzerland and Norway have also high training levels. In addition, 15% of Swiss workers themselves also pay for training schemes. According to the ‘Fourth European Working Conditions Survey’ in 2007, less than 30% of EU employees received any type of training at work in 2005. The levels of training have not increased in the last 10 years. There are, however, very substantial country differences. At the bottom of the league are most southern and eastern European countries, where the levels of training are very low, hardly reaching 20% of employees in Spain, Greece, Hungary, Portugal, Romania and only 10% of workers in Bulgaria and Turkey. Within the EU, expenditure on continuing training represents only 1-2.2% of total labour costs.

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15 See for the latter Agency Eurofound its work on ageing at: www.eurofound.europa.eu/areas/populationandsociety/activeageing.htm.
16 OECD paper Towards more and better jobs, Employment Outlook 2003, pp. 240-41.
17 DIF — Droit Individuel de Formation; the DIF is supposed to depend on the employee’s initiative but the employer has a duty to initiate the training programmes required to maintain people in their job.
O. Giarini and M. Malitza postulate an interlocking system of learning and work, whereby workers in many sectors would alternate between education and work. According to this theory, active people would earn credits for both productive and non-productive periods during their life span to the age of 76. The distinction between work and education would blur, as credits for both would become increasingly interchangeable. Accomplishment in both areas would be evaluated and quantified. In addition to the usual degrees and diplomas, persons would earn ‘stars’ for continued academic accomplishment — with transferable credits from work. Over a lifetime of creative work and education, a typical person would accumulate credits — over a thousand of them for an academically ambitious person by the age of 76 — and a corresponding number of award stars.

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19 Orio Giarini and Mircea Malitza, The double helix of learning and work, Studies on Science and Culture. UNESCO, Bucharest, 2003, pp. 9-10
2.4 The ‘Trainability’ of Older Workers

An important aspect of ageing and productivity is whether older workers have greater difficulty in learning new skills. Their educational needs are known to be different from those of younger people. The training of older workers must then be designed to take full advantage of their experience and knowledge while introducing to them new ways of thinking and acting. ‘Trainability’, i.e. the ability to learn, is not easy to measure. However, the International Adult Literacy Survey (IALS)\(^{20}\) is an important source of evidence about the relationship between age, productivity and trainability. The IALS indicates that literacy skills improve with practice and deteriorate if not used. Phases where workers disengage from learning tend to erode learning habits. It is for this reason that a possible lower motivation of older employees to enrol in training activities is often falsely ascribed to their age.

Evidence proves that the productive potential of older people does not appear to be substantially impaired by ageing per se. Ivo Šlaus argues that creativity and performance does not decrease with age referring to Giuseppe Verdi who composed great oeuvres in his early 80ies or Johann Wolfgang Goethe who wrote ‘Faust’ until his death at the age of 83.\(^{21}\) Workers who are not working in a learning environment may, however, be susceptible to a decline in trainability. A performance decline may be due to skills obsolescence or a burn-out phenomenon which may occur at any age and can be remedied through appropriate training practices or adaptation of working conditions. Trainability is not age-determined; instead, the ability to learn mirrors the work settings encountered during the working live. Training and retraining are therefore important factors in enhancing the employability of older workers.

The trend towards early retirement seems to have slowed down in most European countries. However, reversing this trend is highly unpopular: delaying the effective retirement age — currently at approx. 60 years within the EU — to the statutory retirement age — the age of 65 in several Member States — meets broad resistance. Some evidence points in the direction that continuous workplace training could encourage workers to stay on the labour market longer. This theory is supported by the significant link between the level of education and retirement age. According to the Danish report ‘Seniors and the Labour Market’, January 2004, the employment rate among 60-66 year olds with a university education is 52\%, whereas a mere 16\% of persons in this age category whose education stopped after primary school are still working (see Table below). This gap increase with age. With increasingly more educated people reaching 50 and 55, prospects for working later in life are therefore improving.

\(^{20}\) The International Adult Literacy Survey (IALS) is a seven-country initiative conducted in 1994. Its goal is to create comparable literacy profiles across national, linguistic and cultural boundaries; the survey offers the world’s only source of comparative data on participation in adult education and training.

In many countries, increased flexibility of working-time arrangements has led to the creation of working-time accounts for individual employees. In the Netherlands, for example, about one quarter of large collective agreements establish the possibility of saving spare time for educational purposes. An employer survey in Western Germany reported that 11% of all companies that offer training and operate working-time accounts offer the option of using the accumulated working-time capital for training purposes.22

2.5 The Role of the Social Partners

Social dialogue, i.e. the communication between the social partners, is a key component of the EU’s employment policies. According to the principle of subsidiarity, decisions should preferably be taken at local, decentralised level. Due to the closeness to working life, social partners are best placed to understand the specific needs of employers and employees.23 In the area of employment policy, the most adequate level of action very often is the level of management and labour: when social partners agree on common solutions, it has a better chance of succeeding because the compromise has a more widespread support.24 Seeking to enhance awareness of workplace learning and its benefits has it does, the role of the social partners has thus to be taken into account. Successful vocational and adult training schemes are often based on partnerships between business, the public sector, social partners and local third sector organisations: they focus on specific target groups and their individual training needs.

From the trade union side, there is some empirical data that unionised employees receive more training than those who are not members of trade unions. Actively present trade unions can improve training outcomes by systematic promotion of learning-conducive workplaces which release the learning potential of employees through an efficient combination of formal, non-formal and informal learning.25

The EU is supporting the role of social partners in the new Member States and the candidate countries.26 Their expertise is required to implement the acquis communautaire, i.e. the complete body of EU legislation. In these countries, however, social partners are

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22 OECD, Towards more and better jobs, Employment Outlook 2003, pp. 265-266
26 Article 137 EC Treaty stipulates in para. 1 that the “Community shall support and complement the activities of the Member States (...) representation and collective defence of the interests of workers and employers, including co-determination”.
rather weak, heterogeneous and fragmented. For example, in Romania five national trade union organisations co-exist and in Hungary six. Bulgaria and Poland continue to be characterised by dual trade unions (bipolarism). Discussions between business and workers are underdeveloped on the sectoral bi-partite level. Trade union membership in Turkey, for instance, is approximately 7.5%, much lower than the approximately 42% in the EU.

When analysing the case of Finland, an example of a highly competitive economy, a consensual style of dialogue between government and strong employers’ and employees’ organisations can be observed. Until 40 years ago, Finland was mainly known for its endless forests and the paper and gum industry. Today, the ‘land of Nokia’ has 32% of the global cellphone market. Evidently, a strong social dialogue culture is not an obstacle to this success. Correspondingly, the candidate countries, but also some of the central and eastern European Member States and neighbouring countries, have to invest time and money in capacity building to create an efficient social dialogue framework at local, regional and national level. In some new Member States, well-structured workers’ organisations have only recently started to be established. In Slovakia and the Czech Republic, for instance, traditional ‘enterprise councils’ were dismantled, because they were considered as a ‘relic of socialism’, or because they met with strong opposition from local trade unions.

On the other the employers’ side, central and eastern European countries have only a short tradition of bargaining due to the complete re-organisation of the economy after the collapse of the Communist regimes. While trade unions are often ready to enter into collective bargaining, the employers often are not. In some rural regions of Turkey, the employers’ side is still completely missing. In Poland, and the Czech and Slovak Republics, however, the government provides considerable assistance to the creation of employers’ organisations.

Even nowadays many companies are not much in favour of the idea of providing older workers with training programmes. Training time is often considered ‘lost time’ as it reduces the time in which the worker can be ‘productive’. This view — which may be convincing at first glance — seems to be short-sighted: there is substantial evidence that management of companies which decide to invest in appropriate, tailored, quality training will be compensated for their time investment by mid and long-term benefits of higher skills and therefore better job performance. There is clearly a cost involved in upskilling staff, but the cost of inaction is in most cases greater.

In a bid to improve up-to-date human resource and age-management, some suggestions for personnel and organisational measures are presented as follows:

1. Older workers who are not used to continuous learning might be reluctant to engage in training. These fears need to be acknowledged and unfair competitive learning situations must be avoided.

2. The social partners should carefully check the quality of training programmes offered by the vocational training market. The social partners, close to the workplace, are capable of monitoring the performance of training institutes, bearing in mind that modern training programmes nowadays should be highly personalised, tailor-made to the changing needs and should include interactive training modules. In education and training practices a shift to learning outcomes can be noted: the new focus is on user-friendly training, i.e. the quality of training depends on the extent to which it will make a difference for the individual learner in his day-to-day practice.

European Commission, DG EMPL, Industrial Relations in Europe, 2004, p. 95
3. Trade unions should support training measures which take into account that the *learning pace* varies substantially between individuals. ‘Self-paced learning’ must be encouraged.28

4. Good practices might emerge within the *eLearning* programme ‘i-AFIEL’ (Innovative Approaches for a full Inclusion in eLearning).29 The project i-AFIEL was launched by the European Commission (Education Audiovisual and Cultural Executive Agency EACEA) in 2007 and is run by seven partner organisations such as the European Institute of Public Administration (EIPA-CEFASS Milan) and the Spanish Region Valencia. The project aims to assess and disseminate effective e-learning methods and practices to drawing all parts of society into the digital culture age. IT-services for lifelong learning are focussing on less advantaged social groups (‘eInclusion’).30

5. Companies and trade unions should disseminate good practices of *age-mixed teams* and intergenerational transfer of know-how. For example, the German machine tools sector reports that it owes a part of their international success to the experienced-based ‘innovative milieu’, founded on cooperation between older workers and new recruits, an experience which has been triggering competitive advantages for the German businesses.31

2.6 Matching Labour Market Needs and Training

Since Europe is characterised by a great diversity of training systems, the EU Commission has recognised the need for increased transparency of workers’ qualifications by developing a *European Qualifications Framework (EQF).*32 The core element of this framework is a set of eight reference levels which will act as a common reference point for education and training authorities at national and sectoral level. The eight levels cover the entire span of qualifications from those achieved at the end of compulsory education and training to those awarded at the highest level of academic, professional and vocational education and training.

The description of the EQF reference levels is based on learning *outcomes* in the EQF understood as the statements of what a learner knows, understands and is able to do on completion of a learning process. Research findings reveal that learning situations should permit older learners in particular to make links with his or her previous working experience. The training should take account of the worker’s practical interests. What is learnt could then be used in practical problem-solving tasks. The focus on learning outcomes reflects an important shift in the way education, training and learning is conceptualised and described. This policy change introduces a common language allowing the comparison of qualifications according to their content and profile and not according to methods and processes of delivery.

At the meeting in Helsinki in 2006, the European Ministers responsible for education and training, the European Social Partners and the European Commission came to the conclusion that more attention should be paid to the status and attractiveness of vocational education and training (VET).33 As a further tool paving the way towards a European VET area, the Helsinki Communiqué emphasises the development of the *European Credit System for VET (ECVET).*34

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28 European Centre for the Development of Vocational Education and Training (CEDEFOP), The shift to learning outcomes — Conceptual, political and practical developments in Europe, 2008.  
30 For training programmes regarding i-AFIEL and further eLearning projects see the website of EIPA-CEFASS Milan: http://www.eipa.eu/en/staff/show/aid=2738.  
33 The Helsinki Communiqué on Enhanced European Cooperation in VET; see website of the European Centre for the Development of Vocational Education and Training (CEDEFOP): http://www.cedefop.europa.eu/index.asp? sections=3&read=2198  
Since vocational education and training does not fall under the exclusive competence of the Community, the task now will be to improve coordination and trust between the stakeholders on sectoral, national and European level and to make the implementation of the objectives agreed on in Helsinki happen.

3. Conclusions: Vocational Training for All Ages

To recapitulate, continuous training keeps peoples’ minds sharp and their employability high. Enhancing the employment rate of the elderly means to take a lifelong perspective on the need for continuous vocational training, ensuring that across the labour market regular, tailored training becomes a habit for all ages. Increased training of workers aged 50-plus can both increase their productivity and defer their labour market exit. The social partners have a crucial role in promoting learning-conducive workplaces which release the learning potential of employees.

Regardless of whether decision makers seek to promote access to training, active ageing policies and flexible working time practices, if they want to involve more elderly citizens in the labour market the focus should not be limited to the 50-plus age cohorts. Ageing in a healthy way means being active and receiving continuing training input throughout the life cycle. Work adaptability and employability means upskilling and adjusting competences from the beginning of a career path. The policies mentioned above can only be successful if they are accompanied by measures that increase the employability of old workers: a holistic policy of change management is needed.\(^{35}\)

Regrettably, age still reinforces the inequalities in access to continuing training which separate wage-earners according to their socio-professional group from the very beginning of working life. Training and the acquired learning outcome should have a concrete impact on career paths: better articulation between training and career advancement would undoubtedly help to increase the desire for training at all ages. Such a prospect presumes a new approach to lifelong learning which would envisage training programmes at all ages in the function of qualification levels.

Indeed, measures aimed at those over 50 without distinction, thus denying the multiplicity of strategies, objectives, employment conditions and above all career paths, cannot reduce inequalities and are even likely to aggravate them. Employability depends critically on their level of human capital. Paradoxically, efforts to change attitudes by promoting positive images of older people can end up reinforcing age-related stereotypes. Every statement that an older worker is more reliable sends out the message that a younger worker is unreliable. The Employers Forum on Age (EFA), a network of leading British employer organisations, is promoting an even-handed campaign proclaiming that, in the long term, discrimination against younger workers could turn into the biggest issue facing employers.\(^{36}\)

Further research however is needed regarding the ongoing learning of older workers and the ways in which different sectors are affected by socio-economic developments towards more knowledge-intensive processes. The employment problems confronting older workers are likely to intensify unless counteractive measures are taken and efforts made to establish age-appropriate human resources policies. In the ‘Silver Society’, training must become an attractive option for younger, medium-age and experienced workers alike, in other words it must become age-neutral.


\(^{36}\) See the EFA website: http://www.efa.org.uk.
REFERENCES
Warwick Institute for Employment Research (University of Warwick) (2006): Economix Research & Consulting (Munich); Ageing and Employment: Identification of good practises to Increase Job Opportunities and Maintain Older Workers in Employment, March, p. 82.
Towards the Improvement in Working Conditions for Older Workers: Empirical Evidence from Maltese Companies

by Andrea Principi* and Giovanni Lamura**

Abstract

As in most of the 27 European Union member states, and stimulated by recent community policies, Malta is also a country currently in the throes of a political and normative process, whose objective is to extend the professional life of workers, mainly by deferring retirement age. However, in pursuing this objective, Malta starts from a rather unique position, which could be defined as disadvantaged with respect to most other European countries, due to the peculiar characteristics of its workforce, which is the youngest of the 12 new member states (only 16% of Maltese workers are over 50, whereas 23% are aged 15-24 — Mandl, Dorr and Oberholzer 2006: 14). Average retirement age is increasing, but is nonetheless one of the lowest of the 27 European countries (in 2005 it was 58.8 years, as in France, and higher only than that recorded in Slovenia); it is in the second-last place, ahead only of Poland, in terms of employment rate, both in general terms and for older workers (the latter reached 30.0% in 2006), but the rate drops to last position, however, when only older women are considered (11.2%) (Eurostat 2007). The considerable gender gap in the employment rates and the low number of older workers (also distinguished by lower qualifications — Gonzi and Diamantopoulos 2001: 11) overall in the Maltese workforce, can actually be seen as the chief causes of a generally low level of employment in the country. The female employment rate is particularly low in the 45-54 and 55-64 age groups, both because older women leave the employment market more frequently than men (Technical Team to the Pensions Working Group 2005a: 7-9), and because most younger women leave work to have children and tend not to resume their professional lives, except for brief periods (Schwarz, Musalem and Bogomolova 2004:4).

The picture causes some concern because Malta is not free from the demographic ageing process (Pensions Working Group 2004a: 5) which affects the whole European Union (Employment Taskforce 2003: 12). Therefore, even starting from a less favourable position, for the reasons explained above, the European objective1 to activate strategies aimed at raising the general employment rate and implementing social security systems, beginning with pension system reforms (Principi, Gianelli and Lamura 2007: 122), is a priority also in Malta.

One of the solutions identified in Europe and in Malta is to extend the workers’ professional life (Employment Taskforce 2003:11, European Commission 2002, European Commission

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1 In the context of European policies on the subject, European Council resolutions in Lisbon in 2000 (raising the employment rate from 61% to 70% by 2010), in Stockholm in 2001 (raising the employment rate of older workers to 50% - for those aged 55-64 — by 2010) and Barcelona in 2002 (gradually increase retirement age by about five years by 2010), are considered milestones.
2004, OECD 2005: 6, Gonzi and Diamantopoulus 2001: 7 and 22, Ministry for the Family and Social Solidarity 2007a: 30). To be more specific, the two main objectives towards which the Maltese Government is currently working are those of raising the employment rate of older workers, as well as that of women in general (Technical Team to the Pensions Working Group 2005a: 7-8, Technical Team to the Pensions Working Group 2005b: 8, Ministry for the Family and Social Solidarity 2004: 9), through pension system reform and a series of job placement schemes for the unemployed, coordinated by the Governmental Employment and Training Corporation organization.

1. The Reform Of The Maltese Pension System

Malta has recently reformed its pension system (the law in question became effective from 1st January 2007: Social Security — Amendment 2 — Act 2006), raising both the retirement age (from 60 for women and 61 for men, to 65 years of age for both genders) and the number of years of contributions required to become entitled to a pension (from 30 to 40). The process will be implemented gradually, in that the rise in retirement age to 65 years will only be finalized in 2027, which is when today’s 45-year-olds will reach their 65th year of age (Table 1).

Table 1: Gradual raising of retirement age

<table>
<thead>
<tr>
<th>Age in 2007</th>
<th>Retirement age</th>
</tr>
</thead>
<tbody>
<tr>
<td>56 or over</td>
<td>60 for women - 61 for men</td>
</tr>
<tr>
<td>52-55</td>
<td>62</td>
</tr>
<tr>
<td>49-51</td>
<td>63</td>
</tr>
<tr>
<td>46-48</td>
<td>64</td>
</tr>
<tr>
<td>45 or under</td>
<td>65</td>
</tr>
</tbody>
</table>

Women are given the possibility of working up till the age of 61.
Source: Principi and Lamara 2007a.

With regard to gradually raising years of contributions from 30 to 40 years for entitlement to a pension, if we take 2007 as a reference, no changes are foreseen for those who are 56 or over (i.e. 30 years contributions are sufficient); 35 years contributions are needed for people aged between 46 and 55; and finally, 40 years of contributions are needed for those who are under 45 (Fairbairn 2006).

The law is the result of a long debate amongst all the social partners, which became more concrete in 2004, when a working group was appointed with the aim of drawing up a White Paper on pension reform, to contain proposals and recommendations that were to be submitted for feedback from all the social partners of the country (Pensions Working Group 2004a, Pensions Working Group 2004b, Technical Team to the Pensions Working Group 2005c). The act is certainly a step forward in a much hoped-for increase in the employment rate for older Maltese workers, but there is also friction in the country between the social partners, as well as other contradictions. For example, the Union Haddiema Maghqudin (Workers’ General Union) was opposed to raising the retirement age to 65 and did not want it changed, suggesting that any decision to stay at work should be left to the worker (Technical Team to the Pensions Working Group 2005d: 11). Perhaps the most obvious contradiction looming on the horizon concerns precisely this decision, which remains totally in the hands of employers, who, at the moment, can legally decide to dismiss employees when they reach retirement age.
The above mentioned working group included a recommendation in the White Paper (regarding precisely the possibility of workers being able to choose to continue to work even after reaching the new retirement age) to eliminate this item, which obviously contradicts the recent guidelines provided by European policies (i.e. Employment Taskforce 2003:8; European Commission 2004: 15; OECD 2006: 137), but this was not included in this act. Essentially, therefore, on one hand steps are being taken to raise the employment rate of older workers, and on the other, they continue to be discriminated against because they are not allowed to decide for themselves whether or not to extend their working lives.

The question of age discrimination at work is actually dealt with directly by Maltese law (Fortuny, Nesporova and Popova 2003: 26), but the act also includes a series of exceptions which limit its scope. For example, the act states that differences in employment terms and conditions based on age do not constitute discrimination when they are “objectively and reasonably justified by a legitimate aim”, what this actually means is not made clear by the law, or in the event that a maximum age limit offering employment is determined by the company’s need to train the worker for the tasks they will perform, or having to employ a newly-recruited worker “for a reasonable period of employment before retirement” (Equal treatment in employment regulations 2004: 4).

2. The Role Of The Employment And Training Corporation

The Maltese Government has entrusted the Employment and Training Corporation (ETC) with implementation of the various occupational support measures in favour of older workers. It is a national public agency for employment, responsible, among other things, for organizing schemes at central level, with the objective of raising the country’s employment rate, through job placement programmes for specific categories of unemployed workers, including women and older workers (Ministry for the Family and Social Solidarity 2006a: 93). In Malta, at ‘institutional’ level, the latter was always taken to mean those over 40, an age limit that was not only lower than the generally adopted, for instance in Italy, (Senate of the Republic 2005: 25, ATDAL 2003: 30, Bombelli and Finzi 2006), but more importantly below the ‘official’ limit of 55 indicated by the European Council of Stockholm in 2001. This Maltese peculiarity is justified since in the experience of ETC operators, it is from this age that workers in the country of suffered the greatest expulsion from the employment scenario, and problems of professional reintegration. As a direct consequence, from the year of its foundation (1990), the organization has launched various projects to safeguard the category of unemployed over-40s, with the objective of favouring their return to the employment market. Out of all the whole programmes organized by the ETC, the most significant so far developed for older unemployed workers was the Training and Employment Exposure Scheme (TEES), which began in 2005 and ended in 2006. This job placement scheme was dedicated to unemployed workers aged over 40, who had been looking for work for over six months, and was co-financed by the European Social Fund, which guaranteed the participants a salary higher than the minimum wage for a year (of which six months were spent in classroom training organized by the ETC, followed by six months in-house on-the-job training), with the possibility of being offered permanent employment by the company at the end of the scheme.

This programme, in which the on-the-job training period varies, according to the requirements of the companies, was well received by unemployed workers and welcomed by employers due to the economic advantages associated with it (the worker’s on-the-job

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2 The organization has also dedicated a section of its internet site to the unemployed over 40 years of age: http://www.etc.gov.mt/site/page.aspx?pageid=2150 [access: 7th January 2008]
training period is partly financed by the Government), as well as to the opportunity to be able to consider the training period as a ‘trial’ with the possibility of deciding at a later stage whether to hire the worker permanently. Around 460 unemployed over-40s took part in the scheme (about 25% were female), of whom only 24% were still registered as unemployed at the end of the scheme. The majority were employed by the companies where they trained, or used the experience to find employment for themselves (Employment and Training Corporation 2006: 32).

As for the future perspectives, and in order to come closer to the ‘European’ definition of ‘older workers’, the ETC is modifying the reference range (raising it by 10 years) for ‘labelling’ older workers. The next project (the Employment Aid Scheme), will be aimed, among other ‘clusters’ of beneficiaries, at over-50s who are unemployed or about to become so (Employment and Training Corporation 2007).

However, in anticipation of the results of this programme and in the light of recent pension reform, it is crucial to examine the older worker sector closely and also to analyze the situation at another level, i.e. corporate. What schemes have been set up by Maltese companies to deal with an ageing workforce? A recent contribution in this direction was made by the “Employment Initiatives for the Ageing Workforce in the European Union” study, undertaken on Maltese territory from the end of 2006 till early 2007, which made it possible to gather some of the first empirical evidence regarding the existence and the characteristics of company schemes adopted to support the ageing workforce. The main contents and results are shown below.

3. The Research: Objectives and Method

3.1 Objectives

The study carried out in Malta is part of a European research project undertaken in 2005, promoted by the European Foundation for the Improvement in Living and Working Conditions (Dublin), with the aim of documenting company initiatives in favour of older workers (including those directed at all workers, including the older) through the realization of a database (freely available for consultation) of the examples gathered. All this facilitates the transferability of the schemes to other companies wishing to be at the forefront in the age management issue. The characteristics of the schemes were analyzed in order to formulate proposals at a central level, and promote best practices in age management within companies (Naegele and Walker 2006). Undertaken initially in 11 countries, and subsequently extended to a further seven new member states (for a total of 138 corporate case-studies from 18 countries), the project was integrated between 2006 and 2007, so as to include remaining Member States in the research, with the objective of having a complete picture of companies’ good practices in age management throughout the Member States of the European Union.

3.2 Method

In Malta, the research was carried out by the Department of Gerontology Research of INRCA (Ancona, Italy), the organization that had performed the study also in Italy in 2005.

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1 Including, among others, also ‘disabled’ persons, ‘unemployed for over five years’, ‘single parents with children under 18’, ‘persons with few qualifications and who have recently been dismissed’, etc.
4 The database can be consulted on the website: http://www.eurofound.europa.eu/areas/populationandsociety/ageingworkforceadvanced.php [access: 7th January 2008].
5 Austria, Belgium, Finland, France, Germany, Greece, Italy, Holland, Spain, Sweden and United Kingdom.
6 Bulgaria, Estonia, Latvia, Poland, Romania, Slovakia e Slovenia.
7 Cyprus, Czech Republic, Denmark, Hungary, Ireland, Lithuania, Luxembourg, Malta and Portugal.
(Principi, Gianelli and Lamura 2007). The project methodology, partly modifying the strategy originally adopted in 2005 in the first 11 Countries, aimed at identifying five case-studies in companies that had introduced positive initiatives for older and ageing employees, in order to analyse content relevant to the reasons behind the initial scheme, implementation processes, results observed and prospects for the future. Thus, five small (less than 99 employees) or medium (100-499 employees) companies were selected in various business sectors, for a total of about 1,000 employees (Table 2): a hotel (Park Hotel); a privatized Department of Agriculture agency operating in the field of landscaping and general maintenance of parks and gardens in Malta (ELC); a company operating in steel fabrication (Motherwell Bridge); a call centre (Dial It) managed by Telepage Limited (which is a branch of the national telecommunications operator Maltacom Plc); a public company involved in the promotion, management and maintenance of Maltese cultural heritage such as museums, churches etc (Heritage Malta).

Table 2: Sample composition

<table>
<thead>
<tr>
<th>Company</th>
<th>Sector</th>
<th>Number of employees</th>
<th>Of which:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Park Hotel</td>
<td>Hotel and Restaurants</td>
<td>70</td>
<td>39.0</td>
</tr>
<tr>
<td>ELC</td>
<td>Maintenance</td>
<td>296</td>
<td>57.0</td>
</tr>
<tr>
<td>Motherwell Bridge</td>
<td>Metal and Machinery</td>
<td>35</td>
<td>43.0</td>
</tr>
<tr>
<td>Dial It - Telepage</td>
<td>Telecommunications</td>
<td>371</td>
<td>14.5</td>
</tr>
<tr>
<td>Heritage Malta</td>
<td>Public Sector</td>
<td>240</td>
<td>45.0</td>
</tr>
</tbody>
</table>

Source: European Foundation for the Improvement of Living and Working Conditions

The task of identifying the companies which had started schemes was carried out with the advice and cooperation of Maltese employment market experts (i.e. Employment and Training Corporation managers and, above all, the manager of Outlook Coop), with knowledge of the sector and used to dealing with Maltese companies on issues such as the improvement of employee working conditions. The studies were carried out through face-to-face qualitative interviews, conducted by an INRCA researcher, who visited each of the five Maltese companies in January 2007. Various representatives from each company were interviewed: the Human Resources managers, those responsible for activated initiatives and, separately, workers’ representatives. Each interview lasted about 90 minutes and was based on a semi-structured questionnaire, split into two main sections: general company information and description of the initiative. Following a procedure similar to that of previous years of the European project, the initiatives identified were classified on the basis of ten different methodologically pre-established dimensions: changing mentality; comprehensive approach; ergonomics and job design; exit policy; flexible working practices; health and well-being; recruitment; re-deployment; training, development and career; wage policy (Principi, Gianelli and Lamura 2007:128).

Data collection and analysis were undertaken with double quality monitoring, the first by the organization co-ordinating the project’s implementation, the second by the funding organization. On the basis of this methodology, the first report version for each company

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8 Here it was intended that only long-term company initiatives would be documented, i.e. those that had existed for at least five years (Principi, Gianelli and Lamura 2007: 127). This methodological note was not present in this new phase of research.

9 Maltese organization which operates, among other areas, in the management of human resources and collaborates with private companies and government organizations, including the ETC.

10 These are, respectively, the Institute of Gerontology at the University of Dortmund (Germany) and the European Foundation for Improvement of Living and Working Conditions of Dublin (Ireland).
case was submitted for a first review, then revised and improved on the basis of suggestions made by the coordinators. In various cases this led to the integration of the information gathered by INRCA researchers through telephone follow-up with the abovementioned Maltese employment market experts and some of the representatives who had been interviewed previously. Later the second version, reports were submitted for further approval by the European Foundation for the Improvement in Living and Working Conditions, and any further suggestions and proposals forthcoming were incorporated into a final version which was then published in the Foundation website’s online database. The results below refer to this final version.

4. Results

Most of the initiatives identified in Maltese companies supporting the ageing workforce, fit into the recruitment and training categories. Progress is being made, albeit limited, also in the direction of a more comprehensive approach, which indicates a certain tendency towards a change in mentality in the companies with respect to the question of age management, a tendency evident mainly through the introduction of more flexible working practices. There is still much to be done in areas such as ergonomics and job design, exit policies and health-safety, areas in which Maltese companies seem to have been less active (Table 3).

Table 3: Typologies of the initiatives

<table>
<thead>
<tr>
<th>Initiatives</th>
<th>Changing mentality</th>
<th>Comprehensive approach</th>
<th>Ergonomics and job design</th>
<th>Exit policies</th>
<th>Flexible working practices</th>
<th>Health and well-being</th>
<th>Recruitment</th>
<th>Re-deployment</th>
<th>Training and development</th>
<th>Wage policies</th>
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<tbody>
<tr>
<td>ELC</td>
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<tr>
<td>Motherwell Bridge</td>
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<td>Dial It-Telepage</td>
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<td>X</td>
<td></td>
<td></td>
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<tr>
<td>Park Hotel</td>
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<td></td>
<td></td>
<td></td>
<td>X</td>
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<tr>
<td>Heritage Malta</td>
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</tbody>
</table>

Source: European Foundation for the Improvement of Living and Working Conditions

5. The Research: Objectives And Method

5.1 Recruitment

The most structured and convincing company schemes as far as tangible results are concerned, are those in the field of the recruitment of older workers. Above all, this is due to the activity of the abovementioned ETC government organization, which over the years has activated a series of projects dedicated specifically to job placement for unemployed over-40s. The programme that had the greatest impact in the Maltese corporate sphere was the TEES (Training and Employment Exposure Scheme), subscribed to by two out of the five companies in our sample:

- ELC (Environmental Landscape Consortium): in 2005-2006 through the TEES, the ELC
recruited 12 workers aged over 40: a woman (for administrative duties in the nursery) and 11 men (a car electrician, one to install irrigation systems, a general maintenance man and eight gardeners). These people were selected using a process which involved 60 trainees in three different periods, each lasting 8 weeks. Subsequently the trainees were hosted by the ELC for a further training period specific to work to be done, at the end of which time the company made their selection;

- Park Hotel: in 2005, the Park Hotel recruited an unemployed 53-year-old male through the TEES. The on-the-job training period in this case lasted 4 months, after which the worker was offered a permanent contract as person in charge of the ‘food and beverages’ section.

5.2 Comprehensive Approach

The stimulus to recruit mature workers in Malta does not come just from the TEES. The company Dial It-Telepage, for example, has started various schemes as part of its policy to offer a more comprehensive approach towards all ages of workers. The various schemes are, in part, interconnected, and older workers in particular have benefited from them:

- throughout 2006 the company recruited 22 workers aged over 45. In fact, the company launched a recruiting campaign specifically aimed at older workers, printing a leaflet with a photo of two approximately 50-year-olds (a man and a woman), resting comfortably in a meadow with the slogan: “choose your working hours... take the rest of the day off!” The leaflet specifies that the company is looking for people of all ages, a detail which underlines that older candidates are not discriminated against because of their age;

- the recruiting scheme described above is linked to another initiative of flexible working hours. The company, in fact, allows employees to choose how many hours they work on a weekly basis, and even their own working hours. The employees can choose to work full time (40 hours a week) or part-time (minimum 20 hours a week), expressing their preferences for working hours (generally met by the company) every week. The older applicants (especially women), who often not only do housework but also care for elderly family members and/or grandchildren, are clearly attracted by the possibility of being able to reconcile the time spent on these activities with that dedicated to paid work;

- this company’s mentality in managing older employees brings them career benefits: the last three promotions, in January 2007, were of employees aged 44, 42 and 57. The last is particularly significant because she was a woman recruited only two years before, at the age of 55.

5.3 Training

Following a trend already observed in Italy (Principi and Lamura 2007b:1), the training schemes identified in Malta are aimed mainly at all employees, so that older workers gain the same advantages as their colleagues. In the Maltese context, however, as emerged during the course of the research, some companies excelled in the training offered, sometimes thanks to the decisive contribution and involvement of older workers:

- Motherwell Bridge employees recognize the company’s capability to provide high quality training, mainly thanks to the transfer of know-how on-the-job, by the most skilled workers to younger colleagues. ‘Most skilled’ does not necessarily mean ‘old’, but this is often tacitly understood, since expertise is generally acquired during a long career. Essentially, the transfer of skills is organized and monitored by a manager, who implements an annual programme decided by management, sometimes with input from
workers’ representatives;

• in 2003 (a year in which more than 200 employees were transferred to the new public agency from the old ‘Museum Department’), Heritage Malta organized a training scheme for all employees, following a lack of motivation at work. When they were part of the Museum Department, that employees (about 50% of whom were over 45) never had any type of training during their professional lives, therefore new Heritage Malta was faced with a difficult situation, not only due to the lack of motivation that characterized the employees (accompanied in the public sector by a high absence rate, as was reported by more than one of the company representatives interviewed) but also because of lack of qualifications;

• consequently, Heritage Malta management decided to intervene and activate a series of training schemes at all levels, with the main aim of motivating workers and providing them new skills. These operations were proposed, together with a change in mentality in the approach to work, both towards users of cultural services and the job itself. In addition to these internal training programmes, an additional company initiative to encourage all its employees to participate in external study courses outside working hours, also appears to be valuable (for example to obtain a diploma, a degree, a Masters degree or develop their linguistic skills), financing them up to 70%.

6. What Are the Reasons for Adopting these Schemes?

A more in-depth aspect of the study concerns the reasons that led the various companies to activate positive initiatives for older employees, and from the analysis undertaken, a number of different reasons emerged.

For TEES recruiting schemes, the companies were undoubtedly attracted by the particularly favourable conditions the programme offered them and, above all, the possibility of having staff on ‘trial’ for several weeks, without any obligation to offer them a contract at the end of the period. This happened with the ELC, for example, who at the time of the TEES launch was considering precisely the possibility of recruiting further staff. Moreover, ETC company representatives also declared that they considered it a ‘social duty’ to help the government to achieve its aim of increasing the employment rate for older workers. In other cases, the favourable economic aspect of the TEES was no less important, as Park Hotel management underscored, for instance, with particular appreciation of the fact that through the ETC, the Government was for six months covering part of the salary (about 140 euros a week) of the people recruited.

The main reason why Motherwell Bridge decided to activate training schemes however, derives from the great difficulty the company had in recruiting specialized staff. This difficulty is particularly evident in the case of some specific jobs (for instance welders), where the transfer of knowledge and experience from more skilled workers to younger, less experienced colleagues, becomes a crucial strategy for preserving professional standards, vital for the company’s future.

The case of Heritage Malta was different; the activation of the training programmes was aimed chiefly, as we mentioned above, at promoting a cultural change in the staff, characterized till then by lack of motivation and an absence of a culture of cooperation amongst colleagues.

Dial It-Telepage has finally implemented the multiple schemes described, mainly to raise its own personnel’s levels of loyalty, motivation and commitment, aiming to reduce turnover (particularly high in the past), even though the company has never had to face genuine problems of shortages, thanks to a wide selection of candidates usually applying for jobs.
Given the particularly stressful nature of call centre work, improvement in working conditions and the creation of a more pleasant atmosphere have proved to be essential to the company.

7. Appraisal of the Initiatives by Companies and Workers

The initiatives were met with a positive response both from the companies and the workers. The former all behaved positively towards older workers, showing that they believed in them, so much so that they chose to improve their working conditions, creating schemes specifically for them (such as recruitment initiatives), or for all workers, not discriminating for or against the older workers because of their age (such as training initiatives). In all five Maltese companies, the older workers appeared to be valued and appreciated, and in some cases, like Dial It-Telepage, they are considered to be more loyal to the company than younger colleagues.

It is not surprising, therefore, that this last company intends to increase the number of older workers, who generally repay the confidence placed in them by the company with considerable loyalty and sense of belonging. This applies, in particular, to older female workers, who appear to be satisfied for two main reasons: firstly because they have been able to find a job (a very significant fact, in the light of the extremely low national employment rate for older women); and because they can choose their own working hours, so they are able to juggle their time (through part-time work) and dedicate themselves not only to their jobs, but also to the family or other activities, including voluntary work, which are also very important (Giarini 2005: 21). Lastly, workers say they are also satisfied to see the company trend that allows them to continue with their professional lives even beyond retirement age (by not dismissing the workers, as allowed by the law). This Dial It-Telepage policy is certainly an exception to the more general Maltese company reality.

Older workers recruited at ELC and at the Park Hotel through the TEES also appear to be satisfied with the experience, since the scheme has guaranteed them re-entry to employment in positive conditions. One advantage for the workers is that of being able to have training periods (at different times) with more than one company. A worker recruited by the ELC for example, had previously completed training periods with two other companies through the TEES, then finally decided not to continue with that type of work, because it did not meet expectations. He is happy now with the ELC and is repaying the company’s confidence in him with considerable motivation at work, as was emphasized by company representatives.

The effectiveness of the scheme also emerged in the words of the worker recruited by the Park Hotel, who says that he has succeeded in returning to the employment market after various disappointments when looking for work and before entering the TEES, having been discriminated against by companies who considered him too old.

As far as other initiatives are concerned, Motherwell Bridge is satisfied with the high quality of the training carried out, confirmed by the workers themselves (and, in particular, by those coming from other Maltese companies operating in the same sector), who recognize that at Motherwell Bridge it has been possible to achieve better quality training compared to that offered by competitors. The older workers are also satisfied because they are fully aware of their strategic importance, as recognized by the company, in that they possess experience and know-how to transmit to younger workers, and this is regarded by older workers as an important ‘mission’ to perform.

Heritage Malta management is also totally satisfied with the objectives attained through the training activities initiated in 2003, which mean they are now able to count on more motivated staff who are more loyal to the company and committed to their work. After mental resistance by the older staff to the initiative in its initial implementation period (when
they could not understand what the company meant by a change in mentality in work), the situation appears considerably improved. This is thanks, above all, to a greater attention paid by the company to communication with its workers, through which it has succeeded in conveying with greater clarity the purpose of improving working conditions through the training programmes proposed.

8. Conclusions

This first empirical research underlined that in Malta the issue of working at a mature age is starting to be approached at the company level, but this is only the beginning of a process, with ample scope for development since there is a need for a more efficient regulatory structure than the one currently in existence. Moreover, the social partners involved (government, unions, employers’ organizations) do not appear to be integrated as a system, notwithstanding ‘networking’ attempts to do that, as in the case of the White Paper. While a more positive sign in that direction was given by employer representatives (MEA 2005a, MEA 2005b, MEA 2006), the same cannot be said for trade unions, which seem to be playing a rather marginal role (Principi and Lamura 2007a).

As far as regulations are concerned, the Maltese government has concentrated mainly on the question of reforming the pension system, but although retirement age has been raised and this is undoubtedly considerably positive, as indicated above there are still some regulatory contradictions to be solved in order to guarantee older workers better work prospects and conditions. An example of this, also mentioned above, is the law on employment discrimination, even if it contemplates a series of undoubtedly favourable provisions for older workers, such as the obligation for companies to prefer access to employment and worker training to all ages of workers for those caring for families (another theme given priority at European level: Naegele et al. 2003), offering adequate leave and remuneration for this purpose. In reality, however, notwithstanding the fact that the government says that it is committed to prolonging the professional life of workers close to retirement age (Ministry for the Family and Social Solidarity 2006b), there are often cases of wrongful dismissal of older workers, early retirement decided unilaterally by the companies, and little participation of older workers in training programmes (Formosa 1999, Fortuny, Nesperova and Popova 2003: 34, Government of Malta 2004: 29).

So there is a dual problem of the absence of an adequate legal framework and, at the same time, (at least in part) the lack of implementation of existing laws. It appears evident, moreover, that in the absence of support from the unions and workers’ organizations, innovative positive policies for older workers in fields like health and well-being, ergonomics, flexible working, training, transition to retirement, can only be realized with difficulty, and only sporadically, thanks to particularly enlightened company schemes (like that of Dial It-Telepage). Indeed, it is no coincidence that the company policies which have been most successful for older workers have been those for recruitment, which were given most backing by the government through the ETC. At the present time there appears to be a lack of a real company culture as far as age management of employees is concerned, proved by the fact that the age question rarely influences the schemes at all, or is even explicitly considered.

As far as future prospects are concerned, the Maltese government has set itself specific objectives in terms of increasing the employment rate for women and older workers, with most recent projections appearing positive. The rate of female employment should rise to 45% by 2010 and to 55% by 2020 (Ministry for the Family and Social Solidarity 2004: 9, Pensions Working Group 2004b: 122, Ministry for the Family and Social Solidarity 2005: 52). An increase in the employment rate for older workers is also expected (Ministry for Health, the Elderly and Community Care 2006), given that the retirement age has now been raised to 65, and in the near future might be raised further, to 68 (Schwarz, Musalem and Bogomolova 2004: 17-18).
To achieve these two objectives and to improve working conditions for older workers in a more organized manner, numerous proposals have been made. From the various suggestions made, the following are worth reporting:

1. offering incentives to companies through new regulations or political measures (Technical Team to the Pensions Working Group 2005b: 11; Gonzi and Diamantopoulus 2001: 7 and 22; Ministry for Competitiveness and Communications 2006: 29; Ministry for the Family and Social Solidarity 2006a: 30);

2. discouraging early retirement policies; reducing tax on the salaries of workers aged over 55; shortening and making working time more flexible for those over 55, on a full salary (Mifsud 2005);

3. supporting every type of measure with the objective of placing older unemployed workers in the employment market; allowing workers to remain active even beyond legal retirement age through a reduction/flexibility in working time; creating the right conditions to command a better qualified and more committed workforce (MEA 2005a: 3 and 5, MEA 2005b: 5 and 6; Technical Team to the Pensions Working Group 2005b: 9; Ministry of Education 2006; MIM 2005: 3-4);

4. enhancing knowledge and skills in older workers, providing them with appropriate on-the-job training (UHM 2001; Ministry for the Family and Social Solidarity 2006a: 30);

5. ensuring that older workers have a working environment that takes into account their health and well-being needs (Ministry of Education 2003: 4).

Thus, there is no shortage of material for institutional debate, but there are obvious problems involved in putting all these good intentions into practice at the company level, above all in the public sector. In this area, in fact, due to ‘cultural’ attitudes, there is evidence that employees often report a particular ‘lack of motivation’, frequent absenteeism (which, if on the one hand could be linked to such lack of motivation, on the other hand in the case of older workers could also be the consequence of age-discrimination towards them at work — Berger 2004: 513; Shah and Kleiner 2005), a frequent incidence of a ‘second job’ (usually hidden), and a particularly high rate of invalidity given as a reason for early retirement.  

In Malta therefore, even though awareness of the need to deal in an organized way with the ageing workforce issue has increased over the last few years, as shown by the measures already taken in this respect (especially in the pension context), there are still many contradictions within the system. This is found both at statutory level and in general in the attitudes of the different employers, who, notwithstanding the aforementioned commitment to the contrary pointed out by the Maltese Employers Association, continue to dismiss older workers when they reach legal retirement age. These contradictions must be resolved as soon as possible, to ensure a systematic approach towards improving a process which will otherwise be difficult for companies to manage independently. The positive examples provided prove that it is possible to achieve excellent results by intervening at the company level. It will now be necessary to operate in a more structured way, starting from these examples, to be able to extend the initiatives in a non-sporadic way to other Maltese companies.

9. Acknowledgements

We gratefully acknowledge the European Foundation for the Improvement of Living and Working Conditions (© 2006, Wyattville Road, Loughlinstown, Dublin 18, Ireland. Original language: English), which enabled us to carry out the comparative survey on which the national study presented in this article is based. We should also like to thank Michelle

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11 To limit abuse of recourse to these pensions, an Invalidity Pensions act is about to be implemented also with the attempt to increase the employment rate of older workers (Ministry for the Family and Social Solidarity 2006a: 32-33).
Vigar of Outlook Coop in Malta, as well as Paul Borg and Raphael Scerri of the Maltese Employment and Training Corporation, for their precious help during the research.

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The Interaction of Public and Private Systems in Health Care Provision: the Italian Two-Faced Janus

by Giuseppe Turchetti

Abstract

The interaction between public and private systems in the provision of healthcare is complex because they refer to different logics and functioning mechanisms. This paper presents and discusses an extreme case of coexistence of public and private regimes in providing healthcare — the Italian intramoenia. Although the intramoenia regime presents numerous advantages for the patient, the doctor, the hospital, the payer, and the whole healthcare system, it has not spread as much as might be expected. Many distortions could affect the relationships among the players involved in the intramoenia regime and, since at present the cost of the service rendered is generally carried by the patient through out-of-pocket spending, there are also undesirable inequity effects. We maintain that potentially opportunistic behaviours of the players could be reduced by the presence of a professional third party payer, who, thanks to the technical tools of insurance, is able to establish appropriate incentive schemes that could increase the efficiency, reduce inequities, and favour a successful co-existence of public and private forms of organisation and governance of the transactions.

1. Introduction: Public and Private Governance of Healthcare

Since its establishment, in 1978, the Italian National Healthcare System has been affected by complex and elaborate restructuring and reorganization processes. Academic and political discussions are continuously taking place with respect to the pursuit of efficiency in the management of healthcare services and the characteristics of demand, supply and the funding of healthcare.

The organisation and governance of healthcare can be of a private or public nature. The first relies on the ‘market rules’ whereas the second is determined by the ‘rules of planning’. Planning concerns the regulation of the number of authorised healthcare providers, the volume of activity ceiling, the definition of standard tariffs, and the introduction of restrictions with regard to the rates of medical services.

In general, the evaluation of the value of either the public or private approach to the provision of healthcare has to take into consideration:

a) the correspondence of the services offered with the needs and preferences of the patients;

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b) the efficiency and quality at various stages of the provision of the services;
c) the appropriateness of the incentive schemes settled on for the agents and of the degree of competitiveness inside the healthcare system.

The correcting interventions of the State in the healthcare system are usually related to the failure of the market and usually linked to the fact that healthcare is a semi-public good, that in this sector information is incomplete, and that the market is imperfect.

Internationally, examples can be found both of the introduction of instruments typical of the public system in order to correct the failures of the market, and of interventions directed at inserting market regulating mechanisms into a planned healthcare system.

More generally, the evolution of the management of healthcare systems tends to be characterised by the convergence towards regulation type solutions based on the presence of instruments which are part of both types of governance.

This evolutionary process is extremely complex and dynamic and forces players in the healthcare system to continuously adapt to new combinations of regulatory instruments and new equilibria, always departing from the principles of inclusion, equity, solidarity, and accessibility which are considered to be at the roots of a good welfare system.

Change is based on various objectives:

a) the increasing of the level of efficiency of the organisation of demand for services supplied by the healthcare system, which relates in particular to the management of the relationship between citizens and the provider of the service;
b) the raising of awareness and responsibility within the population with regard to the cost of the various services;
c) the coordination of the division of tasks and areas of intervention between public and private providers of services, to avoid duplication and overlapping;
d) the increasing of the quality and efficiency of the services through attaining adequate levels of competitiveness between the providers of healthcare services;
e) the reinforcement and consolidation of the presence of private players in the healthcare system, in particular with respect to the financing of both healthcare services and long term structural investments, and of technological progress and scientific research.

The main objective of every country is to manage the combining of two goals: increasing the quality of the services supplied by the healthcare system and guaranteeing care to the weaker groups in society by an efficient and effective use of the resources available.

Within the process of renewal of the modes of governance of the healthcare system through corrective measures dealing both with market failure and with the failure of planning, two forms of intervention can be identified. One concern the planning system, the introduction of new schemes of incentives and of budgetary control and internal audit. The other relates to the design of institutional change, able to promote the co-presence and the synergic action of the principles of coordination and selection of the investment trajectories typical of the market with those distinguishing the planning system.

Starting from this premises, in this paper we will present and discuss a particular and extreme case of coexistence of public and private systems in Italy — the *intramoenia* regime — where public and private coexist with respect to the organisation, governance, delivery and financing of healthcare services. The interesting aspect of this case is that the ‘public/private dimension’ is not considered as a co-existence, within the healthcare system, of both public and private service providers, who have distinctive objectives and functioning mechanisms, but rather as a co-existence, in the same service provider (public hospital and/or medical
doctor employed by the National Healthcare System), of both roles/regimes, the public and the private, which are organised and move according to completely different mechanisms. A Two-Faced Janus with a potential identity crisis.

In this paper the nature, development and diffusion of the intramoenia regime will be discussed (section two). Furthermore, the characteristics and the mechanisms of interaction developing between the various players within the intramoenia regime will be analysed in section three. In section four several proposals will be made with regard to the way in which a proper use of the ‘financing tool’ should by made. These proposals will relate particularly to the role played by payers (professional intermediaries). This could reduce the emerging of distortions in the functioning of this ‘double regime’ and promote a better interaction of public and private mechanisms, for the benefit of the patient and of the healthcare system in terms of both financial sustainability and equity.

2. An Original Way of Public and Private Coexistence: The Intramoenia Regime

Over the years, there has been a progressive introduction of market elements in public healthcare systems. An important test case of an attempt to join public and private is the Italian case of intramoenia care — private provision of health services within the public healthcare system —, which is one of the possible ways of creating public-private interaction and coexistence in the organisation, delivery and funding of healthcare services.

In the case of intramoenia care, public medical and healthcare staffs, individually or in teams, perform, outside the contracted hours of service, in ambulatory, day hospital or day surgery regimes, diagnostic services (with technologies and/or as specialist visits) and therapy (medical and/or surgical), as requested by and based on the free choice of the patient. The choice of intramoenia care implies that either the patient, his/her insurance company, or his/her integrative healthcare fund pays for the service.

Therefore, intramoenia care forms a context where the relationships between players in the health sector (health professionals, hospitals, third payers and patients) are extremely complex. Within public institutions, regulated and characterised by public mechanisms, in fact services governed by contracts of a private nature are carried out by the health care professionals employed by the public hospital.

Intramoenia care was introduced by Law nr. 662 of 23 December 1996, after which it was subject to various changes and has developed and been unevenly disseminated throughout Italy. Prior to its introduction, two steps were particularly relevant and have allowed for the development of the intramoenia regime: 1) in 1978 (Law nr. 833) doctors (and veterinarians), who are public employees of Local Health Units, Universities, Polyclinics and Scientific Institutes for Hospitalisation and Care, were given the right to exercise private professional activity; 2) in 1991 (Law nr. 412) the principle of exclusiveness of employment of physicians within the National Healthcare System was introduced. The consecutive Legislative Decree nr. 229/1999, recognises health workers’ rights to exclusivity of employment, allowing them to exercise their private activity in the intramoenia regime, within the public healthcare hospitals where they are already employed. Law nr. 120/2007, stems from the need, almost ten years after its introduction, to correct delays and distortions originating from the implementation of the intramoenia regime (described in various studies which will be discussed below). It also introduces various organisational-managerial and structural correction mechanisms. From an

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1 The possibility of working as a private professional for doctors working in the public healthcare system is compatible with the exclusiveness of the work relationship, as long as it is carried out at different times and not in private healthcare institutes with no relationship with the national health care system.
organisational-managerial point of view the law favours the establishment of a pricelist which covers the costs of the intramoenia regime; the monitoring of the waiting lists for people not using intramoenia care and the adoption of mechanisms to reduce the average length of waiting lists; assuring limited differences in waiting time between the regular public waiting list and the intramoenia regime; the clarification by the hospitals of their intentions concerning how to distribute the two modes of healthcare delivery. From a structural point of view, according to the law the healthcare supplier can use for the intramoenia regime the spaces available for institutional activities. However it has to guarantee the separate management of the two types of healthcare delivery in particular with regard to the timetable, booking, and payment. This last has to be entrusted to the personnel but in a different location and at different times from those of the institutional activity. Therefore, as intramoenia care needs to take place within and under particular conditions, it is necessary to carry out restructuring works.

Over the last few years the National Agency for Regional Health Services, the Social Affairs Committee of the Chamber of Deputies (2002-2003), the 12th Hygiene and Health Committee of the Senate (2007) and Istat (National Statistics Institute) (2007) have carried out surveys and have gathered statistical data regarding the diffusion and characteristics of the intramoenia regime.

The main objective of the Parliamentarly Survey carried out by the 12th Hygiene and Health Committee of the Senate was to analyse the state of the intramoenia regime almost ten years after its introduction. Particular attention was paid to the implications for waiting lists and the possible other inequalities generated for those accessing public health services. The outcome of the analysis shows a very heterogeneous picture. There are regions of Italy where intramoenia care is fairly widespread and the results are satisfactory and others areas where it is not widespread and the results are particularly poor. With regard to the doctors of the National Health Service and the Institutes of Public Care (survey of 353,200 doctors), the outcome of the survey showed that 95% opted to work exclusively for the National Health Service (5% work also in private clinics). Of this 95% only 59.2% effectively use the opportunity to perform private activity in the intramoenia regime within the National Health Service. The analysis shows that the space occupied by the intramoenia regime as part of the public health facilities, is very little: only 2% of the outpatient’s clinics and 2.3% of the beds.

There is a high demand for differentiation of services emanating from the population. A recent study carried out by ISTAT (2007) with respect to the demand for services by fee-paying patients (intramoenia care and private healthcare) shows that there were approximately 15,298,000 diagnostic tests carried out in Italy in 2005 of which 69.7% were laboratory tests and 30.3% diagnostics by specialists. Of these diagnostics by specialists 20.9% was paid in full by families (out-of-pocket). The percentage of specialist visits paid in full is highest among people aged between 25 and 44 years, particularly women (39.2% in the age group 25-34 years and 32.7% in the group 35-44 years) and residents in central Italy (24.9%). The health services which were most frequently paid for in full are specialist visits (56.8%).

With regard to the level of education, the survey shows that in 2005 46.8% of people with a primary school diploma had paid in full for a specialist visit, compared to 68.2% of people with a high school diploma or a university degree. With respect to the economic condition of the interviewees it turned out that 47.9% of those who indicated they have scarce or insufficient economic means had paid for specialist visits. With regard to diagnostic tests,

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2 The study is based on the questioning of various actors involved in the healthcare system (from the Ministry of Health, the Associations of Physicians and Patients and the managing directors of local health institutions) and on the information gathered through questionnaires sent to all the regions and selected healthcare providers.
35.8% of those who have a higher level of education pay in full against 15.4% of those with a primary school diploma.

Unfortunately, available data with respect to ambulatory care are limited. Data available on intramoenia care originate from the Schede di Dimissione Ospedaliera SDO (Hospital Discharge Data Sheets). In 2004 the most numerous healthcare services carried out in the intramoenia regime related to obstetrics/gynaecology (26.4% of the discharged patients using intramoenia care), general surgery (16.9% of the discharged patients using intramoenia care) and orthopaedics/traumatology (11.1% of the discharged using intramoenia care, see Table 1).

Table 1: Discharged intramoenia patients in 2004: organised by ward (20 most important)

<table>
<thead>
<tr>
<th>Wards</th>
<th>Number of discharged patients</th>
<th>Percentage%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obstetrics and Gynaecology</td>
<td>13,680</td>
<td>26,4</td>
</tr>
<tr>
<td>General surgery</td>
<td>8,756</td>
<td>16,9</td>
</tr>
<tr>
<td>Orthopaedics and Traumatology</td>
<td>5,727</td>
<td>16,9</td>
</tr>
<tr>
<td>Urology</td>
<td>3,163</td>
<td>6,1</td>
</tr>
<tr>
<td>Ophthalmology</td>
<td>2,092</td>
<td>4,0</td>
</tr>
<tr>
<td>General Medicine</td>
<td>2,151</td>
<td>4,2</td>
</tr>
<tr>
<td>Otolaryngology</td>
<td>1,953</td>
<td>3,8</td>
</tr>
<tr>
<td>Plastic Surgery</td>
<td>954</td>
<td>1,8</td>
</tr>
<tr>
<td>Cardiology</td>
<td>725</td>
<td>1,4</td>
</tr>
<tr>
<td>Neurosurgery</td>
<td>611</td>
<td>1,2</td>
</tr>
<tr>
<td>Heart Surgery</td>
<td>487</td>
<td>0,9</td>
</tr>
<tr>
<td>Maxillofacial Surgery</td>
<td>419</td>
<td>0,8</td>
</tr>
<tr>
<td>Vascular Surgery</td>
<td>490</td>
<td>1,0</td>
</tr>
<tr>
<td>Radiotherapy</td>
<td>447</td>
<td>0,9</td>
</tr>
<tr>
<td>Nursery</td>
<td>414</td>
<td>0,8</td>
</tr>
<tr>
<td>Thoracic Surgery</td>
<td>313</td>
<td>0,6</td>
</tr>
<tr>
<td>Paediatric Surgery</td>
<td>210</td>
<td>0,4</td>
</tr>
<tr>
<td>Oncology</td>
<td>321</td>
<td>0,6</td>
</tr>
<tr>
<td>Recovery and Rehabilitation</td>
<td>164</td>
<td>0,3</td>
</tr>
<tr>
<td>Day hospital</td>
<td>71</td>
<td>0,1</td>
</tr>
<tr>
<td>Other wards</td>
<td>8,646</td>
<td>16,7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>51,794</strong></td>
<td><strong>100,0</strong></td>
</tr>
</tbody>
</table>

Source: National Agency for Regional Health Services, 2007

Reports published by the Tribunale del Malato-Cittadinanzattiva (Tribunal for the Rights of the Patient, 2007) showed that the reasons for choosing intramoenia care are linked to the possibility of choosing the doctor one prefers, and the guarantee of therapeutic continuity.

The latest data available with regard to the expenses incurred by families for healthcare (2006) show that 7.6% of the total expenses incurred for healthcare concerns intramoenia care, whereas 7.5% of the total expenses relate to the ticket¹ (National Agency for Regional Health Services, 2007; see Tables 2 and 3).

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¹ The ticket is an obligatory contribution per service rendered in the public healthcare system; weak groups - age, income, state of health - are exempt from paying this contribution.
Table 2: Health expenditure of Italian families, 2004-2006  
Values at current price, millions of Euros

<table>
<thead>
<tr>
<th>Health expenditure</th>
<th>2004</th>
<th>Year</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value in €</td>
<td>%</td>
<td>Value in €</td>
<td>%</td>
</tr>
<tr>
<td>Expenditure for outpatient services</td>
<td>9.410</td>
<td>68,4</td>
<td>9.697</td>
<td>68,3</td>
</tr>
<tr>
<td>Expenditure for hospital services</td>
<td>4.354</td>
<td>31,6</td>
<td>4.498</td>
<td>31,7</td>
</tr>
<tr>
<td>Total health expenditure</td>
<td>13.764</td>
<td>100,0</td>
<td>14.195</td>
<td>100,0</td>
</tr>
</tbody>
</table>

Source: Our elaboration of data from National Accounts of Ragioneria Generale dello Stato (several years)

Table 3: Health expenditure of Italian families for intramoenia and tickets, 2004-2006  
Values at current price, millions of Euros

<table>
<thead>
<tr>
<th>Health expenditure</th>
<th>2004</th>
<th>Year</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value in €</td>
<td>%</td>
<td>Value in €</td>
<td>%</td>
</tr>
<tr>
<td>Expenditure for intramoenia</td>
<td>931</td>
<td>6,8</td>
<td>1.010</td>
<td>7,1</td>
</tr>
<tr>
<td>Expenditure for tickets</td>
<td>994</td>
<td>7,2</td>
<td>1.030</td>
<td>7,3</td>
</tr>
<tr>
<td>Other expenditures</td>
<td>11.839</td>
<td>86,0</td>
<td>12.155</td>
<td>85,6</td>
</tr>
<tr>
<td>Total health expenditure</td>
<td>13.764</td>
<td>100,0</td>
<td>14.195</td>
<td>100,0</td>
</tr>
</tbody>
</table>

Source: Our elaboration of data from National Accounts of Ragioneria Generale dello Stato (several years)

We can assume that the expenses incurred by families for *intramoenia* care are higher than the 1.100 milion Euro’s (see Table 3) which are registered for 2006, as checks made by the Revenue Guard Corps (and transmitted to the Senate) show that about 30-40% of all services had not been officially registered.

The data evidence that, even if *intramoenia* care is still not very well developed all over Italy, the demand for differentiation of the services emanating from the population is high and growing. In the following sections strengths and weaknesses of the *intramoenia* regime will be discussed.

2.1 Advantages of the intramoenia regime

The characteristics of the services provided through *intramoenia* care and the mechanisms that regulate its functioning show numerous advantages for the various interrelated players in the healthcare system (patients, healthcare managers, doctors and third party payers) (see Figure 1).
Furthermore, intramoenia can be used as an instrument to increase the efficient use (technical, economic, and logistic) of resources acquired by the hospital, allowing for a shorter amortization of expensive medical equipment through increased use, and leading to a faster introduction of process and product innovations.

The advantages for the patient are mainly: the possibility of choosing one’s own doctor; shorter waiting lists; the possibility of choosing day and time of the doctor’s appointment (mode of access); and higher quality accommodation. The fact that this form of private care is highly regulated and made transparent by the fact that it is in any case part of the National Healthcare System, is another positive aspect for the patient when compared to private alternatives which are not part of the intramoenia regime.

A parliamentary inquest has shown that among the positive aspects of the intramoenia regime for the various players is the fact that the hospital can render fee-for-service care; patients can receive complete packages of diagnostic and therapeutic services (promoting continuity of care); the personnel directly and indirectly involved in intramoenia care can receive financial incentives; highly specialised and distinguished doctors operating in the intramoenia regime can, because of their reputation, become the best sponsors for their hospital attracting patients also to the institutional public activity.

In larger hospitals the intramoenia regime is an interesting lever for extra revenues and an effective tool for increasing the professional and economic motivation of the doctors. As a matter of fact the intramoenia regime is, an alternative way for the Public Healthcare System to financially reward the doctor (who, in Italy, compared with other European countries, receives lower salaries), which is useful to reinforce loyalty to the hospital to which he or she is officially linked.
For a third party payer too the advantages of the *intramoenia* regime can be considerable; among them we mention:

a) the development of a potentially large and profitable market,
b) the possibility of reducing the risk of adverse selection by broadening the patient portfolio,
c) the chance to enter into a market where it is possible to become acquainted with the cost of the various healthcare services, allowing for their monitoring,
d) the opportunity to use the ‘diagnostic-therapeutic route’ in a cost-effective manner, thereby avoiding redundancies.

### 2.2 Disadvantages of intramoenia

Although there are numerous advantages linked to the *intramoenia* regime, the phenomenon has not spread as much as might be expected. One of the main reasons why a patient requests an appointment with a specialist paying in full (particularly when this regards a first appointment) is that he or she hopes that this first contact will subsequently lead to privileged treatment or will create other advantages when deciding to use the public regime. This type of behaviour, however, distorts the original role and task foreseen for intermoenia care and leads to an unfair situation between patients as not all can afford an appointment in the *intramoenia* regime.

The weaknesses which emerge from the Parliamentary Inquiry mainly regard structural deficiencies (the lack of appropriate spaces) and organisational-managerial deficiencies (the lack of a complete regulation of the *intramoenia* regime; lack of a centrally organised system of information, booking and pricing; lack of information about the differences between the access to and use of diagnostic and therapeutic paths of the public regime and of the *intramoenia* regime; the possibility of double waiting lists (patients who erroneously register on both lists).

The most important weaknesses, therefore, mainly originate from the difficulties related to the interaction between organisational and managerial mechanisms linked to public and private transactions and the distortions which may spring from these difficulties.

### 3. The Characteristics of the *Intramoenia* Regime: Relationships between Players Involved and Incentives Schemes

The distinctive feature of a hybrid context like the *intramoenia* regime, characterised by a dense, complex and atypical network of relations between players, is the development of private relationships and contracts and the activation of free professionals/private activities in a public system where everything is regulated by planning. The grafting of such a system into a public body results in the fact that public health medical personnel and the healthcare institutions involved have to cover two different roles, public and private, though performing the same type of activity in the same environment. This dual role could tempt the doctor and the healthcare institute to behave opportunistically thus creating distortions in the relational mechanisms between the different players/operators in the healthcare system. The relationships established between the players involved in the *intramoenia* regime, i.e. the hospital, the doctor, third party payers and the patient could be distorted because of the different forms of information asymmetry and by the different interests that characterize the players and their interactions (as described below).

In the case of the *intramoenia* regime, the relationship between doctor and patient includes also the relationship between physician and payer because, at present, in the substantial absence of financial intermediation, the cost of the service rendered is borne by the patient.
through out-of-pocket spending. This kind of private payment creates further conflict in the agency relationship between doctor and patient, due to the existing asymmetric information between the two players. On the one hand, compared to the doctor the patient has less information about his/her state of health (from a technical point of view), the accuracy of the diagnosis, the quality of the service and the effort of the doctor. On the other hand, the doctor’s knowledge with regard to the state of health (in terms of his/her perception) and to the lifestyle of the patient is limited. The doctor is also limited in his own biomedical skills and in the techniques he or she can use to treat different pathologies.

This information asymmetry originates from the fact that the healthcare service, being an experienced good, is a good of which the quality cannot be known in advance and therefore induces imperfection in the behaviour of the patient and of the doctor, such as adverse selection and moral hazard. The patient is unable to evaluate ex-ante the skill of the doctor and other factors that can influence the outcome of the service provided (adverse selection), and he or she is unable to control the behaviour of the doctor (moral hazard). Information asymmetry consequently allows the doctor to be excessive in the supply of services, stimulating the patient, and/or complying with the request of the patient to consume services in quality and quantity in excess of the actual need. The combination of the heterogeneity of the services offered and of individual consumers’ preferences gives to the doctor a certain market power.

When analyzing the relationship between the managing directors of the hospital and the doctor, it is possible for the doctor to exploit his or her position to obtain personal benefits, by diverting part of the demand for healthcare services from the public system to the private one performed inside the same public structure: the intramoenia regime. Given the duality of the doctor’s role, the possible opportunistic behaviour could lead in extreme cases to phenomena of coalition/collusion between the hospital management and the doctor. Generally, the doctor has to choose between several ‘packages of services’ to offer the patient for the treatment of a particular pathology taking into consideration his or her general state of health. If the doctor in the intramoenia regime chooses to offer packages of services which are more complex and expensive even for less serious cases, the interests of the doctor could coincide with those of the hospital management, both pursuing profit (on the one hand personal and on the other for the hospital).

However, the interests of the doctor and of the hospital do not necessarily coincide. Healthcare requires two different types of input, the form and amount of treatment and the effort of the doctor. This could result in conflict between the doctor and the management if the doctor chooses longer and more expensive treatment for the sole purpose of reducing his or her own effort while still obtaining considerable compensation. This would be in conflict with the interests of the hospital if the choices made were not optimal in terms of cost-effectiveness and the hospital is rewarded according to fixed tariffs.

The most significant problems related to the intramoenia regime, resulting from various forms of information asymmetry and the divergent objectives of the players involved, are dealt with through the creation of appropriate incentives for each player. This limits possible opportunistic behaviour and at the same time promotes virtuous paths supporting the pursuit of cost-effective delivery of services.

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4 Agency Relationship occurs when the preferences of the parties establishing a relationship of bilateral exchange do not coincide and one of the two parties has more relevant information than the other (Ross, 1973; Arrow, 1986).
8 The level of effort of the doctor, considered as the time dedicated to visits and patient care, is proportional to the quality of service rendered, however, as only the doctor can know his or her own level of effort/commitment (moral hazard variable) this information cannot be negotiated, but it strongly depends on the incentives included in the contract, which are solely based on the amount of treatment given and not on the desired level of effort/commitment.
Unfortunately not only does the mostly diffused private financing mechanism of the *intramoenia* regime, represented by the so-called out-of-pocket expenditure (sustained by single citizens), not introduce the desired appropriate incentives into the system, but it also raises serious issues of efficiency and equity. Out-of-pocket expenditure by citizens, in fact, does not take into account the income level of the patient nor does it direct them towards more cost effective solutions. Moreover the private citizen does not have sophisticated control mechanisms regarding the behaviour of the doctor/hospital nor the proper techniques for differentiating the incentives, able to reduce the effects of the asymmetric information that they suffer. This kind of private payment therefore does not help in defining virtuous schemes of incentives. Therefore, the presence of a third party payer, such as a professional intermediary who uses insurance and mutual mechanisms, private or public, for profit or non-profit, would reduce potential opportunistic behaviour of the various players, thanks to the technical tools proper to insurance science and to the ability to establish appropriate incentive plans together with greater ability to control, directly and indirectly, which derives from them. After signing a contract with the patient, the third party payer is committed to covering part of the healthcare expenditures incurred by the patient, thereby significantly influencing the doctor-patient relationship, also with respect to the demand for healthcare services. The patient who signs a service contract or an insurance policy, assuring thereby a co-payment resulting in a reduction of the expected expenditure, could be induced to opportunistic behaviour of moral hazard. Such behaviour would be recognizable in an improper increase in the quantity and quality of services required and in a disincentive to seek operators offering lower prices or providing an equal quality of service. In order to reduce the probability of collusive behaviour between the patient (insured) and the doctor, the third party payer may provide for the introduction and use of technical tools and mechanisms typical of the insurance business, such as franchise clauses, maximum coverage, and bonus/malus conditions.

The presence of a third party payer has strong influence in the context of the *intramoenia*, where there is a strong interaction between the different players in the market, rendering the role of the managers of the hospital particularly delicate and essential for the functioning of the whole healthcare system. In particular, the hospital should provide a high quality service otherwise patients could be induced to change third party payer (and as a consequence also the healthcare provider). At the same time, however, the hospital should minimize costs, otherwise the third party payer could decide to cancel the contract and change healthcare provider. Therefore, the possible referral of the doctor from the public services to the *intramoenia* regime produces benefits for the doctor and for the hospital only in the short term. This is because in the long-term the third party payer might entrust the care of its insured clients to another hospital (outside option) with serious consequences for the reputation of both the doctor and the hospital.

### 4. Benefits Arising from a Professional Private Financing of Intramoenia Care

At the end of the analysis proposed in the above paragraphs, we conclude our paper suggesting the introduction of coverage instruments such as healthcare insurance policies and integrative funds which serve to finance the cost of healthcare services provided in the *intramoenia* regime.

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The presence of the insurer and/or of the healthcare fund, in fact, could promote:

a) a better organization/channelling of demand for healthcare services as a consequence of the definition of sets of healthcare services rather than single services, linked to the concept of therapeutic pathway suggested by medical science and clinical practice for each pathology. In consequence, departing from these ex ante established sets of treatments related to a certain pathology, non useful and/or redundant exams and/or treatment — non-appropriate demand for health services — can be eliminated, thereby also reducing the length of the waiting lists;

b) a more effective and efficient organization of the supply of healthcare services. The adoption of the logic of benchmarking and comparison between different hospitals will facilitate a virtuous mechanism promoting an increase in levels of efficiency of healthcare providers, and effectiveness and quality of the services rendered;

c) a significant reduction of the burden of healthcare expenditure on public finances, as a result of the progressive contribution of third party payers;

d) a greater equity in the composition of private health expenditure. Part of this expenditure will no longer be out-of-pocket but will become expenditures intermediated by professional third party payers, able to operate a fairer pooling of risk. Moreover, if a tax relief linked to the level of income would be introduced, we could also observe a lower level of regressivity connected to the private payment.

In the process of the progressive hybridization of ‘pure’ (public or private) healthcare systems — due to the presence of both market and planning failures — leading them to intermediate positions, the fact that the interaction between public and private mechanisms is often difficult and complex to achieve has to be taken into consideration. The main reason for these difficulties is to be found in the fact that planning and market are two different systems of organizing and governing transactions and relationships following totally diverse types of logics and functioning rules. The Italian case of intramoenia regime is an extreme case of coexistence of public and private. In it all the possible distortions typical of the relationship between different operators (doctor-patient-hospital-payer) are enhanced and strengthened by the fact that they are located in a context characterized by the co-presence of different regulating instruments and operating mechanisms, those of the market and those of the planning.

The introduction of market and competition mechanisms cannot be fully realized by integrating instruments typical of the market in a system based on planning without changing the incentive schemes and the monitoring instruments of that system. On the contrary, market mechanisms should affect the structure of relationships and roles existing among the different operators involved.

In general this concept requires, the differentiation of financing sources and, more specifically, the use of private capital.

The entry of private payers, if properly defined, re-designs the modes of measurement/evaluation and the objectives of the production units of healthcare services. It does so by substituting the concept of cost-effectiveness of healthcare services for that of adherence to the reference values of planning. The adoption of the concept of cost-effectiveness implies the presence of several autonomous units of production, competing with each other. It also finds its implementation in the rewarding of the ability to interpret and satisfy the value of use requested by citizens, and in the efficient managing of resources.

The evaluation of the areas of intervention of private financing in healthcare, integrating public funding, means, in our opinion, analysing the contribution that this funding could offer, in a dynamic perspective, to increasing the general performance of the system. In other
words, it is a matter of modifying the traditional view of the involvement of the private financing sector in the National Healthcare System still linked to a mere financial logic of mitigating pressure on public finance.

Instead, in this paper, we propose an evaluation of the contribution of the private sector in the financing of healthcare as a tool for re-defining the structure of property rights within the system so as to obtain a better organisation of the production and provision of healthcare services.

The public Regulator has to indicate the contexts and under which conditions it could be convenient to set alongside the elements of guarantee and organicity of planning, the abilities to extract information, to define effective incentive schemes, and to coordinate in a manner typical of the market. The area of the services provided in the intramoenia regime seems to be, as we hope to have effectively discussed in the present paper, one of the more suitable.

In the intramoenia scenario, in fact, we maintain that the role of third party payers, professional intermediaries can mitigate potential opportunistic behaviours on the part of various players. It an also promote a more effective and positive interaction, coexistence, and integration between public and private, benefiting from the advantages of both systems of governance of transactions.

REFERENCES


The Graying of the Great Powers
Demography and Geopolitics in the 21st Century

by Richard Jackson and Neil Howe

Book Summary

In the spring of 2008, the Global Aging Initiative at the Center for Strategic and International Studies published the Graying of the Great Powers, an in-depth study of the geopolitical implications of ‘global aging’ — the dramatic transformation in population age structures and growth rates being brought about by falling fertility and rising longevity worldwide. The viewpoint of the study is that of the United States in particular and of today’s developed countries in general. Its timeframe is roughly the next half-century, from today through 2050.

The study explains how population aging and population decline in the developed world will constrain the ability of the United States and its traditional allies to maintain national and global security. It not only assesses the direct impact of demographic trends on population numbers, economic size, and defense capabilities, but also considers how these trends may indirectly affect capabilities by altering economic performance, social temperament, and national goals. The study also looks closely at how the striking demographic changes now under way in the developing world will shape the future global security environment — and pose new threats and opportunities for today’s graying great powers.

This overview summarizes the study’s main findings under two headings: findings about the demographic transformation and findings about its geopolitical implications. It also lays out a framework for policy action.

1 The Graying of the Great Powers can be purchased at http://www.csis.org/component/option,com_csis_pubs/task,view/id,4453/.
2 For inquiries, please contact Keisuke Nakashima at knakashima@csis.org.
3 Richard Jackson and Neil Howe are, respectively, senior fellow and senior associate at the CSIS Global Aging Initiative. Keisuke Nakashima and Rebecca Strauss, also with CSIS, contributed to the study.
1. Major Findings: The Demographic Transformation

1.1 The World Is Entering a Demographic Transformation of Unprecedented Dimensions

Global aging is not a transitory wave like the baby boom that many affluent countries experienced in the 1950s or the baby bust that they experienced in the 1930s. It is, instead, a fundamental demographic shift with no parallel in the history of humanity. “When this revolution has run its course,” observe aging experts Alan Pifer and Lydia Bronte, “the impact will have been at least as powerful as that of any of the great economic and social movements of the past”.2

Consider median age. Until the beginning of the twentieth century, a national median age higher than 30 was practically unheard of. As recently as 1950, no nation in the world had a median age higher than 36. Today, 8 of the 16 nations of Western Europe have a median age of 40 or higher. By 2050, 6 will have a median age of 50 or higher. So will Japan, the East Asian Tigers, and 17 of the 24 nations in Eastern Europe and the Russian sphere (see Figure 1). Or consider population growth. Throughout history, populations have usually behaved in one of two ways. They have grown steadily, or they have declined fitfully due to disease, starvation, or violence. In the coming decades, we will see something entirely new: large, low-birthrate populations that steadily contract. There are already 18 countries in the world with contracting populations. By 2050 there will be 44, the vast majority of them in Europe (see Figure 2). As historian Niall Ferguson has written, we are about to witness “the greatest sustained reduction in European population since the Black Death of the fourteenth century”.

![Figure 1: Countries Whose Median Age Is Projected to Be 50 or Over in 2050*](source)

*Excludes countries with populations of less than 1 million.


Figure 2: Countries Projected to Have Declining Populations, by Period of the Decline’s Onset*

*Excludes countries with populations of less than 1 million.

Source: See Figure 1.

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<th>Already Declining</th>
<th>Decline Beginning: 2009-2029</th>
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1.2 The Coming Transformation Is Both Certain and Lasting. There Is Almost No Chance That It Will Not Happen — Or That It Will Be Reversed in Our Lifetime

The public may suppose that population projections 50 years into the future are highly speculative. But in fact, demographic aging is about as close as social science ever comes to a certain forecast. Every demographer agrees that it is happening and that, absent a global catastrophe — a colliding comet or a deadly super virus — it will continue to gather momentum.

The reason is simple: Anyone over the age of 45 in the year 2050 has already been born and can therefore be counted. And though the number of younger people cannot be projected as precisely, few demographers believe that low fertility rates in the developed world will recover any time soon. Even if they do experience a strong and lasting rebound, the declining share of young (childbearing-age) adults in the population will delay the positive impact on age structure and population growth. Because of demographic momentum, population growth takes a long time to slow down. Once stopped, it also takes a long time to speed up again.
1.3 The Transformation Will Affect Different Groups of Countries at Different Times. The Regions of the World Will Become More Unalike before They Become More Alike.

As the term global aging correctly implies, nearly every country in the world is projected to experience some shift toward slower population growth and an older age structure. This does not mean, however, that the world is demographically converging. Most of today’s youngest countries (such as those in sub-Saharan Africa) are projected to experience the least aging. Most of today’s oldest countries (such as those in Europe) are projected to experience the most aging. As a result, the world will see an increasing divergence, or ‘spread,’ of demographic outcomes over the foreseeable future.

During the 1960s, 99% of the world’s population lived in nations that were growing at a rate of between +0.5% and +3.5% annually. By the 2030s, that 99% range will widen to between -1.0% and +3.5% annually. By then, most nations will be growing more slowly, and indeed many will be shrinking — but some will still be growing at a blistering pace of 3% or more per year. In the 1960s, 99% of the world’s population also lived in nations with a median age of between 15 and 36. By the 2030s, that 99% range will widen to between 18 and 54. Here again, the trend is toward increasing demographic diversity.

1.4 In the Developed World, the Transformation Will Have Sweeping Economic, Social, and Political Consequences That Could Undermine the Ability of the United States and its Traditional Allies to Maintain Security. The Consequences Can Be Divided into Three Main Types.

Changes in Demographic Size. The growth rates of the service-age population, of the working-age population, and (therefore) of the GDP in the typical developed country will all fall far beneath their historical trend and also beneath growth rates in most of the rest of the world. In many developed countries, workforces will actually shrink from one decade to the next—and GDPs may stagnate or even decline.

Changes in Economic Performance. As populations age and economic growth slows, employees may become less adaptable and mobile, innovation and entrepreneurship may decline, rates of savings and investment may fall, public-sector deficits may rise, and current account balances may turn negative. All of this threatens to impair economic performance.

Changes in Social Mood. Psychologically, older societies will become more conservative in outlook and possibly more risk-averse in electoral and leadership behavior. Elder domination of electorates will tend to lock in current public spending commitments at the expense of new priorities. Smaller family size may make the public less willing to risk scarce youth in war. Meanwhile, the rapid growth in minority populations, due to ongoing immigration and higher-than-average minority fertility, may undermine civic cohesion and foster a new diaspora politics.

1.5 In the Developing World, the Transformation Will Have More Varied Consequences — Propelling Some Countries Toward Greater Prosperity and Stability, While Giving Rise to Dangerous New Security Threats in Others

At the opportunity end of the spectrum, some developing countries will learn to translate the ‘demographic dividend’ created by their declining fertility into higher savings rates, greater human capital development, efficient and open markets, rising incomes and living standards, and stable democratic institutions. Some will follow the meteoric success path of a South Korea or Taiwan, others the slower-but-still-steady success path of an India or Malaysia.
A larger share of the developing world, unfortunately, stands nearer to the challenge end. There are the countries (most notably, in sub-Saharan Africa) least touched by global aging, whose large youth bulges, high poverty rates, weak governments, and chronic civil unrest offer the least prospect of success. There are the countries (most notably, in the Muslim world) where population growth is declining and substantial economic growth is more likely — but where terrorism and destructive revolutions and wars are also more likely. And then there are the countries whose demographic transformation will be so extreme (Russia) or is arriving so rapidly (China) that it could trigger an economic and political crisis. Russia, Ukraine, and the other Christian countries of the Commonwealth of Independent States (CIS), afflicted both by very low fertility and declining life expectancy, are projected to lose an astonishing one-third of their population by 2050. China, having suddenly adopted a one-child policy in the 1970s, will face a developed country’s level of old-age dependency with only a developing country’s income.

2. Major Findings: The Geopolitical Implications

2.1 The Population and GDP of the Developed World Will Shrink Steadily as a Share of the World Totals. In Tandem, the Global Influence of the Developed World Will Likely Decline

During the era of the Industrial Revolution and Western imperial expansion, the population of what we now call the developed world grew faster than the rest of the world’s population. From 17% in 1820, its share of the world’s population rose steadily, peaking at 25% in 1930. Since then, its share has declined. By 2005, it stood at just 13% — and it is projected to decline still further in the future to below 10% by 2050 (see Figure 3). As a share of the world’s economy, the collective GDP of the developed countries will similarly shrink, from 54% in 2005 (in purchasing power parity dollars) to 31% by 2050 (see Figure 4). Driving this decline will be not just the slower growth of the developed world, but also the surging expansion of such large, newly market-oriented economies as China, India, and Brazil.

Implications: In the years to come, developed-world security alliances will need to fortify their global position by bringing powerful new members who share their values and goals into their ranks as equal partners. They will also have to be alert to threats from powerful new peer competitors, acting singly or in concert, who may wish to challenge the existing global order. By 2050, the very term ‘developed nations’ is likely to encompass several gigantic new economies. Today’s long-term security planners need to prepare accordingly.

2.2 The Population and GDP of the United States Will Expand Steadily as a Share of the Developed-World Totals. In Tandem, the Influence of the United States within the Developed World Will Likely Rise

Over the last two centuries, the U.S. share of the developed world’s population has risen almost continuously, from a mere 6% in 1820 to 34% today. With its higher rates of fertility and immigration, the U.S. share will continue to grow in the future — to 43% by 2050. By then, 58% of the developed world’s population will live in English-speaking countries, up from 42% in 1950. The relative U.S. economic position will improve even more dramatically. As recently as the early 1980s, the GDPs of Western Europe and the United States (again, in purchasing power parity dollars) were about the same, each at 37% of total developed-world GDP. By 2050, the U.S. share will rise to 54% and the Western European share will shrink to 23%. The Japanese share will meanwhile decline from 14% to 8%. By the middle of the twenty-first century, the dominant strength of the U.S. economy in the developed world will have only one historical parallel: the immediate aftermath of World War II, exactly 100 years earlier at the birth of the ‘Pax Americana’ (see Figure 5).
Figure 3: Developed-World Population, as a Percent of World Total, 1950-2050


Figure 4: Developed-World GDP (in 2005 PPP Dollars), as a Percent of World Total, 1950-2050

Implications: Many of today’s multilateral theorists look forward to a global order in which the U.S. influence diminishes. In fact, any reasonable demographic projection points to a growing U.S. dominance among the developed nations that preside over this global order. As Ben Wattenberg puts it, “The New Demography may well intensify the cry that America is ‘going it alone’ — not because we want to, but rather because we have to”. The United States is the only developed nation whose population ranking among all nations — third — will remain unchanged from 1950 to 2050. Every other developed nation will drop off the radar screen (see Figure 6). The United States is also the only developed economy whose aggregate economic size will nearly keep pace with that of the entire world’s economy.

2.3 Most Nations in Sub-Saharan Africa and Some Nations in the Muslim World Will Possess Large Ongoing Youth Bulges That Could Render Them Chronically Unstable until at Least the 2030s.

Political demographers generally define a youth bulge as the ratio of youth aged 15 to 24 to all adults aged 15 and over. As the youth bulge rises, so does the likelihood of civil unrest, revolution, and war. In today’s sub-Saharan Africa, burdened by the world’s highest fertility rates and ravaged by AIDS (which decimates the ranks of older adults), the average youth bulge is 36%. Several Muslim-majority nations (both Arab and non-Arab) have youth bulges of similar size. These include Afghanistan, Iraq, the Palestinian Territories, Somalia, Sudan, and Yemen. In recent years, most of these nations have amply demonstrated the correlation between extreme youth and violence. If the correlation endures, chronic unrest could persist in much of sub-Saharan Africa and parts of the Muslim world through the 2030s — or even longer if fertility rates do not fall as quickly as projected.

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Figure 5: U.S. Population and GDP (in 2005 PPP Dollars), as a Percent of Developed-World Totals, 1950-2050

Source: See Figure 3 and 4.

Implications: While many of these nations will likely remain ‘trouble spots’ for decades to come, most of the trouble will not have geopolitical repercussions — except when it involves terrorism or interferes with the flow of important natural resources. Upon occasion developed countries will intervene, either for humanitarian purposes (for instance, stopping genocide or alleviating natural disasters) or to prevent violence from spreading across national borders. Even modest development assistance may help some of these nations break the cycle of high fertility and high poverty.

2.4 Many Nations in North Africa, the Middle East, South and East Asia, and the Former Soviet Bloc — including China, Russia, Iran, and Pakistan — Are Now Experiencing Rapid or Extreme Demographic Change that Could Push them Either Toward Civil Collapse or (in reaction) Neo-Authoritarianism.

Some of these nations have buoyantly growing economies, while others do not. Some have a recent history of political upheaval, while others do not. Yet all are rapidly modernizing — and all are encountering mounting social stress from some combination of globalization, urbanization, rising inequality, family breakdown, environmental degradation, ethnic conflict, and religious radicalism. China faces the extra challenge of handling a vast tide of elderly dependents come the 2020s, when it will just be becoming a middle-income country. Russia must cope with a rate of population decline that has no historical precedent in the absence of pandemic. Any of these nations could, at some point, suffer upheaval and collapse — with serious regional (and perhaps even global) repercussions. In response to the threat of disorder, many will be tempted to opt for neo-authoritarian regimes (following the current lead of China or Russia).
Implications: Although these fast-transitioning countries may experience less chronic violence than the large youth-bulge countries, the crises they do experience will tend to be more serious. Their economies are more productive, their governments are better financed, their militaries are better armed, and their rival factions are better organized. Several have nuclear weapons. Many stand on the knife-edge between civil chaos and one-party autocracy. In their demographic and economic development, most are entering the phase of maximum danger and must therefore be watched closely.

2.5 The Threat of Ethnic and Religious Conflict Will Continue To Be a Growing Security Challenge Both in the Developing and Developed Worlds

Over the last 20 years, ethnic conflict in the developing countries has been on the rise. The causes include widening population growth differentials between higher- and lower-fertility ethnic groups; the reemergence of ethnic loyalties suppressed during the Cold War; the rise of electoral democracies that enable ethnic groups to vie against each other at the ballot box; and globalization, which may also provoke ethnic resentment by enriching some groups at the expense of others. Meanwhile, in many developed countries, ethnic tensions are being inflamed by the rapid growth of immigrant minorities as a share of the population. All of these trends can be expected to continue in the decades to come. Religious conflict is also likely to intensify due to the following fact: Fully nine-tenths of the world’s population growth between now and 2050 is projected to occur in exactly those regions — sub-Saharan Africa, the Arab world, non-Arab Muslim Asia, and South Asia — where religious conflict (between and among Muslims, Christians, Jews, and Hindus) is already a serious problem. Within those regions, moreover, the disproportionate fertility of devout families will ensure that younger generations will be, if anything, more committed to their faiths.

Implications: In a rapidly modernizing world, the appeal of ethnic and religious loyalty will remain powerful. The developed world needs to demonstrate that it respects this loyalty while at the same time defending pluralism and taking a hard line against aggressors who harness zealotry for destructive ends. It will help greatly if the developed countries are able to demonstrate, within their own borders, that the assimilation of ethnic and religious minorities really does work. Given its track record of relative success, the United States will need to take the lead in this effort.

2.6 Throughout the World, the 2020s Will Likely Emerge As a Decade of Maximum Geopolitical Danger

In the developed world, the 2020s is the decade in which global aging will hit the hardest. Workforces will practically stop growing everywhere except the United States — and will begin to shrink rapidly in much of Western Europe and Japan — with potentially serious economic consequences. The ratio of elderly to working-age adults will surge, with especially large jumps in countries (like the United States) that had large postwar baby booms. Some governments may experience a fiscal crisis. Meanwhile, in the developing world, new demographic stresses will appear. Many Muslim-majority countries (both Arab and non-Arab) along with some Latin American countries will experience a temporary resurgence in the number of young people in the 2020s. This youth echo boom (a 30-percent jump in the number of 15-to-24 year-olds in Iran over just 10 years) may rock regimes. The countries of the Russian sphere and Eastern Europe will enter their decade of fastest workforce decline, even as China, by 2025, finally surpasses the United States in total GDP (in purchasing power parity dollars). Yet China will face its own aging challenge by the 2020s, when its last large generation, born in the 1960s, begins to retire.
Implications: Security planners must keep in mind that demographic change is nonlinear. The 2020s promise to be a decade in which breaking population trends come to play an important role in world affairs. According to ‘power transition’ theories of global conflict, China’s expected displacement of the United States as the world’s largest economy during the 2020s could be particularly significant. By 2025, China’s economy will also be four times larger than Japan’s and three times larger than India’s. At the same time, however, China will be grappling with a sudden rise in its old-age dependency burden and a sudden decline in its workforce. The net outcome is uncertain.

2.7 The Aging Developed Countries Will Face Chronic Shortages of Young-Adult Manpower — Posing Challenges Both for Their Economies and Their Security Forces

As the developed world ages, domestic youth shortages will create powerful economic incentives to encourage immigration and trade and to expand all types of offshoring. Political opposition from aging workforces and older electorates is certain. With the number of service-age youth flat or declining in most countries (especially in the rural subcultures that have traditionally supplied recruits), militaries will be hard-pressed to maintain force levels — especially if smaller families are less willing to put their children at risk in war. Militaries will need to resort to creative expedients. They will outsource all non-vital functions. They will try substituting high-tech capital, such as robotics and unmanned craft, for labor. They may offer citizenship for service, directly hire overseas combatants (in effect, mercenaries), or enter ‘service alliances’ with friendly developing countries.

Implications: Many developed countries will be tempted to abandon military forces altogether, especially forces capable of large-scale combat, which will render them permanent free riders on their allies. Countries retaining major forces, the United States foremost among them, will need to carefully weigh the potential benefits of labor-intensive security missions (such as occupation, nation building, and counterinsurgency) against the high costs. Informal burden-sharing may give way to a more formal assessment of global levies — or to alliance-shattering declarations of neutrality.

2.8 An Aging Developed World May Struggle to Remain Culturally Attractive and Politically Relevant to Younger Societies

Today’s liberal and democratic global order owes its durability not only to the developed countries’ capacity to defend it against aggressors, but more importantly to the positive global reputation of the developed countries themselves. Their mores and institutions embody this order. This is sometimes called the ‘soft power’ of liberal democracy, and it has widespread support both as a way of life and as a force in global affairs. All of this may change if, as the developed countries age, they are no longer regarded as progressive advocates for the future of all peoples, but rather as mere elder defenders of their own privileged hegemony. Illiberal neo-authoritarian regimes may then be able to win popularity as better advocates for rising generations. Ominously, history affords few (if any) examples of an aging civilization in demographic decline that has managed to preserve its global reputation and influence.

Implications: The consequences of the coming demographic transformation cannot be calibrated in mere population, productivity, or GDP numbers. The most important consequences may lie in the realm of culture and perception. By making full assimilation of immigrants work at home and by building mutually beneficial relationships with younger allies abroad, the developed countries may yet keep their ideals fresh in the eyes of the world. If, on the other hand, the twenty-first century comes to be seen by the developing countries as a struggle between the old, complacent, demographically declining ‘them’ and the young,
aspiring, demographically ascendant ‘us’, the challenge facing the developed world will be much more difficult.

3. A Framework for Policy Action

Meeting the geopolitical challenges posed by global aging will require strategic policy responses on four broad fronts: (1) Demographic Policy, or responses that slow demographic aging itself, and thus alter the fundamental constraints on the geopolitical stature of the developed countries; (2) Economic Policy, or responses that maximize economic performance, and thus mitigate the negative impact of any given degree of aging; (3) Diplomacy and Strategic Alliances, or responses that adjust foreign-policy orientation to meet the new geopolitical threats and opportunities arising from global demographic change; and (4) Defense Posture and Military Strategy, or responses that adapt force structures and mission capabilities to the new demographic realities.

3.1 Demographic Policy

• Help women balance jobs and children. Policies that help women (and men) balance jobs and children are the lynchpin of any effective pronatal strategy. Countries with low fertility rates and low rates of female labor-force participation may need to reform labor-market rules that limit part-time work options, implement parental leave policies, and provide for affordable daycare. More broadly, all countries will need to move toward more flexible career patterns that allow parents to move in and out of employment to accommodate the cycles of family life.

• Reward families for having children. Although the evidence that direct pronatal benefits raise fertility is mixed, they may be effective with the right incentive structure. One approach that has been used successfully by France is to increase the per capita amount of cash payments (or tax breaks) along with the number of children that families have. Another promising approach discussed by some developed countries (but not yet enacted by any) is to build pronatal incentives into social insurance systems by reducing payroll tax rates (or increasing benefit payouts) for families with children.

• Improve the economic prospects of young families. In the end, no pronatal strategy will succeed unless governments also pursue broader reforms that improve the economic prospects of young families. One large impediment to family formation in the developed countries is the rising burden of intergenerational transfers from young to old. Two-tier labor markets are another. Reforms in both of these areas will be crucial.

• Leverage immigration more effectively. Higher immigration rates can substitute to some extent for higher fertility rates. The faster that immigrants can be assimilated into the mainstream of society, the higher the immigration rate can be without triggering social and political backlash. Developed countries without a tradition of assimilating immigrants will need to study best practices around the world, especially in the United States, Canada, and Australia.

3.2 Economic Policy

• Reduce the projected cost of old-age benefits. Any overall strategy to minimize the adverse economic impact of demographic aging must begin by reducing the rising cost of pay-as-you-go old-age benefit programs. There are many possible approaches. For pensions,
governments can raise eligibility ages, means test benefits, or introduce ‘demographic stabilizers’ that directly index benefits to changes in the old-age dependency ratio. For health benefits, they can control costs by implementing a ‘global budget cap’ for health spending and by researching and mandating best-practice standards.

- **Increase funded retirement savings.** As governments scale back pay-as-you-go benefits, they will need to ensure that funded private pension savings fills the gap. Experience teaches that mandatory systems are far more effective at increasing savings and ensuring income adequacy than voluntary systems.

- **Encourage longer work lives.** Along with reducing fiscal burdens, aging societies need to increase workforce growth. Encouraging longer work lives will be crucial. The developed countries will need to raise eligibility ages for public pensions, revise policies (like seniority pay scales) that make older workers costly to hire or retain, encourage lifelong learning, and develop ‘flexible retirement’ arrangements of all kinds.

- **Enable more young people to work.** While more older workers will help, younger workers have their own indispensable qualities. Governments, especially in Europe, will need to overhaul two-tier labor markets that lock in high levels of youth unemployment. Meanwhile, countries with low female labor-force participation must make it easier for women to balance jobs and children. With the right mix of policies, countries can have both more working women and more babies.

- **Maximize the advantages of trade.** Trade allows aging societies to benefit from labor in younger and faster-growing societies without the social costs of immigration. As technology increases the tradable share of the service economy, the potential for trade to raise living standards will grow. Yet so too will resistance to offshoring on the part of aging workforces and electorates. Governments will need to pay special attention to developing policies that mitigate the adjustment costs.

- **Raise national savings.** Only adequate national savings can ensure adequate investment without the dangers of large and chronic current account deficits. Governments in aging societies will have to implement a comprehensive pro-savings agenda that includes everything from tax reform to entitlement reform.

### 3.3 Diplomacy and Strategic Alliances

- **Expand the developed-world club.** The future security of today’s developed countries will increasingly depend on their success at building enduring strategic alliances with younger and faster-growing developing countries that share their liberal democratic values. The only way to keep the developed world’s relative demographic, economic, and geopolitical stature from declining is to expand the membership of the developed-world club itself.

- **Prepare for a larger U.S. role.** As the population and economy of the United States grow relative to the rest of the developed world, so too will its role in security alliances. Leaders in the United States, Europe, and Japan need to acknowledge and prepare for this reality, while seeking ways to strengthen multilateralism.

- **Invest in development assistance.** Over the next few decades, much of the developing world will be subject to enormous stresses from rapid demographic, economic, and social change. To help prevent chronic problems from erupting into acute security threats, the developed countries need to devise long-term and cost-effective strategies of development aid and state-building assistance. A large investment could yield large payoffs, but it may not be affordable unless the developed countries manage to control the rising cost of old-age benefits.

- **Remain vigilant to the threat of neo-authoritarianism.** As the demographic transition
progresses and the stresses of development increase, the appeal of the neo-authoritarian model is likely to grow in many parts of the world. The developed countries must remain vigilant to the threat and devise strategies to steer at-risk countries in the direction of liberal democracy.

- **Preserve and enhance soft power.** The developed countries now exercise enormous soft power throughout the world. To preserve and enhance it, they must make sure that they remain champions of the young and the aspiring — both at home and abroad. If domestically they persist in tilting the economy toward the old, and if internationally they are unwilling to commit substantial resources to helping young nations, the global appeal of their values and ideals will diminish.

3.4 Defense Posture and Military Strategy

- **Prepare for growing casualty aversion.** Defense planners must realize that youth will be considered a treasured asset in aging societies. Developing communication strategies to persuade the public that putting scarce youth at risk is necessary must become an integral part of the planning process for military actions.

- **Substitute military technology for manpower.** Developed-country militaries are already doing a lot of this, and they will need to do even more in the future. Substituting technology for manpower, however, is a strategy with limitations. Manpower will always be needed — for occupation and pacification, for nation building, and, in the event it happens, for large-sale conventional war.

- **Substitute nonnative for native manpower.** As recruitment pools shrink, the developed countries will need to substitute nonnative for native manpower. The challenge will be to minimize the risks associated with this strategy. The worst approach is to hire freelance mercenaries (whether foreign or domestic). The best may be to offer immigrants citizenship in return for service — perhaps, as Max Boot and Michael O’Hanlon suggest, even recruiting potential immigrants abroad.  

- **Create ‘service alliances’ with loyal developing countries.** Another way to substitute nonnative for native manpower is to create service alliances with developing-country allies that are willing to supply troops in exchange for aid or technology. Developed-country militaries would need to train and equip the troops to developed-country standards.

- **Adapt weapons, training, and force structure.** Demographic trends will influence both the types of locales in which militaries will be called on to fight and the types of missions they will be called on to execute. Warfare will be increasingly urban; nation building will be as important as battlefield victory; and expertise in ‘exotic’ languages and familiarity with foreign cultures will be essential. Weapons, training, and force structure must be adapted accordingly. It may make sense to develop a special nation-building force—or what Thomas Barnett calls a SysAdmin Force.  

In the decades to come, the world will witness a sweeping demographic transformation never before seen in history. The rapid aging of today’s developed countries threatens to undermine their ability to maintain national and global security — even as demographic trends in the developing world will give rise to serious new threats. Meeting the challenge will require discipline, leadership, and a wide-ranging and long-term agenda.

To the extent that it can, the developed world should try to modify the demographic outcome through family-formation and immigration policies that are consistent with its

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deeply held liberal democratic values. As the transformation unfolds, it will need to take special care to enhance and preserve the performance of its economies — by making sure that they remain flexible, open to new innovations, and generate enough savings to ensure a future of rising living standards for younger generations. In its dealings with the rest of the world, the developed world will need to be forward-looking and open to the membership of new societies that share its basic values — as well as vigilant about countries that may respond to rapid demographic change in authoritarian ways. As always, the security and authority of the developed world will depend on its ability to defend itself. This will require creative solutions if it is to protect its scarce youth from needless risks, while filling a broader range of likely missions. Here too, part of the solution will be to build relationships with younger societies that are potential allies.

Well into the twenty-first century, the United States will be fated by demography to be a leader. It will not only have to continue shouldering the level of global responsibility of recent decades, but in all likelihood will have to assume even greater responsibility. In a world of graying great powers, the United States will be even more indispensable.
Clinical Aspects of Long-Term Risk Management

by Christopher Ball*

1. Developing a Shared Language

The relationship between life/health underwriting and the medical profession may seem at first sight to be a simple one. However there is a complex dynamic between the two that is at its most intricate in the assessment of Long-Term Care (LTC) risk. Most of the difficulties arise in the way that the different professions know things and the need for one to adapt this knowledge to the paradigms of the other. Medical knowledge and insurance knowledge are constructed differently. The questions asked by the insurance industry (often very obvious and straight forward) are not the questions that clinical researchers have set out to answer. Translating the knowledge is the challenge.

Developing a shared language between underwriter and physician is at the heart of growing the expertise to manage LTC risk. For the physician, this means an understanding of the product, the claims triggers, the way information is collected and presented, the risk and the processes of underwriting and claims. For the underwriter, developing an understanding of the clinical process of history-taking, examination, investigation, diagnosis treatment and management is the challenge. Whilst this is true for all life health underwriting, LTC brings its own particular issues.

Caring for elderly patients employs different ways of thinking about problems than caring for younger people. There is a greater interest in the person as whole. It is rarely enough to know that the person has chest pain after walking 100 meters and cannot get up stairs without getting breathless. This will probably be enough information for a doctor to order an echocardiogram and treat the results. Physicians looking after older people will want to know more about the person themselves and the problems that they are having with their day-to-day life.

They will want to understand the resources, both physical and psychological, that their patient has to manage the disease, and they will want to understand the impact of the problem on carers.

2. Bio-Psycho-Social Model

The theoretical model that underlies this thinking is the Bio-Psycho-Social model. It is not enough to know the diagnosis and severity of an illness to understand the impact that it has on a person. An arthritic knee for a person who has a desk job means that the commute to work is a bit uncomfortable; for an international fast bowler it may represent the end of a

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career, financial hardship and even depression. In order to measure the impact of a disease on a person’s function, a lot more has to be known about that individual.

Figure 1: The bio-psycho-social model

- Genetics
- Physical Illness
- Drugs
- Gender
- Birth
- Trauma

- Economics
- Housing
- Religion
- Work
- Events

Understanding the different impact these different psychological, biological and social factors present in a given individual is an important part of managing the risk.

3. Functional Changes

Activities of Daily Living (ADL) are the currency of functional change. Relatively little is known at the population levels about the level of ADL failure and how it is distributed, beyond a crude association with age. Relatively little is known about the progression of ADL failure at a population level. Different studies use different definitions or range of ADLs (Rickayzen and Walsh, 2002). Studies use different definitions of impairment or disability, and so their relevance to a particular LTC product and its claims triggers has to be teased out carefully.

Much is understood about the functional impairment in individual conditions (e.g., stroke), but older adults usually have more than one condition. For younger adults without medical problems, it remains very difficult to predict the likelihood of later ADL failure.

Several important principles can be drawn from the data.
1. Young people with ADL failure are usually stable and tend to have relatively normal life expectancies. This is because the commonest cause of problems is trauma rather than degenerative disease. There are exceptions (e.g., Multiple Sclerosis) that would need to be examined on their own terms.
2. In the ‘young old’ or lives under age 70, ADL failure is relatively short lived as it is often the result of a single catastrophic event such as stroke, myocardial infarction or cancer. The nearer to age 60 that the person develops ADL failure, the shorter the claim is likely to be.
3. The ‘old old’, or people over age 70, who develop ADL failure, are likely to remain in claim for a long period. They represent a survivor cohort whose problems are the result of multiple pathologies. None of these may be of great severity, but in combination cause significant functional decline. They are often ‘frail’, and it is the development of frailty that best predicts the need for LTC.
4. Frailty

Frailty is a complex concept that has been thought about in many different ways over the years. Most concepts of frailty share the idea that some bio-medical measure can predict physiological (functional) capacity. Hand grip or timed walking test (Klein et al. 2005) serve as proxy measures for the overall functioning of an individual. Other concepts of frailty stress the dependence upon others for the performance of day-to-day functioning, whilst more socially-based ideas stress the ability of the person to carry out their roles in life (father, mother, club chairman, etc.). Some include a psychological component with cognitive impairment or depression as important factors. The majority seek to represent frailty as a continuum (how frail is this person?), but a smaller number of others treat it as a dichotomy (frail or not?) (Markle-Reid and Browne, 2003).

5. ‘Good for their Age’ — Stereotypes of Ageing

The question then arises: Is this person frail, ‘good for their age’ or a poor LTC risk?

Stereotypes of ageing are difficult to displace from the underwriting process. What do you expect at 72? If the underwriter uses their day-to-day experience of the elderly as a guide, then problems may ensue. Having a relative who developed dementia in their early 60s may well colour their judgement compared to one who has experienced grandparents as active and engaged with the world. Merely being ‘good for their age’ is not a basis for an underwriting decision.

The challenge for the underwriter becomes taking a hard look at the evidence that is available to them, putting aside the stereotypical pictures of ageing and attempting to identify applicants with a degree of frailty that makes them an unacceptable LTC risk.

6. Identifying Frailty at Underwriting

The principle risk factors for frailty and hence functional decline are outlined in Table 1.

Table 1: Principle risk factors for frailty

| Age | Cognitive state |
| Co-morbidity | Polypharmacy |
| Changes in life style | Functional limitation in instrumental activities of daily living (IADL) |
| Nutrition | Physical inactivity |
| Social isolation | Education |
| Income | Vision |
The risk factors for frailty demonstrate how the bio-psycho-social model works. Biological features (age, co-morbidity, polypharmacy) rub shoulders with psychological functions such as cognition and social factors (social isolation, income and education) to contribute to the degree of frailty.

7. The Application Form

The information needed to assess frailty is not available on standard insurance application forms, and specially designed data collection forms are required. In addition to many of the standard questions, specific information on IADLs is sought (Table 2). Failing of IADLs predicts future failure of ADLs (e.g., Peres et al., 2006). The forms must capture change in IADLs as well as the current state of functioning. The forms must also explore the social aspects of a person’s life (e.g., hobbies and pastimes).

Table 2: Instrumental activities of daily living

<table>
<thead>
<tr>
<th>Transport</th>
<th>Shopping</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housework</td>
<td>Laundry</td>
</tr>
<tr>
<td>Cooking</td>
<td>Finance</td>
</tr>
<tr>
<td>Medication</td>
<td>Telephone</td>
</tr>
</tbody>
</table>

8. Paramedic Examination

The traditional paramedic examination is extended in LTC underwriting. The paramedic must ask more in depth questions about ADL and IADL functioning. Exploring the changes in functioning over time is a vital part of examination (Has this changed in the last year?). Knowing more about hobbies and pasttimes is important. A daily walk to and from the bar on the corner of the street is very different from a couple of miles across the fields with the dog. An interest in gardening can mean anything from looking at the garden through the window to regular digging sessions in the vegetable patch. The para-medic is also able to see the person in their own home and get a much better idea about how they are coping day to day. This kind of information is unlikely to be available from any other source.

A vital part of the paramedic examination is the examination of the cognitive state. There is no test that captures all the attributes of an ideal test (Table 3).

Table 3: Attributes of the ideal cognitive screening test

<table>
<thead>
<tr>
<th>Short</th>
<th>Acceptable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Covers a range of cognitive functions</td>
<td>Well established</td>
</tr>
<tr>
<td>Linked to other functions</td>
<td>Able to interpret the results</td>
</tr>
</tbody>
</table>
A number of candidates (e.g., Mini-Mental State Examination (Folstein, Folstein and McHugh, 1975) are available, but whichever test is chosen, there are a number of important issues:

1. Paramedics must be trained to undertake the test in a standardised manner.
2. The scoring algorithms must be consistent.
3. The interpretation of the test by the underwriters must take into account the person being tested. Where LTC insurance is expensive it is sold to well-educated middle class individuals who are motivated to do well in the tests. Small decrements in these tests are likely to be more significant than when these tests are part of epidemiological surveys.

The longest and most expensive claims are those arising from cognitive failure. Identification of the ‘pre-dementia’ states with their different definitions (e.g., Mild Cognitive Impairment, Questionable Dementia, etc.) is important, as the there is a significant progression to dementia each year Table 4.

Table 4: Conversion rates to Alzheimer’s disease of ‘pre-dementia’ conditions

<table>
<thead>
<tr>
<th>Age 40</th>
<th>Age 80</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vast majority in normal health</td>
<td>Vast majority have significant medical history</td>
</tr>
<tr>
<td>Most with a medical history have a single disease</td>
<td>Many have multiple medical problems</td>
</tr>
<tr>
<td>Risk/Medical History/Function all aligned</td>
<td>Risk/Medical History/Function not aligned. Risk aligns with function.</td>
</tr>
<tr>
<td>Homogenous risk group</td>
<td>Heterogenous risk group</td>
</tr>
</tbody>
</table>

Source: After Petersen et al. 2001.

9. General Practitioners Reports

General Practitioner Reports (GPRs) are good for getting lists of diagnoses and medication. They will also be able to furnish information about the control of medical symptoms over time (e.g., blood pressure or blood sugar). Where they are less useful is in their information about the functional status of the applicant and in recognising cognitive impairment. Up to 65% of those with dementia are not recognised as suffering from the disease by their GP. This is particularly problematic for those with mild dementia where 80% might go unrecognised (Illife et al., 2000).

10. Conclusion

Restructuring the information collecting process brings to the underwriters desk information that allows sophisticated assessment of risk. The information must be understood within paradigms of LTC risk and not in the more traditional life health underwriting structures (Table 5).
Table 5: Risk paradigms in young and old

<table>
<thead>
<tr>
<th>Study</th>
<th>Mean/Age</th>
<th>Criteria</th>
<th>Annual conversion rate to Alzheimer’s Disease (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mayo</td>
<td>81</td>
<td>Mild Cognitive Impairment</td>
<td>12</td>
</tr>
<tr>
<td>Toronto</td>
<td>74</td>
<td>Memory Impairment</td>
<td>14</td>
</tr>
<tr>
<td>Columbia</td>
<td>66</td>
<td>Questionable dementia</td>
<td>15</td>
</tr>
<tr>
<td>Seattle</td>
<td>74</td>
<td>Isolated memory loss</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: After Ashley, 2004.

Merely taking each diagnosis and applying a rating ‘silo underwriting’ is likely to underestimate risk. The development of the Gen Re Long-Term Care manual seeks to challenge this approach by offering the underwriter grids for the major diseases which allow ratings for different severities of the disease based on both biological and functional severity. The clinical approach to the assessment and management of health problems in the elderly has been a significant influence on the development of this approach to risk management.

REFERENCES


Long Term Care Underwriting and Claims Assessment Protocols — The UK Experience

by Ross Campbell*

Abstract

This article takes a critical look at some weaknesses in Long Term Care (LTC) underwriting and claims protocols that developed in the UK market against a backdrop of a collapsing demand for pre-funded LTC products. Although these products have all but disappeared from the UK market, important lessons can be learned to help new entrants deal more effectively with risk management of any second generation LTC products.

Pre-funded LTC plans pay benefits on failure of Activities of Daily Living (ADL) or cognitive impairment measured against set severity criteria. Reviewable regular or lump sum premiums fund pre-selected benefit levels.

LTC insurance of this type became widely available in the UK in 1990. Towards the end of 2004, however, the main providers had withdrawn their products from sale. During this timeframe the volume of sales waxed and waned but without ever reaching the levels that might be expected in an affluent society with an ageing population.

The relative failure of this LTC concept in the UK has several causes. Amongst these are a lack of customer confidence in the investment performance of long term insurance solutions (such as mortgages and pensions) and their misjudgement of the State’s appetite to pay for the future care needs of the elderly. The product was expensive and represented a difficult sale. In practice LTC was bought by a much older cohort of lives than anticipated. Their complicated risk profile and propensity to early claim caused problems for insurers and had notable effects on their profitability.

1. Weak Underwriting Protocols

One consequence of the relative lack of demand for LTC was that lax underwriting protocols developed as companies sought to maximise new business opportunities and stimulate further sales. Pressure from the sales operation probably contributed to the underpricing of individual risks by accommodating underwriters. Early application form questions were weak, lacking specific enquiry on memory problems for example. Medical examinations followed the template used for life insurance, thereby missing important risk details in older lives. Detection of early cognitive problems initially relied on a delayed word recall test, and underwriters were guilty of generous interpretation of test scores. Additional loadings were often insufficient as underwriters exhibited a lack of understanding of co-morbidity and the real effects of ageing.

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2. Philosophy of Claims Management

It was not untypical for an LTC claims philosophy to be open and helpful. Though well meaning, such an approach was often far from robust. Perhaps because UK products were non-regulated, insurers were wary of possible criticism of unfair claims handling for elderly or vulnerable policyholders.

The effect of generous claim assessment was compounded when there was a discrepancy between claim evidence and underwriting evidence, making assessment of any deterioration in physical condition over time difficult. The style and standard of written reports made by visiting nurses and occupational therapists was inconsistent and often subjective, reflecting the examiners assumptions about ageing rather than measurable change.

Although conceived as a health care product, generous LTC claims philosophies may have stepped too far over the line of helpfulness with ex-gratia and borderline settlements a common feature. The effect was perhaps magnified once benefits became payable to claimants as cash not care. Audits of UK claims portfolios highlighted examples of overactive claims management resulting in insurers seeking ways to pay claims on a scale not supported by the premiums paid by the policyholder.

A difficulty of assessment of ADL failure at claim stage is the effect of temporary and partial failure or so called ‘good-day-bad-day’ behaviour. When faced with a combination of partial failures, a simple claims option was to admit as this appeared fair and helpful despite this action undermining the pricing of the product.

3. Policyholder Behaviour

Underlying these two aspects was the anti-selective behaviour of LTC applicants. Most UK LTC customers are in the higher socio-economic groups, both financially aware and capable of affording the relatively high cost of LTC insurance. While overt non-disclosure was found to be rare, many applicants had postponed their decision to purchase LTC for as long as possible, often until they experienced difficulty with personal care or had memory problems. Weak underwriting protocols fuelled an increase in unexpected early claims.

Once in claim for ADL failure, the health of elderly policyholders was seen to improve with regular medication and care. Those claimants with cognitive decline were observed to live far longer in claim than had been expected. The UK insurers experienced a very low level of recovery from disability whilst in claim.

4. Product Design Impact

For many, the design of the products themselves was seen as a key factor in the downturn in demand. Products were regarded as complicated and with a heavy burden of underwriting. Criticism of ADL-based claims triggers is possibly misplaced as changes in these clinically described behaviours are consistently observed as people grow old. However as claims experience undermined pricing, unpopular premium reviews further stifled new growth as consumer confidence in pre-funded LTC ebbed.
5. Can Pre-funded LTC Rise Again?

LTC represents a sound product idea for the UK as it provides a vehicle to fund personal care needs that are extremely unlikely to be provided free of charge by the State. Any Government support that is developed is likely to prove out of reach of more affluent citizens due to means testing. There remains a huge potential insurance market that remains largely untapped.

The UK LTC insurers’ experience is mirrored by the one in the USA. It is well documented that large losses, a drop in sales to the lowest level in ten years, and increased prices have significantly reduced the appetite of US insurers to offer the product. This downturn represents a significant lost premium opportunity.

In both markets, however, growth potential exists. Much of any recovery will depend on developments in the product itself.

A shift to joint life (shared care) policies, reduced benefit and increased elimination periods or even public/private partnerships have been discussed. It seems unlikely that the needs of this large market will remain unexploited. A recent report to the Government Actuary by the Personal Social Services Research Unit estimates the numbers of dependent older people in the UK will double to 4 million over the next 30 years.

6. Reinsurer Response on Underwriting and Claims

The up and down experience in the UK market was shared by Reassurers and their insurance partners on a quota share basis. In any new product field we can expect some development to be required. It is the nature of things. Gen Re LifeHealth UK helped clients with product and pricing reviews and worked to design tougher gate-keepers for both underwriting and claims. Amendments to underwriting practices and increased involvement in claims management enabled closer monitoring of results and improved experience. Significant training and development effort helped make positive shifts in underwriting and claims management philosophies.

Major work was undertaken to review the LTC manual; underwriting guidelines provided for clients. This has resulted in a thoroughly updated version that includes increased ratings for some disorders and has clarified the definition of unacceptable risks and co-morbidity. The ratings build not only on the experience within the industry but also on the increasing body of medical evidence concerning the behaviour of medical conditions in old age (e.g., hypertension).

LTC providers in the UK were not idle while these market conditions were at work.

Improvements in both selection process and claims management are now in place following significant development work, and these are supported by refinements to the wordings of ADL definitions.

7. Underwriting Improvements

Improvements in the design of application form questions and the evolution of medical evidence collection protocols provide underwriters with much improved risk data. Importantly, the medical evidence is designed to mirror that which can be obtained at claim stage. This is important to allow tracking of any decline in functional ability over time.
Examination of aspects such as social setting, personal care, judgement and problem solving become important reference points for accurate underwriting assessment of at-risk individuals. Home visiting nurse agencies supply this service in the UK.

The Mini Mental State Examination (MMSE) was adapted for use and deployed at a lower age on applicants. The MMSE is a cognitive assessment tool that assesses a wider range of cognitive ability than a word recall test. It also satisfies the need to be short, portable and repeatable. LTC underwriters use a high score as a cut off point and indicator of possible mild cognitive impairment.

Overall, underwriters are now encouraged to have a high index of suspicion when assessing all LTC applicants. A tougher interpretation of associated evidence and test results ensures they do not dismiss reductions in functional capacity as representing normal ageing or that the applicant is merely ‘good for their age’. This historic philosophy, together with a silo approach to the assessment of individual components of risk, did much to undermine selection in the past.

8. Claims Management Improvements

Claims management has been tightened up and aligned much more closely to profitability. The claims philosophy that is applied was brought into line with the underwriting approach. Improved training of nurse assessors and the introduction of hands-on protocols to test ADL ability have dramatically raised the bar in claims management. MMSE results backed by consultant reports make the assessment of possible cognitive claims more accurate. Charting changes over the time since policy issue is now possible, since claims evidence now mirrors that taken at underwriting stage.

9. Conclusions

Although there has been a decline in the pre-funded LTC market in the UK, important lessons have been learnt that will inform future practice. More and more countries are moving to an insurance-based system to meet the needs of their growing population of elderly people. It seems inconceivable that the UK will not move in this direction at some time in the near future.

In their report, The State of Social Care in England 2005-2006, the Commission for Social Care Inspection (CSI) warn of an ‘ever-rising eligibility criteria for access to services’. As the number of older and disabled people increases, local councils respond by raising the threshold of entitlement to council-funded services. The effect is that fewer people receive services, and those that do must demonstrate high levels of need including being unable to feed themselves or get out of bed.

For an insurance-based scheme to be successful in providing a solution for a large population at an affordable price, the insurance companies must believe that business can be profitable. The experience of the first wave of LTC insurance in the UK suggests that without stringent assessment of risk and robust claims procedures, companies will be unable to meet the challenges that the market presents, nor reap the rewards that are available.
On the basis of a voluntary network, partly supported by The Geneva Association, The Risk Institute was established in order to extend the studies on the issues of risk, vulnerability and uncertainties to the broader cultural, economic, social and political levels of modern society.

The starting point defining the programme of action was an informal meeting held in Paris in 1986. Among the participants were Raymond Barre, Fabio Padoa, Richard Piani, Edward Ploman, Alvin and Heidi Toffler and Orio Giarini.


The book stresses the point that uncertainty is not just simply the result of inadequate or insufficient information. Every action extending into the future is by definition uncertain to varying degrees. Every ‘perfect system’ (or ideology) is a utopia, often a dangerous one: the total elimination of uncertainty in human societies implies the elimination of freedom. Learning and life are about the ability and capacity to cope, manage, face, contain and take advantage of risk and uncertainty.

In 2002, The Risk Institute published with Economica (Paris) the book *Itinéraire vers la retraite à 80 ans*. Ever since the The Risk Institute has been mainly concerned with a research programme on social and economic issues deriving from extending human life expectancy (usually and wrongly defined as the ‘ageing’ society), which is considered the most relevant social phenomenon of our times. This is particularly relevant in the context of the new service economy. The Risk Institute has contributed to the organisation of the conference on “Health, Ageing and Work” held in Trieste and Duino on 21-23 October 2004. On this basis, it has taken the initiative to publish these EUROPEAN PAPERS ON THE THE NEW WELFARE — The Counter-Ageing Society, in two versions (one in English and one in Italian), with the support of various institutions.

**Service Economics and Risk Management in a Nutshell**

- Economics is a social ‘science’ originating as a consequence of the industrial revolution, and developing for about two centuries. It is NOT the ‘science’ of economy per se, but of a specific phenomenon starting in the eighteenth century. It concentrates on the manufacturing of goods, and — culturally or philosophically — is linked to a deterministic thinking (quite valid, because useful, until the beginning of the last century). From all this derives the definitions of a series of fundamental concepts: value, equilibrium, productivity, the role of prices (explicit and implicit ones) etc.

- Within this framework the role and place of an important economic sector such as insurance remains secondary (rightly so at the time of Adam Smith). Uncertainty is linked to incomplete information. The basic paradigm is the reference to equilibrium, which implies complete information, even if in our era this is still admittedly imperfect. In this perspective, science is implicitly considered as a means to reduce the information gap and finally to eliminate it. And insurance with it. So, why bother to integrate insurance
(and risk management) in the basic studying and learning of economics? The very idea of imperfection is wrong as it is based on a kind of ideological determinism.

• The point is that information is by nature ‘imperfect’, because the value (economic value) is not the result of a static equilibrium, but of a dynamic disequilibrium. Even when economists like Samuelson admit dynamic analysis, the phenomena analysed are presented as series of sequentially static states.

• To really understand this, one has to go back to the process of producing wealth: the first step is to recognize that services today are production functions for over 80% of all resources used. Services are NOT a sector, but production tools in all economic activities. The most advanced ‘manufacturing-industrial’ companies are those where service functions are dominant: research, development, quality control in ‘production’, information, storage, distribution, utilisation, etc. and finally waste management (the ecological issues are totally integrated in the modern economic cycle in this way).

• The second step is to realize that the value of a service-based economy is not dependent on the existence of a ‘product’ (even if this is a service), but in its performance in time: this is the source of two basic forms of uncertainties. The first refers to the duration of performance in (future) time. The second to the events which might alter the mode and quality of this performance (and here we rediscover the notion of Risk Management).

All this leads to the idea that the pricing system of insurance is NOT just an odd case with reference to the rest of the economy (the famous question of the reversal of the costs and prices cycle): in the service economy, the pricing system of insurance based on uncertainty is now at the core of the whole economy. Whenever a ‘product’ is sold today, its future performance will add to the present price paid future foreseen and unforeseeable costs. In most cases, higher than the cost of the initial ‘product’. Some ‘products’ then, as in the case of waste management and environmental costs, become a sort of negative public goods often paid for by taxes (determined ex post). The liability explosion is strictly interconnected with this issue.

It seems a paradox, but insurance (and risk management) is simply at the core of the modern, service-based economy. Just the opposite of the normal, current perception and understanding. For the moment, insurance will not make considerable progress as long as the basics of economics are still those deriving from the traditional (no longer existing in fact) industrial-manufacturing era. Obviously there is no question of services totally replacing manufacturing. They are both needed: there is no service without a tool and vice-versa. The question is just a reversal in the priorities (from hard products to services). And this alters the notion of value, from the one fixed in an equilibrium system between supply and demand at a given moment in time, to the one in which any price given at any moment in time is just a contract or commitment such as an insurance policy: most of the costs in the ‘utilisation’ process — or performance — (determining the real value of any economic system) intervene ‘later’ in time, and are inevitably just ‘probable’.

Linked to this process (and to the impact of technology) is an understanding of the notion of vulnerability as a basic reference to risk management. For more details on this issue, see the study on “The Limits to Certainty — Managing Risk in the Service Economy” published under the auspices of The Risk Institute and The Club of Rome.

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Founded in Milan in 1987, Macros Research conducts surveys and researches in the area of Economics of Ageing with particular reference to their impact on the welfare State, pensions and health.

It belongs to the Macros Group, which is made up of two other companies: Macros Consulting, operating in the field of top management strategic consulting, and Macros Risk Management, a consulting company dealing with integrated risk management.

Since its inception, Macros Research has stood out for its international vision, which is confirmed by over 20 years of collaboration with the Geneva Association, the Risk Institute of Geneva-Milan-Trieste, as well as Italian and international Universities and research institutes.

Macros Research carries out research projects and studies according to a multidisciplinary approach in order to analyse and investigate — from both economic and financial perspectives — the management of economic and social risks in the public and private sectors.

The main research areas focus on the following topics:

- Pensions and Welfare systems in Italy and the OECD countries; Private savings and public pension systems; The Elderly and the Labour Market; Long Term Care; Insurance Economics; Risk Management.

Macros Research is one of the Italian key stakeholders, who support the global initiative of the World Economic Forum (WEF) concerning the discussion document “Financing Demographic Shifts: Pension and Healthcare Scenarios to 2030”. The initiative takes a global perspective and analyses a number of countries in further detail, particularly Italy and China.

It has published several books and articles and, with the Risk Institute, is the editor of the ‘European Papers on the New Welfare — the counter-ageing society’ and ‘I Quaderni Europei sul Nuovo Welfare — svecchiamento e società’.

Macros Research promotes conferences and seminars to create new insights into the future of the Welfare State and particularly about pensions and healthcare with the objective of defining strategic options for key stakeholders.

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The Geneva Association is a unique non-profit worldwide organisation formed by some 80 Chief Executive Officers of the most important insurance companies in Europe, North America, South America, Asia, Africa and Australia. Its main goal is to research the growing economic importance of insurance activities in the major sectors of the economy.

The Geneva Association acts as a forum for its members, providing a unique worldwide platform for the top insurance CEOs. It organises the framework for its members and their companies to exchange ideas and discuss key strategic issues. To this end, it has established large international networks of experts and high-level industry platforms. The Geneva Association serves as a catalyst for progress in this unprecedented period of fundamental change in the insurance industry. It seeks to clarify the key role that insurance plays in the further development of the modern economy.

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1) **Risk Management**: The aim of this programme is to research and illustrate the new risks in the emerging service economy.

2) **Insurance and Finance**: This research programme comprises academic and professional research activities in the fields of finance where they are relevant to the insurance and risk management sector.

3) **The Four Pillars — Research Programme on Social Security, Insurance, Savings and Employment**: To identify possible solutions to the problem of the future financing of pensions and, more generally, of social security in our post-industrial societies.

4) **Health and Ageing**: This programme seeks to bring together facts, figures and analyses linked to issues in health. The key is to test new and promising ideas, linking them to related studies and initiatives in the health sector and trying to find solutions for the future financing of healthcare.

5) **Insurance Economics**: It is dedicated to making an original contribution to the progress of insurance through promoting studies of the interdependence between economics and insurance, to highlighting the importance of risk and insurance economics as part of the modern general economic theory.

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While the reasons for working beyond sixty have become obvious, the how and for whom questions are the real topic of this new study by one of the best European specialists in the area. Work after sixty – if it is to be feasible and widespread – has to be on a part-time basis to meet the wishes and needs of workers and companies. This book provides an in-depth analysis of the growing importance of working beyond sixty and a comparative discussion of new policies in several EU Member States (Finland, Denmark, the United Kingdom, the Netherlands, Germany, France, Italy and others) as well as of best company practices.


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