

**International Labour Conference, 102nd Session, 2013**

**Report IV**

# **Employment and social protection in the new demographic context**

**Fourth item on the agenda**

ISBN 978-92-2-126861-1 (print)  
ISBN 978-92-2-126862-8 (Web pdf)  
ISSN 0074-6681

---

*First edition 2013*

---

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers.

Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

ILO publications can be obtained through major booksellers or ILO local offices in many countries, or direct from ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. Catalogues or lists of new publications are available free of charge from the above address, or by email: [pubvente@ilo.org](mailto:pubvente@ilo.org).

Visit our website: [www.ilo.org/publns](http://www.ilo.org/publns).

---

# Contents

---

	<i>Page</i>
Introduction .....	1
Chapter 1. Labour market dynamics in the new demographic context:	
Setting the scene .....	5
1.1. Global and regional demographic trends.....	5
Global trends .....	6
Regional trends.....	10
1.2. Global labour force dynamics.....	19
Labour force trends.....	19
Labour force participation.....	21
Unemployment.....	23
Education, skills and labour force trends.....	25
Income security and older people’s labour force participation .....	26
Migration dynamics .....	28
Urbanization and ageing population in the rural areas .....	29
Economic crises.....	29
Chapter 2. The economic and social implications of the new demographic context .....	33
2.1. Impact on economic development.....	33
Demographic dividends: The window of opportunity? .....	33
Life cycle deficit countries .....	35
2.2. Poverty and informality .....	36
2.3. Labour and skills shortages .....	42
2.4. Education and training .....	43
2.5. Labour productivity and earnings .....	45
2.6. Retirement patterns .....	47
2.7. Social protection coverage.....	51
The crisis and social security .....	51
Gender bias in access to social security .....	53
Ageing and disability benefits .....	55
Ageing and access to social health protection and long-term care .....	55
2.8. The sustainability of social security systems .....	57

Chapter 3. Policy responses .....	61
3.1. An integrated life cycle and inter-generational perspective.....	61
The virtuous circle of employment, social security and economic development .....	61
Promoting full and productive employment throughout the life cycle .....	63
Ensuring adequate and sustainable social security for all .....	76
Making use of international labour standards and social dialogue.....	87
3.2. Policies for older workers .....	92
Promoting non-discriminatory practices of diversity and age management .....	93
Active labour market policies .....	96
Adapting working time, working life and work organization.....	102
Ensuring a safe and healthy working environment .....	103
Providing health care and long-term care for the elderly .....	104
Comprehensive approaches .....	105
Chapter 4. The way forward: An integrated decent work framework for the demographic challenge .....	109
4.1. Core challenges and policy options.....	109
4.2. Elements of an integrated framework for maintaining high levels of employment and social protection throughout the crisis and beyond.....	111
Pro-employment demand-side policies .....	112
Creating decent jobs and extending social protection in countries with high fertility and rapidly growing populations.....	112
Managing labour and skill shortages and ensuring the financial sustainability of social security systems in ageing countries.....	113
Policies for older workers .....	114
4.3. Possible ILO follow-up action within an integrated decent work framework.....	115
Chapter 5. Suggested points for discussion.....	117
Appendix. ILO instruments concerning demographic change.....	119

# Introduction

---

1. At its 310th Session in March 2011, the Governing Body of the ILO decided to place on the agenda of the 102nd Session (2013) of the International Labour Conference (ILC) a general discussion on employment and social protection in the new demographic context based on an integrated approach.<sup>1</sup>
2. The new demographic context is characterized principally by the inevitable and irreversible trend of “population ageing” – declining mortality and fertility and increased longevity – all resulting from and representing significant social and economic progress for humanity as a whole and a cause for celebration. However, this global structural shift can be challenging for societies and for the world of work in particular. Globally, the rate of population growth is slowing down, but the projected increase of more than 2 billion people over the next four decades remains a major challenge. The number of people aged 60 and over is growing faster than any other age group and will nearly triple between now and 2050. Data and information collected and analysed in this report show that this demographic transition is affecting all countries in all regions, industrialized and developing, albeit at different rates and within different time horizons.
3. The changing age structure of the population has potentially significant implications for economic development, labour markets and well-being in different development contexts. It raises issues of possible shortages in labour supply and skills, productivity and innovation and the provision of adequate social protection and other services for an increasingly ageing population. The report analyses these implications and the policy directions that are being developed and debated, especially in industrialized countries which are at a more advanced stage of this demographic transition. It also discusses the challenges of demographic transitions in developing countries. They have to prepare for population ageing while they experience a deep crisis of decent and productive employment opportunities including for young women and men, and high levels of poverty and informality.
4. Global awareness of the challenges of demographic transition and their interconnectedness is increasing. There is a broad realization that developments in one region have an effect on others, for example through population movements and labour migration.
5. The global financial crisis and the prospects of continuing economic slowdown in 2013 and beyond has had deleterious impacts on unemployment and underemployment for different population groups. It has put financial pressures on social security systems. Their tax and contribution base is contracting while their benefit expenditure is expected to increase. This has compounded these policy considerations.

---

<sup>1</sup> This general discussion, initially planned for the 98th Session (2009) of the International Labour Conference, was suspended by the Governing Body decision of March 2009 to enable the ILC to consider the implications of the global economic and financial crisis for the world of work. The 2009 ILC discussion resulted in the adoption of the Global Jobs Pact, an ILO portfolio of policy responses to the global and financial crisis.

6. The report argues that tackling the challenges posed by this demographic transition is not insurmountable. It demonstrates that demographic change should be addressed from an integrated and longer-term perspective. Possible policy directions need to take into account the complementarities between employment and social protection policies for all age groups spanned over the life cycle. They should build upon inter-generational solidarity and cooperation amongst countries. The report also shows that consideration of policy options to deal with structural trends such as ageing should not be guided by the short-term and cyclical perspective imposed by the crisis.

7. This integrated approach to address the employment and social protection implications of demographic change is guided by the Decent Work Agenda and by the principles of the 2008 Declaration on Social Justice for a Fair Globalization and the Global Jobs Pact (2009). The latter demonstrated the relevance of an integrated and coherent portfolio of measures. The Social Protection Floors Recommendation, 2012 (No. 202) and the 2012 ILC call for action to tackle the youth employment crisis provide useful new policy frameworks to take action and to implement the integrated policy responses that extend over the life cycle and across generations.

8. A key implication of this demographic change is the larger numbers of older people among the population. Therefore, the report places specific emphasis on the policy options addressing older people.

9. Since its inception the ILO has shown concern about old age. The first instruments on the matter, adopted in the 1930s and revised in 1967, set out to provide invalidity, old-age and survivors' insurance.<sup>2</sup> In 1962, the Director-General's Report to the Conference<sup>3</sup> acknowledged the key contributions that older workers can bring to economies and society.

10. Older workers were again on the agenda of the 1979 ILC,<sup>4</sup> and in 1980 the Conference adopted the most comprehensive instrument on the subject, the Older Workers Recommendation, 1980 (No. 162). The Recommendation aims to protect the right of older workers to equality of treatment and focuses on the measures that should be implemented to protect their needs.

11. This report also responds to the resolution adopted by the General Assembly regarding the follow-up to the Second World Assembly on Ageing.<sup>5</sup> This requests the organizations and bodies of the United Nations (UN) system to "incorporate ageing, as appropriate, into actions to achieve internationally agreed development goals. These goals should include those contained in the UN Millennium Declaration, in particular the goal on the eradication of poverty", and "to integrate ageing, including from a gender perspective, into their programmes of work".

12. More than three decades have elapsed since the First World Assembly on Ageing took place in Vienna in 1982, and more than ten years since the Second World Assembly on Ageing was held in Madrid in 2002. The Vienna International Plan of Action on Ageing made a significant contribution to forging a new understanding of the opportunities and challenges that ageing poses for all societies. The Second World

---

<sup>2</sup> See Invalidity Old-Age and Survivors' Benefits Convention 1967 (No. 128).

<sup>3</sup> ILO. *Older people in work and retirement*, Report of the Director-General, ILC, 46th Session, Geneva, 1962.

<sup>4</sup> ILO. *Older workers: Work and retirement*, Report VI (2), ILC, 65th Session, Geneva, 1979. [http://www.ilo.org/public/libdoc/ilo/1979/79B09\\_80.pdf](http://www.ilo.org/public/libdoc/ilo/1979/79B09_80.pdf).

<sup>5</sup> UN. *Follow-up to the Second World Assembly on Ageing*, Resolution 58/132, adopted by the General Assembly, 58th Session, New York, 2004 (doc. A/RES/58/134).

Assembly addressed new issues and challenges and adopted the Madrid International Plan of Action, which calls for changes in attitudes, policies and practices at all levels. The Plan aims to ensure that “persons everywhere are able to age with security and dignity and to continue to participate in their societies as citizens with full rights”. In 2012, ten years after its adoption, progress in the implementation of the Madrid Plan of Action was reviewed, including with the contribution of the ILO.<sup>6</sup>

13. This report, to facilitate the general discussion at the ILC, is divided into four chapters. The first chapter presents a global and regional overview of the demographic, labour force and dependency trends and prospects which are shaping labour markets and social transfer systems across the world in developed and developing countries. Chapter 2 deals with the key social and economic implications of demographic change in different development contexts and stages of demographic transitions. Chapter 3 discusses observed and possible policy responses. It highlights the need to improve decent work opportunities for all working-age population groups while at the same time extending social protection to provide adequate and sustainable social transfers and decent pensions. Chapter 4 recapitulates the main findings and proposes a range of possible actions by the Office to support policy developments by constituents regarding demographic transitions. The implications of the global financial and economic crisis are discussed throughout the report.

---

<sup>6</sup> UNFPA. *Ageing in the Twenty-First Century: A Celebration and a Challenge*, New York, 2012.





# Chapter 1

---

## Labour market dynamics in the new demographic context: Setting the scene <sup>1</sup>

14. The age distribution of the world's population is undergoing a profound transformation. By 2030, there will be more people above 60 than children under 10 and three-quarters of the world's older population will be living in developing countries. This phenomenon of population ageing occurs when the median age of a country rises as the result of the transition from high birth and death rates to lower birth and death rates as the country develops (box 1.1). Furthermore, as women continue to live longer than men the feminization of the older population will continue.

### Box 1.1

#### Phases of demographic transitions

In pre-modern times, fertility and mortality rates were very high and in balance, leading to slow and constant population growth rates. With industrialization, population dynamics are passing through different stages: in a first phase, population increases due to continuously high birth rates. A decline in mortality rates especially for children can be observed. This leads to a higher share of youth in total populations. In the next phase, declines in fertility lead to lower proportions of children and as the large youth population from phase one moves into working age, there is a higher proportion of working-age adults. This phase is temporary, lasting typically about 40 to 50 years. In the next phase, fertility and mortality decline further and longevity increases. In addition, the large working-age population gets older. All this leads to increasing proportions of older persons – a phenomenon called “population ageing”. This period when the share of older age groups in total populations is very high is also temporary. At the final stage, low birth and death rates together with low fertility rates result in constant but very low population growth, or even declining populations.

15. This chapter presents an overview of global and regional demographic dynamics and prospects. It also discusses the implications of the demographic changes on the labour force as well as other determinants that impact labour force compositions such as labour force participation patterns, income levels, education and skills levels, migration,

---

<sup>1</sup> The source for population information and population projections is the United Nations Population Information Network (UN Population Division): [www.un.org/popin/data.html](http://www.un.org/popin/data.html). Projections are made until the year 2050. Because future trends cannot be known with certainty, a number of projection variants are produced. A summary of the main assumptions underlying the results can be found in UN: *World Population Prospects: The 2010 Revision*, Population Division, Department of Economic and Social Affairs (New York, 2011). See <http://esa.un.org/unpp/index.htm>. Unless otherwise noted in this chapter, estimates, figures and tables are based on population under the medium variant.

The source of labour force data and projections to 2020 is the ILO Economically Active Population, Estimates and Projections, sixth edition, October 2011. It is available at [http://laborsta.ilo.org/applv8/data/EAPEP/eapep\\_E.html](http://laborsta.ilo.org/applv8/data/EAPEP/eapep_E.html). Further information on the methodology and model for the projection is available at: [http://laborsta.ilo.org/applv8/data/EAPEP/v6/ILO\\_EAPEP\\_methodology\\_2011.pdf](http://laborsta.ilo.org/applv8/data/EAPEP/v6/ILO_EAPEP_methodology_2011.pdf).

economic crises and urbanization trends. This will set the scene to understand the linkages between demographic and labour market dynamics and their implications for employment and social transfer systems.

## 1.1. Global and regional demographic trends

### Global trends

16. The global population will continue to increase from 6.9 billion in 2010 to 9.3 billion in 2050 despite decreasing fertility trends. Globally, the total fertility rate of 2.5 children per woman in 2005–10 is expected to decrease to 2.2 in 2045–50.

17. Over coming decades, the global population increase will be concentrated in less developed regions. The population size of the more developed regions is expected to remain largely unchanged over the period to 2050.<sup>2</sup>

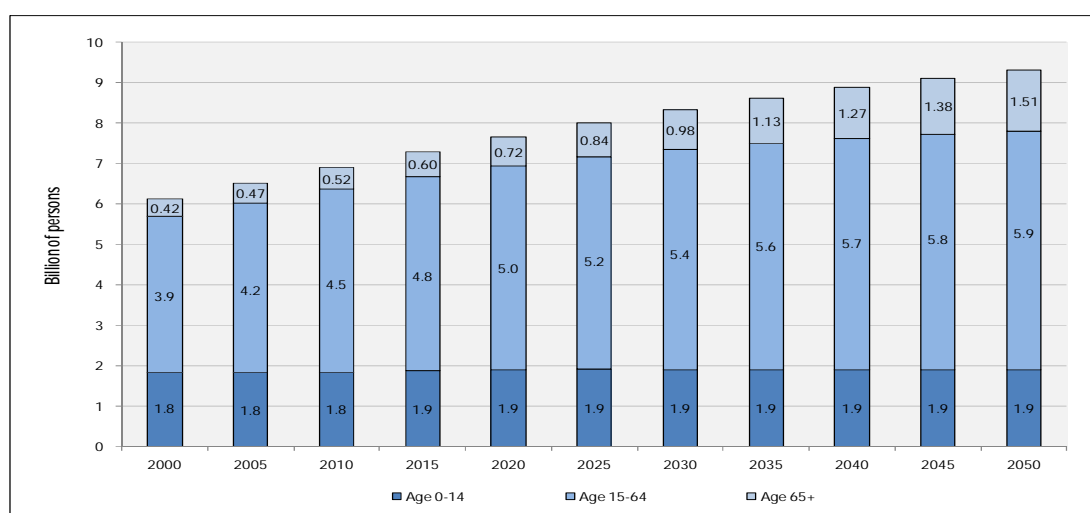
18. The global demographic context is largely shaped by the significant increase in longevity and the decline in fertility, and is projected to continue to different degrees in most countries.

19. While some developing countries still face a large youth cohort that can be a challenge or a window of opportunity for economic development, all developed countries face the opposite: shrinking youth cohorts and growing older cohorts. Within the next decades almost all countries will follow this pattern of ageing.

20. In this context it is interesting to note that the number of persons under 15 will stabilize over the coming decades after having increased by 30 per cent since 1970. In comparison, the size of the working-age population (aged 15–64 years) will increase by 30 per cent, and the population over age 65 will nearly triple to represent more than 1.5 billion persons by 2050 (figure 1.1).

Figure 1.1. Population over age 65 will nearly triple

Total world population by age groups, 2000–50

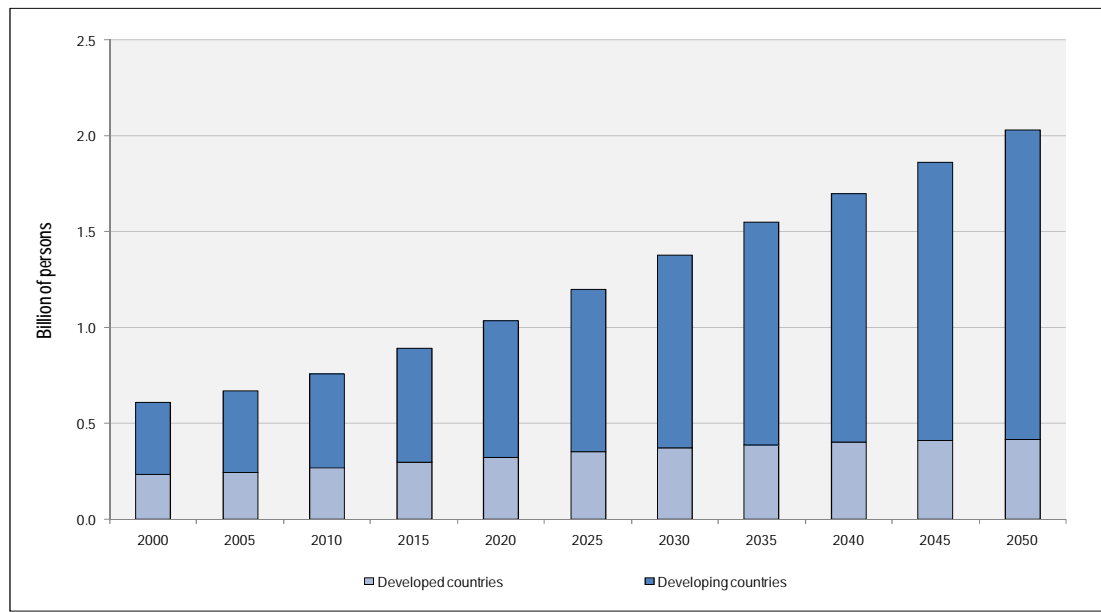


Source: UN: *World Population Prospects*, op. cit.

<sup>2</sup> According to the UN classification, the category of more developed regions includes all regions of Europe plus northern America, Australia/New Zealand and Japan. “Less developed regions” comprise all regions of Africa, Asia (excluding Japan), Latin America and the Caribbean plus Melanesia, Micronesia and Polynesia. “Least developed countries” are those defined by the UN General Assembly in 2003. They comprise 50 countries, of which 34 are in Africa, ten in Asia, one in Latin America and the Caribbean, and five in Oceania.

21. The majority of the world's older persons now live in developing countries. In 2005, 63.5 per cent of the population aged 60 years or older lived in the developing world. By 2050, three-quarters of the older population will be living in developing countries (figure 1.2; for a discussion on the definition of "old age" see box 1.2).

Figure 1.2. Three-quarters of older people will live in developing countries by 2050  
Population aged 60 and over by region, 2000–50



Source: UN: *World Population Prospects*, op. cit.

### Box 1.2

#### Definition of old age

There is no UN definition of older people and there is no ILO definition for older workers. However the United Nations identifies – exclusively for the purpose of demographic comparison – populations which have reached the age of 60 years as “older persons”. This classification was also used in the Madrid Plan of Action on Ageing in 2002.

The ILO Older Workers Recommendation, 1980 (No. 162) defines older workers as “all workers who are liable to encounter difficulties in employment and occupation because of advancement in age”. In the majority of the statistical publications of the ILO the age group 15–64 is considered to be the population at working age. This again is purely for comparison reasons and does not take into consideration different retirement ages in different countries.

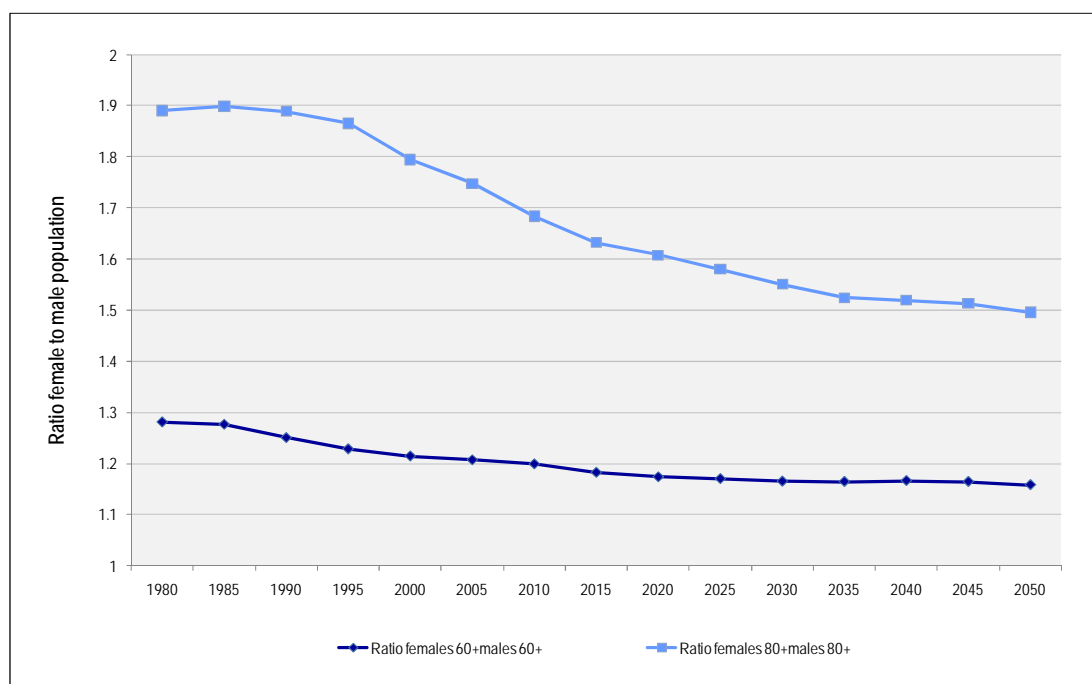
For the purpose of this report what is referred to as older people/older worker/the elderly, etc. depends on the context of the discussed issues and the relevance for a certain subgroup of people at a higher age.

22. The ageing process will result in the proportion of the population over 60 years old increasing from 10 per cent of the total population in 2000 to 21.8 per cent in 2050, as shown in figure 1.1.

23. A notable aspect is the progressive ageing of the older population itself. At the global level, the most rapidly growing age group consists of persons aged 80 and over. This age group, the “oldest old” is expected to almost quadruple over the next four decades.

24. The feminization of old age is another major characteristic of current ageing trends. Women live and will continue to live longer than men. Worldwide women now account for 54.5 per cent of the population aged 60 years and over (figure 1.3). In some countries such as China and India where families have a preference for baby boys, the feminization of older age groups will slow down and could even turn into dominance of older men in the old-age groups.

Figure 1.3. The feminization of old age  
Ratio of the world female population to male population by older age groups, 1980–2050

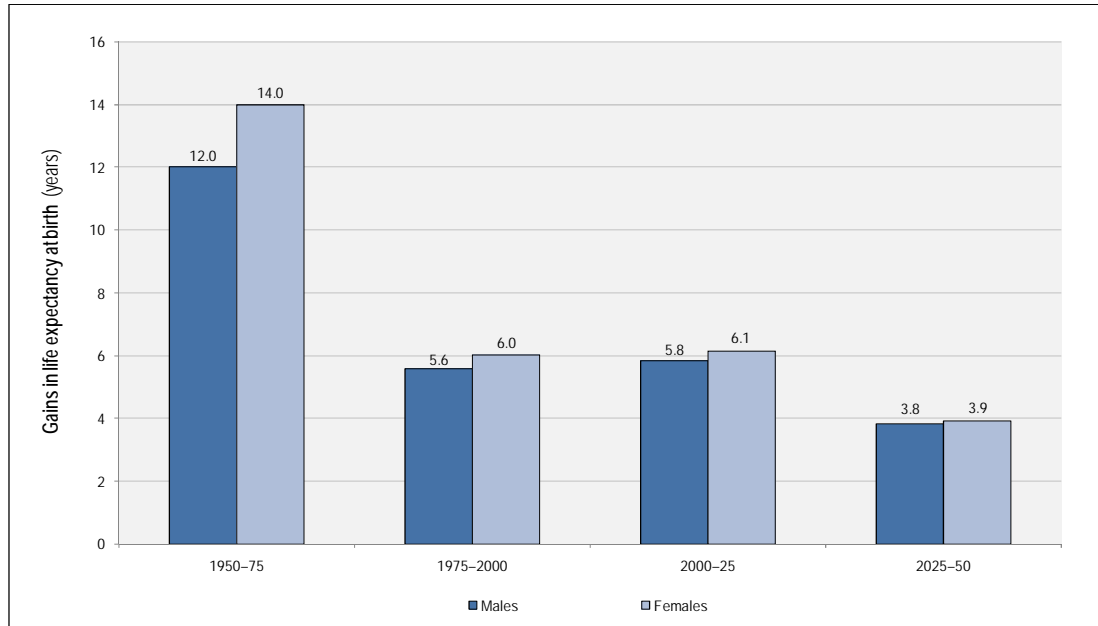


Source: UN: *World Population Prospects*, op. cit.

25. Future improvements in factors affecting mortality will continue to lead to increasing life expectancies, as shown in figure 1.4. Between 2000 and 2025 the increase in life expectancy for men and women is expected to be around six years, while over the years 2025 to 2050 it is expected to be 3.5 years.

Figure 1.4. We will continue to live longer

Gains in life expectancy at birth among the world population, 1950–2050

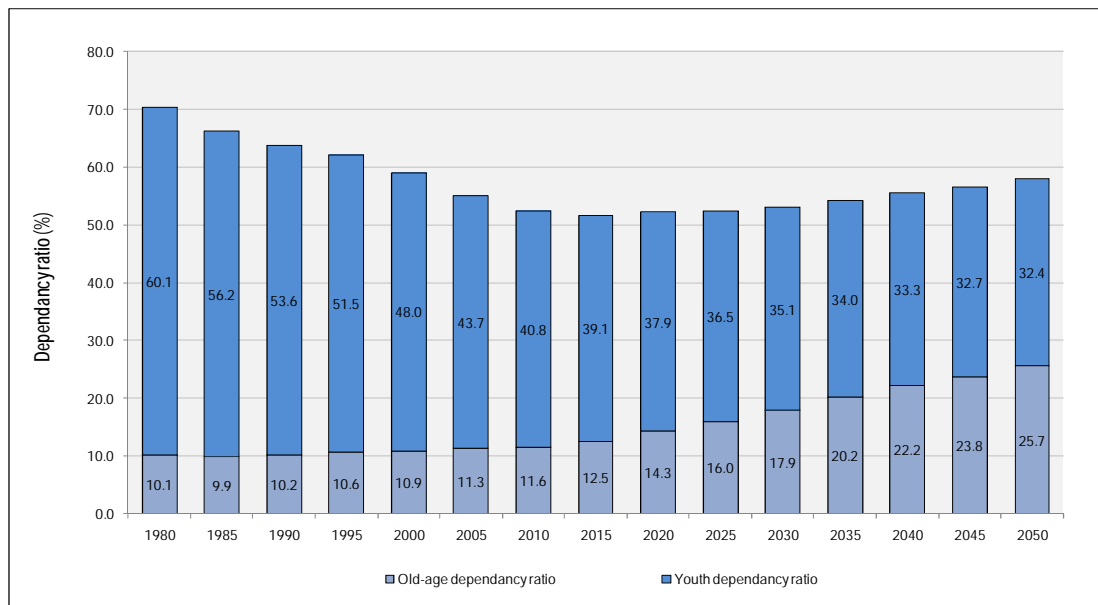


Source: UN: *World Population Prospects*, op. cit.

26. Today, as shown in figure 1.5, the child population accounts for the large majority of the world’s population aside from the working-age population. In future, the size of the child component will become similar to that of the old-age. Overall the ratio between people outside working age to those inside of working age (also called the economic dependency ratio) will increase again after 2015. In 2050 for every four people of working age there will be six people depending on the income of these four.

Figure 1.5. More dependent older people and less dependent children by 2050

World total dependency ratios disaggregated by age, 1980–2050



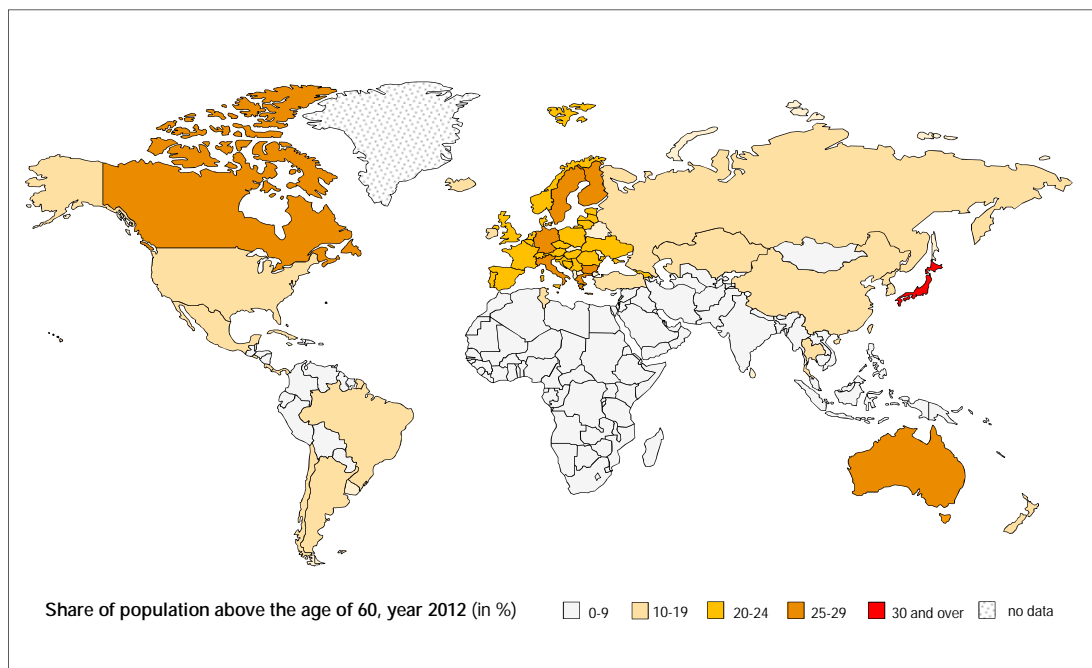
Source: UN: *World Population Prospects*, op. cit.

### Regional trends <sup>3</sup>

27. While all regions experience the same patterns of demographic changes, the pace and size of these changes differ significantly. Developed countries are at a more advanced stage of the demographic transition, as is China, with their populations projected to remain considerably older than those of developing countries as a whole. <sup>4</sup> By 2050 the share of old people in the population will be more than 30 per cent in 64 countries.

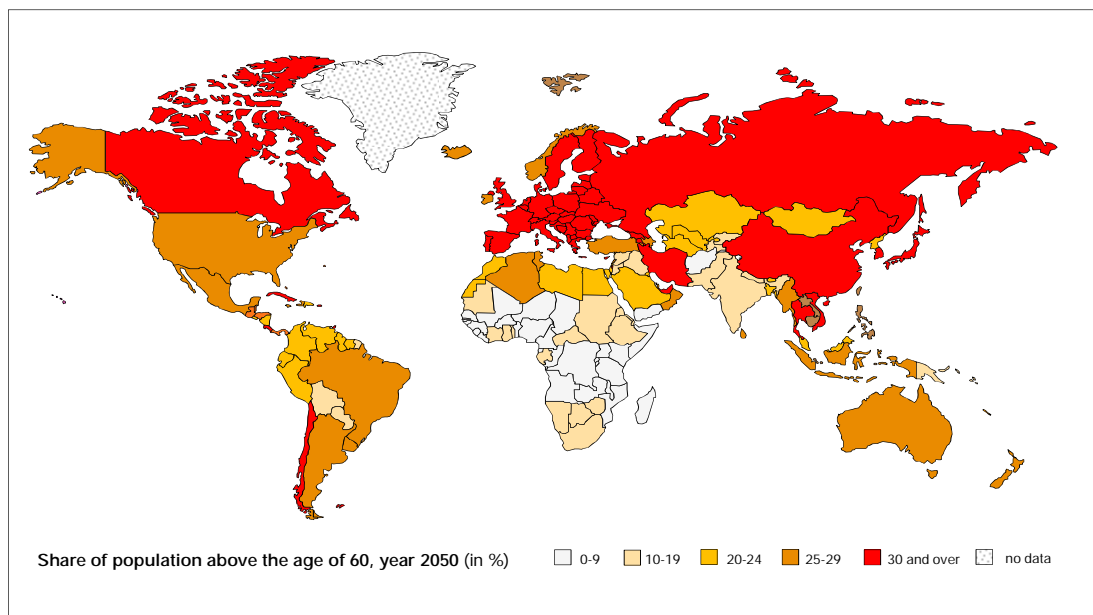
28. Even within the two groups of more developed and less developed countries there are considerable differences (figure 1.6). Within the more developed group, countries like the Russian Federation, Japan, Portugal and Switzerland are ageing rapidly, while this trend is much slower in, for example, the United States. Also within the less developed countries it is especially the poorest countries in Asia and sub-Saharan Africa that are still in earlier phases of the demographic transition, with over-proportionally large youth populations.

Figure 1.6. The world is ageing rapidly  
Share of population above the age of 60, 2012 and 2050



<sup>3</sup> ILO and UN country classifications in terms of “more developed regions” and “less developed regions” are used.

<sup>4</sup> *World population ageing*, 2009, p. 11, UN, New York, 2009.



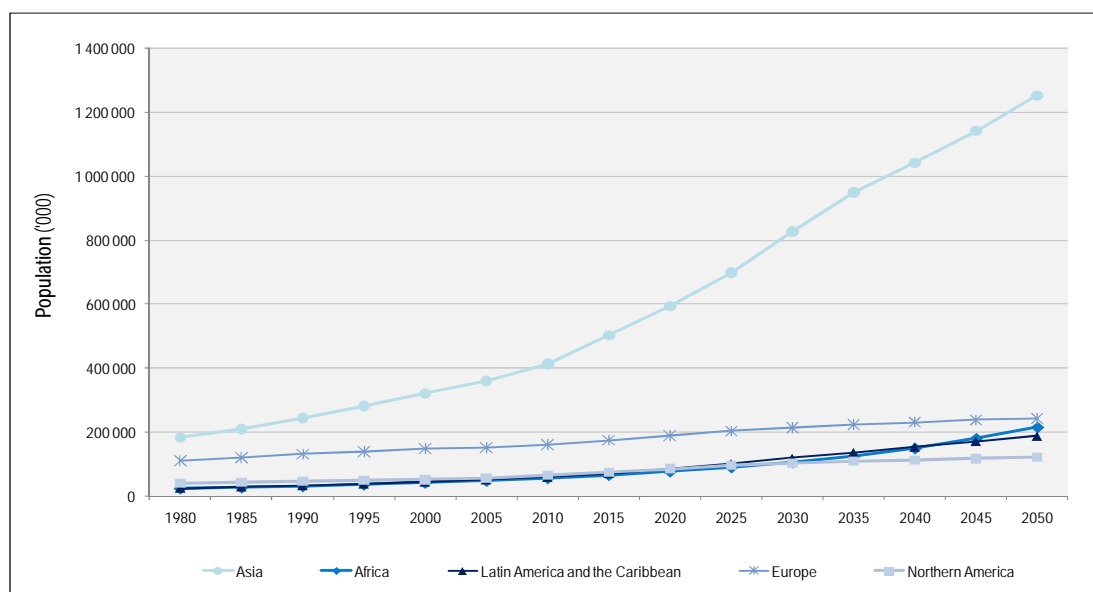
Source: Reproduction of map published in UNFPA (2012), op. cit., p. 26.

29. In the more developed regions, over a fifth of the population is currently aged 60 and over and by 2050 nearly a third of the population is projected to be in that age group. In the less developed regions, older persons now account for 8 per cent of the population and by 2050 they are expected to account for one fifth of the population.

30. The majority of older persons will continue to be in developing countries (figure 1.7). By 2050 it is expected that 79 per cent of those aged 60 and over will be in developing countries, particularly in Asia. By 2050, 32 countries are expected to have more than 10 million people aged 60 or over, including five countries with more than 50 million older people: China (440 million), India (316 million), United States (111 million), Indonesia (72 million) and Brazil (64 million).

Figure 1.7. The great majority of older people will live in Asia by 2050

Population aged 60 and over, by geographical region, 1980–2050

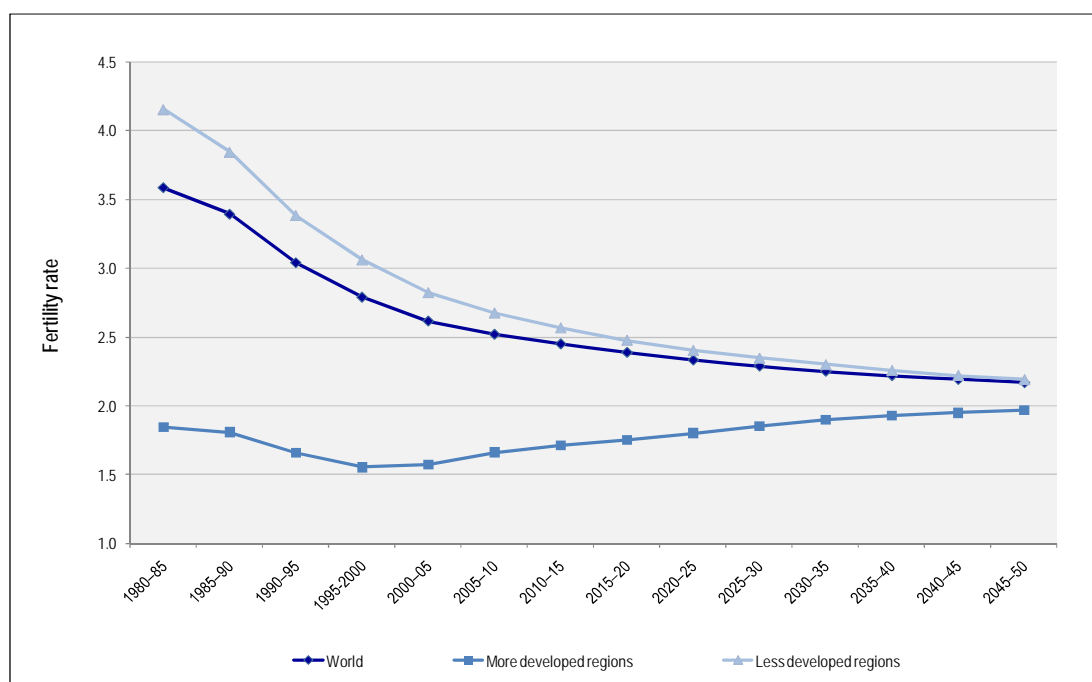


Source: UN: *World Population Prospects*, op. cit.

31. The current world median age of 28 is expected to increase to 38 in 2050.<sup>5</sup> The median age in the more developed regions is more than 13 years higher than in the less developed regions and 20 years higher than in the least developed countries.

32. Decreasing fertility is one of the main causes of population ageing. In the more developed regions the total fertility rate during the period 2005–10 is estimated at 1.7 children per woman, which is below the 2.1 rate necessary to maintain a population size at its current level. It is expected to increase to 2.0 over the period to 2045–50. In less developed regions, the rate is expected to decrease from 2.7 to 2.2 over this period, as shown in figure 1.8.

Figure 1.8. Fertility rates converging  
Total fertility rates by region, 1980–2050



Source: UN: *World Population Prospects*, op. cit.

33. Practically all developed countries are currently experiencing below-replacement fertility rates.<sup>6</sup> This is also already the case for some other countries in Asia such as the Republic of Korea (1.3 in 2005) and China (1.64 in 2005). As shown in figure 1.9 Africa is the only region which is expected to have a fertility rate considerably above the replacement level by 2040–45.

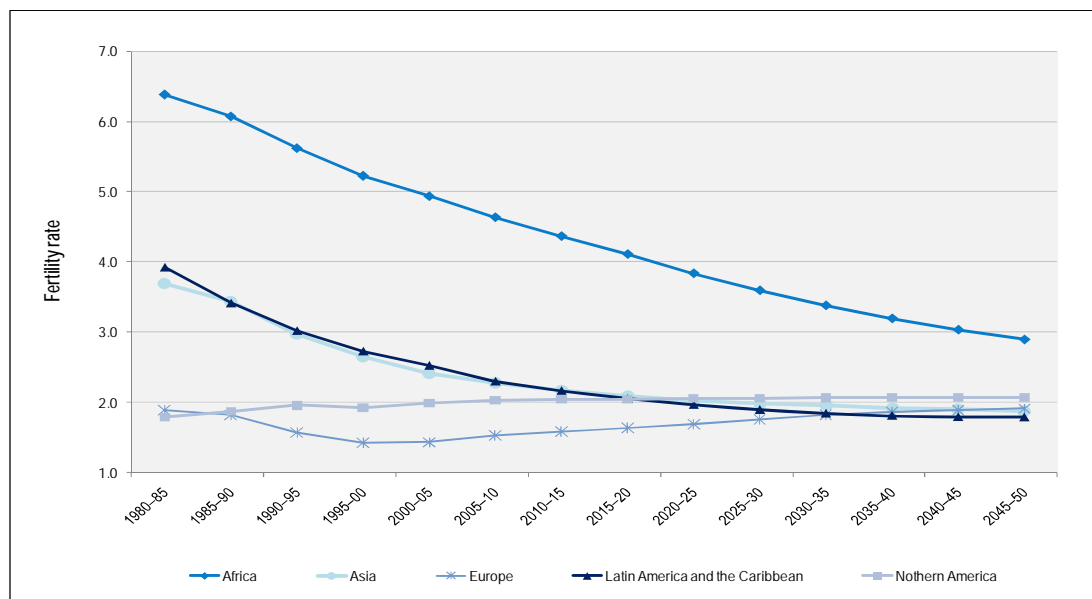
<sup>5</sup> Half the population is younger than the median age and half is older.

<sup>6</sup> *World population ageing*, 2009, p. 4, UN, New York, 2009.



Figure 1.9. Highest fertility rates in Africa

Total fertility rates by geographical region, 1980–2045

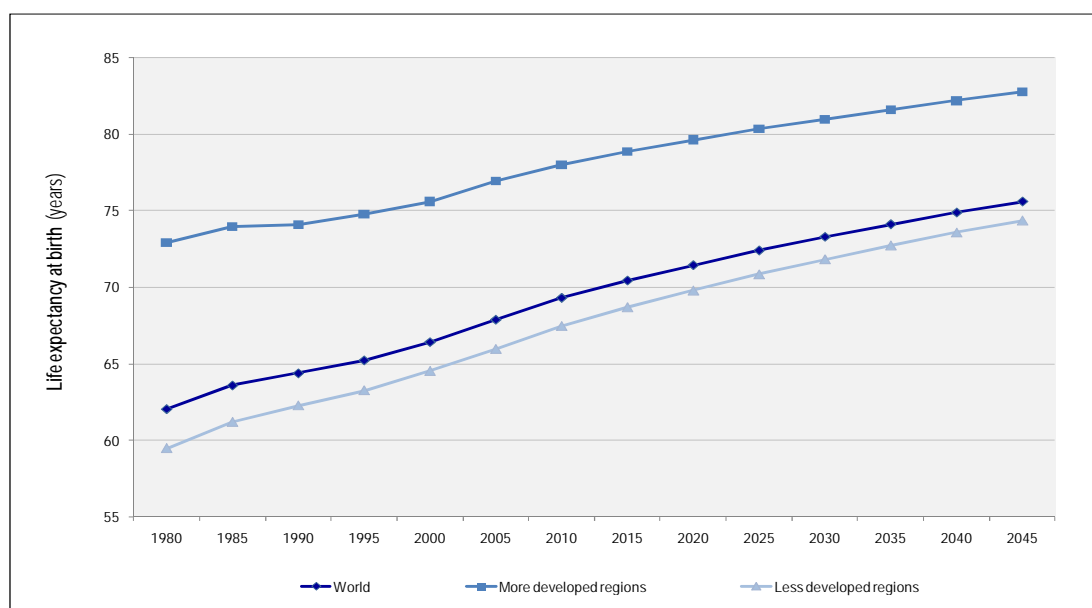


Source: UN: *World Population Prospects*, op. cit.

34. Life expectancy at birth (figure 1.10), which is the second determinant of ageing, is expected to grow in all regions of the world due to improvements in living standards (in particular greater access to health services), which will reduce mortality. Developed countries will experience a smaller increase in joint (male and female) life expectancy of 7.1 years from 2000 to 2050 – albeit starting from much higher levels – from 75.6 to 82.7 years. Over the same period, joint life expectancy at birth in developing countries will rise by 9.9 years (from 64.5 years in 2000 to 74.4 years in 2050).

Figure 1.10. People continue to live longer

Life expectancy at birth, more developed and less developed regions, 1980–2050



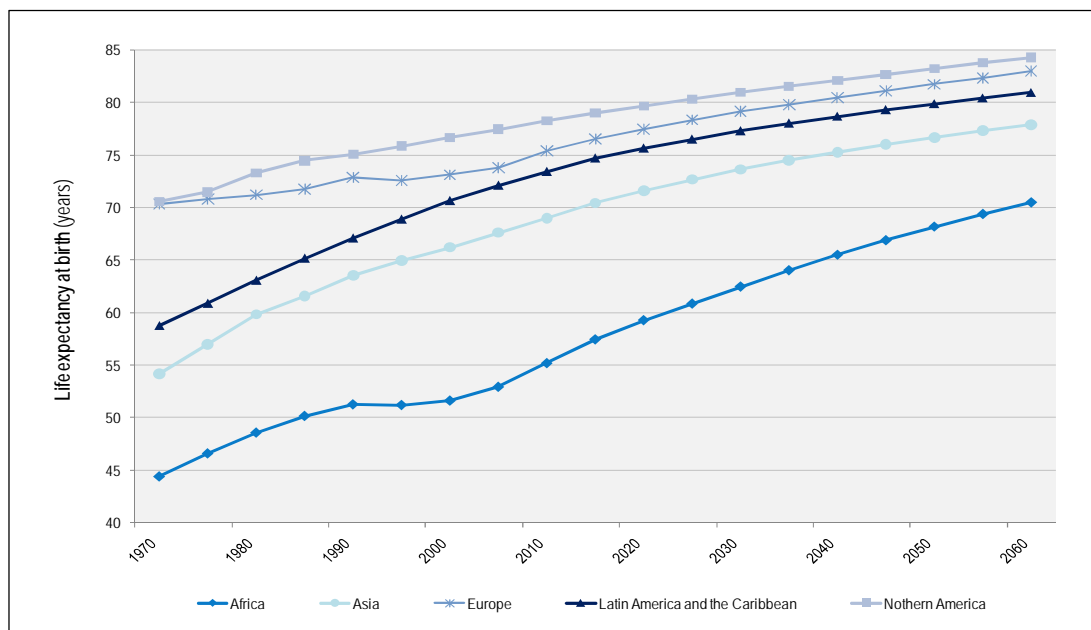
Source: UN: *World Population Prospects*, op. cit.

35. Figure 1.11 depicts the projected changes in life expectancy by geographical region.

36. While the life expectancy of females is longer than for males, the differential in their life expectancies at birth is now diminishing in the more developed regions as shown in figure 1.12. Elsewhere, from 2010 to 2050, the differential increases slightly.

Figure 1.11. Convergence in life expectancy

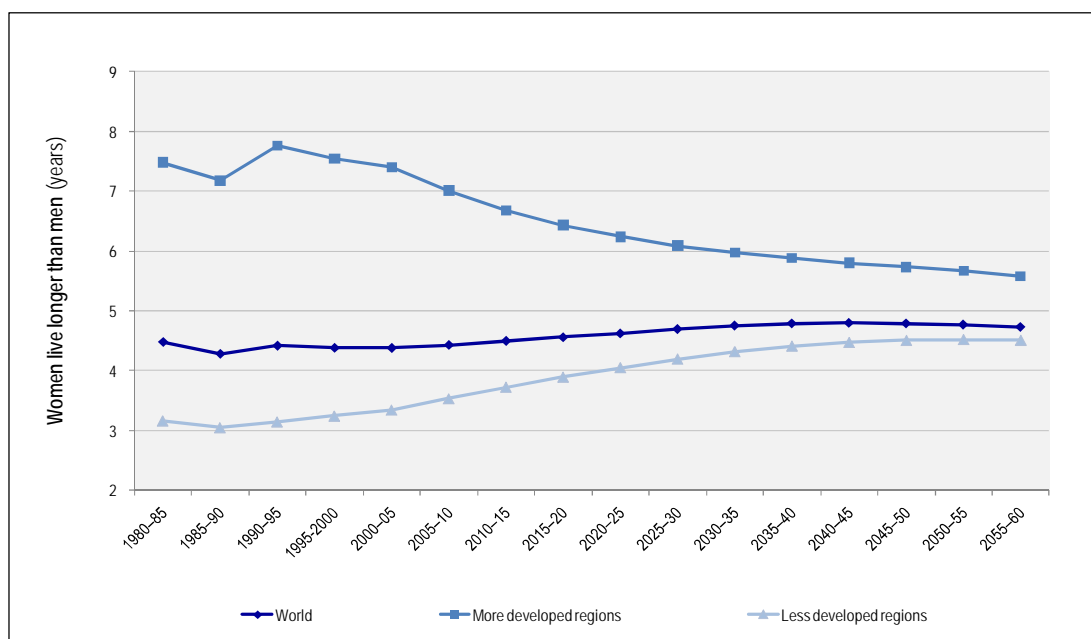
Life expectancy at birth by geographical region, 1970–2050



Source: UN: *World Population Prospects*, op. cit.

Figure 1.12. Women live longer than men

Difference between female and male life expectancies at birth, 1980–2050 (life years)



Source: UN: *World Population Prospects*, op. cit.

37. While mortality in the developed world is low and continues to decline, it has been stagnant or even increasing in a number of countries in south-eastern Europe and the CIS, largely due to deteriorating social and economic conditions and, in some cases, because of the spread of HIV/AIDS. Among the more developed regions, Eastern Europe has the lowest life expectancy at birth and has had a declining life expectancy since the late 1980s, with some countries more recently observing increasing life expectancy trends again. During the period 2005–10, life expectancy at birth in the region, at 68.6 years, was lower than it was in 1960–65 (69.3 years).

38. Life expectancy also varies by socio-economic strata and such differences are becoming more pronounced. In the United States in 1980, life expectancy at birth was 2.8 years more for the highest income quintile than for the lowest. By 2000, that gap had risen to 4.5 years. In 1980, the difference in life expectancy at age 65 between the highest and lowest socio-economic groups was 0.3 years, but by 2000 that difference had grown to 1.6 years, accounting for more than 80 per cent of the increase in overall average life expectancy at age 65 over that period.<sup>7</sup> Similar trends have been observed for other countries where income inequality has increased over recent decades. Some other countries seem to be faring better in terms of their life expectancies across socio-economic groups, such as those with comprehensive social security programmes for pensions and health as in France, Germany and Canada.

39. In a number of countries, notably in sub-Saharan Africa, HIV/AIDS is having a profound demographic effect. In 2011, there were 34 million persons living with HIV in the world with 23.5 million in sub-Saharan Africa, 4 million in South and South-East Asia, 1.6 million in Latin America and the Caribbean, and 1.4 million in Eastern Europe, Central Asia and North Africa. More than three-quarters of all AIDS deaths in 2010 occurred in sub-Saharan Africa.<sup>8</sup>

40. In these countries, the usual assumption of a steadily increasing life expectancy no longer applies; instead, rising mortality levels due to AIDS have substantially reduced life expectancy, as shown in table 1.1. In southern Africa, life expectancy is expected to fall from 62 years in the period 1990–95 to 53.8 years in the period 2010–15; it is not expected to regain the level it had in the early 1990s before 2045. Nevertheless, the relatively high fertility levels in these countries mean that their populations will still increase.

---

<sup>7</sup> United States Congressional Budget Office at: [www.cbo.gov/ftpdocs/91xx/doc9104/04-17-LifeExpectancy\\_Brief.pdf](http://www.cbo.gov/ftpdocs/91xx/doc9104/04-17-LifeExpectancy_Brief.pdf).

<sup>8</sup> UNAIDS. 2012. Global Report.

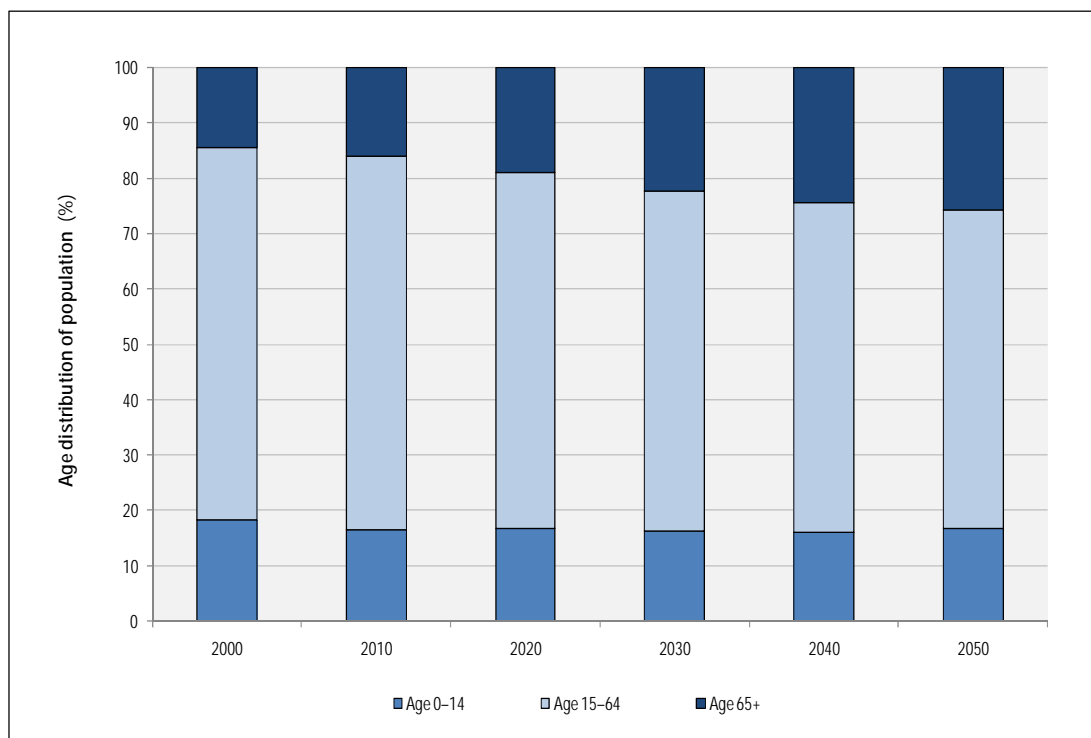
Table 1.1. Impact of AIDS on population life expectancy in selected countries of Africa and Asia, 2009

	HIV prevalence in 2009 of population 15–49 (%)	Joint life expectancy at birth in years 2010–15		Decrease in life expectancy (percentage difference)
		Without AIDS (years)	With AIDS (years)	
Zimbabwe	14.3	67.5	53.5	-21
Botswana	24.8	69.6	52.7	-24
Lesotho	23.6	64.1	49.1	-15
Namibia	13.1	71.3	62.7	-12
South Africa	17.8	65.8	53.8	-18
Swaziland	25.9	63.7	49.2	-23
India	0.3	66.5	66	-1
Thailand	1.3	75.6	74.4	-2

Source: UN: *World Mortality Report 2011*, Department of Economic and Social Affairs, Population Division.

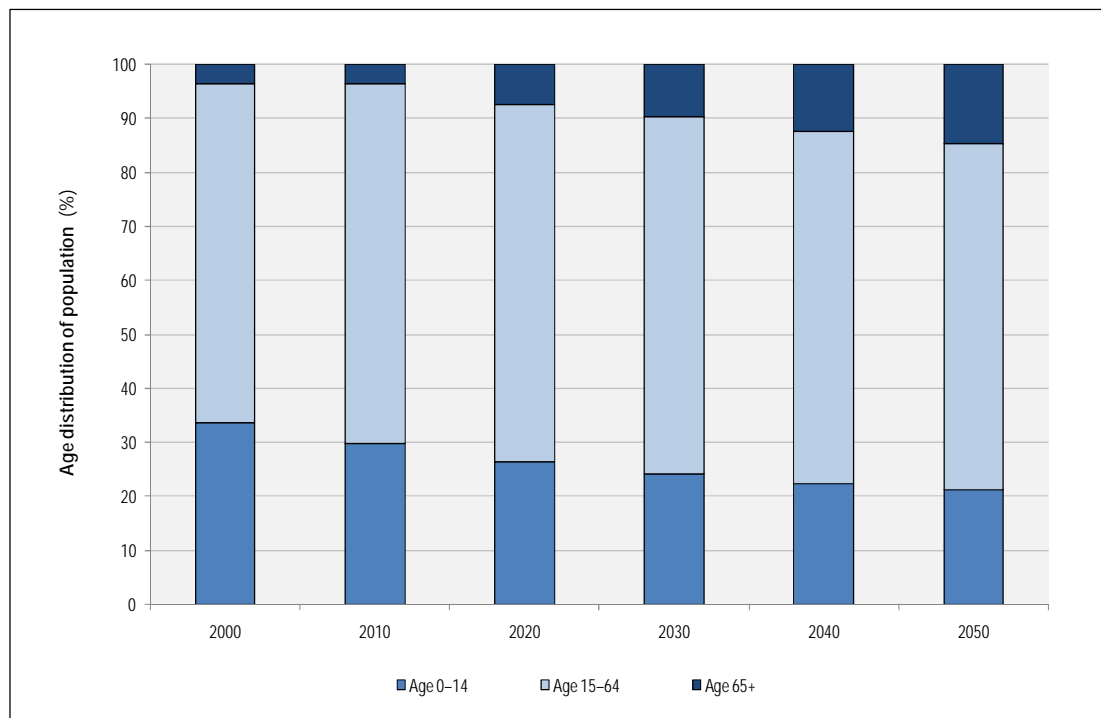
Figure 1.13(a) and (b). More old and less young people in all regions

(a) Age distribution of population, “more developed” regions, 2000–50



Source: UN: *World Population Prospects*, op. cit.

## (b) Age distribution of population of “less developed” regions, 2000–50



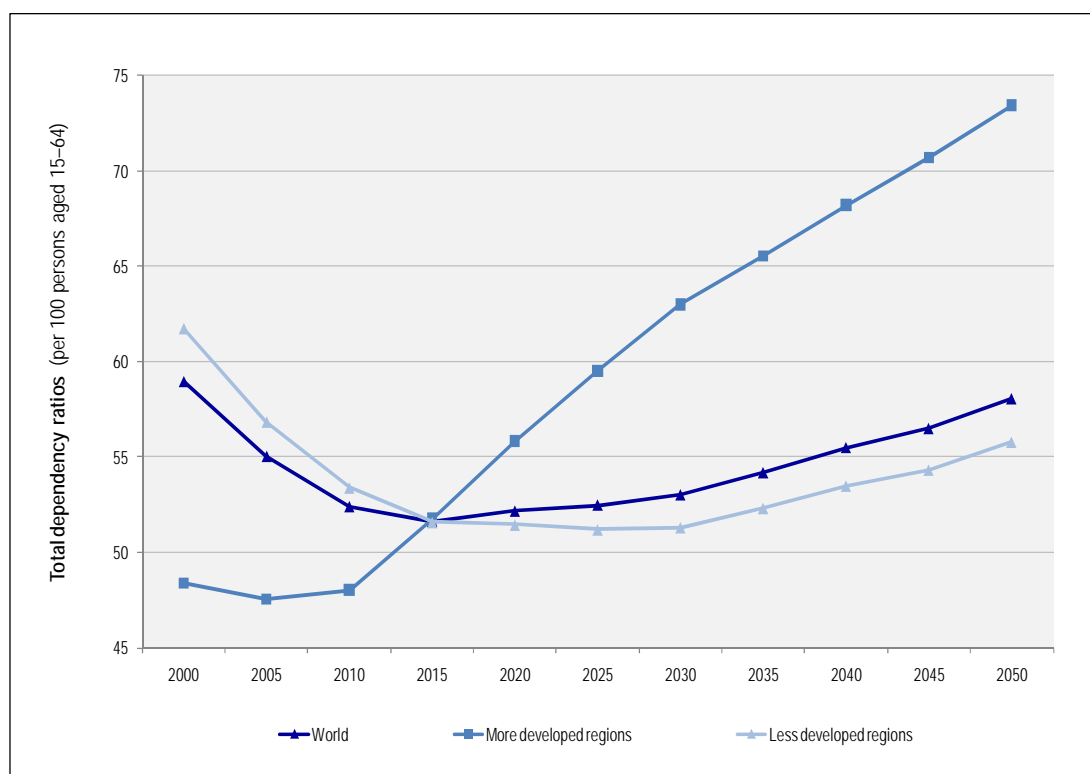
Source: UN: *World Population Prospects*, op. cit.

41. The demographic transition will have important implications for the number of people that depend on the income of other people and thereby for social transfer systems, and countries will ultimately have to cope with redistributive pressures.

42. In less developed regions, the increase in the number of older persons is almost balanced by the decrease in the number of children in the population (figure 1.13(b)), resulting in modest increases in the total dependency ratio (figure 1.14). The relatively lower fertility rates in more developed regions result in an increase of the overall number of people outside working age (figure 1.13(a)) and thereby to an increase of dependency ratios, as shown in figure 1.14. The growing number of older people is dominating the heavy increase in the dependency ratio.

Figure 1.14. After 2015, declining proportions of people at working age

## Total dependency ratios, 2000–50



Source: UN: *World Population Prospects*, op. cit.

43. Dependency ratios are not only a function of age, but also the employment and income status of a population. First, in most countries people do not automatically cease to be economically active at a specific age. In addition, not everyone in the working-age group is economically active, particularly among the female population. Similarly, as professional training becomes longer, a growing number of young adults remain in the education system longer and thus outside the labour market longer (thereby extending the period of dependence far beyond adolescence). It should also be considered that unemployed people, who by definition are counted as being in the labour force, are also dependants who need to be supported. In countries with high unemployment rates, this would considerably change the picture. Finally, if data were available, people who do work but do not earn enough to lift themselves out of poverty should also be considered as dependants. Again, at least in least developed countries, this would increase the calculated dependency ratio considerably.

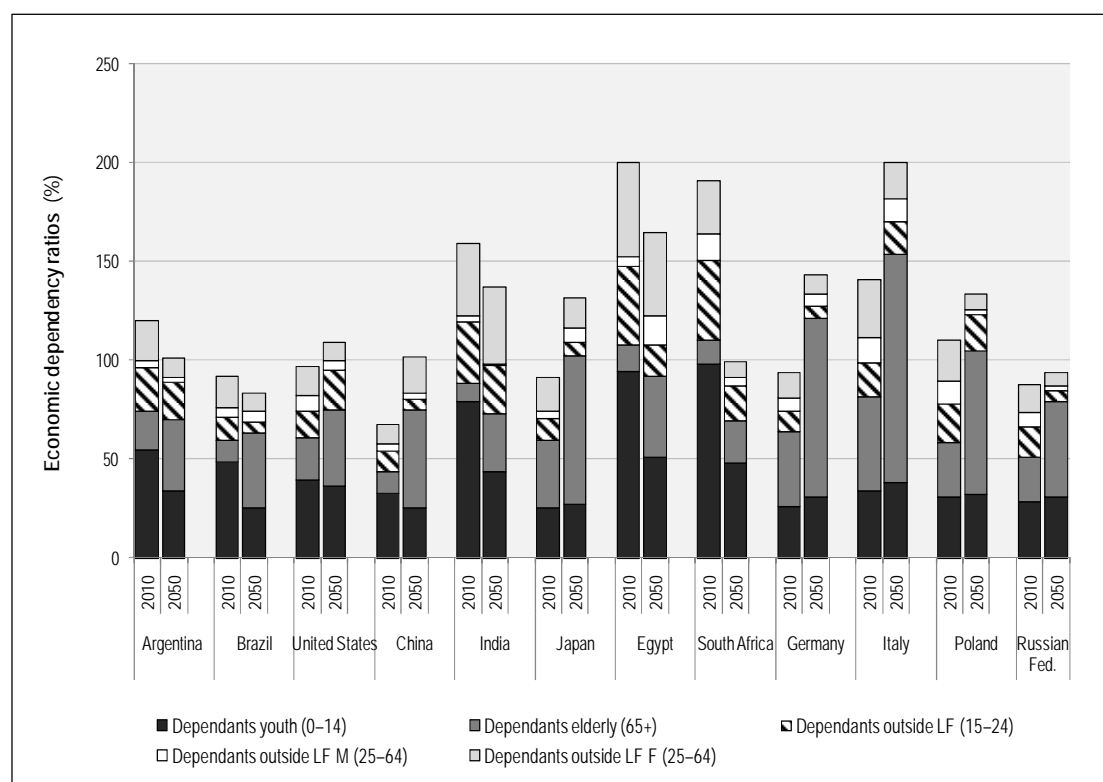
### Box 1.3

#### A closer examination of dependency ratios in 12 countries

Demographic dependency ratios are valuable indicators of the potential effects of demographic changes on socio-economic development. In their most simple version they relate the number of people in dependent age groups (children under 15 and persons over 64, for example) to that of people in the working-age group (15–64, for example). Thereby, they give the number of people in dependent age groups for every 100 people of working age. In many countries this dependency ratio is higher than 100, indicating that there are more dependants than people of working age.

The ILO studied the trends in economic dependency ratios in more detail for six less developed countries and six industrialized countries, taking into account the different labour force patterns of people of working age. Figure 1.15 shows that total economic dependency is projected to continue increasing significantly in all industrialized countries during the decades to come until 2050, while economic dependency is projected to remain stable or stagnate in the selected developing countries (Argentina, Brazil, Egypt, India, South Africa) except in fast-ageing China. However, structural shifts are observed among the dependants' group in all countries with the group of elderly dependants growing in all countries. In most of the countries the share of males at working age that are dependent are expected to decrease considerably. Egypt is one of the exceptions. This is due to the increasing inactivity of men as a result of deteriorating labour market conditions.

Figure 1.15. Economic dependency ratios, 2010 and 2050, 12 countries



Source: Authors' own calculations.

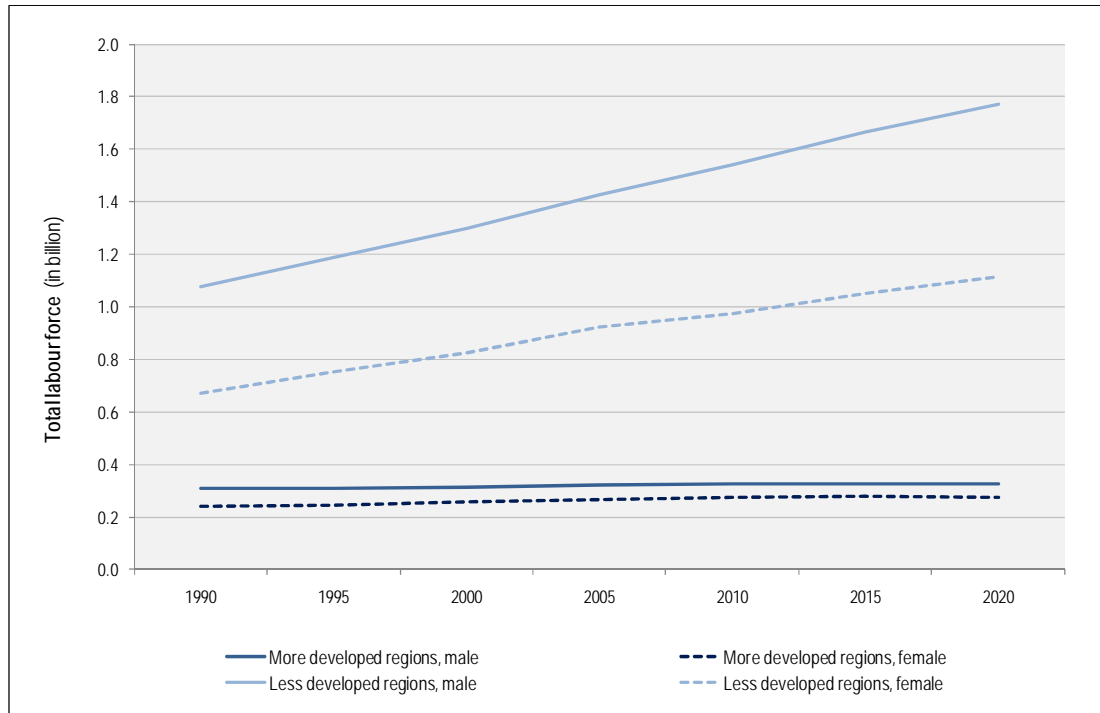
## 1.2. Global labour force dynamics

### Labour force trends

44. Demographic changes have important implications for the labour force which will continue to grow at the global level. By 2020, the global labour force will be about 420 million workers larger than it was in 2010.

45. There are important asymmetries in labour force growth between regions and countries depending on demographic trends. As figure 1.16 illustrates, labour force growth will be particularly strong in the less developed regions. In the more developed regions, it is foreseen that the total labour force will marginally increase in the next decade.

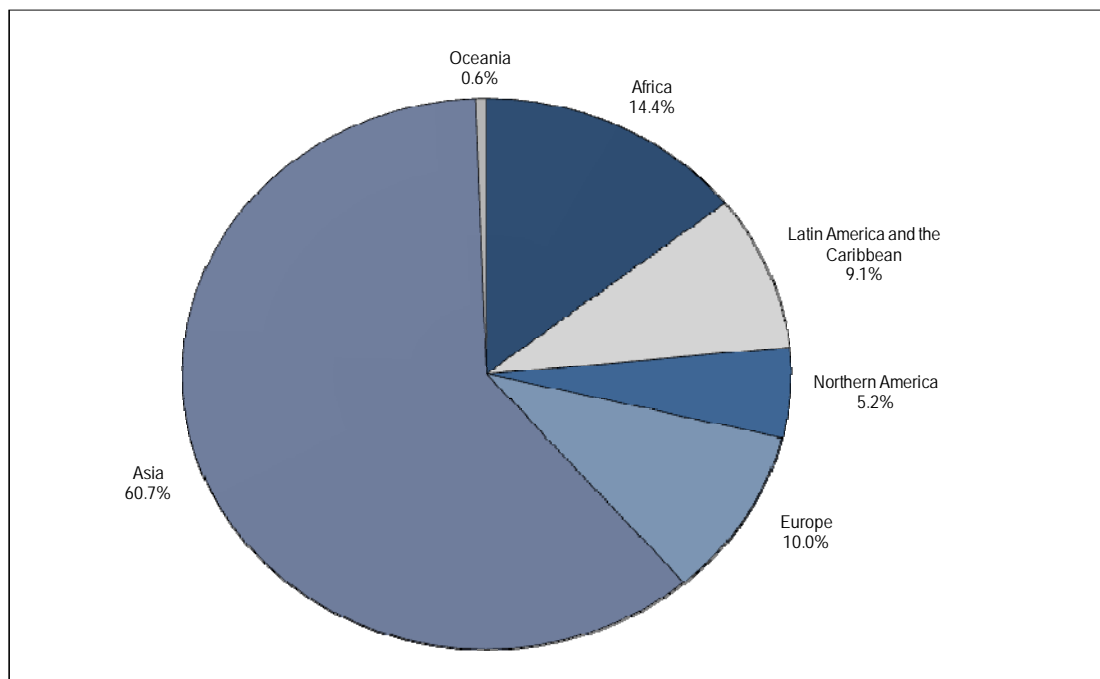
Figure 1.16. Total labour force in more developed and less developed regions, by sex (in billions), 1990–2020



Source: Calculated from ILO Laborsta, using UNDESA's regional classification.

46. Regarding the regional distribution of the labour force, figure 1.17 indicates that by 2020 the majority of the world's labour force will be living in Asia, followed by Africa.

Figure 1.17. Estimated distribution of the world labour force, by region, 2020



Source: ILO: Laborsta.



47. The strongest labour force growth between 1985 and 2020 is foreseen in Asia, particularly in East Asia due to the expansion of China's labour force. China is expected to have around 820 million economically active people by 2020.

48. The labour force will grow fast in most African countries, particularly in eastern Africa. However, countries in southern Africa will have a lower labour force growth due to the devastating effects of HIV/AIDS. In Latin America, the Caribbean and North America, the labour force is expected to continue growing, but at a slower pace. In Europe, there will be a marked slowdown in labour force growth and an absolute decline in the number of male workers. This will be due mainly to the dramatic decrease in the labour force in Eastern Europe, and particularly in the Russian Federation.

### Labour force participation

49. The size of the labour force is not only determined by demographic trends but also by the fact that only a certain amount of people at working age actually work or are looking for work (which are the two groups that define the labour force; see also the discussion above on dependency ratios). This is measured by the labour force participation rate. Different population groups have different participation patterns, and understanding these patterns can help to change them if demographic changes make such changes necessary.

50. Worldwide and in every region, labour force participation is higher for men than for women regardless of the age group. Globally female participation rates have remained constant at around 52 per cent in the last two decades.<sup>9</sup> This mainly reflects differing cultural and social norms and the lack of opportunities for women to combine work and family duties. However, female labour force participation has substantially increased in several regions such as Latin America, as a result of more opportunities for women, less cultural constraints and better childcare facilities, etc. It might also be attributed to the overall employment growth in the region during the last years and low starting levels of female participation during the 1980s.

51. Furthermore, there are important differences in levels of participation depending on the age group. Younger and older age groups present the lowest levels of participation (figure 1.16).

52. In the last decades, youth labour force participation rates have substantially decreased in all regions and they are expected to continue decreasing, in particular for young men (figure 1.18). This may be attributed to several reasons, including the increased education enrolment of young people and their extended studies. It is also due to discouragement in those economies where labour market conditions are particularly bad.<sup>10</sup> This is particularly the case in the Middle East, Central and south-eastern Europe (non-EU), the CIS and North Africa.

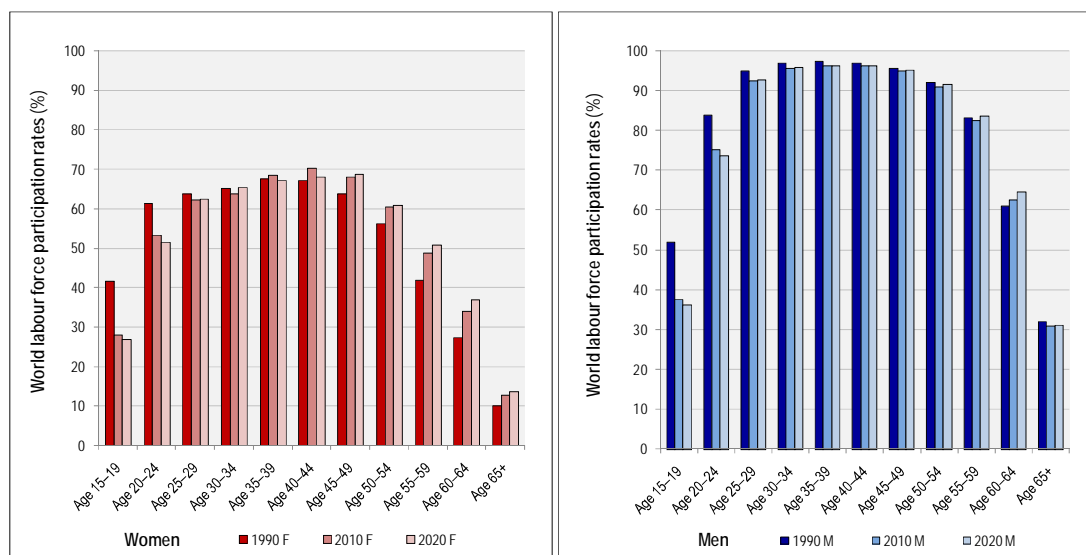
53. The labour force participation rates of older women have actually increased and are expected to continue increasing, while they have declined slightly for males in the last two decades but are expected to increase slightly for those aged 45 years and above (figures 1.18 and 1.19).

<sup>9</sup> For more details see ILO. *Global Employment Trends for Women*, 2012.

<sup>10</sup> For an extensive analysis of youth participation and the youth labour market see: ILO. *Global employment trends for youth* (Geneva, 2011) at: [http://www.ilo.org/wcmsp5/groups/public/---ed\\_emp/---emp\\_elm/---trends/documents/publication/wcms\\_165455.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_elm/---trends/documents/publication/wcms_165455.pdf). Also ILO. *Global employment trends for youth* (Geneva, 2012) at: [http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms\\_180976.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_180976.pdf).

54. In the more developed regions, and particularly in Europe, despite recent increases, the participation rates of older persons among the lowest in the world – and this is particularly true for women. This still holds despite the fact that older women’s participation rates notably increased between 1990 and 2005 and are expected to continue increasing in the 55–64 age group, which is in contrast to the decreasing rates for men. This trend is particularly strong in Australia and New Zealand.

Figure 1.18. World labour force participation rates by age, male and female (1990, 2010, 2020), as a percentage

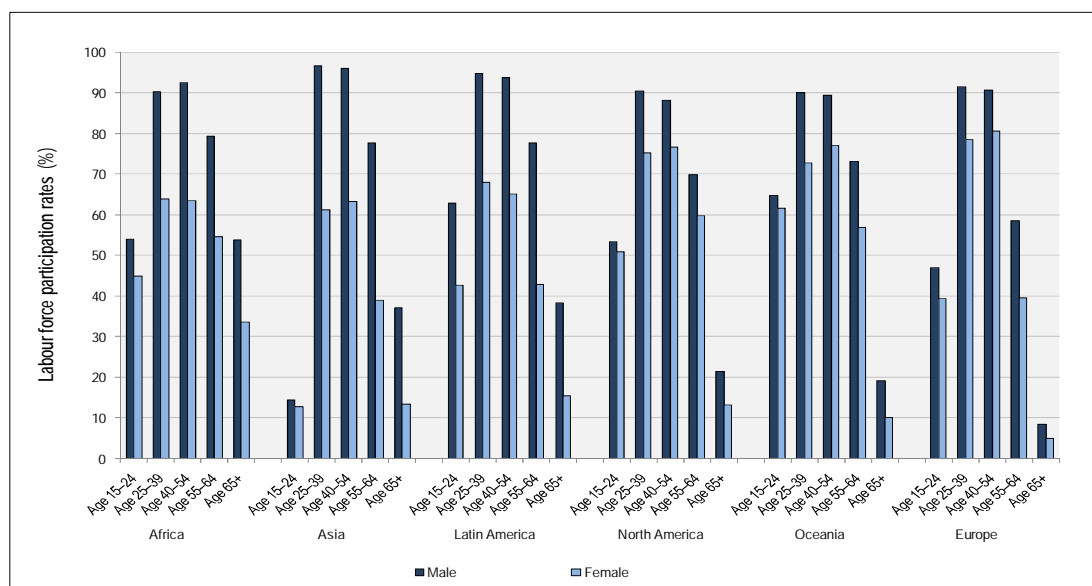


Source: ILO: Laborsta.

55. Despite regional differences in participation trends by age and sex due to the level of development of regions and countries as well as cultural differences and traditions, the prime age groups 25–39 and 40–54 present the highest participation rates in all regions (figure 1.18).

Figure 1.19. Prime age groups have the highest labour force participation rates

Labour force participation rates by region, age group and sex, 2010 (%)



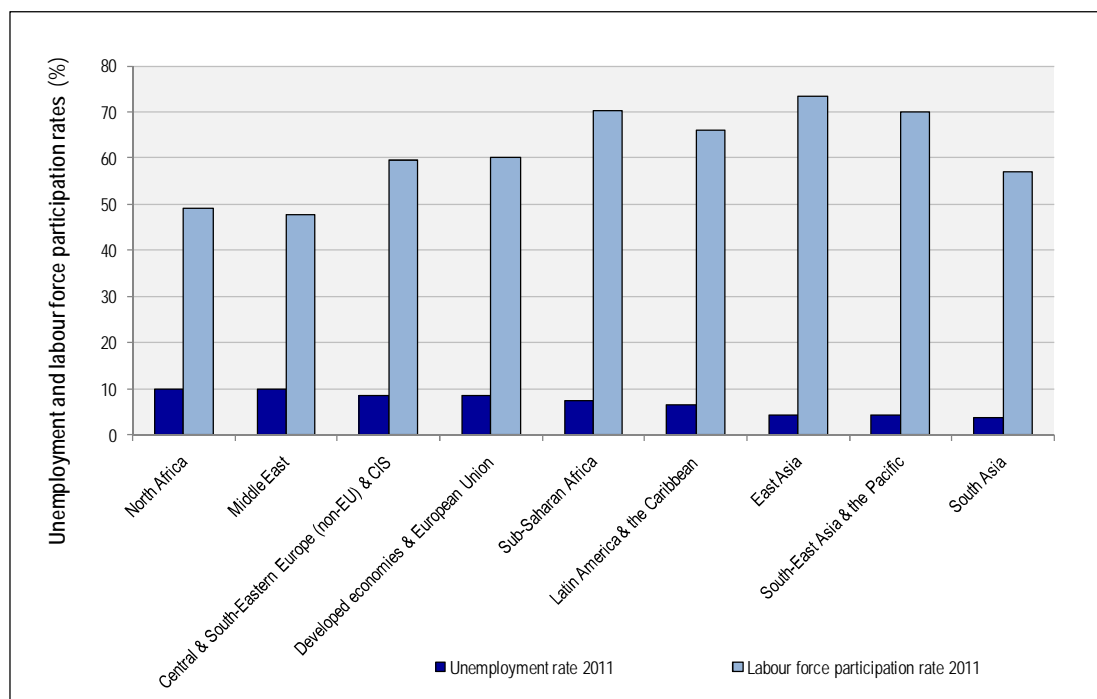
Source: ILO: Laborsta.

56. In some countries the decreasing participation trends for older men reflect the fact that a number of workers who can afford to do so have chosen to withdraw from the labour force prior to the statutory retirement age, as financial incentives have made leisure increasingly attractive compared to work.<sup>11</sup>

## Unemployment

57. Although there is no straightforward correlation between labour force participation rates and levels of unemployment, countries with higher unemployment and especially with rapidly growing unemployment, tend to have lower participation rates, mainly because people drop out of labour markets because of the lack of opportunities to find jobs. This is particularly the case for younger age groups as well as older age groups. This also shows in the regional trends shown in figure 1.19, with the two poorest regions being an exception: sub-Saharan Africa with high labour force participation rates and relatively high unemployment rates, and South Asia with both low unemployment rates and low participation rates.

Figure 1.20. Unemployment and labour force participation rates, different regions, 2011



Source: ILO: Global Employment Trends Model 2013, Geneva.

58. Unemployment rates decline substantially with age (see figure 1.21 for some selected OECD countries). However, a lower unemployment rate for this category of workers does not necessarily imply a lower risk of job loss compared to their younger counterparts – it may reflect that they are more likely to withdraw from the labour

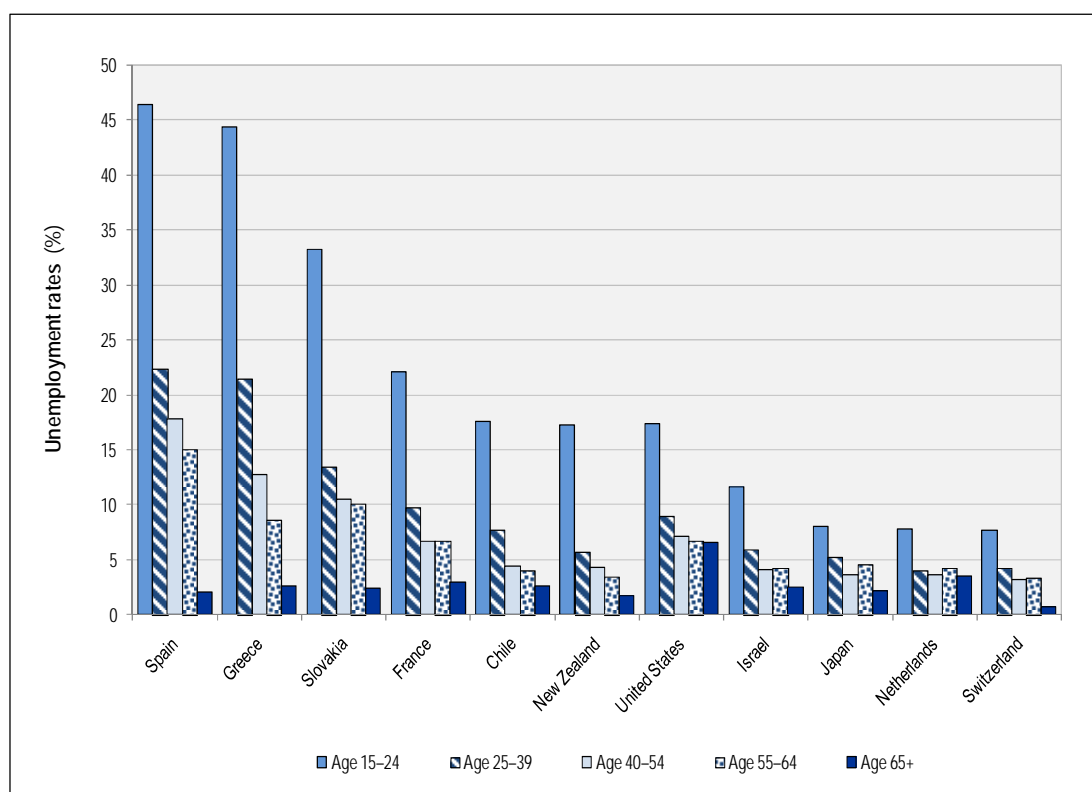
<sup>11</sup> While the trend in the 1980s is not included in the current report, Eastern Europe experienced a particularly important decline in male participation rates in the 55–64 age group between 1980 and 2005. Labour force withdrawals of older workers have been largely the result of involuntary early retirement associated with economic restructuring. See P. Auer and M. Fortuny. *Ageing of the labour force in OECD countries: Economic and social consequences* (Geneva, 2000), and M. Fortuny, A. Nesporova and N. Popova. *Employment promotion policies for older workers in the EU accession countries, the Russian Federation and Ukraine*, Employment Paper 2003/50, Employment Sector (Geneva, 2003).

market following job loss. Moreover, many older workers are being pushed out from the labour market and prefer to retire rather than face the stigma of unemployment. Furthermore, although unemployment rates for older workers are low, the incidence of long-term unemployment is higher and has been increasing in the majority of OECD countries (see figure 1.22 for some countries). Under these circumstances, older workers easily become discouraged and drop out of the labour market.

59. Some countries have seen an increase in unemployment among older age groups. In Latin America, for example, there is evidence that unemployment among older workers was low but growing. In Argentina, for instance, the unemployment rates of older workers increased by ten percentage points between 1990 and 2003. Also, the share of older workers in the informal economy grew in most Latin American countries (except in Chile, Panama and Brazil).<sup>12</sup>

Figure 1.21. Unemployment rates decrease with age, not always for good reasons

Unemployment rates by age in selected OECD countries, 2011 (%)

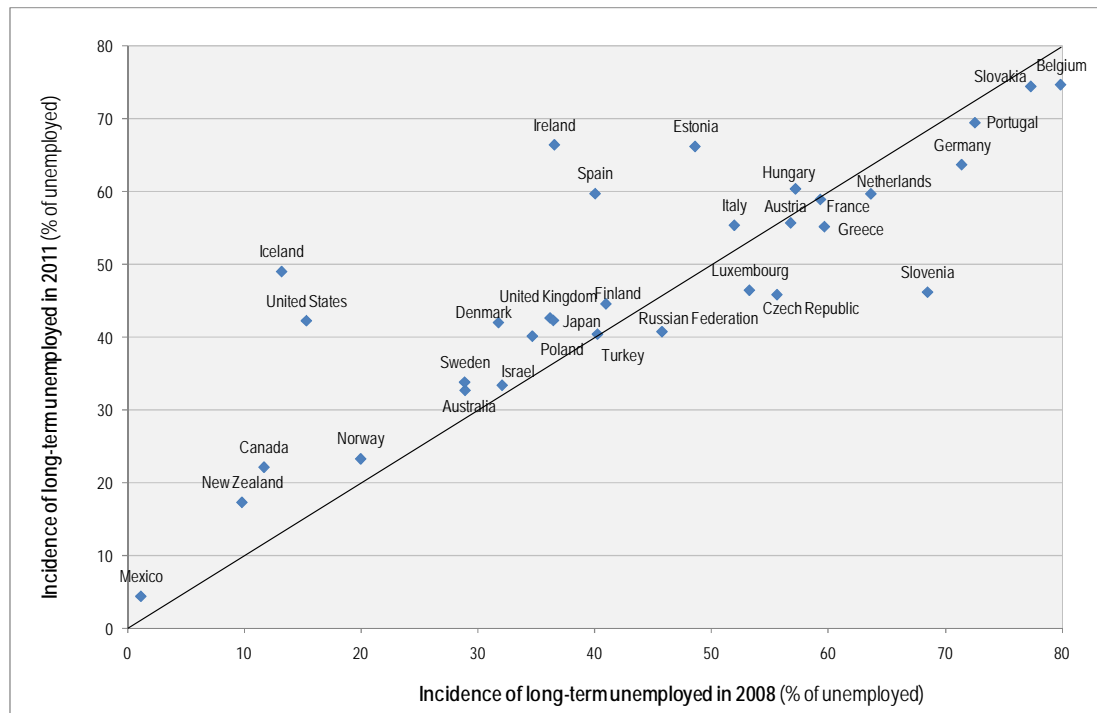


Note: Data for Spain refers to the 16–25 age group.

Source: <http://stats.OECD.org/>, labour force statistics by age and sex. Data downloaded on 26.11.2012.

<sup>12</sup> Bertanou, F. (ed.). *Envejecimiento, empleo y protección social en América Latina* (Santiago de Chile, ILO, 2006).

Figure 1.22. Incidence of the long-term unemployment rate among older workers in selected OECD countries, 2008 versus 2011 (% of unemployed)



Note: Share of long-term unemployed (one year and above) for unemployed workers aged 55 plus. Countries above the 45 degree line saw an increase in long-term unemployment.

Source: <http://stats.OECD.org/>, incidence of unemployment by duration. Data downloaded on 26.11.2012.

## Education, skills and labour force trends

60. On average, adults who spend more time in education or training have a higher probability of being economically active and a lower probability of being unemployed.<sup>13</sup>

61. In Hungary, a study revealed that 62 per cent of workers aged 45–64 years with a secondary education were working. This figure climbed to 75 per cent for those with a higher education.<sup>14</sup> Also, the Czech Republic has very high education gaps in participation rates among older workers by educational level.<sup>15</sup> Even in poor countries, participation rates increase with the level of education: in India, for instance, 25 per cent of elderly illiterate people participate in work compared to about 50 per cent of those holding a technical diploma or the equivalent of a graduate or postgraduate degree.

62. In the EU-25, skills level is a particularly important factor in the employment of older workers. At all ages, activity rates are significantly higher among the more educated, with the link of skills level to labour market participation being more pronounced for women than for men. For men, the difference in activity rates between the low- and high-skilled generally increases with age, being the widest for the age

<sup>13</sup> Eurofound. *Working conditions of an ageing workforce* (Dublin, 2008), p. 49.

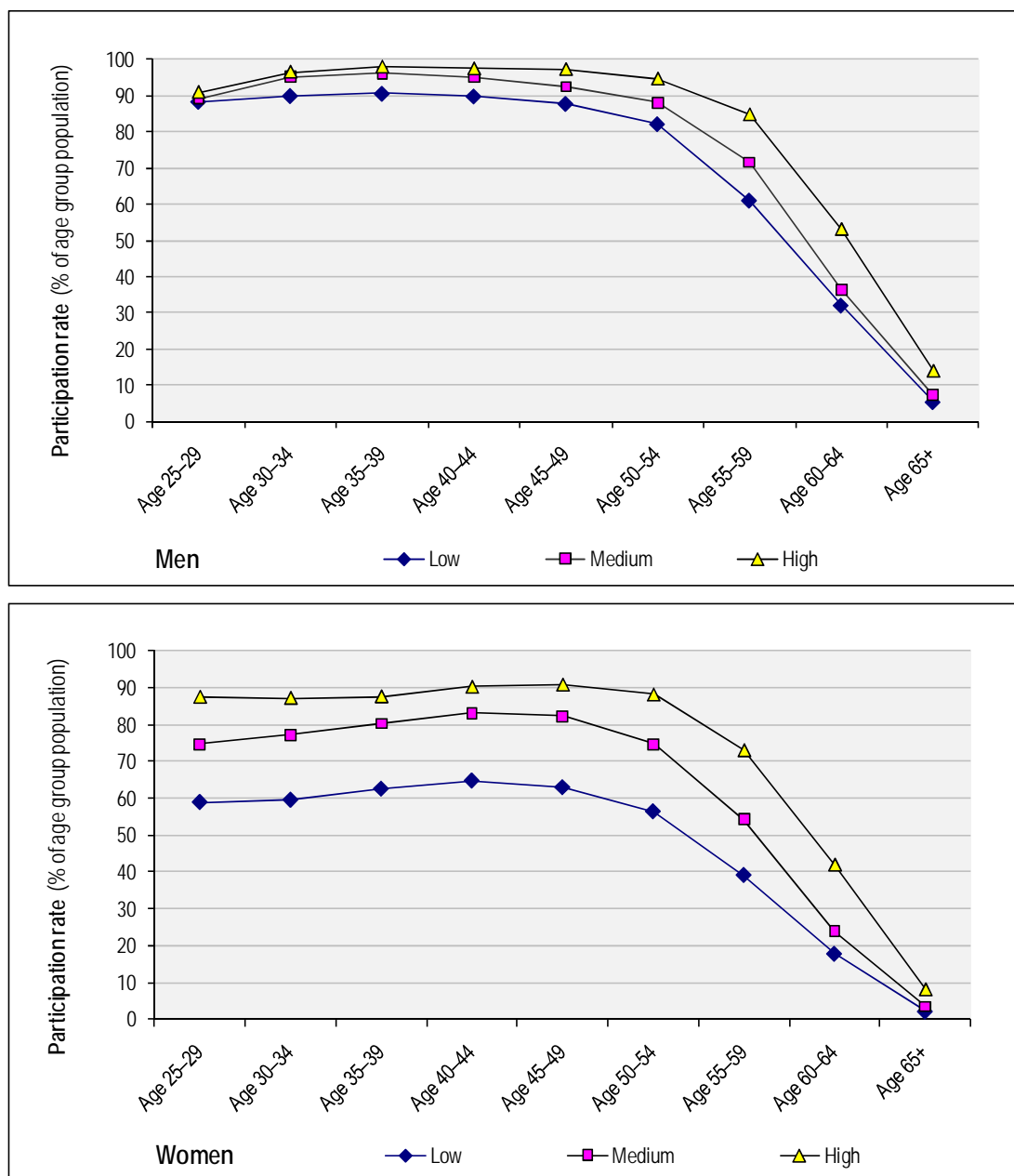
<sup>14</sup> Eurofound. *Employment of older workers and lifelong learning*, available at: [www.eurofound.europa.eu/ewco/2005/09/HU0509NU01.htm](http://www.eurofound.europa.eu/ewco/2005/09/HU0509NU01.htm).

<sup>15</sup> OECD. *Ageing and employment policies: Czech Republic* (Paris, 2004).

groups 55–59 and 60–64, where the difference exceeds 20 percentage points (figure 1.23).

Figure 1.23. Participation increases with skills levels

Participation rate by five-year age groups, sex and skills level in EU-25, 2006



Source: Employment in Europe, 2007.

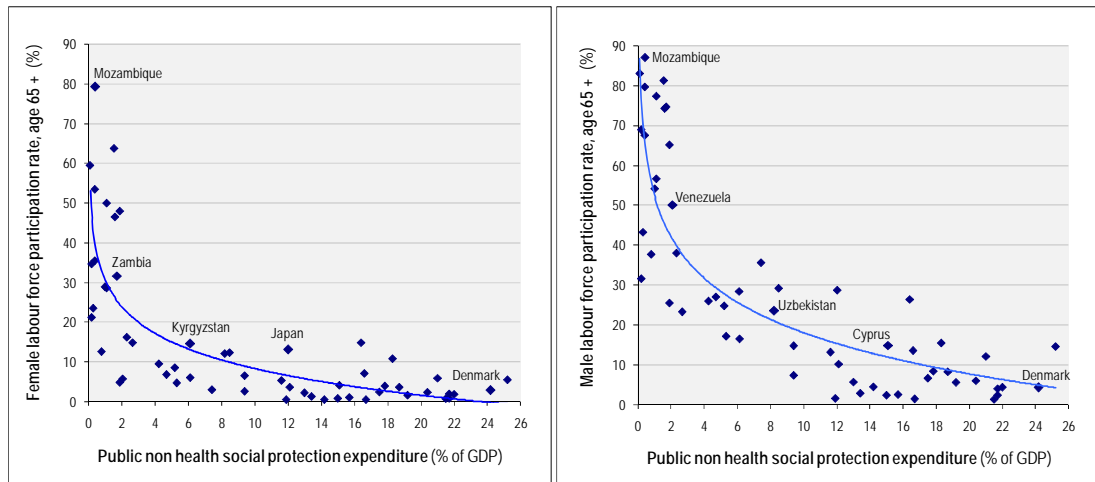
### Income security and older people's labour force participation

63. There is a clear relationship between labour force participation and social security coverage. Figure 1.24 shows the correlation between the labour force participation of men and women over 65 years and public non-health social protection expenditure (which is dominated by pension expenditure). The labour force participation of older

people declines in those countries with higher expenditures. Interestingly, male participation rates are more sensitive to changes in expenditure than female rates. This could be attributed to the fact that male benefit levels tend to be higher than those of women.

Figure 1.24. Less protection means higher labour force participation

Correlation between labour force participation of populations over 65 years and public (non-health) social protection expenditure for selected countries as a percentage of GDP (2005)

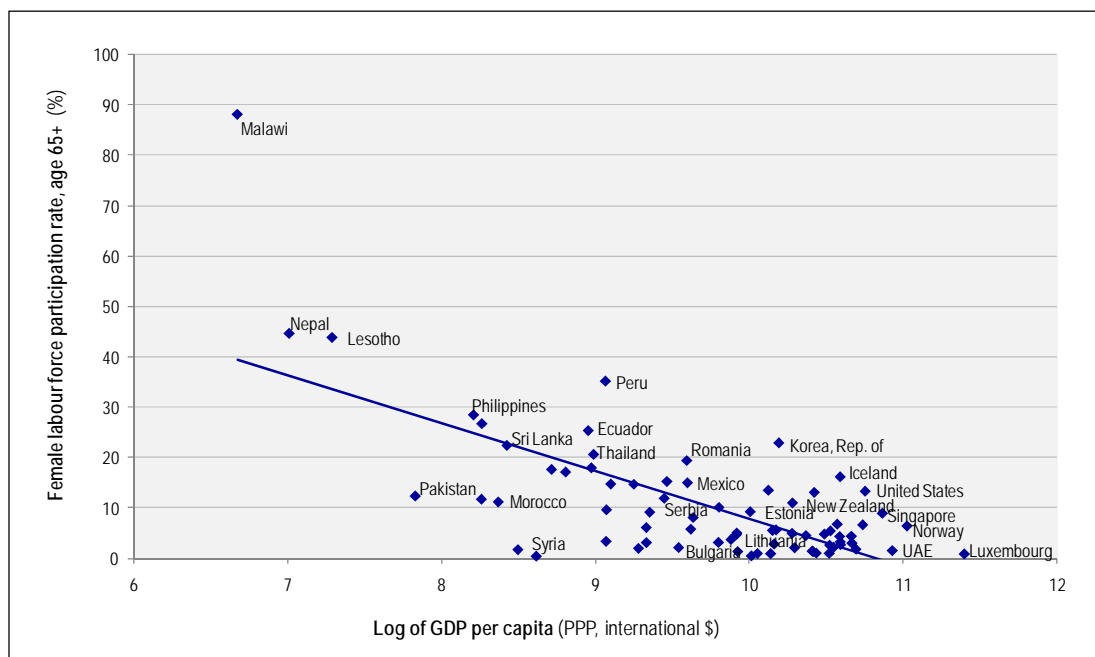


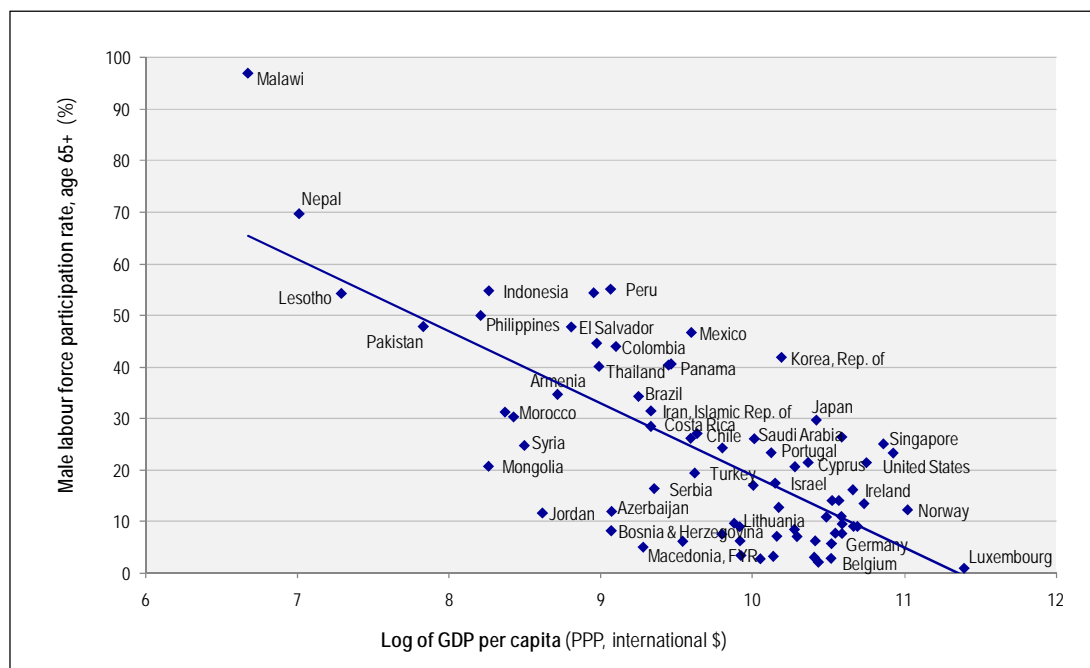
Source: ILO: Laborsta, public non-health data. Authors' own calculations.

64. Furthermore, there is a clear relationship between labour force participation and income levels. Figure 1.25 shows that the higher the per capita GDP there is less need for people over 65 years old to work.

Figure 1.25. When GDP per capita is low older people have to work

Correlation between labour force participation of populations over 65 years and GDP per capita (2008)





Source: ILO Labour Stat., 2012.

65. Developing countries present the highest levels of older population labour force participation mainly because older people continue working to make a living. In these countries, large numbers of older people work in the informal economy due to the lack of, or low level of, old-age benefits. Africa is the region with the highest labour force participation of older workers.

66. Labour force participation rates of older women are high in developing countries with the exception of the Middle East and North Africa regions. South-eastern Asian countries present particularly high participation rates for females in the 65 plus age group, at 20 per cent and above. In Latin America, increases in female participation in the 55–64 age group are striking. In South America, female participation rates of the 55–64 age group increased by over 16.5 percentage points since the period between 1990 and 2005 and are expected to continue rising. Older female participation rates in the poorest subregions of Africa are also very high (over 70 per cent for the 55–64 age group in eastern Africa for example). Female old-age poverty or widowhood later in life obliges women to continue working mainly in the informal economy.

## Migration dynamics

67. In many countries, migration is a significant factor impacting on the profiles of labour force composition. Today an estimated 214 million people – about 3.1 per cent of the world's population – live outside their country of origin, more than double the number 25 years ago. Of these 214 million people, approximately 105 million are economically active.<sup>16</sup> Migration numbers have been increasing over time.

68. Over the period 2005 to 2050, the net number of international migrants to more developed regions is projected to reach 103 million. It is noteworthy that this figure

<sup>16</sup> ILO. GB.316/POL/1, 316th Session, Geneva, 1–16 November 2012.



offsets the projected natural decline in population of 74 million people in the more developed regions receiving the net migrants.<sup>17</sup>

69. Sixty-two million developing country migrants moved to more developed countries in 2005, almost as many migrants, 61 million, transferred from one less developed country to another.

70. Between 2005 and 2050, the major net receivers of international migrants are projected, on an annual basis, to be: United States (1.1 million), Canada (200,000), Germany (150,000), Italy (139,000), United Kingdom (130,000), Spain (123,000) and Australia (100,000). The countries with the highest levels of net emigration are projected to be: China (-329,000 annually), Mexico (-306,000), India (-241,000), the Philippines (-180,000), Indonesia (-164,000) and Pakistan (-67,000).

### Urbanization and ageing population in the rural areas

71. More than half of the world's population will be living in urban areas by 2030. Future population growth is expected to occur almost exclusively in urban areas. By 2030, the world's urban population is expected to reach 4.9 billion, while the rural population is expected to decrease by 28 million. Furthermore, the pace of urbanization will grow the fastest in regions that currently have low levels of urbanization, such as in East Africa. The urban population of Africa and Asia will double between 2000 and 2030 and many of these urban dwellers will be poor.<sup>18</sup>

72. Some consequences in the composition of the rural labour force are already observable: many countries are witnessing an increase in the proportion of older small farmers. Young adults migrate to urban areas for employment and education opportunities. In Mozambique, 70 per cent of members of the Small Farmers' Union are over the age of 45,<sup>19</sup> and in the Philippines the average age of farmers is 57. In the Caribbean, the average age of a farmer is now 62.

73. In developing countries there are marked differences in old-age participation rates between urban and rural areas. In China, for example, where urban areas benefit to a certain degree from social protection systems, labour force participation declines with age. However, in rural areas where the participation in the rural pension system has been low, elderly labour force participation rates remain high at 80 per cent (55–59), 66 per cent (60–64) and 28 per cent (65 plus).<sup>20</sup> It needs to be seen if the new law introduced in 2010 regarding the rural pension scheme and providing pension benefits to all rural workers of 60 years or above will change the participation patterns of the rural elderly.

### Economic crises

74. Crises and economic shocks have a bearing on labour markets. In all crises it is the younger workers as well as the older workers that suffer most. Very often they are the first ones to lose their jobs and the last ones to re-enter labour markets. Those who manage to continue working often have to accept less secure contracts and harsher working conditions.

<sup>17</sup> ILO. "Conclusions on a fair deal for migrant workers in a global economy", in Report of the Committee on Migrant Workers, *Provisional Record* No. 22, ILC, 92nd Session, Geneva, 2004.

<sup>18</sup> *State of World Population 2007*, UNFPA. [http://www.unfpa.org/swp/2007/english/chapter\\_1/index.html](http://www.unfpa.org/swp/2007/english/chapter_1/index.html).

<sup>19</sup> See [www.unac.org.mz](http://www.unac.org.mz).

<sup>20</sup> OECD. (2010). *China in the 2010s: Rebalancing Growth and Strengthening Social Safety Nets*, table 4.

75. The current economic and financial crisis is the most recent example. It affected and continues to affect OECD countries most severely where, on the one hand, ageing is very advanced, while at the same time young people had difficulties entering the labour markets even before the crisis started.

76. Much attention has been given to the analysis of the impact of the crisis on young people, leading to a series of measures being taken by countries and, at the international level, such as the ILO call for action,<sup>21</sup> which was adopted at the ILC in 2012.<sup>22</sup>

77. Less attention has been given to the impact analysis on older people. However, evidence shows that both the quantity and the quality of older workers' employment have been particularly affected. The increase in the unemployment rate of these workers has not been greater than for other age groups – except in the United States – but their duration of unemployment is much longer, and they will most likely remain unemployed even after recovery begins. Data for Australia show that 45 per cent of those aged 55 and over remained unemployed for more than a year, compared with 35 per cent for the prime age group (35 to 44). In the United States in 2010, the average unemployment duration for workers aged 16 to 24 years was 23.3 weeks, compared with 35.5 weeks for those aged 55 and above.<sup>23</sup> As a result, there was a large discouragement effect among workers above 55. Workers of 55 years and above comprised 15 per cent of discouraged workers in 2009. By mid-2010, their share among discouraged workers had increased to almost 24 per cent.

78. Involuntary part-time employment has also increased, especially among older workers. Part-time jobs tend to be casual in status, with an absence of paid annual or sick leave and low job security; they also tend to be paid less than permanent workers.<sup>24</sup> Self-employment also increased, which during times of crises is often the only option people are left with (while at the same time it is particularly difficult to run a business during recession times). In the United States in 2007, 10 per cent of older non-agricultural workers were counted as self-employed, and this increased to 10.5 per cent in 2010.

79. It also appears that the recession has significantly boosted the ranks of those working in jobs described as temporary or project-based (independent contractors, seasonal workers). The growth of atypical forms of employment, especially casual and part-time work, has significantly dampened the impact of labour regulation, resulting in increased wage dispersion and scope for exploitative practices.

80. Even though low-income countries have been less affected by the current economic crisis, this is not always the case, as for example during the Asian crisis in the late 1990s. In addition, other regions are undergoing different types of crises, such as for example the Middle East and North Africa where, because of political changes, economies slow down considerably, and the already difficult situation of younger and older people has deteriorated even further.

---

<sup>21</sup> ILO. (2012). *The youth employment crisis: A call for action*. [http://www.ilo.org/washington/WCMS\\_185950/lang--en/index.htm](http://www.ilo.org/washington/WCMS_185950/lang--en/index.htm).

<sup>22</sup> See also ILO. Global Employment Trends for Youth 2011 and 2012. ILO: Organisation for Economic Co-operation and Development (OECD) 2011. "Giving youth a better start", a policy note for the G20 Meeting of Labour and Employment Ministers (Geneva and Paris).

<sup>23</sup> Bisom-Rapp, S. et al., 2011, op. cit.

<sup>24</sup> This is of course not the case for all part-time working arrangements. The majority of such arrangements are voluntary and often to the satisfaction of workers.

81. In low- and middle-income countries, older people have, as younger people, even fewer opportunities to adapt to changing economic circumstances compared to more developed countries, and thus face particular challenges in times of economic difficulties. In the absence of social protection and temporary emergency social assistance measures, often referred to as social safety nets, older workers especially are often badly equipped to address change.

82. Even before the economic and financial crisis, the need to create decent work opportunities was a challenge that few countries were handling successfully. Youth unemployment rates were much higher than adult unemployment rates and old-age poverty was on the rise in many countries. A series of crises around the world, including the food price crisis, the economic and financial crisis, crises caused by natural disasters, wars and political changes led to a situation whereby according to ILO estimates the world faces the “urgent challenge” of creating 600 million productive jobs over the next decade in order to generate sustainable growth and maintain social cohesion. Worldwide, 200 million people are without a job and millions more would enter labour markets if there were job opportunities. Even with an optimistic scenario of 4 per cent GDP growth worldwide for the next years to come, the total number of people without a job would increase by another 6 million by 2016.<sup>25</sup> However, according to the latest IMF estimates, it is more likely that the economic crisis will continue beyond 2013, with much slower economic growth rates in most countries, especially within the OECD. This will even further reduce the chances for vulnerable groups in the labour markets to find decent jobs.

---

<sup>25</sup> ILO. *Global Employment Trends*, 2012.



## Chapter 2

---

### **The economic and social implications of the new demographic context**

83. This chapter examines the implications demographic changes might have on economic development, employment and social protection in countries at various stages of the demographic transition. It argues that people's economic behaviour is strongly associated with the life cycle – they consume and save differently at different times in life – and that therefore changing population structures have a major impact on social and economic development. Furthermore, expected changes in labour force composition due to population ageing have important implications for employment – for example, in terms of skills shortages, education and training needs, and productivity and earnings. Finally, changing population structures may put a strain on existing institutions that provide economic and income security and adequate services for an ageing society, particularly health care, long-term care and pension systems, and have implications for retirement patterns.

#### **2.1. Impact on economic development**

84. Changes in age structures have an impact on economic outcomes because people's economic behaviour changes according to their age. The life cycle can be divided into three stages: pre-work, work and post-work. During the first and the last stage, individuals consume more than they produce, whereas in the second stage they produce more than they consume. The length of each stage differs across individuals and is affected by many factors beyond biology: the economic structure of society, living arrangements, public programmes for children and the elderly, educational opportunities, fertility rates differentials between the poor and the non-poor, family needs and expectations, and health, among others.

85. During the first and last stages, individuals present a “life cycle deficit” as their consumption is higher than their labour income. Consumption in these two stages is financed mainly by private or public inter-generational transfers, which play a major role in redistributing resources from people of working age to children and the elderly. The aggregate deficit depends on the number of people at each stage. With an ageing population, a higher number of individuals in the third stage would be expected, resulting in a larger deficit.

#### **Demographic dividends: The window of opportunity?**

86. In an increasing number of developing countries, as a result of lower fertility and increased longevity, the proportion of children is beginning to decline while the share of working-age adults rises. If this relatively larger workforce is productively employed, this means a positive life cycle surplus (decreasing dependency ratio). This situation is

particularly conducive to development as there are more possibilities for saving and investment, while there is also reduced pressure on education spending. The falling dependency ratio frees resources for private and public investment in human and physical capital. Income per capita can potentially grow at an accelerated pace. This is called the “first demographic dividend.”

87. The GDP growth generated by the additional workers is the measure for this first dividend. More workers generate more output, more savings and to the extent that saving is converted into domestic investment, more capital (human and physical) will be accumulated. As a result, each worker will have more capital to work with in the future and production will rise on account of that. Economic growth accelerates, saving improves, as do government revenues, and consequently the fiscal capacity to finance public policies increases. The demographic “window of opportunity” first “opened” for the developing world during the 1970s, when Latin America, East and South-East Asia, the Pacific Island nations, as well as the Middle East and North Africa, all began to enjoy this dividend. It is expected to last for around 50 years, but with considerable variation between countries. A notable exception is China where, as a joint result of its one-child policy and socio-economic development, the demographic transition was completed in about 20 years. The window opened later in South Asia (around 1985) and in sub-Saharan Africa (around 1995). The first dividend period for these regions is projected to last longer – somewhere between 60 and 80 years.<sup>1</sup>

88. To benefit from the opportunities created by this demographic dividend and to attain a permanently higher economic growth rate, the availability of full and productive employment is of crucial importance. This dividend increases according to the extent that the economy is able to create productive jobs for the increasingly larger working-age population. However, the challenge is the global deficit of productive employment opportunities. Countries worldwide are not able to take advantage of the demographic dividend because a significant share of their workforce is either in search of employment or are low-skilled workers, employed in low-productivity and low-quality jobs in the informal economy, earning very low wages. This situation has been exacerbated by the global economic and financial crisis. The ILO estimates that due to the crisis, unemployment increased by 27 million between 2007 and 2012 of which 14 million were in the developed economies and EU and 7 million in East Asia, 3 million in Latin America and the Caribbean and 1 million in South Asia. The total number of unemployed is expected to increase in all regions during the next five years with the exception of the developed economies and EU, and Central and south-eastern Europe (non-EU) and CIS, where slight decreases are expected. Youth unemployment rates are expected to remain higher than their already high pre-crisis levels.<sup>2</sup> Discouragement – people not working nor in education – has risen sharply during the crisis, with 29 million fewer people in the labour force than expected,<sup>3</sup> which implies that current global unemployment figures actually understate the extent of labour market distress.

89. In addition to the first demographic dividend a second dividend can also arise. As life expectancy at birth increases for larger cohorts of older people, this could result in more savings over the life cycle to finance consumption during old age, resulting in more investment capacity – a situation referred to as the second demographic dividend. This second dividend arises to the extent that the institutional and policy frameworks

<sup>1</sup> Lee, R. and Mason, A. *Population ageing, wealth, and economic growth: Demographic dividends and public policy*, WESS background paper (UN, New York, 2007).

<sup>2</sup> ILO. 2013. *Global Employment Trends*, Geneva, ILO.

<sup>3</sup> ILO. 2012. *Global Employment Trends*, Geneva, ILO.

induce individuals, firms and governments to accumulate capital. Unlike the first dividend, the second dividend is not transitory – since ageing may produce a permanent increase in capital per worker, thus in per capita income – and in theory is likely to increase further in proportion to increases in life expectancy.

90. The realization of the demographic dividends is not automatic, but depends on institutions and policies to transform changes in population age structure into economic development. Thus, the dividend period is a “window of opportunity” rather than a guarantee of improved standards of living. For example, the pattern and level of economic growth is dependent not only on the size of wealth accumulation, but also on its distribution and redistribution through transfers.

### Life cycle deficit countries

91. At an advanced stage of demographic transition, when the dependency ratio starts rising, i.e. the size of the older population starts increasing compared to the working-age population, resulting in an increasing number of people living in a life cycle deficit stage, there are important consequences on public finance (especially for transfers and services for the elderly), economic growth and poverty.

92. The conventional view is that the aggregate saving rate will decrease because the fraction of people who are prime savers will decrease and the dissaving fraction will increase as implied by the life cycle hypothesis. This effect will lead to slower economic growth as a result of the mechanisms explained in the above paragraphs. For the EU-25 as a whole, the annual average potential GDP growth rate could decline by one percentage point during the period 2010 to 2050 due to population ageing and the ensuing reduction in the size of the working-age population.<sup>4</sup> However, increasing life expectancy is the other important component of population ageing and could lead to a higher saving rate as people anticipate a longer retirement period to be financed partly by private savings. Consequently, these two effects have an offsetting impact on saving, and thus on investment, capital accumulation and ultimately economic growth. However, given the current low interest rate environment it is unlikely that the potential additional savings could support the massive investments needed in public infrastructure to increase aggregate demand and, in turn, economic growth.

93. As a population ages the size of the labour force decreases. A shrinking labour force means that countries will have to rely more on productivity growth than on new entrants into the labour market – even though the number of new entrants can be increased by promoting higher labour force participation of specific population groups (women, people with disabilities) and by managing migration flows. For instance, according to UN calculations and all other things being equal, Japan would have to ensure a labour productivity growth of 2.6 per cent per year in order to sustain an annual per capita income growth of 2 per cent during the next 50 years to offset the negative impact of a smaller labour force. More than 80 per cent of the required labour productivity growth would be needed to overcome the growth impact of population ageing. The same holds true – but to a lesser extent – in other ageing economies such as Italy, Germany and the United States.

94. The economic impact of population ageing is also apparent in long-term projections of public spending on education, health care and pensions. Ageing leads to substantial additional pressure to finance public health care and pensions. At the same

---

<sup>4</sup> European Commission. *Europe's demographic future: Facts and figures on challenges and opportunities* (Brussels, 2007).

time, it leads to some reduction in pressure to finance education. Health care represents a major fiscal challenge with likely increases in expenditures in the near future due to the increasing proportion of the elderly in the population, on the one hand, and the elderly population's growing intensity of formal health care use, on the other. As to pensions, the problem of their affordability is already high on many national agendas, and increases in pension expenditures dominate the fiscal outlook of ageing countries. With regard to education, the increasingly smaller size of the school-age population provides a unique opportunity to increase investment per student without increasing total expenditures on education.

95. These issues will impact poverty outcomes. Public transfers play a significant role in reducing poverty and inequality. In Brazil, for example, the pension system is responsible for the almost complete eradication of old-age poverty, and the fast growth in the minimum benefit level (equal to the minimum wage) has been faster than the growth of the higher retirement benefits, resulting in a reduction in inequality.<sup>5</sup> This example shows that if governments in rapidly ageing societies cannot afford the additional cost of health care and pensions, poverty and inequality will be impacted. The risk is real: the efforts to contain overall social expenditure and total public expenditure have been revived following the 2008 global financial and economic crisis. It is thus uncertain to what extent in the future social protection systems will still be able to play their poverty prevention role with equal force.

96. Furthermore, the financing choices governments have at their disposal for the age-induced fiscal costs have implications for capital accumulation and economic growth. There are primarily three ways to face the demand for more social security benefit expenditure. One is to raise general taxation levels to meet the cost of increasing social security costs. This is often seen as having consequences on the capacity to save of the taxpayers but keeping the purchasing power of those receiving the benefits constant and stimulating consumption and economic growth. Another approach relies on reducing social security benefits to accommodate fiscal pressure, with consequences on the ability to consume and to save of those who receive the benefits. This has a downward pressure on economic development. The third approach relies on public debt financing so the government can refrain from increasing taxes or reducing benefits, but transferring the fiscal burden to future generations if there is no additional economic growth generated. The outcome of each of these different financing choices depends on numerous factors and is largely the reflection of the political economy of each country. They clearly have strong implications on whether or not the demographic dividend can be positive or not. A sensible policy mix is therefore required with a view to keep inter-generational concerns at bay.

## 2.2. Poverty and informality

97. As people age, their labour income becomes a smaller part of their total income. In Latin America and the Caribbean (LAC), for example, the labour income of young adults is on average around 90 per cent of their total income while for the group over 60, this falls to 44 per cent (men 53 per cent, women 26 per cent).<sup>6</sup>

---

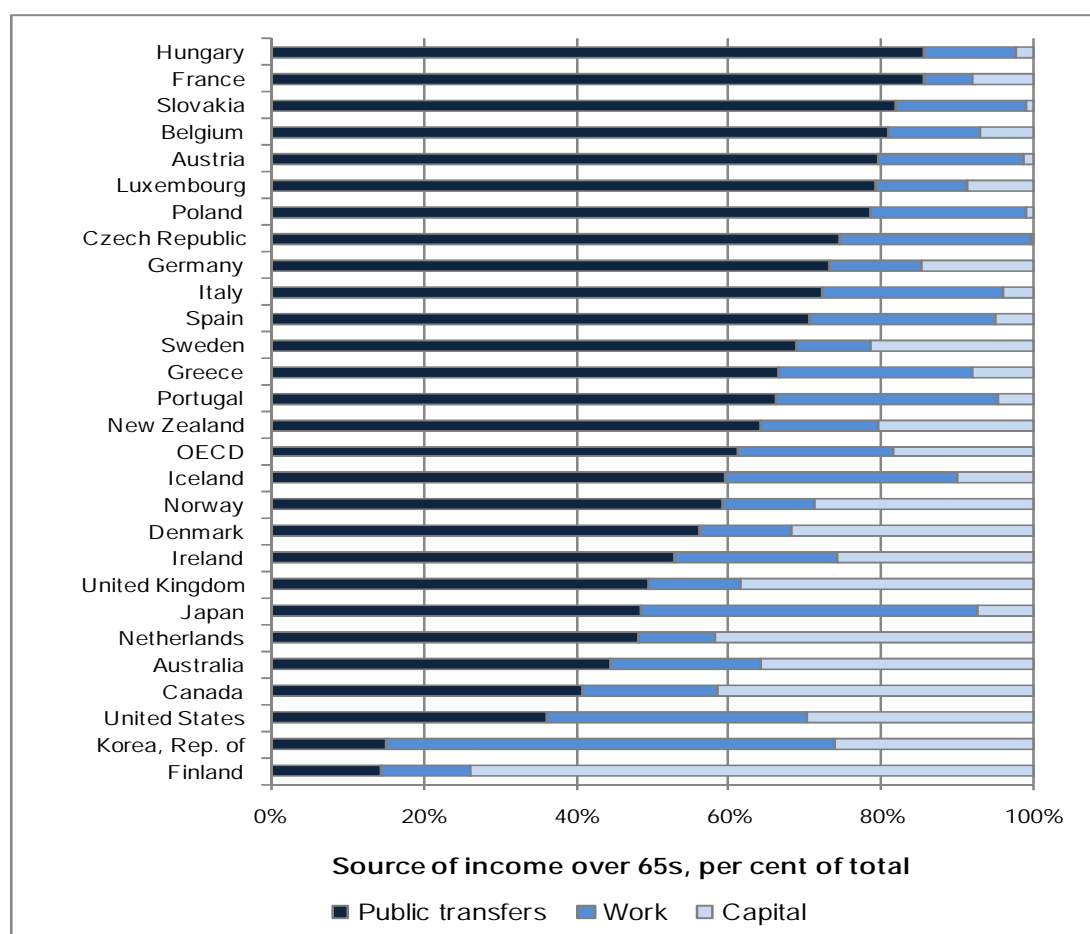
<sup>5</sup> Gragnolati, M. et al. 2011. *Growing Old in an Older Brazil; Implications of Population Ageing on Growth, Poverty, Public Finance and Service Delivery, Directions in Development*, Washington, DC, World Bank.

<sup>6</sup> Cotlear, D. (ed.), 2011. *Population Ageing: Is Latin America Ready? Directions in Development*, Washington, DC: World Bank.



98. In nearly all settings, older people rely for income on a combination of fixed assets, in many cases meagre savings, government programmes such as pensions, and support from family members. But withdrawal from the labour market in developing countries, and increasingly in developed countries, is slow and there is no total exit. Data for LAC, for example, show that older people’s labour income remains significant: compared with the earnings of the average adult aged 30–49, the average 60-year-old earns about two-thirds, and the average 70-year-old still earns more than a third of what prime-age adults earn.<sup>7</sup> In some OECD countries, such as Japan or the United States, the income from labour for people over 65 remains significant (figure 2.1). Having to depend on labour income at an older age is particularly difficult when the labour market does not even provide enough formal jobs for the younger population. Those who worked in the informal economy throughout their work life will most likely continue to work there, with a high risk either to stay or to become poor. But even those who worked in the formal sector might find it hard at an older age to continue working there and risk being pushed into informality.

Figure 2.1. Sources of income in old age, OECD countries, 2009



Source: OECD *Pensions at a Glance* 2009.

99. Are all these income sources sufficient to keep older people out of poverty, or are there some more which are conducive to reducing poverty and informality? First, savings are particularly vulnerable to inflation and/or to financial crises. Furthermore, in

<sup>7</sup> Cotlear, D. (ed.), 2011, op. cit.

most developing countries, rural workers, the self-employed and those relying on income-generating activities in the informal economy rely upon informal savings and support schemes, such as rotating savings schemes, credit associations, mutual aid societies and burial societies. For the most part, this is not enough and people continue to work in the informal economy for as long as they are physically able. In many middle-income countries income security programmes delivered through individual savings arrangements have not succeeded in meeting their objective except for the case of workers engaged in stable employment with earnings at decent levels. Such arrangements are found to require stable employment and sufficient contributory capacity. This is not the case for non-standard workers (on part-time and temporary contracts), workers engaged in the informal economy or for low-wage workers.

100. As shown in Chapter 1, developing countries present the highest levels of older population labour force participation, mainly because older people continue working to make a living, mostly in the informal economy. Lack of social security coverage (a defining feature of the informal economy) entices older people to keep working. Older women, particularly in low-income countries, have very high participation rates. With limited or no accumulated assets over life, such as savings, housing, livestock or land, female poverty or widowhood later in life obliges women to continue working mainly in the informal economy for long periods with very low income security. Lack of decent employment opportunities throughout working life is the main challenge to address in order to overcome high levels of informal work in old age.

101. In countries where the adequacy and coverage of income security programmes is limited, the poverty rate is significantly higher.<sup>8</sup> Pensions – when they exist in developing countries – tend to be small, and coverage is spotty. The informal economy in particular is generally characterized by an absence of pension systems. Given that the informal economy creates the majority of jobs in developing countries it becomes clear that most people do not have a pension. Given that informality is a growing phenomenon in urban areas, old-age poverty in these areas is also likely to increase. In urban areas of Indonesia and the Republic of Korea, fewer than 35 per cent of men and 15 per cent of women have access to pensions.<sup>9</sup> In Latin America, less than 40 per cent of older adults are pensioners. To address the issue of insufficient coverage, some countries introduce social, or subsistence pensions, which are non-contributory schemes. They often have a significant impact on poverty reduction and can also reduce inequality among the ageing, as in the Plurinational State of Bolivia, Brazil, Botswana and South Africa. But in most cases, benefits are too low and coverage is too minimal to succeed in keeping older people out of poverty. In Western Asia, pension systems, where available, generally offer replacement rates of 60 per cent of income for an average of 30 years of service.<sup>10</sup> A study for 15 sub-Saharan countries compared national poverty rates with poverty rates of households with older people for countries without a pension scheme. The differences in poverty rates were significant in nine countries with households with older people being poorer than those without older people.<sup>11</sup>

<sup>8</sup> OECD. “Pensions at a Glance 2011: Retirement Income Systems in OECD and G20 Countries”, Mar. 2011.

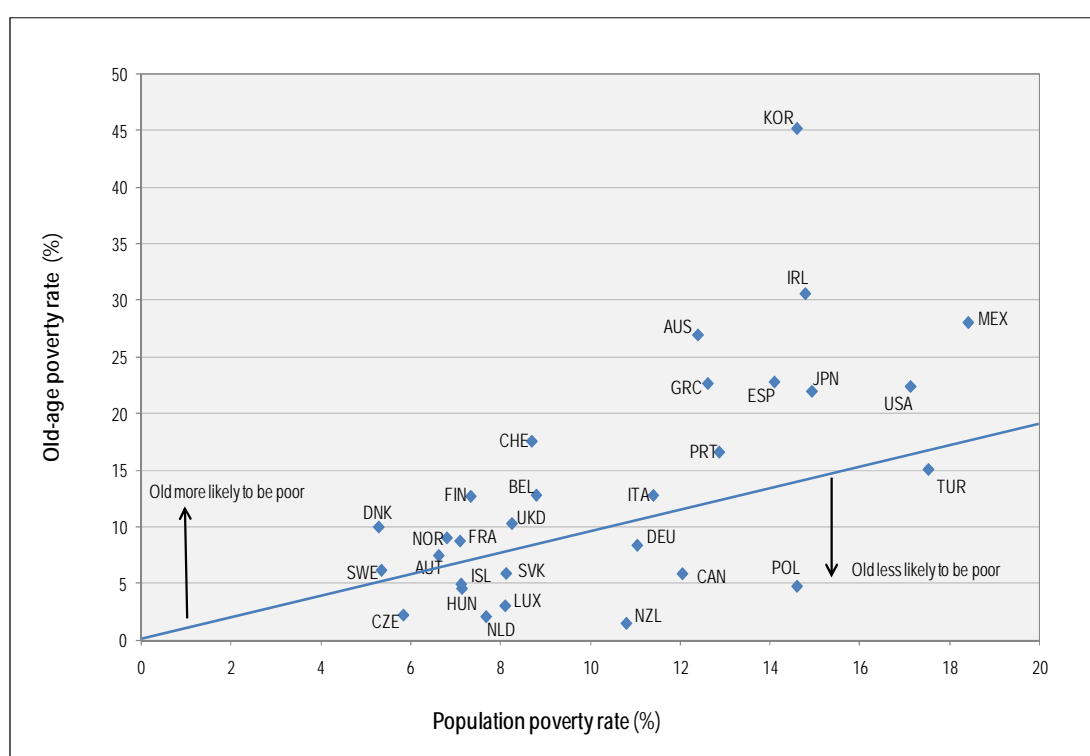
<sup>9</sup> Giles, J., Dewen Wang and Wei Cai (2012). “The Labor Supply and Retirement Behavior of China's Older Workers and Elderly in Comparative Perspective”, Chapter 6 in Smith, J.P. and Malay Majmundar (eds): *Ageing in Asia: Findings from New and Emerging Data Initiatives*, Committee on Population (CPOP), Division of Behavioral and Social Sciences and Education.

<sup>10</sup> UN. 2008. Department of Economic and Social Affairs, Chapter 2: Economic and Social Commission for Western Asia, UN, New York.

<sup>11</sup> Kakwani N. and Subbarao, K. 2005. *Ageing and Poverty in Africa and the Role of Social Pensions*. Social Protection Discussion Paper Series. Washington, DC, World Bank.

102. In some developed countries, such as the United States, Japan or the United Kingdom, public pension programmes may not provide sufficient income for most people during retirement (figure 2.2). This is very much a gender issue. In the United Kingdom, only 30 per cent of women are entitled to a full basic state pension, compared with 85 per cent of men. Although the qualifying period to be eligible for a full state pension was reduced from 2010, there is still a legacy of large numbers of older people, mostly women, being reduced to poverty at retirement.<sup>12</sup> In the EU-27, some 14 per cent of male pensioners and 16.6 per cent of female pensioners were considered to be at risk of poverty in 2009.<sup>13</sup> As of 2006, the Russian Federation's average public pension payments had fallen below the country's official "minimum subsistence" level.<sup>14</sup> In response, the Russian Federation Government has increased pensions several times since 2009 and the average replacement rate was already 40.2 per cent in 2010.<sup>15</sup>

Figure 2.2. Old-age income poverty in G20 countries



Source: OECD, "Pensions at a Glance 2011: Retirement-Income Systems in OECD and G20 Countries", March 2011.

103. Family members have traditionally been the prime source of financial support for older people – especially where there are no social protection systems – but these ties are beginning to fray. With increasing urbanization, and the ravages of HIV/AIDS, the

<sup>12</sup> Bisom-Rapp, S. et al. 2011. "Decent Work, Older Workers and Vulnerability in the Economic Recession: A comparative study of Australia, the United Kingdom and the United States", in *Employee Rights and Employment Policy Journal*.

<sup>13</sup> *Active Ageing and Solidarity between Generations: A Statistical Portrait of the European Union 2012*, Statistical Office of the European Communities, Luxembourg.

<sup>14</sup> Eberstadt, N. Groth, H. 2010. "The Russian Federation: Confronting the special challenges of ageing and social security policy in an era of demographic crisis", in *International Social Security Review*, Vol. 63.

<sup>15</sup> Eich et al. 2012. "Reforming the public pension system in the Russian Federation", *IMF WP/12/201*, IMF, Washington, DC.

informal systems of social protection in the form of cash and support from both extended family and community sources is increasingly being dismantled. In fact, in some societies, particularly those experiencing the HIV/AIDS pandemic, but also in high-income countries, such as Japan, the roles have been reversed: older parents are increasingly caring for grandchildren, and until their 80s older people transfer resources to younger generations.<sup>16</sup>

104. As a result of unsatisfactory (or absence of) pension systems, collapsing family support mechanisms and insufficient savings, older workers are increasingly likely to work in vulnerable forms of employment that place them in a position of increased vulnerability or to rely on income-generating activities in the informal economy. Figure 2.3 illustrates that the highest labour participation rates are located in the sub-Saharan region because the coverage of old-age beneficiaries is in general the lowest. In India, the vast majority of older people are self-employed and casual workers. Although the general pattern applies to both elderly men and women, a larger proportion of elderly men than elderly women are engaged in self-employment, while the reverse is true for casual labour.<sup>17</sup> In China, according to recent urban surveys, there is a significant increase in informalization in the urban labour market, which is affecting older people, in particular older women.<sup>18</sup>

105. A larger and a more generous pension system that provides for both contributors and non-contributors alike has a positive impact on poverty rates and labour force participation rates of older people. For example, poverty rates in China decline significantly for those older people that have access to a pension.<sup>19</sup> Such a generous system also has a positive impact on the poverty of other population groups. Four of the five countries in southern Africa that have universal social pension schemes – Botswana, Lesotho, Mauritius and South Africa – are making more progress than their neighbours towards achieving Millennium Development Goals on poverty and hunger, primary school completion and gender equality in primary education. In Namibia, higher spending on education and health for children has been recorded for households in which an older person is receiving a social pension. Similar results are coming through from Zambia and Mozambique, where cash transfers to older persons have led to higher spending patterns on children's schooling. Increasing attention is given to allocating more public resources towards cash transfers for the elderly, one of the main benefit components of the Social Protection Floors Recommendation, 2012 (No. 202). In South American countries with relatively well-developed pension systems (Argentina, Brazil, Chile and Uruguay), old-age poverty is substantially lower than the national average.<sup>20</sup>

---

<sup>16</sup> Nabalamba, A. and Chikoko, M. 2011. *Ageing Population Challenges in Africa*, Tunis: African Development Bank.

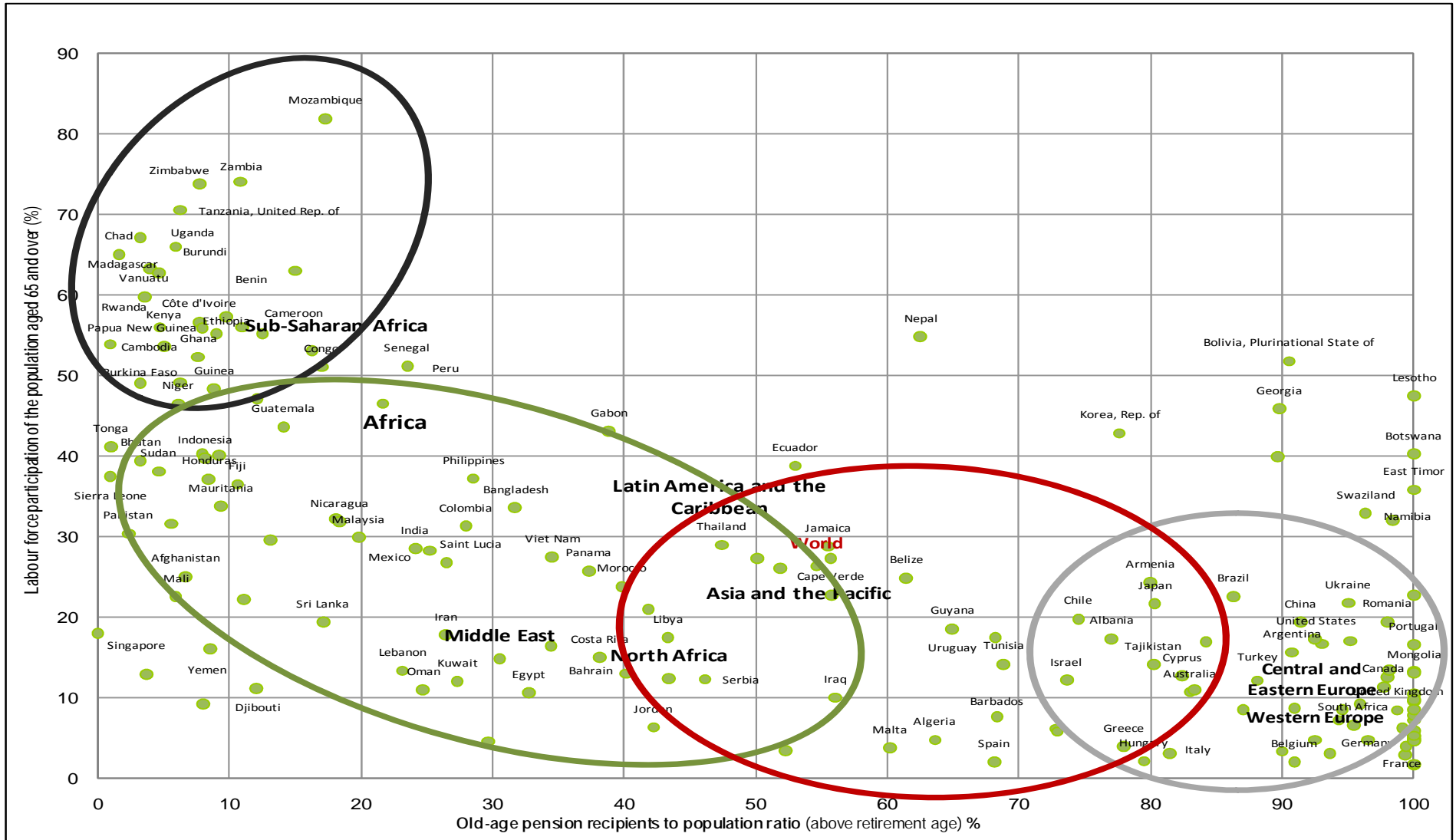
<sup>17</sup> Rajan, S. *Demographic ageing and employment in India* (ILO, Bangkok, 2010).

<sup>18</sup> Yang, D.U. and Wang Meiyuan. 2010. *Demographic ageing and employment in China*, Employment Working Paper No. 57, Geneva, ILO.

<sup>19</sup> Yang, D.U. and Wang Meiyuan, 2010, op. cit.

<sup>20</sup> Gasparini, L. et al. *Poverty among the elderly in Latin America and the Caribbean* (La Plata, CEDLAS, 2007) p. 33.

Figure 2.3. Old-age pension recipients and labour force participation rate among people aged 65 and above, 2007–11



The economic and social implications of the new demographic context

Source: ILO SSI Laborstat (*World Social Security Report*, forthcoming 2012).

106. Globally, about 80 per cent of the world's population is not sufficiently protected in old age against health, disability and income risks. This means that in low- and middle-income countries alone about 342 million older persons currently lack adequate income security. That number could rise to 1.2 billion by 2050, if the coverage of current mechanisms designed to provide old-age income security is not expanded.

### 2.3. Labour and skills shortages

107. Current demographic trends are likely to generate labour shortages. Several countries, in particular industrialized ones, are increasingly concerned about the prospect of labour shortages as a result of rapidly ageing populations. European economies, for example, may face considerable shortages in their labour supply after 2018 as the population aged between 20 and 59 years will shrink quite dramatically, while the age group between 60 and 69 years will continue growing for another 20 years. The ageing effect will no longer be compensated for by growing labour market participation rates of women and older workers. The European Commission projects that the employment rates of older workers will reach 59 per cent in 2025 for the EU-25 compared to 47 per cent estimated for 2010.<sup>21</sup> The level of labour shortage awareness varies within the European Union (EU). Where unemployment is low, the problem is quickly gaining prominence. In the Netherlands, for example, demand could create 600,000 new jobs by 2015, but based on demographics, the labour market will only grow by 225,000. However, in countries with persistently high unemployment as a result of the global economic and financial crisis, concerns about labour shortages can sound paradoxical. While the issue of labour shortages remains a structural trend, it is not high on the political agenda.<sup>22</sup>

108. Labour shortages will be particularly strong in sectors requiring certain skills. Some industries, such as health care, education and transportation are already sounding alarm bells. For example, because of the skills shortage, about a million jobs are vacant in Germany today. Almost one in two German companies is looking for skilled people, many of them in manufacturing and services. Germany's rapidly ageing population is threatening to aggravate the skills shortage in several other areas in the coming years.<sup>23</sup> In Sweden, some economic sectors such as construction and the engineering industry are facing labour shortages. For many companies, this shortage is resulting in a loss of profitability and competitiveness. Employers in the Czech Republic, Hungary, Latvia, Lithuania, Poland and Romania reported a lack of skilled workers as an important obstacle to business growth in manufacturing and in construction.<sup>24</sup> In the United States shortages will emerge in specific skilled occupations by 2030 as baby boomers start retiring and that there will be a shortage of more than 3 million workers with Associate's Degrees<sup>25</sup> by 2018.<sup>26</sup> According to some recent forecasts, China will have a shortage of

<sup>21</sup> European Working Conditions Observatory. 2010. *Demographic change and work in Europe*, Dublin: Eurofound. [http://www.eurofound.europa.eu/ewco/surveyreports/EU0902019D/EU0902019D\\_2.htm](http://www.eurofound.europa.eu/ewco/surveyreports/EU0902019D/EU0902019D_2.htm).

<sup>22</sup> *Global Population Ageing: Peril or Promise?*, Global Agenda Council on Ageing Society, World Economic Forum, 2012, Chapter 10.

<sup>23</sup> Federal Government Report on the Demographic Situation and Future Development of Germany, November 2011 (in German). See [http://www.bmi.bund.de/SharedDocs/Downloads/DE/Broschueren/2011/demografiebericht.pdf?\\_\\_blob=publicationFile](http://www.bmi.bund.de/SharedDocs/Downloads/DE/Broschueren/2011/demografiebericht.pdf?__blob=publicationFile).

<sup>24</sup> Mitra, P. *Innovation, inclusion and intervention. From transition to convergence in Eastern Europe and the former Soviet Union* (Washington, DC, World Bank, 2008).

<sup>25</sup> An Associate Degree is an undergraduate academic degree awarded upon completion of a course of study usually lasting two years.

22 million skilled workers by 2020 despite the massive investments the country is making in education.<sup>27</sup>

109. Developing and developed countries are facing important challenges due to the shortage of qualified health-care workers. In developing countries, especially low-income ones, shortages of qualified health workers are already noticeable and will worsen as they will also require more professional health workers for chronic diseases. In developed countries, there is a growing demand for specialized personnel in hospitals and long-term care facilities associated with a growing older population. In 2006, the WHO estimated that there was a global shortage of 4.3 million health workers across the world.<sup>28</sup> Of the 57 countries with a critical shortage, 36 were sub-Saharan African countries. The past decade has witnessed rapid increases in migration of health personnel, notably in most OECD countries. Despite recent trends showing signs of stabilization or decline in a few countries, overall migration of health personnel to OECD countries is still on the rise. OECD countries will need to continue their recent efforts to improve training and retention of staff. Migration might help them to cope with shortages in the short term, but is not a credible response to the longer-term trends.<sup>29</sup>

110. Skills shortages will not be limited to the higher skill segments of the labour market only. The jobs which will become available in the future will not be confined to those created when demand catches up or to cater for new markets, but will consist also of existing jobs vacated by people retiring – a fact that is often neglected. While some of these jobs may disappear when people retire, most will not. Such jobs are more similar in nature to the prevailing structure of employment than new ones, reflecting the pattern of employment among those in the later years of their working lives. This has important implications for labour market policies, such as mentoring systems and inter-generational contracts.<sup>30</sup>

## 2.4. Education and training

111. Ageing has important implications for opportunities to improve education and on-the-job training. As the size of the younger population (age 15–24) starts decreasing, it becomes easier to finance policies to better qualify this segment and consequently make the transition from school to work easier, assuming that there are jobs available.

112. The ageing population also has an impact on education investment by changing individual education choices. The human capital theory predicts that in societies with higher life expectancy at birth, lower infant mortality and reduced fertility, all other things being equal, families have incentives to invest more in education. Therefore, the next generations should be more educated and productive than the previous ones, provided that the system provides good quality education for all. More educated working-age populations are easier to retrain as they get older and pass their age of peak productivity. An older population requires more resources to finance retraining of a

<sup>26</sup> Neumark, D.H. Johnson, P. and Cuellar Mejia, M. 2012. *Future Skill Shortages in the U.S. Economy?* NBER Working Paper No. 17213.

<sup>27</sup> “Skilled workers shortfall of 40m forecast”, in *Financial Times*, 18 Nov. 2012.

<sup>28</sup> WHO. *World Health Report 2006* (Geneva, 2006).

<sup>29</sup> OECD. 2010. *International Migration of Health Workers; Improving International Co-Operation to Address the Global Health Workforce Crisis*. OECD Observer Policy Brief.

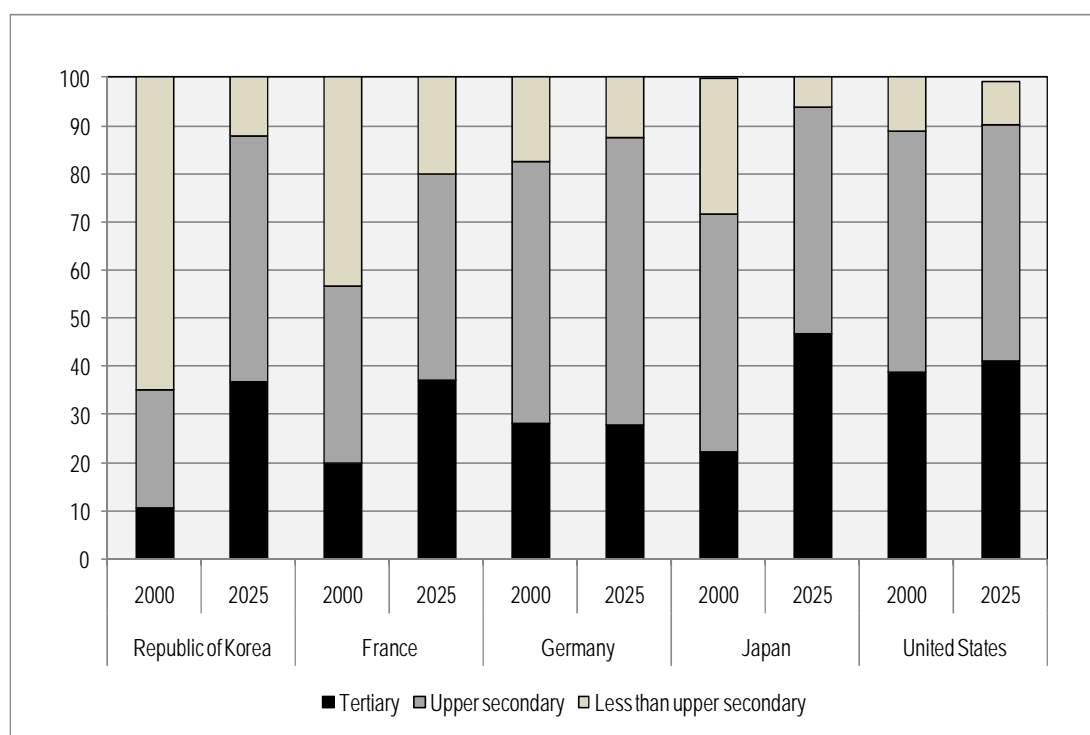
<sup>30</sup> European Commission. *The implication of demographic trends for employment and jobs* (United Kingdom, Alphametrics Ltd, 2005).

larger share of older workers. Under these conditions, it is even more important that those workers who will be retrained were properly educated when they were younger.

113. In most countries, however, older people have lower levels of education than their younger counterparts – and older women are more disadvantaged than older men. A study of 13 mainly developing countries<sup>31</sup> indicates that in 2000, 80 to 90 per cent of older people had only completed a primary or lower level of education. Moreover, the levels for older women tended to be lower than for older men, with a substantial gender gap in China, India, the Republic of Korea, Taiwan (China) and Viet Nam. The only countries with completed levels of post-primary education for older men at 30 per cent or higher were the Republic of Korea, Philippines and Taiwan (China). For older women, the highest level of post-primary education was 22 per cent in the Philippines. However, the level of education of the older population will change markedly between 2000 and 2045, with Egypt, Republic of Korea, Singapore and Taiwan (China) experiencing the largest increases. In Latin America and the Caribbean, around 90 per cent or more of older people are unskilled in El Salvador, Guatemala, Haiti, Honduras and Nicaragua.

114. The level of education is increasing rapidly among younger generations, which means that in the future, as figure 2.4 shows, older workers will have higher levels of education compared to the current situation. This increase in educational attainment could be an important source of future productivity gains and improved employment prospects for older people.

Figure 2.4 Share of labour force aged 50–64 by level of educational attainment for selected countries, 2000–25 (%)



Source: OECD, 2005, op. cit.

<sup>31</sup> Hermalin, A., Ofstedal, M. and Tesfai, R. *Future characteristics of the elderly in developing countries and their implications for policy*, Comparative Study of the Elderly in Asia Research Report 06-62 (Ann Arbor, 2006).



115. Older people engage less in training than their younger counterparts. An inquiry into further training in Germany concluded that it is not age per se that explains participation in further training but rather the previous level of qualifications. It is mainly poorly qualified older workers who do not receive further training, whereas among highly qualified workers, participation in further training actually increases from the age of 50 years.<sup>32</sup> Evidence also suggests that many older workers feel that it may be more beneficial to offer education and training to their children rather than to participate in it themselves.<sup>33</sup>

116. The relatively short payback period prior to retirement for investment in older workers is often used to justify the unwillingness of employers to invest in training for these workers. However, because of the high turnover of young employees, the average time a 50-year-old can be expected to remain in a particular job is longer than that of a 20-year-old.

## 2.5. Labour productivity and earnings

117. The impact of population ageing on productivity at the macro level is not straightforward. Productivity is enhanced, among other things, by improvements in knowledge, and it is closely related to innovation, such as developing new working methods and new technologies. Innovation and creativity are typically associated with younger members of society (box 2.1). A shrinking proportion of younger workers in the labour force may therefore result in slower advances in science and technology, which could have an adverse impact on productivity growth. However, as argued in the preceding section, demographic changes tend to result in families investing more in their children's human capital, which could contribute to balancing the negative aggregate impact on productivity of an older, less creative population. Furthermore, a smaller share of a younger population would make public investment in education and early training collectively cheaper, which in turn would make retraining older workers a more efficient means of improving labour force productivity.

### Box 2.1

#### The relationship between productivity and age

Lehman (1953) revealed a creative age curve showing productivity starting to increase in creative occupations at around the age of 20, reaching a peak in the period from the late 30s to the mid-40s, and beginning to decline thereafter. Besides, the effect of ageing on productivity depends on the occupation. In occupations that are more dependent on cognitive abilities, such as science, the young usually have an advantage. But in managerial occupations, where experience is a more important factor for job performance, older workers tend to perform at least as well as their younger counterparts.

<sup>32</sup> Bosch, G. and Schief, S. "Older employees in Europe between 'work line' and early retirement", in *Transfer. The European Review of Labour and Research*, 4/07, 13(4) (Brussels, ETUI-REHS, 2007), p. 589.

<sup>33</sup> Auer, P. and Popova, N. *Labour market policy for restructuring in Turkey: The need for more active policies* (Geneva, ILO, 2003).

Older workers frequently rely on the knowledge and skills and overall professional experience acquired in the course of their working lives. They bring to jobs qualities such as accuracy, reliability and the ability to communicate with customers and colleagues, stability, less voluntary absenteeism, lower turnover, company loyalty, etc. As both practical experience and research demonstrate, older employees – deployed in the right posts for their individual skills – are highly productive.

Sources: Lehman, H.C. *Age and achievement* (Princeton, NJ, Princeton University Press, 1953).

Skirbekk, V.: *Age and individual productivity: A literature survey* (Rostock, Max Planck Institute for Demographic Research, 2003).

Naegele, G. and Walker, A.: *A guide to good practice in age management* (European Foundation for the Improvement of Living and Working Conditions (Eurofound)) (Dublin, 2006).

118. New technologies are one of the driving factors contributing to productivity gains. Research finds a mixed picture of the willingness and the ability of older workers to use new technologies. Nevertheless, there has been a substantial decline in the proportion of workers who have never used a computer at work, with the largest improvement being among older workers.<sup>34</sup>

119. Another challenge resulting from the demographic transition is the imbalance between labour force productivity and labour force costs. A common view is that if workers become less productive and more expensive when they get older, especially in the context of seniority-based wage systems, major difficulties could result in terms of competitiveness, profitability and investment. While there is little research to report on these links for workers in the informal economy and in the developing countries, evidence on age–productivity–earnings profiles for wage earners in the OECD region shows that for some of these countries, earnings rise more steeply with age or decline very little in the older age groups. Where labour costs of older workers rise faster than their productivity, employers may be reluctant either to retain workers beyond a certain age or to hire older workers.

120. If older workers are more expensive, this may reflect to a greater extent non-wage costs, such as pensions and the tax wedge, rather than wage costs per se. In Switzerland and Finland, social security contributions rise with the age of workers, while in the United States, employer-provided benefits such as health insurance and defined-benefit pension plans may lead with age to significant increases in non-wage costs.

121. With respect to earnings, there is large variability among countries and within regional groups, with some countries emphasizing seniority wages while others display flatter or diminishing age–earnings profiles. Greater proportions of older workers are in employment in the second group of countries. For instance, Eastern European countries tend to show a flat profile while among the EU-15 average earnings continue to rise until the 55–64 age group, declining only after age 65.<sup>35</sup>

122. Although seniority wages may promote worker loyalty and retention at younger ages, they are likely to reduce the hiring and retention of older workers. Elsewhere it has been observed that for older workers at risk of lay-off or dismissal, there may be an argument for their accepting lower wages in return for employment security. Nevertheless, the main issue for consideration needs to be how wages can be equitably structured in a manner that encourages the productivity of older workers in the workplace, while also recognizing their financial needs.<sup>36</sup>

<sup>34</sup> Eurofound. *Working conditions of an ageing workforce* (Dublin, 2008).

<sup>35</sup> Eurofound, op. cit.

<sup>36</sup> Ghosheh, N.S., Lee, S. and McCann, D. *Conditions of work and employment for older workers in industrialized countries: Understanding the issues* (Geneva, ILO, 2006).

**Box 2.2****Tripartite recommendations to move away from seniority wages in Singapore**

With a view to moving away from a seniority-based to a more flexible wage system, Singapore established in 2004 a tripartite committee comprising representatives from the Government, employers and trade unions. The flexible wage system requires that a greater proportion of variable components, such as performance bonuses, form part of the wage structure. As at December 2010, some 64 per cent of the workforce had narrowed/were narrowing the wage ratio for the same job to 1.5 or less, up from 59 per cent in 2009. On average, the maximum–minimum salary ratio for rank-and-file employees stands at 1.52, while that for executives and junior managers is higher at 1.62. To further move towards a flexible wage system that is based on the value of the job and contributions of the employee, the National Wages Council recommends companies to continue to work towards further reducing the maximum–minimum salary ratio to below 1.5. This is especially when the job value has been enhanced through productivity and skills improvements. This can be done through adjusting the salary scale in tandem with the higher value of the job, especially the minimum salary of the scale. This move would also minimize the need for wage adjustments for older employees who are re-employed.

Source: Singapore National Wages Council Guidelines 2011/2012  
<http://www.mom.gov.sg/newsroom/Pages/PressReleasesDetail.aspx?listid=361>.

123. As workers continue to age in many middle- and high-income countries, the age profile of the workforce will have less of a share of workers at their peak productivity. Such a scenario suggests that these economies will need to boost their labour productivity growth, which would require substantial increases in investment in human capital, research and development, and physical capital.

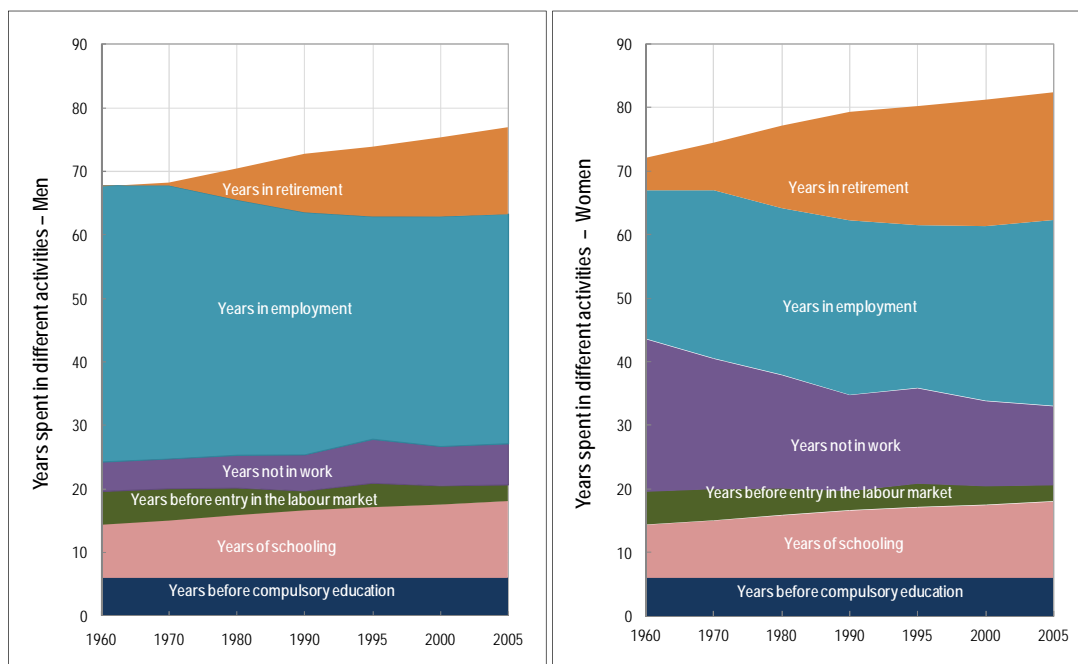
## 2.6. Retirement patterns

124. The common understanding of what is “retirement” and what is a “retirement pension” has evolved over the last century in developed countries, where the right to retire with an income security benefit has been granted to the majority of their populations.

125. More than 100 years ago, when the first European retirement pension schemes were established, old-age pensions had the rather narrow function of providing a certain income to those physically unable to continue working on account of their age and health status. The Social Security (Minimum Standards) Convention, 1952 (No. 102), clearly links the age for entitlement to an old-age pension (pensionable age) to the ability to work: “The prescribed age shall be not more than 65 years or such higher age as may be fixed by the competent authority with due regard to the working ability of elderly persons in the country concerned.” In high-income countries, retirement gradually came to be seen as a well-deserved period of rest and leisure after years of hard work.

126. The effective retirement age started to go down in high- and some middle-income countries, even though on average people were living longer and increasingly enjoying relatively good health. Efforts to align the expectations of workers as to the timing of their retirement from work with the capacities of the remainder of the workers and of the economy to attend to their needs must be carefully addressed. Figure 2.5 shows how years are spent in different activities over the life cycle in a “typical industrialized country” since 1960 as defined by the OECD.

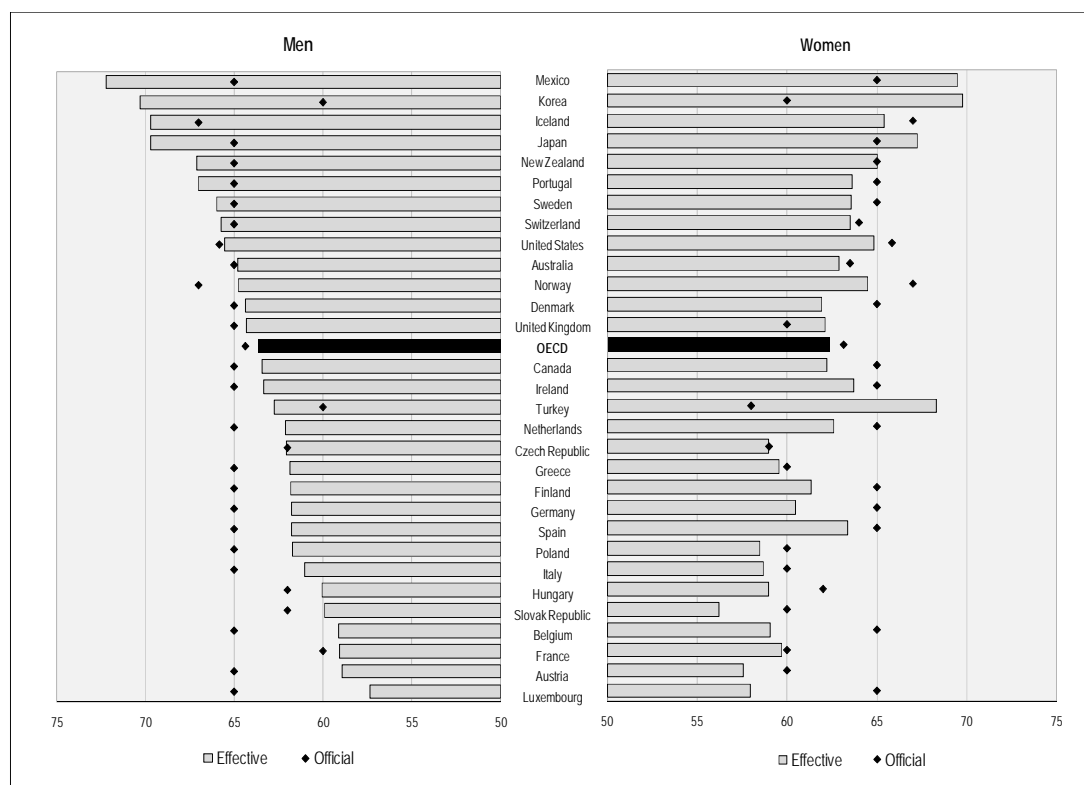
Figure 2.5. Years spent in different activities by men and women in a “typical” OECD country



Source: (i) OECD. 2009. *Society at a Glance 2009: OECD Social Indicators*; (ii) OECD. 2006. *Employment Outlook*. (<http://dx.doi.org/10.1787/548526737374>).

127. In Japan, United Kingdom, Republic of Korea, Mexico and Turkey both men and women retire on average significantly later than the statutory pensionable age, while in Switzerland, Sweden, Portugal, New Zealand and Iceland, this is the case only for men (figure 2.6). This highlights the effective impact public old-age pension policies potentially have on the behaviour of the population despite whether the public pension system coverage is significant or not. When benefits are too low, people need to work in order to have a sufficient income to survive. Such benefit provisions need to be revised with a view to ensure that the minimum level of income security is provided.

Figure 2.6. Effective retirement ages and official statutory retirement ages in OECD countries (2000s)



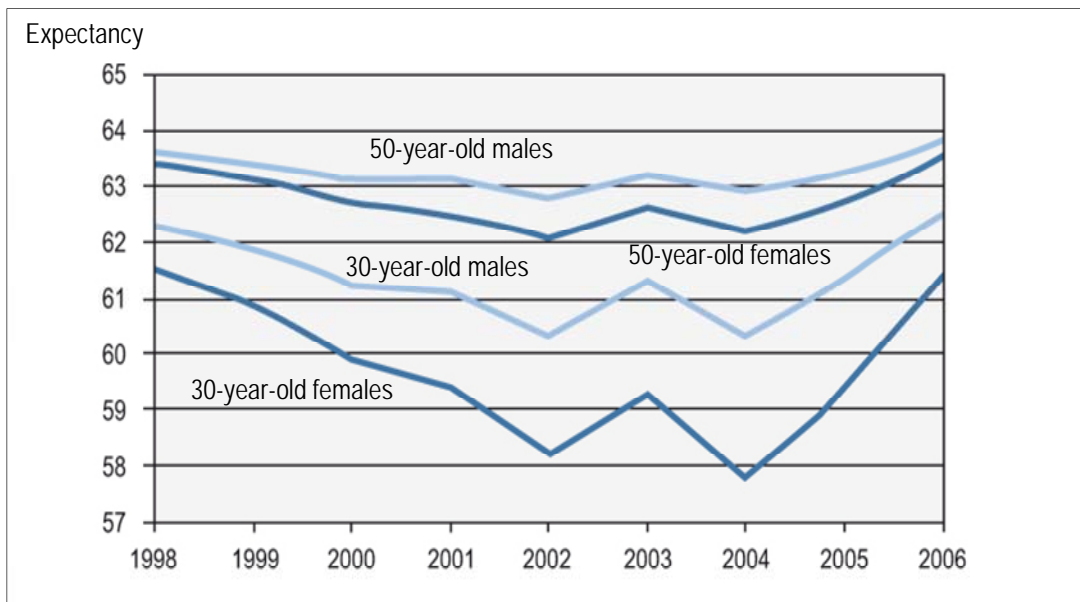
Source: OECD 2011 *Pensions at a Glance*.

128. Financial need is the most important reason for continuing to work, but it is not the sole factor. Other practical reasons and some considerations that are purely personal in nature also contribute to older persons' decisions to work longer or to return to the labour force following a period of absence. Poor health may help to explain the decision to retire early, but workers consider improved health and well-being, as well as a better work-life balance as factors motivating a decision to remain at work. Relations with co-workers and managers, including feelings of appreciation and belonging, have similarly been cited as benefits derived from an extended working life, along with more time to prepare better for retirement.<sup>37</sup>

129. Since the mid-1990s, there has been a marked trend observed in public pension policies across the world to link the statutory retirement age with changes in the life expectancy of the general population. Sweden was the precursor in adopting a pension reform in that direction. This has been followed by a number of other countries in Europe and in the developing world. The retirement age under the new pension system in Sweden is flexible, beginning at age 61. Under the new system, the expected retirement age for a worker is calculated on the basis of the life expectancy established for each cohort by year of birth. Figure 2.7 provides an illustration for the 30- and 50-year-old age cohorts.

<sup>37</sup> Eurofound. *Employment initiatives for an ageing workforce in the EUI5* (Dublin, 2006).

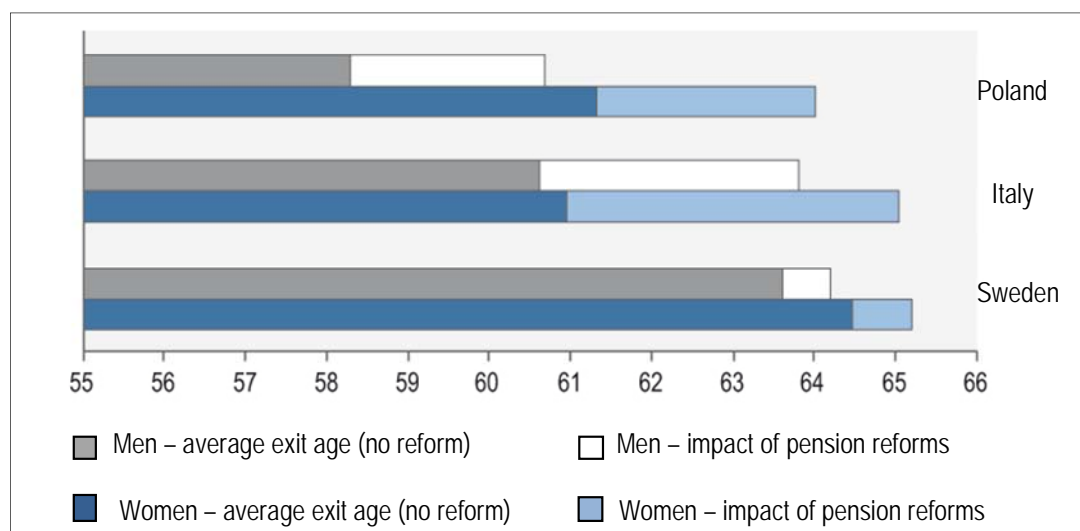
Figure 2.7. New retirement provisions for flexible retirement ages: Sweden’s flexible retirement approach according to age-cohort life expectancy – Illustration for 30- and 50-year-olds, 1998–2006



Source: *Expected effective retirement age in the Nordic countries*, Finnish Centre for Pensions; Statistical Report 2/2008, p. 31.

130. The situation appears to be relatively similar for countries that have followed in the footsteps of the Swedish model such as in Poland and Italy as shown in figure 2.8. Women will be the most severely affected as it is expected that they will remain in the labour market for an additional three to five years.

Figure 2.8. Estimates of the impact of pension reforms on the average age of retirement in 2060 in Sweden, Poland and Italy

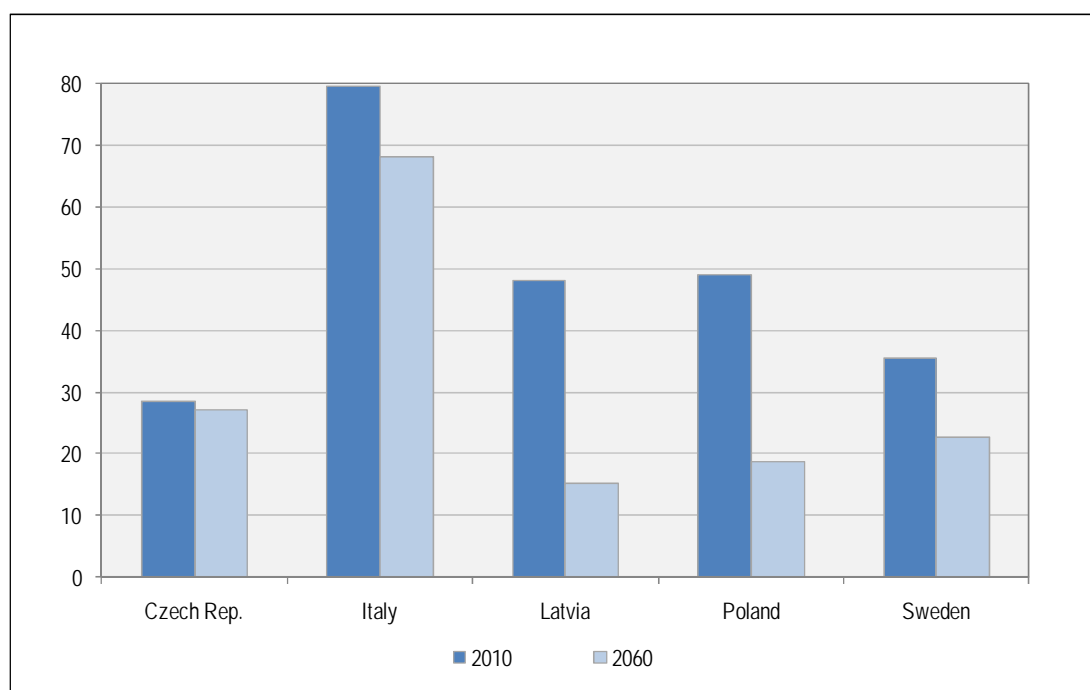


Source: World Bank: “Non-financial Defined Contribution Pension Schemes in a Changing Pension World” – Volume 1, Progress, Lessons and Implementation by Holzmann, R., Palmer, E. and Robalino, D. (eds).

131. The benefit adequacy is also heavily affected by the reforms adopted under notional defined contribution (NDC) schemes. According to ILO calculations, as shown

in figure 2.9, the replacement rate of pensions will probably reduce by nearly 20 percentage points in the long term. More and more retirees are expected to retire with pensions at a level close to the minimum guaranteed level, and will likely need to find employment to supplement their low income replacement. Such an expected phenomenon may raise issues of public confidence in the overall pension system. Efforts must be made to improve the solidarity basis of such public pensions systems and to foster an environment more conducive to improve the well-being of older persons, namely through subsidized health and social services and other in-kind benefits such as for housing.

Figure 2.9. Gross replacement rate at retirement (% of wages) for selected NDC public pension systems



Source: ILO calculations based on "The 2012 ageing report – Economic and budgetary projections for the 27 EU Member States (2010-2060)", European Commission, 2012.

## 2.7. Social protection coverage

### The crisis and social security

132. The present global crisis has had an important effect on the retirement conditions of people all over the world. In the most hard-hit countries of Europe for example, the Euro crisis has had an almost immediate effect on old-age pensioners in Greece, Spain, Ireland, Portugal, Italy and Cyprus, where across-the-board reductions have been enforced on pensions. Future pension entitlements under both social insurance and tax-financed social pensions have also been reduced.

133. The slow pace of economic recovery is having a major impact on these pension systems. The developing high unemployment rates reduce the contribution income that is needed to pay for benefit expenditure in the immediate future, especially under pay-as-you-go and partially funded schemes. Governments that need to borrow to finance their current expenditure have been faced with growing pressure from financial markets to make policy changes in response to the increased pension deficits they are facing.

Despite the crisis exacerbating the existing financial imbalance in the public pension systems by reducing contribution revenues sharply while leaving expenditures constant or even higher, such reforms have serious long-term implications as unemployed workers will accumulate lower pension entitlements by the time they retire. This is particularly worrying for workers employed in non-standard forms of employment, such as part-time and temporary work where women are predominant.

134. The crisis also resulted in a sharp drop in financial asset values which affects pensions provided by funded pillars. Consequently, no pension system, however structured, has been immune to the crisis. The prevailing low interest rate environment poses challenges to pension systems and puts into question whether capital-funded pension systems are a reasonable approach to income security. For macroeconomic reasons pay-as-you-go mechanisms may be better in such a low interest rate context.

135. In contrast, in reaction to the financial crisis in some countries where there are limited social security provisions in place, governments in Latin America took important steps to expand their social security systems for all people following the different financial crises of the 1990s and 2000s. In Brazil, for example, the establishment of a non-contributory programme and a programme for rural workers after the 1999 financial crisis has led to the extension of old-age benefit coverage to some of the usually excluded part of the population, and the fast growth in the minimum benefit has resulted in a reduction in inequality.<sup>38</sup>

136. The better cases of coverage are in countries which, in addition to having contributory schemes for those in the formal economy, have either introduced universal pensions (Mauritius, Namibia and Lesotho) or social assistance pensions that extend to a large share of the population (South Africa). Such countries have achieved high coverage by allocating significant parts of their public resources to social security. Mauritius and South Africa spend more than 5 per cent of their GDP on pension and other social security benefits, while the majority of sub-Saharan African countries do not allocate more than 1 per cent of GDP, the largest portion of which pays for civil servants' pensions (figure 2.10). The size of the government budget heavily affects the capacity of the State to deliver adequate social security, including pensions, although the political economy can have an important impact in selecting an approach specific to the objectives of the society.

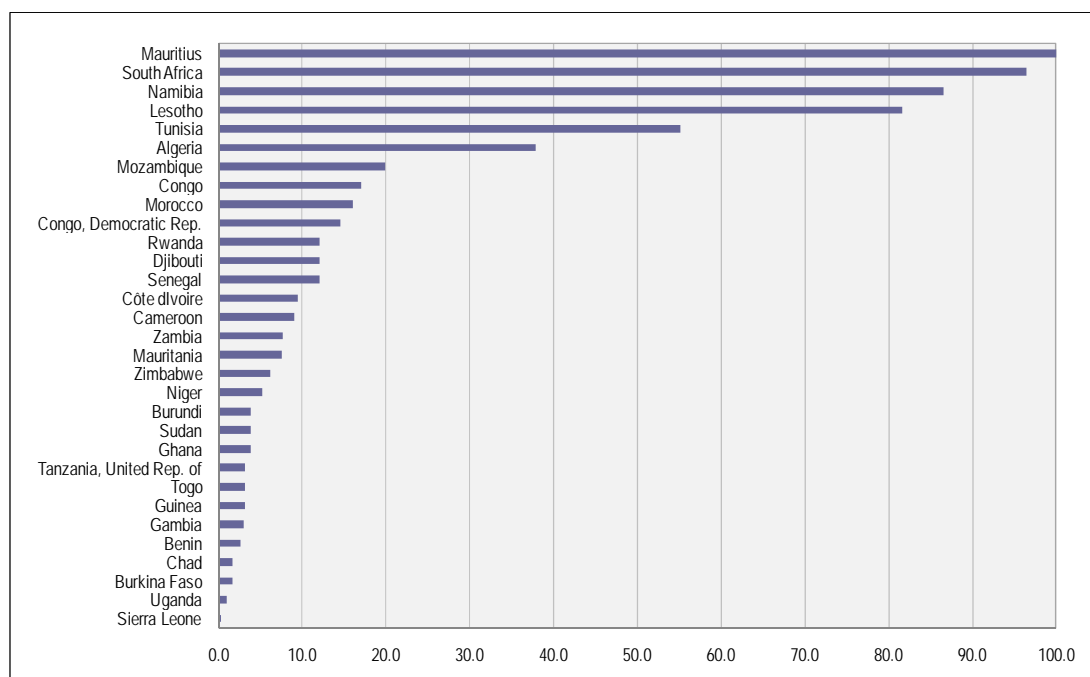
137. In addition, a comparison of the national coverage situation according to GDP per capita indicates how some countries have a relatively favourable coverage performance despite low income levels in general. This is clear evidence that social protection policies can be expansive if political will supports them, often with a view to perceive such social protection policies as investments for the future development of the country.

---

<sup>38</sup> Gragnolati, M. et al., 2011, op. cit.



Figure 2.10. Africa pension coverage: Old-age pensioners as a percentage of the elderly population



Source: ILO calculations based on latest available data for the *World Social Security Report 2010–11*.

138. In Asia, relatively high coverage is enjoyed by the populations of Mongolia and CIS countries. However, low social security expenditure in some of these countries (as well as other evidence) indicates that the actual pensions paid are very low and often not sufficient to keep the elderly out of poverty. In the case of Japan, the indicator is below 100 per cent – but this is only due to the fact that many Japanese retire much later than 60. For the rest of Asia, only a minority is covered with old-age pension coverage. Rates range between 20 and 40 per cent with the exception being South-East Asian countries, where coverage is even lower. In the Republic of Korea, a wide range of social security benefits have been introduced since the early 1990s as the economic development of the country improved and with the population's expectations for more social security through the active participation of social partners.

139. In Latin America and the Caribbean, with their long history of social security, coverage in the majority of cases reflects the proportion of those working in the formal economy (30–60 per cent with the exception of some Caribbean islands, where the formalization of the economy is higher). In Brazil, contributory pensions combined with tax-financed rural and social pensions would seem to imply that a majority of the population receives some income support, although many are still not covered. The Plurinational State of Bolivia, which introduced a small universal pension scheme several years ago, has also succeeded in covering a large share of the elderly. Nonetheless, evidence shows there are still many people who, despite the fact that they should be receiving benefits by law, remain outside the system. Their contributory capacity is often not sufficiently taken into account when adopting specific pension system designs, especially those relying on individual savings.

### Gender bias in access to social security

140. In most countries life expectancy for women is higher than for men. Therefore, women face a greater risk of experiencing income insecurity in old age. Their income

security reflects gender inequalities in access to the labour market, employment opportunities, the persistent gender gap in earnings, a higher exposure to informality, restrictions in access to land or other assets and inheritance, and the unequal sharing of care responsibilities between men and women. As a result, many elderly women in both developed and developing countries are economically and socially vulnerable. In many countries women are obliged to maintain certain levels of activity to compensate for declining intra-family support and the absence of universal pension schemes.<sup>39</sup> Figures 1.28 and 1.29 show that the labour force participation of older people appears to decline in those countries with higher expenditures. Interestingly, male participation rates are more sensitive to changes in expenditure than female rates. This could be attributed to the fact that male benefit levels tend to be higher than those of women in countries where pension arrangements exist. In turn, the higher pension levels for men can be explained for the majority of cases by the fact that women are more prone to have breaks in their career for childcare purposes as well as to be employed in more precarious forms of part-time and temporary employment.

141. The pattern of pension coverage has a strong gender dimension. Women are less represented in the formal economy, and are therefore not in a position to contribute to social insurance pensions as much as men. When women do receive social insurance pensions, they generally receive the pension on the same terms as men – according to their earnings and periods of contributions. However, gender inequalities arise because women are often employed in jobs with lower pay than men. In addition, women may have shorter periods of contribution – either because they interrupt their career to look after their children or for other care responsibilities, or because women are encouraged to leave the labour market earlier than men. Pension schemes based on individual savings may include further elements of gender inequality, such as longer vesting periods and the calculation of pensions based on gender-differentiated life tables, which may result in lower entitlements.<sup>40</sup>

142. Where social insurance pensions exist, many women without sufficient pension entitlements of their own are dependent on their husband's pensions, as derived entitlements. These entitlements are typically lower than pension entitlements in one's own right, and are often conditional on the continuation of the marriage, which leaves women in a potentially vulnerable position. Figure 2.9 above shows that the majority of G20 countries have statutory retirement ages closer to 65 and are more equal for women and men.<sup>41</sup>

143. Non-contributory pensions play an important role in ensuring basic income security in old age in countries without social insurance pension systems, especially for women who tend to be disproportionately represented in the informal economy.<sup>42</sup> Women in

<sup>39</sup> ILO. *World Social Security Report 2010/11: Providing coverage in the time of crisis and beyond* (Geneva, 2010) The forthcoming *World Social Security Report 2013* includes a chapter on the social security needs of women in rural areas.

<sup>40</sup> Ginn, J., Street, D., and Arber, S. (eds). 2001. *Women, Work and Pensions: International Prospects* Buckingham; Marin, B. and Zólyomi, E. (eds). 2010. *Women's work and pensions: What is good, what is best? Designing gender-sensitive arrangements*, Ashgate.

<sup>41</sup> Some countries, including the Czech Republic, Lithuania, Malta, Poland, Slovakia, Ukraine, and United Kingdom, are gradually increasing the pensionable age for women in order to reach gender equality.

<sup>42</sup> See Hagemeyer, K. and Schmitt, V. 2012. "Providing Social Security in Old Age: The International Labour Organization View", in ADB (ed.): *Social protection for older persons: Social pensions in Asia* (Manila, Asian Development Bank), pp. 137–152, <http://www.adb.org/sites/default/files/pub/2012/social-protection-older-persons.pdf>; ILO. 2010. *Extending social security to all. A guide through challenges and options* (Geneva, ILO), <http://www.socialsecurityextension.org/gimi/gess/ResFileDownload.do?ressourceId=16152>.

many parts of the world tend to benefit more from non-contributory pensions which provide at least a minimum level of income security in old age. While non-contributory benefits can play an important role in ensuring social protection coverage for women, it should also be noted that these schemes tend to provide lower benefit levels than contributory schemes, and often include a means-test. Ensuring adequate social protection for women therefore requires adequate attention to all forms of social protection.

### Ageing and disability benefits <sup>43</sup>

144. Ageing has had the inherent effect of increasing the demand for more disability benefits as the average age of the workforce is increasing and older workers have a higher propensity to become disabled. As the WHO *World Report on Disability* of 2011 states, disability is part of the human condition and that almost everyone will be temporarily or permanently impaired at some point in life, and those who survive to old age will experience increasing difficulties in functioning. <sup>44</sup> Social health protection and benefit schemes have to foresee that access to day centres, home-help services, assisted living arrangements, nursing homes and palliative care is ensured for the elderly who are disabled.

145. When the statutory retirement age is increased, sometimes disability pensions have the de facto role of replacing unemployment benefits. The OECD countries have been alerted to this issue as the cost of disability appears both in terms of benefits as well as in terms of productivity loss. The costs of disability benefits as a percentage of GDP has increased over the past 30 years in most OECD countries, with an overall average of around 1.2 per cent of GDP in 2009. <sup>45</sup> Reforms were introduced in some countries to significantly reduce disability benefits such as reforms in Poland and the Netherlands as shown in figure 2.11. Recent efforts to reduce disability benefits in countries where the costs were felt to be excessive raise the question of how to prevent the overuse of disability insurance systems without undermining the legitimate rights of workers.

### Ageing and access to social health protection and long-term care

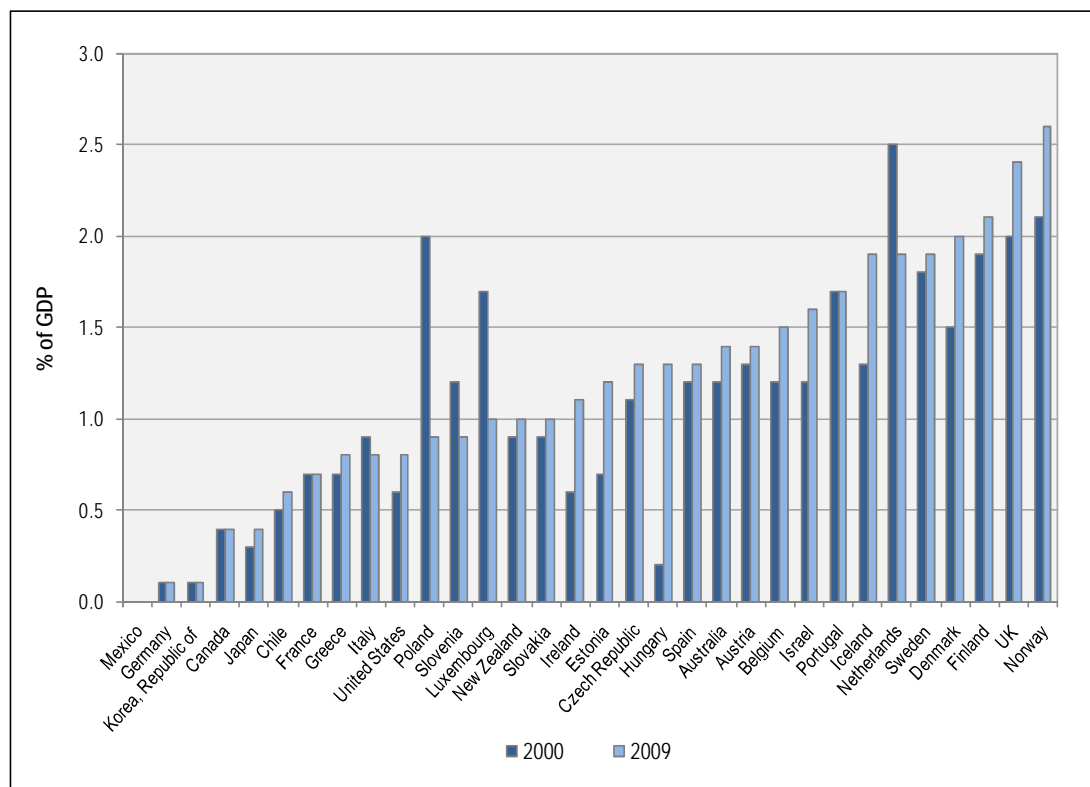
146. Despite its importance to older people, health care is inaccessible to many. Hospitals tend to be concentrated in urban centres, far from the rural areas where the majority of older people in developing countries live. Even those in urban areas can often only reach health facilities by using public transport, which is expensive and not adapted for easy access. Treatment is often unaffordable for older people, even where it is nominally free of charge. Where fee exemption policies exist – as they do for example in Ghana and Thailand – older people often do not benefit because of a lack of information, shortage of supplies and poor management.

<sup>43</sup> UNFPA and HelpAge International. 2012. *Ageing in the Twenty-First Century: A Celebration and A Challenge* (New York and London: United Nations Population Fund and Helpage International, <http://www.helpage.org/download/5059f6a23af15>]; and World Health Organization. 2011. *World Report on Disability*, [http://whqlibdoc.who.int/publications/2011/9789240685215\\_eng.pdf](http://whqlibdoc.who.int/publications/2011/9789240685215_eng.pdf).

<sup>44</sup> WHO (2011). *World Report on Disability*, p. 261.

<sup>45</sup> OECD (2003). *Transforming Disability into Ability – Policies to promote work and income security for disabled people*, pp.16–17.

Figure 2.11. Costs of disability benefits in selected countries for 2000 and 2007, in % of GDP



Source: OECD statistical extracts (<http://stats.oecd.org/Index.aspx?QueryId=4549>).

147. The challenges to health systems in the developing world are twofold. The first is to postpone the onset of disease as long as possible, and the second, to provide adequate services. It is particularly the restricted access to health care in general that provides an important dimension of poverty in later life. Health spending in many developing countries is a tiny fraction of what is needed to meet these challenges. Per capita spending on health care in many countries of sub-Saharan Africa, for example, is under US\$10 a year – and that is skewed to the urban areas. In high-income and an increasing number of middle-income countries, there are concerns about rising health costs and the maintenance of adequate levels and quality of health care. Moreover, these countries will have to increase institutional long-term care, and are looking for ways to combine that with supporting older people at home and in collaboration with their communities and families.

148. High-income countries are confronted by rising financing problems related to ageing, a shortage of health workers, and the increasing prevalence of lifestyle-related diseases. Low- and middle-income countries generally suffer from low public expenditure, population coverage and access to health-care services, as well as from high out-of-pocket expenditures and the effects of the vicious cycle of ill health and poverty. Research results clearly show that without investments in improved access to health care throughout the entire life cycle of individuals, the extension of healthy life spans – a prerequisite for increasing the economic activity rates of older population groups – will not be possible.<sup>46</sup>

<sup>46</sup> Jagger, C. et al.: “Inequalities in healthy life years in the 25 countries of the European Union in 2005: A cross-national meta-regression analysis”, in *The Lancet*, Vol. 372, Issue 9656, 20 Dec. 2008 (17 Nov. 2008).

## 2.8. The sustainability of social security systems

149. The financial affordability and sustainability of social protection systems have become major concerns for countries at all stages of their economic development. A modest basic social protection package as foreseen by Recommendation No. 202 on national social protection floors is demonstrably affordable even in developing countries, provided that it is introduced gradually. The sustainability of social security systems at later stages of the economic development process is at present often questioned, usually in the context of European countries facing dramatic increases in their old-age dependency rates. In 2050, there will be two working-age people per elderly citizen in the EU-25, as opposed to the current ratio of 4–1.

150. Ageing will drive up expenditure on pensions and health care in the decades to come. Nonetheless, given the expenditure consolidation measures that many countries have deployed during the last two decades, they may not – or no longer – pose a serious threat to the financial equilibrium of national social protection systems. The latest available forecast by the EU Economic Policy Committee on the combined cost of the most important social security benefits as a result of ageing is reproduced in table 2.1. The experience in Latin America also points to the importance of maintaining a social insurance contributory system that will reduce the burden on the tax-financed social cash transfers programmes.<sup>47</sup>

Table 2.1. Expected increases in EU social expenditure, 2010–60

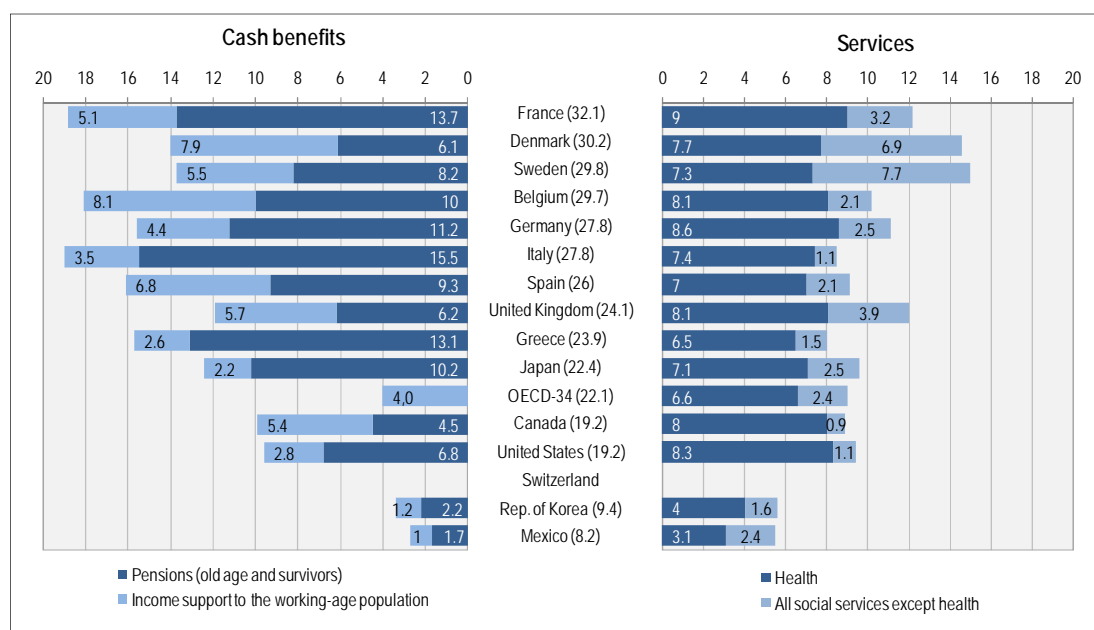
	Level in 2010 (per cent of GDP)	2030 (Change from 2010 in percentage points)	2060
Pensions	11.3	+0.6	+1.6
Health care	7.1	+0.7	+1.2
Long-term care	1.8	+0.5	+1.6
Unemployment benefits	1.1	+0.8	+0.4
Education	4.6	-0.2	-0.1
Total	25.9	+2.4	+4.7

Source: European Commission: *The 2012 Ageing Report*.

151. Most social protection spending is on pensions and health services (figure 2.12). In Nordic countries, a significant share is also spent on social services. Old-age pensions account for around three-quarters of total pension expenditure. An average increase in national social expenditure of 3 to 4 per cent of GDP is substantial, but not unmanageable. However, there are significant differences between individual countries, which have less to do with the ageing process itself than with the specific characteristics of programmes, including their financing, eligibility and benefit generosity. Projections take into account expected effects of social security reforms already legislated and implemented (such as new benefit formulas or increased retirement age), as well as expected increases in labour force participation and employment rates.

<sup>47</sup> See Bertranou F. et al. (2011). *Encrucijadas en la seguridad social argentina: reformas, cobertura y desafíos para el sistema de pensiones*.

Figure 2.12. Social protection spending on pensions and social services



Source: ILO calculations.

152. The impact of the crisis on the financial sustainability of pension systems has led a number of governments to revert to prior reform decisions. As shown in table 2.2, most countries of Central and Eastern Europe have opted to modify the allocation of the contribution financing towards the funded pension tiers. This is an indication of the possible lack of fiscal planning prior to adopting reforms so that the sustainability of such reforms would have allowed for going through various cyclical conditions. This is having an important opportunity cost for the affected societies and economies as represented in figure 2.13.

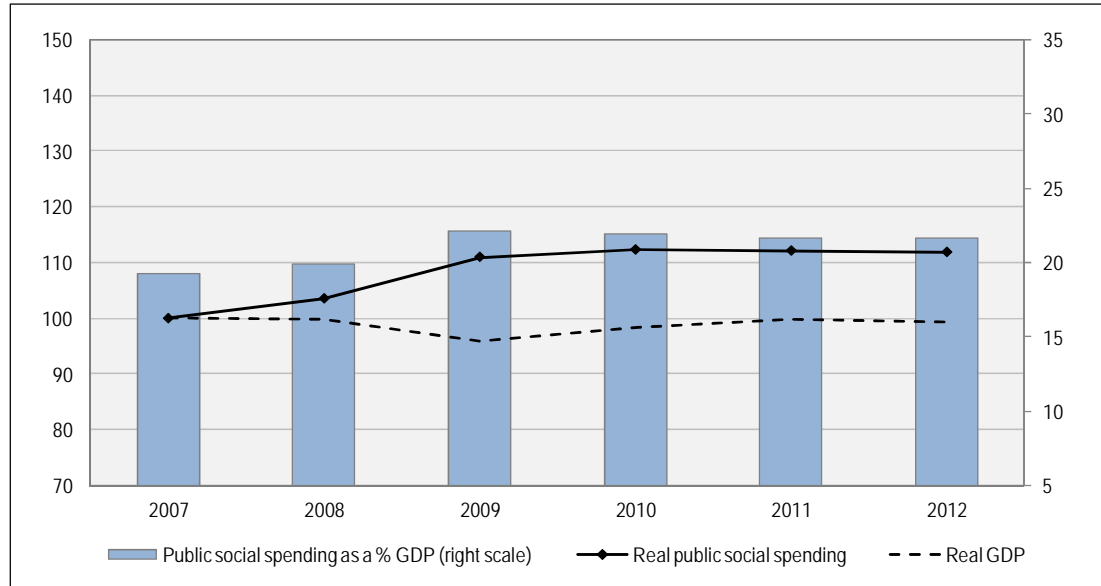
Table 2.2. Adopted ad hoc crisis-response measures to reverse some of the prior pension reform decisions in selected Central and Eastern European countries

	Historical second pillar contribution rate – Prior to 2008 crisis (% of gross salary)	Financing gap in 2010 (% of GDP)	Adopted ad hoc crisis-response measures weakening of the second pillar pensions
Hungary	9.5	1.2	Second pillar scrapped in 2011
Poland	7.3	1.7	7.3% contribution rate reduced to 2.3% in 2011
Slovakia	9.0	1.2	No change
Estonia	6.0	1.1	Temporary suspension of 4% in contribution rate in 2009 and 2010; a progressive return after 2011, increase to 6% in 2014–17 to compensate for the lower contribution rates collected over 2009–11
Latvia	8.0	2.3	8% contribution rate reduced temporarily to 2%
Lithuania	5.5	1.1	5.5% contribution rate reduced to 3%
Bulgaria	5.0	Not available	Delay to the pre-crisis decision for increases to contribution rates (2011)
Romania	2.0	0.4	Delay to the pre-crisis decision for increases to contribution rates

Source: Égert, B. (2012): "The Impact of Changes in Second Pension Pillars on Public Finances in Central and Eastern Europe", *OECD Economics Department Working Papers*, No. 942, OECD, Paris.

Figure 2.13. Social spending-to-GDP ratios increased markedly during the recent economic crisis across the OECD

Real public social spending and real GDP (index 100 for 2007) and public social spending in % of GDP, 2007–12



Note: Social spending aggregates based on detailed data for 2007–09; national aggregates for 2010–20.

Source: OECD: The impact of changes in second pension pillars on public finances in Central and Eastern Europe, Economics Department Working Paper No. 942.





## Chapter 3

---

### Policy responses

153. Population ageing poses significant, but not insurmountable challenges. This chapter presents key policy measures to address the challenges or to take advantage of the opportunities outlined in Chapter 2. It points to the interactions and synergies across employment and social protection policy measures, and to the need for a balanced and integrated decent work strategy that is applied throughout the life cycle and promotes inter-generational solidarity. The first section presents the integrated approach to the demographic challenge from a life cycle perspective while the second section reviews the policy options for senior workers specifically.

#### 3.1. An integrated life cycle and inter-generational perspective

##### The virtuous circle of employment, social security and economic development

154. The relationship between social security, employment and economic performance is multi-dimensional. Social security is a human right and a social and economic necessity, as compellingly confirmed by the ILC in 2011 and 2012.<sup>1</sup> Social security systems work best if they are well integrated and coordinated with wider social, employment and economic policies. In addition, these public policies and institutions can be designed in a way that serves both social and economic objectives, and reinforce each other when it comes to coping with demographic change.

155. Historically, high levels of growth and employment have had a positive impact on the extension of social protection and social security benefits. Most social insurance schemes are financed out of labour incomes and protect against risks related to employment capacity, such as unemployment, sickness, disability and old age. Favourable social security and employment outcomes are influenced by economic growth, and all of them contribute to progress in human and economic development and to poverty reduction. However, the global financial and economic crisis and the ensuing global slowdown are affecting negatively the employment levels and the financing of social security.

156. It is sometimes argued that labour market institutions providing income protection in case of unemployment can, in some cases, have negative economic consequences. However, at the macroeconomic level, there is little reason to believe that social

---

<sup>1</sup> ILO. Resolution and conclusions concerning the recurrent discussion on social protection (social security), ILC, 100th Session (Geneva, 2011); Social Protection Floors Recommendation, 2012 (No. 202) (Geneva, 2012); *Social security for all: Building social protection floors and comprehensive social security systems: The strategy of the International Labour Organization* (Geneva, 2012).

expenditure has a negative impact on economic performance and employment outcomes. On the contrary, there is ample evidence of the beneficial effects that reliable social protection systems can have on the economy and labour market. First, they provide income to the unemployed, the disabled, the elderly, and other vulnerable groups, and they stabilize consumption during recessions – thereby supporting enterprises until the next growth cycle; second, health care and occupational safety and health increase people’s capabilities and hence labour productivity; and third, the care economy and social services themselves generate substantial employment, usually with a high share of female employment.

157. Nevertheless, the method of financing social expenditure and the incentives set by the benefit structure can influence macroeconomic performance and microeconomic behaviour. There is also a risk that generous income support may jeopardize the incentive to seek work and to participate in active labour market measures. As discussed at the ILC 2012, “The youth employment crisis: A call for action”, the most effective way of reconciling these opposing tendencies is to link active and passive policies through some form of conditionality.

158. There is no trade-off between sound economic and employment performances and decent levels of social security. Employment strengthens the prospects for growth and social protection and vice versa. A positive economic performance with decent employment generation increases the income of families and economic units, boosting the tax basis for financing additional social protection, employment promotion and further development policies.

159. Countries that have been most successful in achieving long-term sustainable growth and poverty reduction have all put in place extensive systems of social security. For example, OECD countries have invested heavily in social security since an early stage – generally more than 20 per cent of GDP – as part of their long-term growth and poverty reduction strategies. Research on the EU indicates that many countries have succeeded in maintaining high-quality social security schemes while also performing well in terms of economic growth.<sup>2</sup> In India, overall expenditure on social protection – measured over the period 1973–99 – had a significant positive impact on economic development: social security policies boosted the productive capacities of the poor, increased incomes and promoted employment.<sup>3</sup> A number of Latin American countries (Argentina, Brazil and Uruguay) have shown that it is possible to associate a high level of economic growth and formal employment creation with the stepwise development of an encompassing social protection model that feeds back into economic growth by strengthening the domestic market.

160. In addressing the challenges posed by demographic change, there is scope to further scrutinize the link between employment and social protection. Should the objective of social protection be to ensure that everyone has a satisfactory level of resources, or to make it possible for everyone to obtain satisfactory resources through his/her work? For example, is it legitimate to reduce the level of pensions to increase incentives to work? The question is all the more relevant because workers are not equal in the face of work after 60 years of age. On the contrary would it not be desirable to

---

<sup>2</sup> Cichon, M. and Scholz, W. *Social security, social impact and economic performance: A farewell to three famous myths*, paper for DFID/GTZ/ILO seminar on challenging the development paradigm (Geneva, Sep. 2006); and Van de Meerendrock et al.: *Economic impacts of selected social security policies covered by international labour standards* (Geneva, ILO, 2007).

<sup>3</sup> Justino, P. 2007. “Social security in developing countries: Myth or necessity? Evidence from India”, in *Journal of International Development*, Vol. 19, Issue 3, pp. 367–382.

maintain a satisfactory level of pension for all, even if this means accepting a certain level of disincentive to remain active?

161. What are the implications of changing population structures for the sustainability of this virtuous circle of social protection, employment and development? Meeting the needs of a large elderly population requires rethinking the economic and social policies needed to simultaneously realize growth, employment, and income security and to provide adequate health care and other services for an ageing society. It also requires increased attention to financial sustainability issues. Ageing has often been quoted as one of the main reasons for the alleged non-affordability of the European “welfare states”. However, recent projections of total social expenditure in most of these countries show that following a period of consolidation during the 1980s, 1990s and early 2000s, the situation is likely to remain manageable.

162. In the context of the crisis, some countries are faced, nevertheless, with substantial policy challenges. They need to adapt their systems, spending structures and volumes to fiscal spaces that can be realistically achieved. Recovery by promoting full and productive employment throughout working life is particularly important to finance social security schemes and to reinforce the virtuous cycle. Structural reforms undertaken in the context of austerity measures may undermine the longer-term perspective and further postpone recovery.

163. Promoting productive employment also includes a special emphasis on policies facilitating transitions to formality. This is particularly relevant in developing countries that have a higher incidence of informal employment, in addition to the fact that they will be the home to three-quarters of the world’s elder population. From the demographic transition perspective, informality presents two challenges. First, those working in the informal economy do not usually contribute to taxes or social security schemes while they are the first to suffer from the ensuing lack of coverage. Second, older workers are usually over-represented in the informal economy as shown in preceding chapters and are thus especially vulnerable. Comprehensive and gradual policies including fighting tax evasion are central to ensure that additional employment and economic activity effectively and sustainably increase the fiscal space for financing social protection and for reducing vulnerability in old age.

### Promoting full and productive employment throughout the life cycle

164. Addressing the challenges posed in the new demographic context requires promoting full and productive employment throughout working life. This is the life cycle and inter-generational approach – affirming that youth, adulthood and old age are but different stages of life which influence and interact with each other in tackling population ageing.

165. As demonstrated in Chapter 2, the countries concerned need to create decent and productive jobs for the increasingly larger working-age population to take advantage of the demographic window of opportunity and to benefit from an economic dividend. This is a huge challenge that requires adopting adequate demand-side macroeconomic policies, promoting youth employment and fostering lifelong learning.

166. For ageing countries, it will be necessary to increase the labour force participation rates of all population groups, particularly women, youth, migrants, people with disabilities and older workers. Senior workers’ employment rates in industrialized countries depend primarily on the general labour market situation. The countries with high employment rates for those aged 55–64 are generally countries close to full

employment.<sup>4</sup> In periods of economic crisis and a general fall in employment rates, countries tend to limit the employment of older workers. It is therefore necessary to have a policy to achieve full and productive employment (macroeconomic, structural and sectorial) for all population groups.

167. In both groups of countries, comprehensive policies to achieve full and productive employment for all groups of working age should be prioritized. The ILO's Global Employment Agenda and the conclusions of the recurrent item discussion on employment in 2010 provide the menu of measures that can be customized to specific country circumstances.<sup>5</sup> Some of the policy areas most relevant to population ageing and to the present context of global economic slowdown are discussed in greater detail below.

(a) *Demand-side policies*

168. The collapse of aggregate demand in the global economic and financial crisis remains the major obstacle to labour market recovery. High rates of unemployment are exerting immediate constraints on pension systems as the dependency rates go up massively. Demand-side management is therefore the key.

169. Coordinated demand-side macroeconomic policies have been successful in stabilizing employment levels and mitigating the increase in unemployment and poverty in the first two years after the onset of the global economic and financial crisis. The publicly financed stimuli packages implemented by a number of governments to contain the fall in aggregate demand and output included measures fostering synergies between employment and social protection, as in the Global Jobs Pact (2009). This combination proved to be a successful response to the crisis. These policies included, inter alia, investments in public infrastructure; support to micro- and small enterprises; public procurement and taxation geared to employment growth and decent jobs; the extension of protection of the most vulnerable and necessary investments in areas such as education and health care. The debt crisis in industrialized countries has led to austerity measures in many other countries. While there is broad agreement that public debt has to be reduced, immediate and drastic cuts are resulting in the loss of the successful synergies and have a potential negative impact in the longer term.

170. In developing countries, if the ageing phase is reached in adverse economic conditions, with little or no economic growth or accumulated savings for investment, the burden placed by the dependent older population on the economically active population will be unsustainable. Economic diversification and investment in infrastructure and in human capital are needed not only to generate more opportunities for the young people of today, but the dividends of such investments are essential for the creation of the necessary productive conditions to deal properly with society's inexorable ageing.

171. In this regard, the identification of growth sectors is particularly important. While these potential growth sectors vary between countries, certain sectors such as information and communication technology or the greening of the economy<sup>6</sup> are sectors with high growth potential in virtually all countries. Closely related to demographic transitions, the "care" sector (including health care, long-term care and social services) is

---

<sup>4</sup> OFCE. "Emploi des Seniors: les leçons des pays de réussite", in *Revue de l'OFCE* 106 (Paris, 2008).

<sup>5</sup> ILO. Global Employment Agenda (2003) (<http://www.ilo.org/employment/areas/global-employment-agenda/lang--en/index.htm>) and ILO: *Employment policies for social justice and a fair globalization*, ILC, 99th Session (Geneva, 2010).

<sup>6</sup> For a fuller discussion, see Report V, *Sustainable Development, Decent Work and Green Jobs*, 102nd Session, ILC.

another sector with high growth potential to generate new employment opportunities, while developing essential services for dealing with an ageing population. Given that it is a female dominated sector, investments could also lead to an increase in job opportunities for women. As discussed in chapter 2, most industrialized countries already face the challenge of finding enough qualified people to work in the care sector and to recognize that occupations related to health services are one of the biggest “bottleneck occupations”.<sup>7</sup>

(b) *Promoting youth employment*

172. Tackling the youth employment crisis is a key element of the inter-generational and life cycle approach for preparing for demographic transitions. The 2012 ILC discussion underscored the international consensus that urgent action is needed to tackle the unprecedented youth employment crisis affecting all regions. The 2012 call for action and the conclusions provide a full review of a policy portfolio for a multi-pronged approach to foster decent job creation for young people through macroeconomic policies, education and training policies, labour market policies, youth entrepreneurship and the promotion of labour rights. Allocating adequate resources to labour market policies, including to public employment programmes (PEPs), and integrating and sequencing various components of ALMPs targeting both demand and supply measures to ease transitions from school to work, are key instruments to promote youth employment. Ensuring that young people receive equal treatment and are afforded rights at work are also central elements of any strategy to promote youth employment.<sup>8</sup>

173. Some suggest that high employment rates of older persons can only be achieved at the expense of new younger labour market entrants or vice versa. This point of view is widely accepted in many countries and has provided the rationale for early retirement schemes. This crowding out effect has received increased media attention in the wake of the global crisis.

174. However, empirical evidence does not support this “lump of labour” theory.<sup>9</sup> Maintaining senior workers in employment does not automatically mean fewer jobs for young people. International studies<sup>10</sup> find no evidence that increasing the labour force participation of older persons reduces job opportunities for younger persons. These studies examined the period before the global financial crisis and, whatever the likelihood of crowding out in a growing economy, the dynamics might be different in a stagnant one. A recent study in the United States takes into account the current economic situation and shows that greater employment of older persons is associated with better outcomes for the young – lower unemployment, increased employment, and a higher wage. The patterns are consistent for both men and women and for groups with different levels of education.<sup>11</sup> The new “Contrat de Generation”, the inter-generational contract

<sup>7</sup> European Commission (2010). *An Agenda for new skills and jobs: A European contribution towards full employment*, Strasbourg. <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0682:FIN:EN:PDF>; European Commission (2012): *European Vacancy and Recruitment Report 2012* <http://ec.europa.eu/social/main.jsp?langId=en&catId=822&newsId=1739&furtherNews=yes>.

<sup>8</sup> ILO. 2012. *The youth employment crisis: A call for action*, Resolution and conclusions of the 101st Session of the ILC, Geneva. [http://www.ilo.org/wcmsp5/groups/public/---ed\\_norm/---relconf/documents/meetingdocument/wcms\\_185950.pdf](http://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_185950.pdf).

<sup>9</sup> The “lump of labour” theory can be traced to Henry Mayhew’s 1864 *London Labour and the London poor: The conditions and earning of those that will work, cannot work and will not work*. London: Charles Griffen and Cie.

<sup>10</sup> Gruber, J. and Wise, D.A. (eds). 2010. *Social Security Programs and Retirement around the World: The Relationship to Youth Employment*. Chicago, Ill. and London, The University of Chicago Press.

<sup>11</sup> Munnell, A.H. and Wu, A.Y. 2012. *Are Ageing Baby Boomers Squeezing Young Workers Out Of Jobs?* IB #12–18. Center for Retirement Research at Boston College.

negotiated by social partners in France, is an interesting example of strengthening the relationship between youth and senior employment (box 3.1) and a practical response to the “lump of labour” debate.

**Box 3.1**

**The inter-generational contract in France**

The inter-generational contract builds on the idea that the promotion of youth employment does not hinder the employment of seniors and vice versa: the employment of youth and seniors will be promoted and skill transfers within the enterprise enhanced. The social partners reached an agreement after four rounds of negotiation on 19 October 2012.

The inter-generational contract is designed for the management of age differentials and skill gaps in the labour market. Its objectives are threefold: access to permanent employment for youth; retention of workers above 55 years of age; and transfer of skills and knowledge.

The contract combines two types of instruments: an inter-generational convention binding the enterprise and the Government for the recruitment of youth or the retention of seniors; an inter-generational collective agreement negotiated within the enterprise or the branch, which fixes job creation targets, mentoring mechanisms and skills transfers between youth and seniors in the scheme. It should include a diagnostic undertaken by employers on the age pyramid and professional roles of youth and seniors in the enterprise; terms of employment and job-creation targets for youth and seniors (introduction into the enterprise, designation of the referee, monitoring of youth development, articulation with apprenticeships and internships and for seniors: consideration of professional career path, working conditions and hardship, skills development); organization of skill transfers within the enterprise; agenda for implementation, evaluation procedure and indicators for evaluation.

**Regulation framework**

Enterprises with 300 employees and more are required to conclude an inter-generational collective agreement. Non-compliance will result in penalties scheduled by the legislator.

Enterprises with 50 to 299 employees are granted fixed financial assistance for inter-generational conventions conditional to the negotiation of an inter-generational collective agreement within the enterprise or the branch and the non-application of sanctions scheduled by the legislator.

Enterprises with less than 50 employees are granted fixed financial assistance for inter-generational conventions.

(c) *Fostering employability through lifelong learning*

175. Investing in the employability of the workforce throughout the life cycle is crucial to deal effectively with the economic and social consequences of demographic change. Public policy and efforts at enterprise level should be directed both at those who want to remain productively employed, many of whom may not have had the opportunity for adequate early or ongoing education and training, and at those preparing to enter the labour market, to ensure they have the capacities to remain employable throughout their working lives.

176. Consistent with the life-cycle approach, it is necessary to engage workers in the process of lifelong learning as early as possible so that a culture of learning is established. Therefore, an adequate response to low levels of education and the training of older workers should not focus only on participation from this age group. The experience of workers at a younger age will have a key impact on their labour market decisions and outcomes when older.

177. Lifelong learning is a key priority in an increasing number of countries. The European Commission integrated its various educational and training initiatives under a single umbrella, the Lifelong Learning Programme. In 2010, average participation in lifelong learning across EU Member States was 9.1 per cent while the EU target is 15 per cent by 2020. The Education Council adopted a renewed European Agenda for Adult Learning in November 2011. Some countries, such as Finland, Sweden, Austria and Slovakia, have very strong lifelong learning measures, while support has declined in other countries such as the United Kingdom and Ireland in the face of budgetary constraints.

178. In Portugal, one objective of the National Strategy for Active Ageing is to promote the access of older workers to education and training. Two key instruments have been identified to this end: (i) preferential access of older and less-qualified workers to the vocational education and training (VET) systems under the New Opportunities Initiative and the VET courses for adults; and (ii) programmes of consultancy and training for SMEs, in order to help older workers in SMEs to access training opportunities. However, the first results of the New Opportunities Initiative reported a very low percentage of workers over 55 among the applications.

179. China has engaged in the process of building a lifelong learning system since the 16th national Congress of the Communist Party of China first advocated such an approach in 2002. The Mexican Government also recognizes the importance of lifelong learning, but implementation remains a challenge: the problems facing the education system have to be resolved first and the coordination of the various actors and stakeholders needs to be promoted.<sup>12</sup> Alternative policies may need to be developed to enhance the employability of those in self-employment and the informal sector.

180. A number of countries have instituted a legal basis for the provision of VET for adults and older workers (Poland, December 2008, an amendment to the Act on the Promotion of Employment and Labour Market Institutions).<sup>13</sup>

181. Some good practices to foster lifelong learning include the absence of age limits in providing access to in-house learning and training opportunities; viewing training as an integral part of career planning and not solely as job specific; linking training to the course of an individual's life; organizing work so that it is conducive to learning and development, such as through mixed-age teams; and using older workers' particular qualifications to facilitate further education for both older and younger workers and to establish and organize a knowledge pool.<sup>14</sup>

182. The social partners can play a leading role in shaping the structure of lifelong learning. Poland and Portugal have focused part of their strategies on training employers on the issues of older worker participation in lifelong learning. Bipartite and tripartite agreements on lifelong learning have been on the increase. In the Netherlands, the social partners have agreed to take action to raise the labour participation of workers aged 50 and over by 2020.<sup>15</sup> In many countries collective bargaining and social dialogue with governments have led to the establishment of training funds that finance lifelong learning and training, for example in Malaysia and Singapore.<sup>16</sup> Collective agreements

<sup>12</sup> Alvarez-Mendiola, G. "Lifelong learning policies in Mexico: Context, challenges and comparisons", in *Compare*, Vol. 36, No. 3, Sep. 2006, pp. 379–399.

<sup>13</sup> Engelen, L. 2012. *Employment policies to promote active ageing*, European Employment Observatory, Rome.

<sup>14</sup> Eurofound. *A guide to good practice in age management* (Dublin, 2006), p. 10.

<sup>15</sup> <http://www.oecd.org/els/employmentpoliciesanddata/Older%20Workers%20Netherlands.pdf>.

<sup>16</sup> ILO. *Lifelong learning in Asia and the Pacific*, ILO Regional Tripartite Meeting, Bangkok, 2003, p. 14.

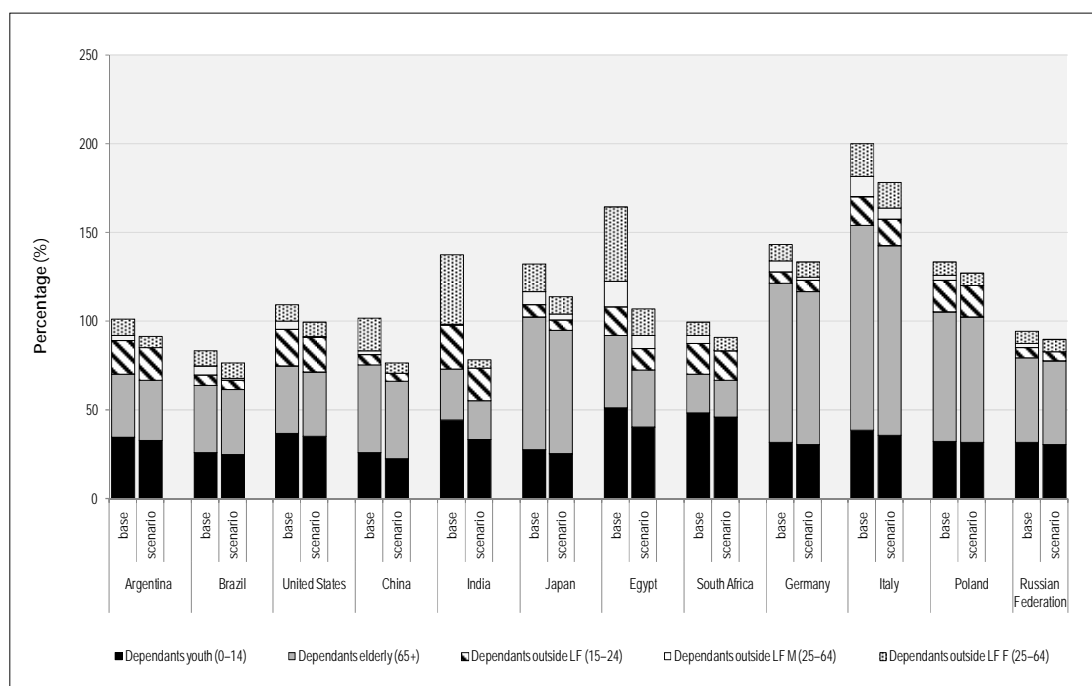
either introduce non-discrimination clauses for training – this is typically the case when provisions stipulate that age cannot be used as a criterion to exclude older workers from training – or specifically target older workers. In Canada, the decision of the 2011 Ontario Labour Relations Board found that an article in a collective agreement which gave preferred treatment to electricians over the age of 50 was a breach of the Ontario Human Rights Code. There might be some changes in clauses only targeting older workers as a result of this decision.

(d) *Increasing female labour force participation*

183. Increasing women’s labour force participation can be an important policy measure to tackle the demographic transition. It can offset the decrease in the working-age population induced by ageing and avoid a significant increase in the old-age dependency rate. In Egypt, India and South Africa, the dependency ratio could be almost halved by increasing female labour force participation to 90 per cent of that of men (figure 3.1).

Figure 3.1. Increased labour force participation helps to avoid unsustainable dependency rates

Economic dependency ratios in 2050 based on labour force projections reflecting status quo policies (“base”) versus those in the case of a scenarios-boosting labour force participation rates

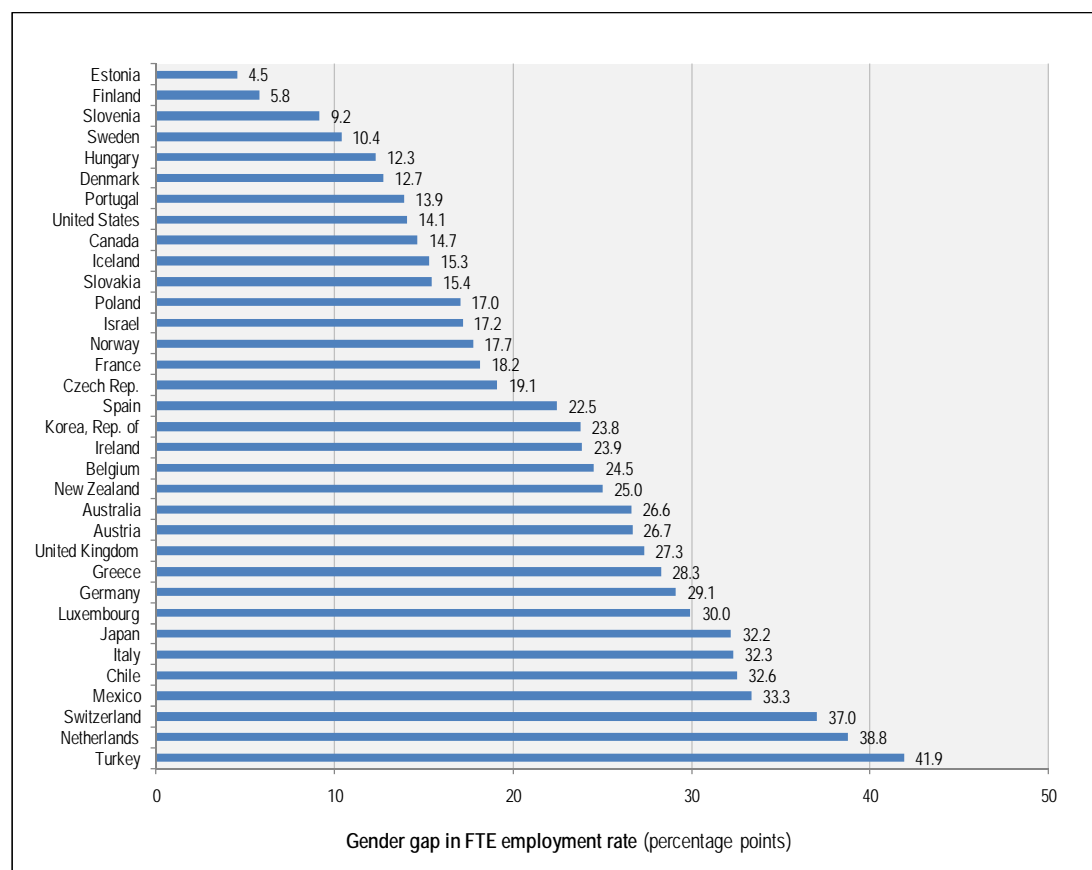


Note: This figure shows the result of simulating the effect on economic dependency rates of increasing participation rates of women to 90 per cent of that of men and increasing the participation rates of men by 10 per cent. Source: ILO simulations.

184. There is scope for increasing women’s labour force participation rates as gender gaps are still significant in most countries. In OECD countries the gender gap in full-time equivalent employment rates can reach 42 percentage points, and in 18 of the 34 OECD countries for which data is available, it is above 22 percentage points (figure 3.2).



Figure 3.2. The scope to increase women's employment rates is still significant for many OECD countries



Note: FTE stands for full-time equivalent. "Full-time employees" refers to persons who usually work more than 30 hours per week in their main job. Data include only persons declaring usual hours. Data for 2009, except 2007 for Israel and 2008 for Chile. Source: OECD *Employment Outlook*, 2010.

185. It is a clear objective of the EU to increase the labour force participation rate of women. The Europe 2020 Strategy aims to achieve 75 per cent overall employment rates for the 20–64 age group. In 2011, the female employment rate stood at 58.5 per cent for the EU-27, compared to 70.1 per cent for men. This means that with the prospect of a shrinking working-age population, increasing the labour force participation and raising the employment rate of women is paramount to achieving the target.

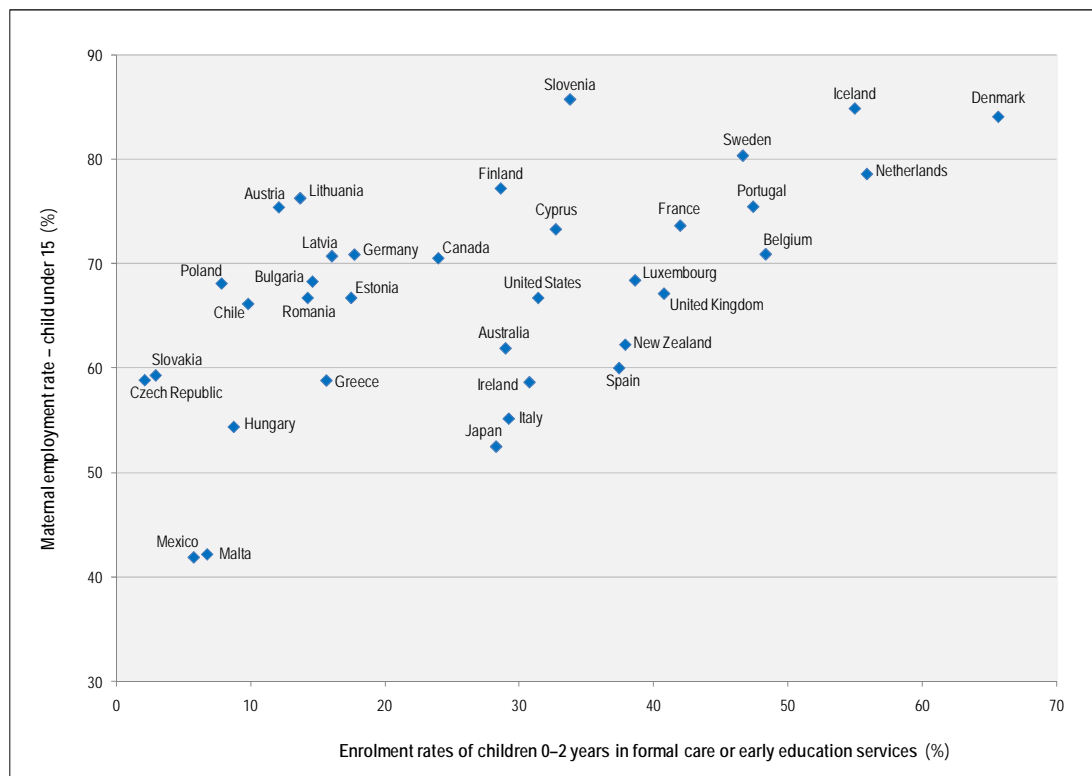
186. Parenthood is one of the main factors underlying gender employment gaps. In this respect, little progress has been made in the provision of childcare services to meet the Barcelona targets. In 2010, only ten Member States met or exceeded the target of 33 per cent coverage rate for children under 3 years of age, whereas ten met the objective of a 90 per cent coverage rate as regards children between 3 years old and the mandatory school age.<sup>17</sup>

187. There is evidence in the OECD that countries with policies that facilitate regular employment for both men and women, for example by offering public support for childcare, flexible working hours and financial incentives for parents to work, are also those countries with the highest maternal employment rates (figure 3.3). Particularly in the context of the global economic crisis, demand management and the availability of

<sup>17</sup> [http://ec.europa.eu/europe2020/pdf/themes/23\\_labour\\_market\\_participation\\_of\\_women.pdf](http://ec.europa.eu/europe2020/pdf/themes/23_labour_market_participation_of_women.pdf).

decent job opportunities for women are important requisites for increasing women’s labour force participation.

Figure 3.3. In OECD countries support for childcare encourages mothers to work



Note: “Maternal employment rate” refers to 2009 and “Enrolment rates of children 0–2 years in formal care or early education services” refer to 2008.  
 Source: OECD Family Database accessed on 23 Oct., 2012.

188. The situation of female participation in developing countries is different. In general, the challenge in these countries is to improve the quality of the work women do rather than participation rates. However, in the Middle East and North Africa region and in a few other countries, such as India, the challenge is to increase both participation and employment quality. Increasing female education levels in order to increase the role of women in the labour market will be the key factor for developing countries in the coming years.

189. Social protection – including maternity protection – and childcare also play a role in determining female labour force participation in developing countries. Governments and employers in these countries must find ways to increase mothers’ access to childcare facilities in order to alleviate the limiting effect of childcare on women’s participation in wage employment.<sup>18</sup> In regions such as Latin America, where female labour force participation has substantially increased in the last decade, the programme “Chile grows with you”, an integrated system of social interventions supporting children and families from birth until school age, is an example of a successful intervention. The policy emphasis on universal day care and pre-school for poor children, and strengthened

<sup>18</sup> See for example Ackah, C., Ahiadeke, C. and Fenny, A. (2009). *Determinants of Female Labour Force Participation in Ghana*, Global Development Network (GDN) Research Paper No. 14. Also Faridi M.Z., Chaudhry, I.S. and Anwar, M. 2009. “The Socio-Economic and Demographic Determinants of Women Work Participation in Pakistan: Evidence from Bahawalpur District”, *South Asian Studies*. Vol. 24, No. 2, pp. 351–367.

legislation and standards of protection for maternity and paternity, support working mothers from the poorest sections of the population.<sup>19</sup>

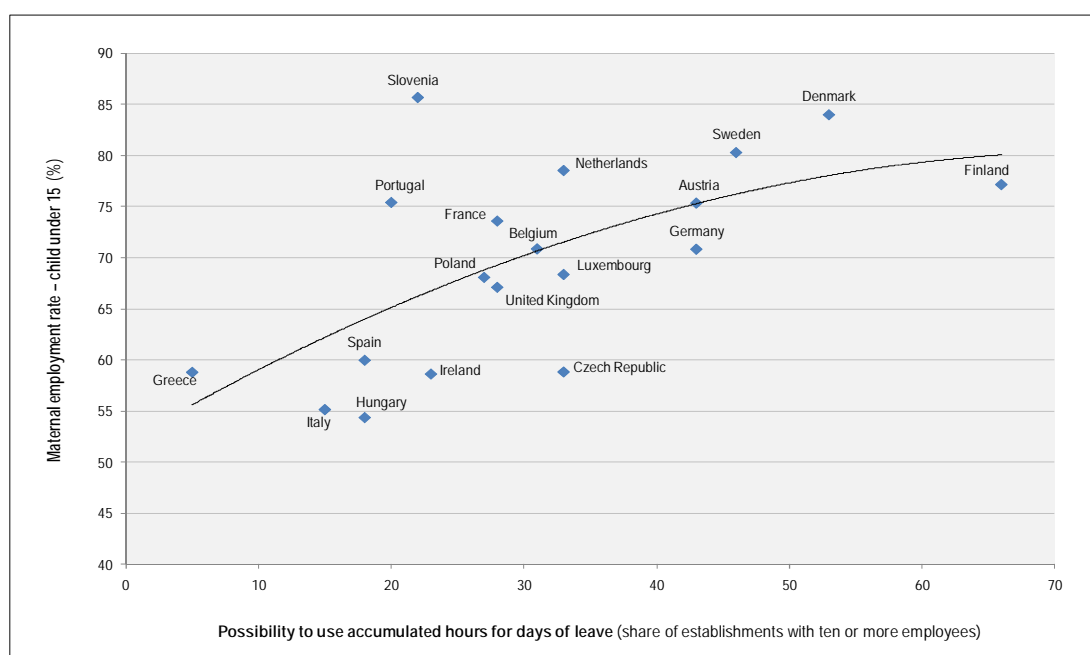
190. Increased labour force participation of women has considerable potential for economic development in the context of fast demographic changes – but only if the jobs in which women are engaged are decent. If the growing labour force participation of women results in higher levels of unemployment, involuntary part-time employment, temporary work, or work in the informal economy, the beneficial effects of increased employment rates may be limited. Increased availability of decent jobs, social protection, quality education and care services throughout the life cycle are essential.

### Promoting family-friendly work practices

191. There is evidence that family-friendly work practices are essential to increase fertility and to promote female labour force participation, as well as to facilitate the reconciliation of work and family life.

192. The dramatic declines in fertility in many developed countries are largely due to insufficient adaptation to the changes in working lives of both men and women. In most countries the opportunities to combine work and family life remain limited, even though evidence shows it encourages female labour force participation (figure 3.4). The most common types of family-friendly work practices are working-time related, such as part-time work, granting days off to care for sick children and to a lesser extent parental leave policies.

Figure 3.4. Flexi-time facilitates the employment of mothers in OECD countries



Note: "Maternal employment rate" and "Possibility to use accumulated hours for days of leave" refer to 2009.

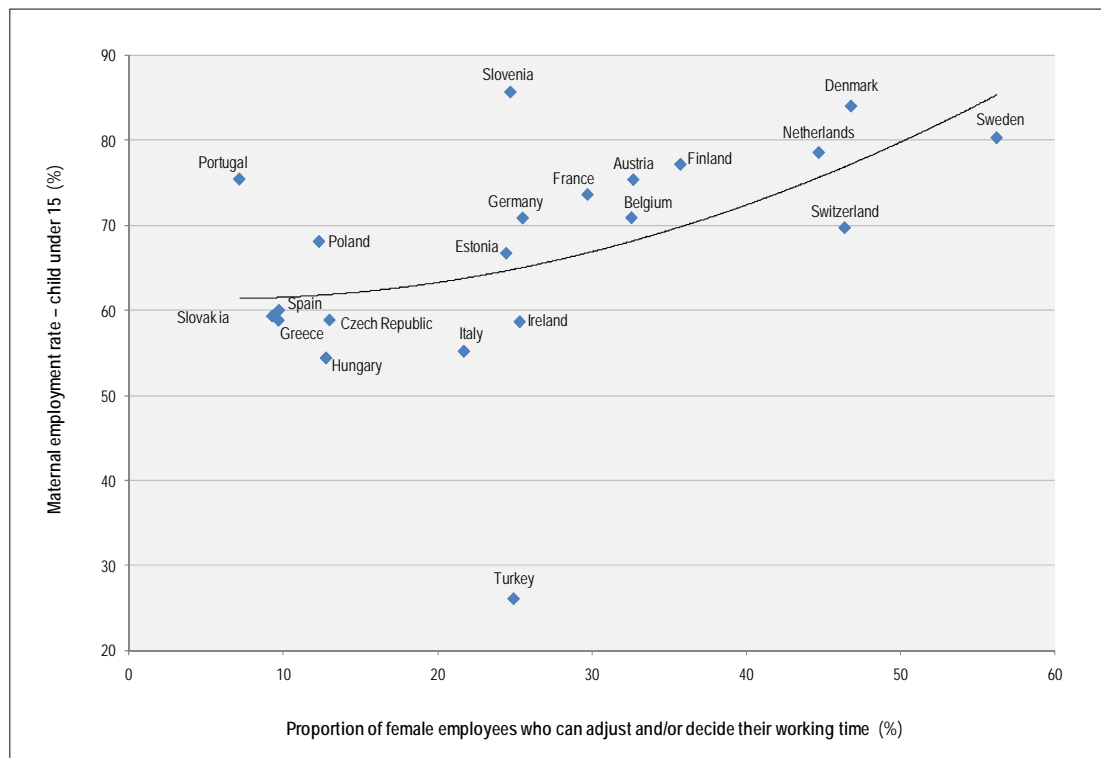
Sources: OECD Family Database accessed on 23 Oct., 2012.

193. Working hours are key to reconcile work and family life as shown in figure 3.5. But while part-time arrangements may be helpful in the short term, such as when an individual wishes to combine work with care obligations, they may be counterproductive

<sup>19</sup> Chile Crece Contigo, <http://www.crececontigo.cl/>.

in the long run.<sup>20</sup> Indeed, part-time work can entail disadvantages in terms of career prospects and social security, particularly in old age. According to German data, individuals (mostly women) who reduce working hours or leave the workforce temporarily or indefinitely in order to care for dependants (children or elderly relatives), face limitations on their employment prospects when they attempt to resume employment, as well as financial disadvantages in terms of their pension entitlements.

Figure 3.5. Family-friendly workplaces encourage the employment of mothers in OECD countries



Note: "Maternal employment rate" and "Proportion of female employees who can adjust and/or decide their working time" refer to 2009.

Sources: OECD Family Database accessed on 23 Oct., 2012.

194. Some countries have started to formalize family-friendly practices which already existed in many enterprises. Employers have a clear leadership role as shown in specific firm-level initiatives. Given the competitive pressures that firms face, the path needs to be one that is seen by employers to be consistent with high levels of productivity and competitiveness. There is also a lead role for governments to find a policy mix that includes regulation, education, financial incentives and support for further research. Where childcare services are designed to meet the needs of working parents and are integrated into a partnership framework that involves local governments, social security institutions, employers, trade unions, NGOs and working parents, the benefits are tremendous for families, society and the economy.<sup>21</sup> Examples are increasingly reported of sound and viable social care services, and in particular childcare, addressing the needs of atypical and low-income workers.<sup>22</sup>

<sup>20</sup> ILO. 2011. "Work-life balance", GB/312/POL/4. Geneva, ILO and OECD: *Doing better for families* (Paris, 2011).

<sup>21</sup> Hein C. and Cassirer N. *Workplace solutions for childcare* (ILO, Geneva, 2010).

<sup>22</sup> ILO. "Work-life balance", GB.312/POL/4, Governing Body, 312th Session, Geneva, November 2011.

195. Most initiatives related to family–life balance are found in developed countries. However, some developing countries are facing fast and important changes in family structures and this issue is becoming a policy priority. For example, in Brazil increased female participation and a decline in fertility indicate<sup>23</sup> that women are increasingly less available to care for the elderly and for dependent children. As a result, public policy has to redefine how family responsibilities should be fulfilled. The Brazilian Government has accordingly taken steps to promote equality of opportunity and treatment between women and men.<sup>24</sup>

196. Labour legislation measures and collective agreements such as the provision of maternity leave and job security for the expectant mother, facilitate the balance between work and family. However, labour legislation only applies to workers in an employment relationship, and benefits are mostly paid during the reproductive phase, which does not facilitate a balance between work and family throughout working life. Implementation of flexible time in regulated enterprises is low and therefore the measure does not have much impact.

(e) *International migration*

197. Migration replacement, i.e. the international migration needed to compensate for the reduction of the working-age population in ageing societies, is an important policy issue. Migration is also linked to the need for long-term care services in countries where labour is too expensive and no public provisions are in place to afford long-term care (for example, Italy, Germany).

198. Demographic change and the skills shortages have brought about a rising global demand for highly skilled workers. The outflow of the highly skilled from sectors such as health, education or agriculture can slow down the achievement of development goals, particularly in smaller sending developing countries. However, the impact of this “brain drain” varies according to the characteristics of the country of origin (for example, population size and level of development), the type of sector or occupation concerned and the type of migration (for example, temporary, permanent, circular). For some countries, the brain drain may have become a “brain gain” through migrant investments, networking for contacts and projects, knowledge transfer and other forms of migrant–home country collaboration.<sup>25</sup>

199. However, it should be borne in mind that migration is at best a partial solution to tackle the challenges of ageing populations. The two main characteristics of migration flows – the concentration of migrants at young ages at the time of the move and the high labour force participation of migrants at destination – are the basis for arguing that admitting international migrants can be one of the strategies to reduce some of the potentially detrimental effects of population ageing. Young immigrants would increase the ratio of working to retired people and hence the sustainability of the pension systems. In the labour market they would provide the skills and abilities for jobs to be performed by young workers, keeping the demand high for complementary jobs performed by older workers. Younger immigrants could also increase productivity and protect the wages of

<sup>23</sup> Sorj, B. *Reconciling work and family: Issues and policies in Brazil*, Conditions of Work and Employment Series No. 8 (Geneva, ILO, 2004).

<sup>24</sup> The Brazilian Civil Code recognizes the total equality of rights and obligations of spouses, and broadens the concept of family, including single-parent families and stable, non-marital unions as family entities recognized by the State.

<sup>25</sup> Global Forum on Migration and Development (GFMD). *Highly skilled migration: Balancing interests and responsibilities* (Brussels, 2007).

locals by filling jobs and occupations that need younger workers, and complement the productivity of older workers who retain more supervisory and organizational roles.<sup>26</sup> Although migrants are young when they arrive, they will themselves age if they stay in the country of destination. Consequently, in order to have an effect on slowing population ageing, migration inflows have to be sustained over long periods.<sup>27</sup>

200. Temporary migration programmes are increasing as a response to demographic change and the rising demand for labour in receiving countries. Temporary migration programmes, if carefully governed and managed, can generate significant net benefits for destination countries, migrants and their countries of origin.<sup>28</sup> Migrants benefit from having a legal status and countries of origin gain from remittances and the eventual return of migrants, provided the experience they gain abroad can be put to productive use at home. Receiving countries secure the workers they need and may enhance the positive effects of migration by allowing migrants to stay long enough to accumulate savings.<sup>29</sup>

201. Bilateral or multilateral agreements between countries can favour regional migration and facilitate circular or return migration. Some countries have signed such agreements and some of them appear to have worked.<sup>30</sup> All of the available agreements address the mutual assistance of government agencies in administering social security benefits, the equality of treatment of workers, the ability to access social security benefits wherever a person resides, the totalization (credible membership in social security systems of two countries to qualify for benefits), and prorated payment of benefits from both countries to complete a whole benefit for the worker. Some of these agreements address certain specific labour issues, such as the recruitment of foreign workers, their rights when working in the receiving country, and the rights of foreign workers to send remittances to their home countries. These functions are important for migrant workers, and the ability of governments to coordinate them is also critical. In addition, social security coverage in many of these bilateral social security agreements goes beyond simply retirement pensions to include sickness benefits, occupational disease, industrial accidents, invalidity, death and survivor benefits, and even maternity benefits. Access to these types of benefits for migrant workers, especially foreign domestic workers, is vital, bearing in mind that even legal migrants can be vulnerable to poor or dangerous working conditions, or may need medical attention at some point during the time they work outside of their own countries. In addition, by creating the circumstances that allow them to participate in retirement pension schemes, it can help

---

<sup>26</sup> Peri, G. 2011. "Immigration and Europe's demographic problems: Analysis and policy considerations", *CESifo DICE*, Vol. 9, No. 4.

<sup>27</sup> Global Agenda Council on Ageing Society. 2012, op. cit., Chapter 20.

<sup>28</sup> Circular migration, in particular, has been referred to as an important means to have a "triple win" situation – for the host countries, the migrants' countries of origin and the migrants themselves. The European Commission has developed important initiatives and recommendations for fostering "circular migration" and "brain circulation". See: Commission of the European Communities: *Migration and development: Some concrete orientations*, at: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2005:0390:FIN:EN:PDF>.

<sup>29</sup> UN. *International migration and development*, Report to the Secretary-General, General Assembly, 60th Session, agenda item 54(c) (New York, 2005).

<sup>30</sup> International Migration of Health Workers. *Improving International Co-Operation To Address The Global Health Workforce Crisis*, Feb. 2010, Policy Brief, OECD.

migrant workers to retain financial independence if they choose to return to their home countries when they reach retirement age.<sup>31</sup>

202. While migration is not the sole solution to population ageing, well-managed migration policies and programmes within the framework of an international partnership are part of the solution and can bring about mutual benefits for sending and receiving countries. The ILO's Multilateral Framework on Labour Migration is the centrepiece of the ILO Plan of Action on Labour Migration.<sup>32</sup> The Framework addresses the major issues faced by policy-makers at national and international levels that are the subject of demands for assistance.

(f) *The option of extending working lives*

203. With population ageing, extending working lives and increasing the employment rates of senior workers is becoming centre stage in the policy agendas of the countries concerned. In most developed economies, the prolongation of working life is regarded not only as an important way to preserve social security systems, but also as an answer to the changed age composition of the labour force.

204. It is argued that postponing the retirement age would result in increases of the working-age population, hence the level of production. The increase in contributions and the decreasing number of pensioners would allow the simultaneous balancing of pension systems, maintain the relative level of pensions and reduce the increasing weight of pensions in GDP. But this argument may not hold, as postponing the retirement age is not enough to address the decreasing size of the labour force: senior workers (those under the statutory retirement age) need to be productively employed in decent jobs and this is often not the case. As shown in Chapter 1, older workers often remain trapped in long-term unemployment or in vulnerable employment and this situation is worsened by the global crisis.

205. All European countries are implementing similar reforms: the progressive suppression of early retirement packages (early retirement, invalidity pensions granted for economic reasons, exemption from jobseeking), increasing the legal retirement age, extending required career lengths, and modifying the rules to calculate pensions to make them more penalizing for early departure, and providing more incentives for delayed retirement. The EU's target that by 2010, at least half of the EU population aged 55–64 should be in employment has been met in some Member States, not in others. However, on average the 55–64 employment rate has increased over the last ten years. A number of EU countries are openly considering raising the statutory pension age to over 65, and some have already done so (figure 3.6).

206. Strategies to extend working lives present a double risk: the risk that a large number of the older workers who are not entitled to retirement any more, may experience a long period of poorly compensated unemployment, and retire with a low pension; and the risk of inequalities between manual workers, who cannot prolong their activity for reasons of physical attrition or of belonging to declining sectors, and

<sup>31</sup> Ghosheh, Naj. "Protecting the housekeeper: legal agreements applicable to international migrant domestic workers", in *The International Journal of Comparative Labour Law and Industrial Relations* 25, No. 3 (2009): 301–325.

<sup>32</sup> The *ILO Multilateral Framework on Labour Migration: Non-binding principles and guidelines for a rights-based approach to labour migration* was adopted following a tripartite meeting of experts, which met in Geneva from 31 October to 2 November 2005. See [www.ilo.org/public/english/protection/migrant/download/multilat\\_fw\\_en.pdf](http://www.ilo.org/public/english/protection/migrant/download/multilat_fw_en.pdf).

executives who would benefit from the incentives to prolong careers.<sup>33</sup> These risks need to be managed by specific policies as developed in section 3.2.

207. In a number of European countries, recent reforms have established a strong link between the pension level and the time to go on retirement (age or length of career) to provide incentives to delay retirement. Simultaneously, the most successful countries have enough social security to avoid keeping older workers unemployed without hope of finding employment or the physical capacity to do so.<sup>34</sup> Finland has been pursuing a very comprehensive approach to promoting active ageing and extending working life. The approach does not concern itself with specific age groups, but addresses the challenges of extending and defragmenting working careers in general, developing the quality of working life and mobilizing the workforce as a whole.<sup>35</sup>

208. In some non-OECD economies, the meagre pension paid by the State creates a strong motivation for those beyond the pensionable age to remain in employment. However, there are often few opportunities for older people to be formally employed, and a very large majority of those who need to work, work as self-employed, mostly in the informal sector. This is the case, for example, in Georgia where 88 per cent of working pensioners are self-employed. To address this problem, the Government adopted a national employment strategy for older workers, with the following elements: (a) a free choice for pensioners to work; (b) motivation to work: the minimum old-age pension is complemented by an additional amount in accordance with the employees' length of service; any employed pensioner can receive the full pension on top of his/her salary, except civil servants; if a pensioner employed in the public sector is engaged in scientific or educational activities then she or he does receive the full pension on top of the salary; and (c) providing an age-friendly environment by guaranteeing equal participation in working life and equal working conditions.<sup>36</sup>

### Ensuring adequate and sustainable social security for all

209. The ILO Social Protection Floors Recommendation, 2012 (No. 202), adopted by the ILC at its 101st Session in June 2012, provides guidance to member States in pursuing the extension of social security and building comprehensive social security systems. Recommendation No. 202 comes in the continuity of prior efforts at the international level, namely through the Declaration on Fundamental Principles and Rights at Work of 1998, to strengthen the legal framework for rights at work.

210. The global crisis and its consequences on poverty and labour markets have had the effect to place the need for the extension of social protection at the centre of discussions. This is illustrated by the G20 leaders' agreement at their meetings in November 2001 in Cannes and in May 2012 in Guadalajara for the need for better protection of workers as a necessary factor to ensure stable growth.<sup>37</sup> The affordability of social security systems has been widely discussed in the global context of economic change, and accounts for concerns about the sustainability of social security systems due to an expected increase in economic dependency ratios as population ageing is affecting all countries. This challenge is manageable within properly organized systems and carefully managed

---

<sup>33</sup> OFCE. 2008, op. cit.

<sup>34</sup> See OFCE. 2008, op. cit. for a detailed account of what European countries have done.

<sup>35</sup> Engelen, L. 2012. *Employment Policies to Promote Active Ageing*, European Employment Observatory, Rome.

<sup>36</sup> UNECE. 2011. Policy Brief on Ageing No. 9, op. cit.

<sup>37</sup> G20 Labour and Employment Ministers' Conclusions, Cannes, France, November 2011, G20 Labour and Employment Ministers' Conclusions, Guadalajara, Mexico, May 2012.



reform processes, which fairly balance social needs and financial and fiscal requirements, and are embedded in a well-informed social dialogue process.

211. In order to promote longer working lives with a view to reducing the financial burden of the pension system on public finances, some countries have introduced flexible retirement age options for older workers. In Canada, for example, a person may retire from age 60 and receive a reduced pension (up to 30 per cent less corresponding to an average of 0.5 percentage points for each month where the pension is drawn before age 65), or delay retirement until age 70 and receive an increased benefit (up to 30 per cent more, corresponding to an average of 0.5 percentage-points for each month where the pension is drawn after age 65). Pensioners can continue to contribute to a pension fund on a voluntary basis between the ages of 65 and 70 and have their benefit raised accordingly.

(a) *Basic social security guarantees throughout life*

212. In most countries, old age is a key determinant of poverty, especially for women. Old-age poverty is not only a problem for the elderly, but is also a concern for entire households. In the absence of transfer incomes for the elderly, household incomes have to be shared among more people and per capita consumption declines. Health-care costs, which are systematically higher than average for the elderly, again have the same systemic effect. Intra-family demographic burdens and demographic change thus have a marked impact on the welfare levels of all population groups, especially on elderly persons who generally face higher needs for health and social services. Such findings should be central to the definition of national social protection objectives and priorities.

213. For too long, the interaction between demographic shifts and social security has exclusively been discussed in a cost containment context. Similarly, the fact that a set of basic social security guarantees can help to mitigate the effects of demographic and economic shocks (including food price hikes) has long been ignored, but it is now recognized at the international level via Recommendation No. 202.

214. In recent years, many countries have increased their efforts to implement social security schemes aiming to grant at least a minimum level of social security to all. Such efforts include, among others, measures to ensure at least a basic level of income security in old age through non-contributory means-tested or non-means-tested social pension schemes, as found in, for example, Brazil, Mexico, Plurinational State of Bolivia, Mauritius, Nepal, Namibia and South Africa. Such social pension schemes provide an important contribution to ensuring at least basic income security especially to those older people, especially women, who have not had the chance to build up sufficient pension entitlements during their working lives.

215. In a study covering 12 low-income countries, the ILO estimated that the immediate cost of a set of basic social protection benefits would require between 0.6 and 1.5 per cent of annual GDP. The cost of such pensions would increase only moderately over the next 30 years despite the ageing process, reflecting in part the relatively young populations of these countries most of which have high fertility rates.<sup>38</sup>

216. While some countries seek to extend social insurance and combine it with social assistance, others subsidize social insurance coverage for the poor to enable them to enjoy it. Others establish tax-financed universal schemes. Each approach has its

<sup>38</sup> ILO. 2008. *Can Low-income Countries Afford Basic Social Security?* Social Security Policy Briefings 3 (Geneva: ILO).

advantages and its problems, and each is dependent on past developments and national values.

217. Basic social security guarantees are also evident in industrialized countries with effective social protection systems. Different cases of good practice could be highlighted, such as the basic income guarantee for all vulnerable groups with insufficient income as provided by nearly all European countries, Canada and Australia. In addition, indirect income support through the planned measure to subsidize enterprises retaining older workers in employment in France, presents an innovative approach to target the most vulnerable groups. Nevertheless, there remain gaps for basic guarantees in industrialized countries, namely for the income security of children, many of whom are living in conditions of poverty, particularly in the case of single-parent households. If not tackled, this entails significant poverty in old age, especially for divorced women who do not manage to accumulate sufficient social insurance rights and personal savings.

218. Non-contributory cash transfer systems can be promoted in the context of national social protection floor discussions but only without undermining the need to encourage higher pension arrangements through contributory systems, since these are often perceived as the safest way to deliver social protection at levels above the poverty level. This is in addition to the fact that contributory schemes are likely to reduce the need for paying benefits under tax-financed universal schemes.

(b) *Multiple policies to achieve income security*

219. Only meaningful benefits effectively covering those in need can create a will among contributors and/or taxpayers to finance respective policies, especially in the case of contributory systems. Inadequacy, bad governance and lack of public trust in public institutions have often undermined the sustainability of social protection systems.

220. Sound principles guiding the design of income security arrangements include the need to focus on the consumption function of old-age pensions (as mentioned above). They also include the risk-pooling aspect in view of the unknown longevity risk and the need for redistribution, to allow at least a minimum level of benefits for more vulnerable groups, for example, low-income earners and persons with broken careers due to unemployment, and years when occupied with childcare. In addition, the objective of the State in terms of its role to prevent and relieve poverty through redistribution of resources must be carefully factored in. Adequate benefits should be guaranteed in the first place to those with lower incomes and to those with non-standard work patterns. Women are often most affected by these vulnerable circumstances. This is why employment policies need to be integrated with social protection policies. Reduced benefits should be guaranteed even to those with working careers or residency periods that are shorter than generally prescribed periods. In this respect, Convention No.102 provides clear guidance on minimum requirements.

221. It is clear that any purely earnings- or contribution-related pension scheme, such as the individual defined contribution accounts system often modelled on the Chilean approach, delivering “actuarially fair or neutral” pensions, is unable to deliver that expected outcome on its own for the purpose of pooling risk and redistribution. There is a need to create or provide pension entitlements that would not arise within such a system, for population groups with non-standard and perhaps not full employment records, nor sufficient contributory capacity.

222. In all countries, most of the recent reforms of contributory systems seem to redefine the age at which eligibility to a retirement pension is made possible, with the main aim to help to restore the overall financial sustainability of the schemes in the long

term. It is also important for governments to provide incentives for employers and individuals to extend other types of income security arrangements through private initiatives, so that all income earners have the possibility to aspire to a standard of living in old age that is not too different from that prior to their retirement. In such cases, it is important to ensure low administration costs for simple private arrangements, so as not to deceive the participants in such schemes, who are often not sufficiently literate with financial instruments. In developing countries, such possibilities through non-public measures are often not available due to limited offers. Until a properly regulated private insurance sector is in place, it is crucial that the public social security system offers most of the possibilities for building up income security in old age to a reasonable threshold for income earners at all levels.

223. The extension of social insurance to low income earners could often be best achieved by subsidizing contributions in one way or another and/or subsidizing benefits. This is usually ensured by establishing a minimum pension, a redistributive benefit formula in a defined benefit system, and/or treating certain non-contributory periods of certain categories of contributors as special contributory credits. Subsidizing contributions of certain categories of members might also be envisaged. Under a defined contribution (DC or NDC) system, a certain degree of redistribution from male to female contributors is possible when using unisex life tables to calculate pensions, in addition to the usual minimum investment return guarantees to safeguard insured persons against the investment risk that is mostly borne by individual workers.

224. Topping up the lowest pension provided under the contributory scheme to a guaranteed minimum can sometimes be paid out of the state budget funds, but only to those who have contributed a required minimum number of years (as in Chile or in Poland). Such an approach may not be recommended on equity grounds as this means all of the population which contributes to the state budget, for example, through VAT, subsidizes the insured members of a social security system that for various reasons does not often cover the entire population. Paying (again from general revenues) contributions on behalf of certain categories of members during a specified period (that is, to those on maternity or parental leave, as in Sweden or to a certain degree in Poland) is another example of these types of measures which are especially useful in countries with comprehensive coverage. Another group of measures could include subsidies of employees' or employers' contributions for low-income earners, with a view to enhancing their build-up of pension entitlements.

225. Redistribution between the members within a contributory pension scheme should not have negative effects on membership and incentives to contribute as long as it is accepted by the members. While subsidies to its members from outside the scheme can, to a certain extent, have positive effects on membership and contribution incentives, it raises important equity questions if the membership of the scheme is not universal as abovementioned. It is important to recognize the differing life expectancies across different population groups, namely in relation to occupational health risks which affect their life expectancy. There are still a number of countries that allow lower retirement ages for workers who have had a career in hazardous occupations such as in China where such workers are eligible to a full pension five years earlier than other workers. There is a need to develop adequate mechanisms to account for such important factors for the sake of equity across occupational groups and indirectly to different social classes.

226. The other possible way to deliver minimum income security to beneficiaries is either through a universal pension paid to all residents meeting specified criteria (such as reaching a certain age), or through an income or means-tested social assistance pension paid to all those below a specified income threshold. These pensions are referred to as

“social pensions” since they present the most effective way to reach all those who cannot be covered by contributory schemes.

227. ILO standards prescribe both universal and means-tested pensions as a way to provide minimum income security. For many, the universal pension solution has an advantage over the means-tested approach: not only is it much simpler and less costly to administer and deliver, but primarily as it is the most equitable way to provide everybody with a minimum income security upon retirement, avoiding the stigma and exclusion often associated with means-testing. Mixed systems of old-age income security consisting of different “tiers” or “pillars” of the pension system have emerged almost everywhere.

(c) *Recent pension policies*

228. The global landscape of pension systems has changed dramatically over the past century. Most of the recent reforms have been concerned with the need to find a new balance to face increasing dependency rates.

**Box 3.2**

**A brief history of the pension reform debate**

Until the early 1990s, the development of pension systems had been largely based on the European-type approaches of Bismark and Beveridge. For example, provident funds were established in many Commonwealth countries. In Latin America, many countries adopted social insurance arrangements for specific occupational groups, especially for civil servants, the military and the police, while in Maghreb countries relatively comprehensive systems were put in place. In communist countries, pensions were often organized through state enterprises.

In the early 1990s, the World Bank’s reform paradigm focused on privately managed, fully funded pensions as the “second tier” of a multi-pillar pension scheme with a view to promote economic development. This was part of the main objectives of pension systems: promoting old-age income support through measures that also increase growth because of a rise in national savings.

Towards the end of the 1990s, criticism centred on the fact that it had been increasingly unclear that national pre-funding of pension schemes actually made pensions less vulnerable to the effects of ageing, bad governance or economic shocks. The evidence of the impact on growth was also considered inconclusive. It was shown that both pay-as-you-go (PAYG) and funded systems require good governance and enduring economic growth to ensure their viability. Privatization per se did not improve the quality of governance. Systemic reforms often camouflaged the fact that actual benefit levels were reduced over time. It was also shown that the financing of the transition from PAYG caused transitional fiscal problems in most countries.

The ILO’s position on multi-tiered pension systems stressed the importance of adequacy of benefit levels (to provide income security in old age and thus give people the right to affordable retirement), the extension of coverage (with the ultimate objective of making it universal), and the role of good governance as sine qua non conditions for the proper functioning of all pension systems. The bottom line is that “the ILO is fundamentally unwilling to accept systems which cannot guarantee insured persons with a full contributions’ record any more than benefits at the subsistence level”. Since the minimum replacement rates required by the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102), are close to many national relative poverty lines, the ILO has maintained its stance.

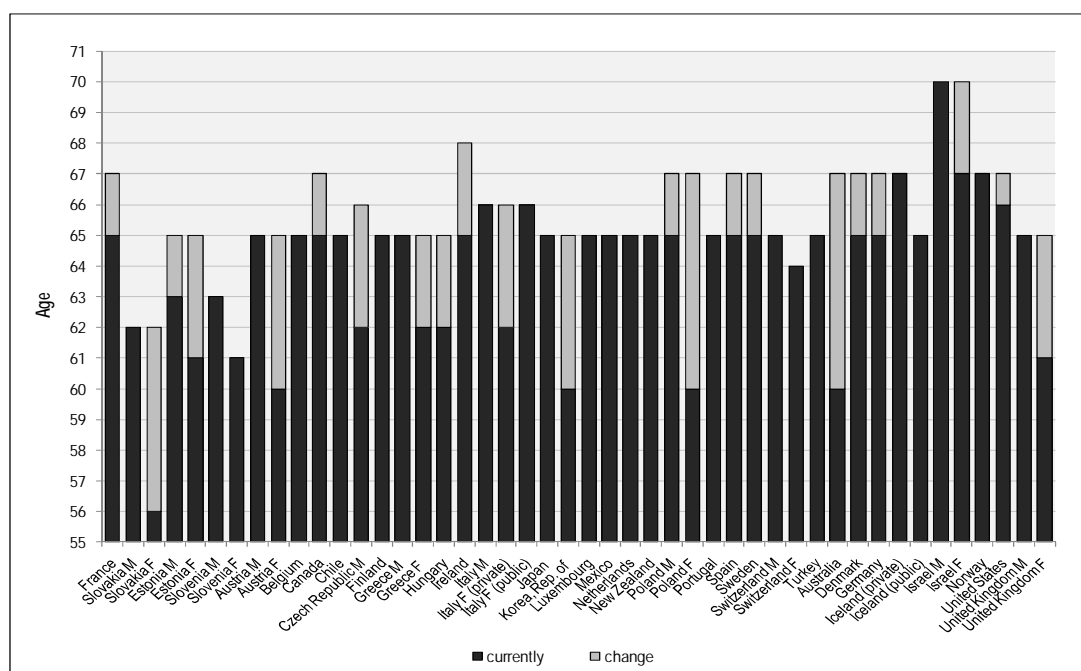
Most countries reformed their pensions during the 1990s and 2000s. Eleven more countries in Latin America included mandatory savings tiers in their pension systems. The first wave of such systemic paradigmatic reforms in Latin America was followed by reforms in 13 countries of Central and Eastern Europe and Central Asia which opted for multi-tier systems that were essentially scaled-down versions of the Latin American reforms.

The crisis of 2008 has led to new developments in the history of pension reform. Argentina and the Plurinational State of Bolivia have effectively reversed their reforms that were previously based on individual accounts and in some parts of Central and Eastern Europe, countries are debating the resizing of the private tier of their pension systems.

A number of European countries such as Germany and France and also Canada made “parametric reforms” while preserving the core nature of their redistributive pension systems without radically changing the paradigm of old-age income security. These reforms generally increased the pensionable age, modified eligibility conditions, reduced benefit entitlements through changes in indexing rules, and added a new (non-public) tier to the pension system. Sweden, Poland and Italy introduced reforms which, although they kept the PAYG character of the main pension scheme, also introduced notional defined contribution (NDC) principles in determining future benefit levels.

229. Systemic reforms (box 3.2), do not automatically change expenditure levels. As stated above, over the last decades many countries have reacted decisively and reduced current and projected pension expenditure by reducing benefits and levels. For unemployment benefits, this has mostly been done by reducing the duration of benefits. In many OECD countries the downward trend of the de facto retirement age has begun to reverse, and further increases in the legal retirement age are planned in a wide range of countries (figure 3.6).

Figure 3.6. An upward increasing pattern of statutory retirement ages



Source: ILO calculations.

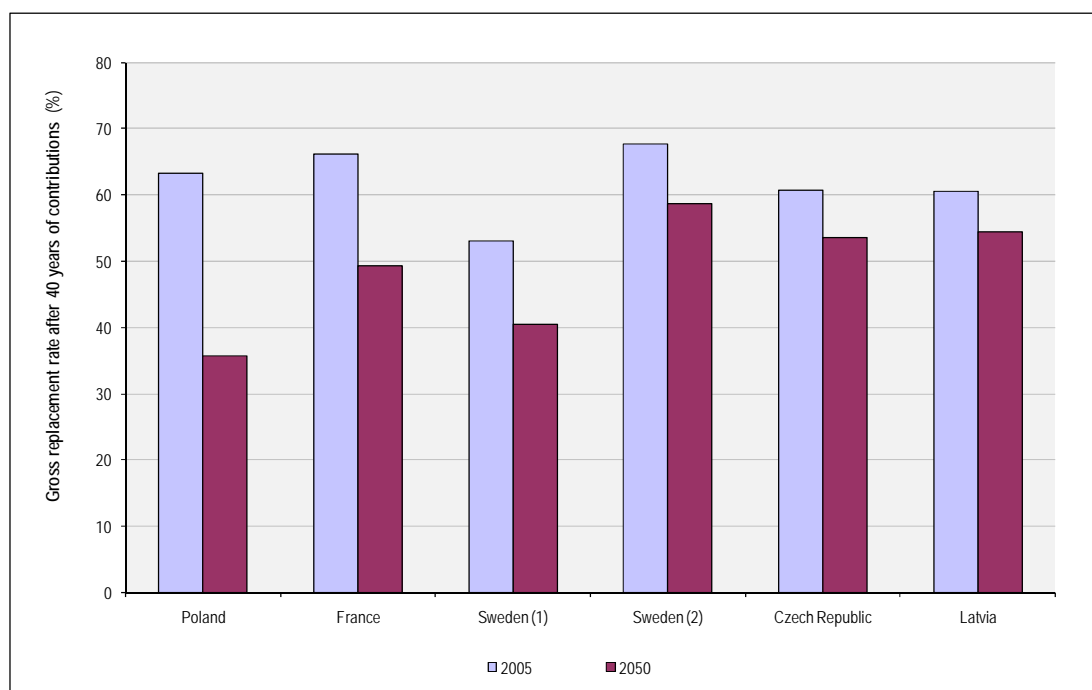
230. Most of the recent pension reforms in crisis-affected countries adopted since the onset of the global financial and economic crisis of 2008, have tackled the increase of the statutory retirement age resulting in the current situation as depicted in figure 3.6. The context of austerity measures has created a more rapid adoption of such reforms affecting the retirement age more than ever before.

231. There is evidence that in “old” countries, governments have also resorted to reducing benefit levels, notably pension benefit levels, which probably explains why social expenditure projections in many European countries no longer indicate explosive

trends. Figures 3.7 and 3.8 show expected theoretical replacement rates for selected EU Member States as reported in their national pension strategy reports. From these graphs it is obvious that it is not only the countries that embarked on so-called paradigmatic reforms that will see replacement rates going down – unless people contribute significantly longer and retire much later. From the examples of France and the Czech Republic, it may be seen that even so-called parametric reforms may reduce future replacement rates quite considerably.

232. The general vehicle to accommodate revenue reductions consists of cuts in benefit levels. These cuts often result in added uncertainty for those hardest hit by global and national adjustment processes. The expected turbulences on national labour markets – reflecting changing patterns of work distribution in an increasingly globalizing labour market – coupled with the effects on the global financial crisis on employment, may lead to “broken” careers for many people. Such careers may be marked by spells of unemployment or periods of retraining required by new labour market conditions. People with broken careers (that is, with longer spells of unemployment due, inter alia, to increasing labour market volatility) will in future most likely face replacement rates that may no longer meet the requirements of ILO Conventions.

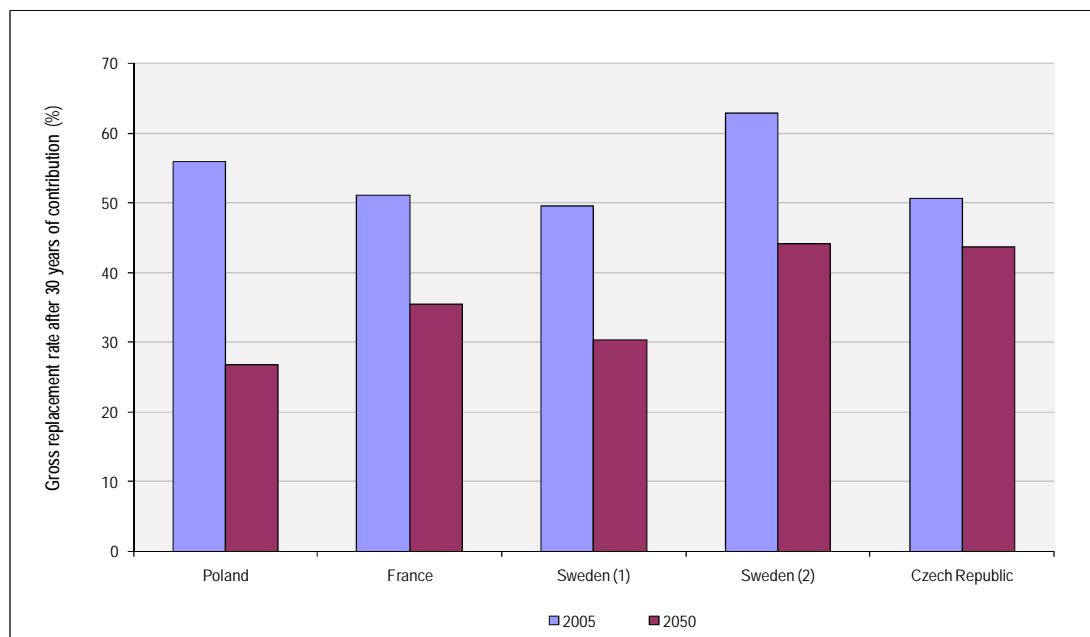
Figure 3.7. Theoretical gross replacement rates in selected EU Member States: Average earnings, 40 years of contributions, retirement at 65



Note: Sweden (1): national pension system only; Sweden (2): including occupational pensions.

Source: ILO, SEC/SOC comparative analysis of data included in national pension strategy reports.

Figure 3.8. Theoretical gross replacement rates in selected EU Member States:  
Average earnings, 30 years of contributions (broken careers)



Note: Sweden (1): national pension system only; Sweden (2): including occupational pensions.

Source: ILO, SEC/SOC comparative analysis of data included in national pension strategy reports.

233. Figures 3.9 and 3.10 show OECD calculations that confirm the effect of reforms on expected future benefit levels. There are dramatic reductions of pension replacement rates for all workers. Even more disconcerting is the fact that the pre-reform gap between the pension replacement rates of all earners and those of low-income earners seem to have widened further in many countries. This should give new importance to the ILO's development policies that focus on the adequacy of social outcomes of pension reforms.

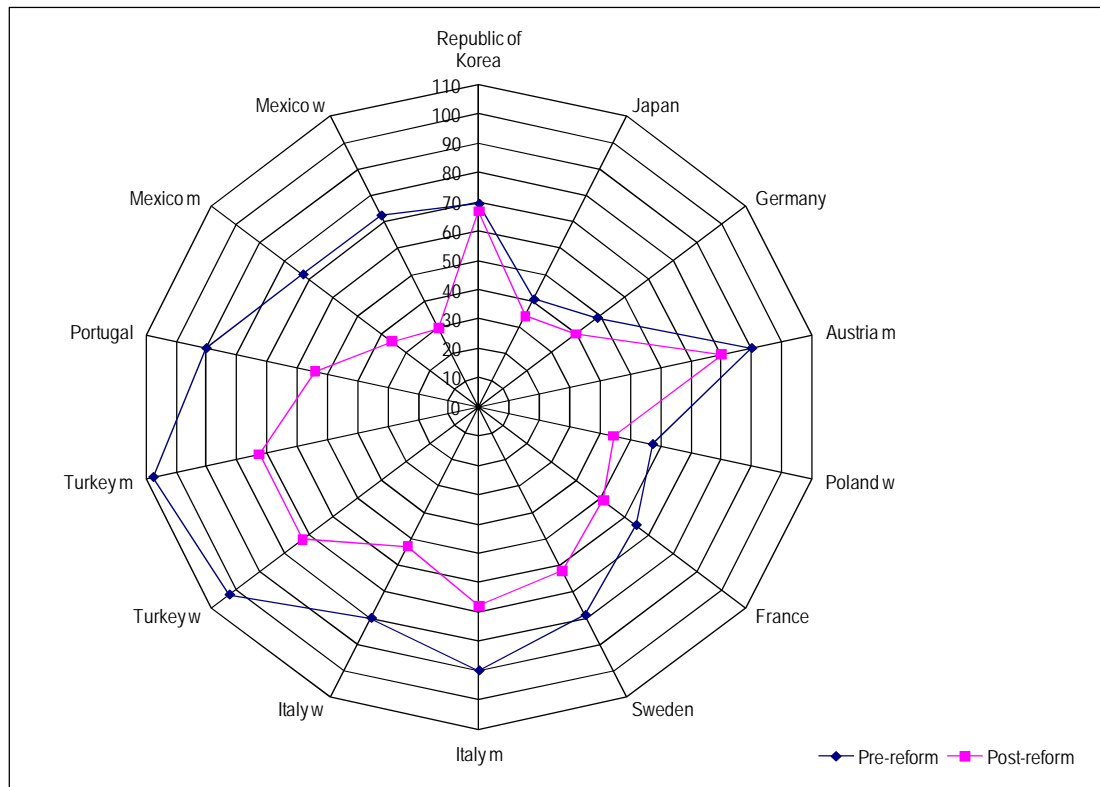
234. In low-income countries, contributory systems for formal economy workers scarcely extend to workers in the informal economy. In middle-income countries, such as in Latin America, formal pension coverage is not increasing, despite the change to defined contribution systems. This has been one of the reasons why non-contributory and tax-financed pension schemes have become so much more prominent in Latin America.<sup>39</sup>

235. In other middle-income countries, such as Tunisia and the Republic of Korea, the extension of contributory pension coverage has taken place, but is now also supplemented by tax-financed pensions. In high-income countries, pension benefit levels from statutory contributory systems have generally not kept up with wages – and in some cases not even with inflation. The coverage of contributory pensions remains incomplete, in particular for people with fragmented careers, women, self-employed workers, the informal economy, and in the face of compliance problems.<sup>40</sup>

<sup>39</sup> Bertranou et al.: "The impact of tax-financed pensions on poverty reduction in Latin America: Evidence from Argentina, Brazil, Chile, Costa Rica and Uruguay", in *International Social Security Review*, 57(4) (Geneva, ISSA, 2004), pp. 3–18.

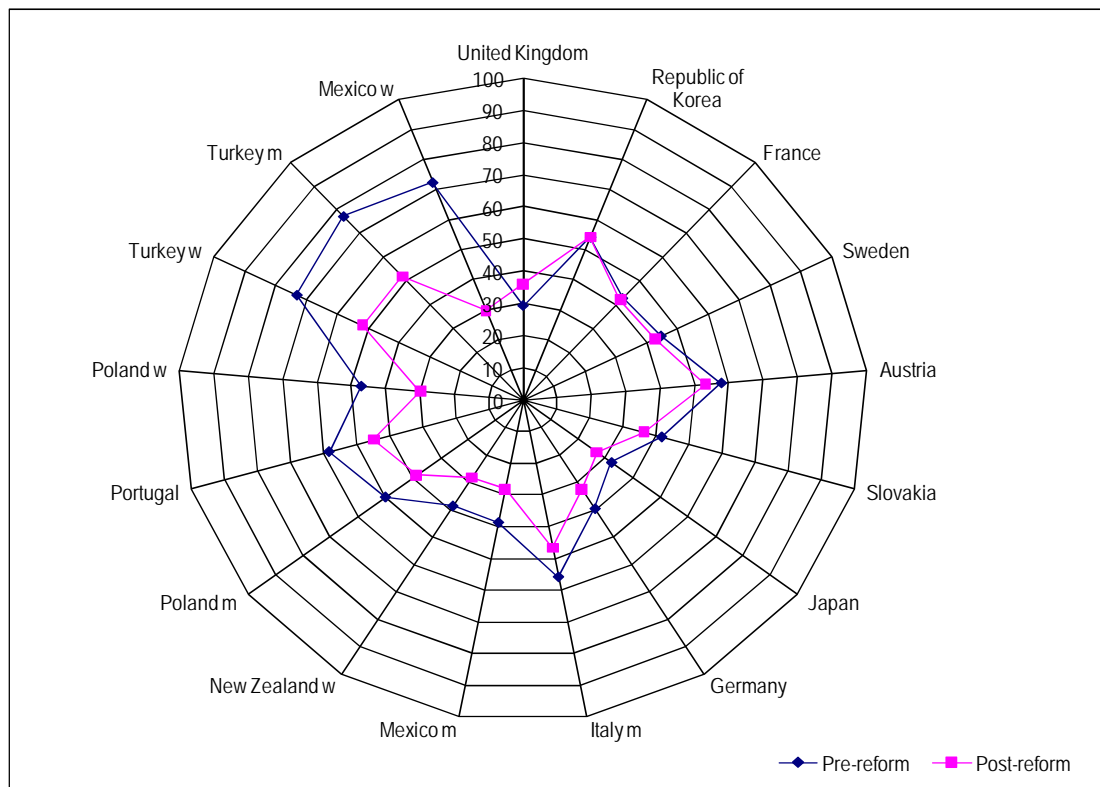
<sup>40</sup> Barr, N. *Strategic policy directions for social policy*, paper presented at the Fifth International Research Conference on Social Security, ISSA, Warsaw, 5–7 March 2007.

Figure 3.9. The effects of pension reforms on pension replacement rates – all recipients



Source: On the basis of OECD, 2007, op. cit.

Figure 3.10. The effects of pension reforms on pension replacement rates – low-income workers



Source: On the basis of OECD, 2007, op. cit.



236. Over the past 20–30 years, the trend has therefore been towards a greater use of tax-financed social assistance pension schemes.<sup>41</sup> Historically speaking, important contributory statutory pension schemes were in place in all high-income and most middle-income countries before the State started to set up tax-financed pensions, as a last resort. Therefore, the challenge is to design and manage the link between tax-financed and contributory social security schemes, to ensure that in the case of social pensions, workers remain motivated to contribute to the long-term development of contributory and financially sustainable pension arrangements. It is also necessary to define pension policies in the context of a broader socio-economic framework that includes consideration for family support systems, the employment status of workers, as well as the accumulation of savings and other personal assets, such as housing.

(d) *Focus on social outcomes and the need for impact measurements*

237. What can ultimately be learned from the protracted crisis is that there is still a need to ensure a minimum of income security for the older generations in some form of state guarantee of a minimum pension level, and preferably a minimum overall replacement rate for the individual. These minimum guarantees can be built into all pension systems, no matter whether they are multi-tier systems or mono-tier systems, capitalized or non-capitalized. The guidance provided in Recommendation No. 202 includes a guarantee of basic income security for older persons as part of national social protection floors (Paragraph 6(d)). This basic social security guarantee should provide income security at least at a nationally defined minimum level, which should allow lives of dignity for older persons. Nationally defined minimum levels may correspond to national poverty lines, social assistance thresholds or other comparable thresholds established by national law and practice, and should be regularly reviewed through a transparent procedure with representative organizations of employers and workers and consultations with other relevant and representative organizations of persons concerned. The benefit levels and benchmarks set out in the Social Security (Minimum Standards) Convention, 1952 (No. 102), which should be applied as a minimum for those countries which have ratified the Convention, can be used as reference for other countries when defining the levels of basic income security guarantees for older persons.

238. Following that reasoning, the ILO's mandate in pension policy, as determined by its Constitution and its Conventions and Recommendations, requires it to promote ten basic guarantees of national social pension schemes (box 3.3).

**Box 3.3**

**Ten basic principles guiding national social security pension systems**

- (1) **Universal coverage:** Everybody should be guaranteed at least basic income security in old age.
- (2) **Benefits as a right:** Entitlements to pension benefits should be prescribed by national law. The law should specify the range, qualifying conditions and levels of the benefits as well as complaints and appeals procedures.
- (3) **Protection against poverty:** Pension systems should provide a reliable minimum benefit guarantee that effectively protects people against poverty, vulnerability and social exclusion, and allows life in dignity.

<sup>41</sup> van Ginneken, W. "Extending social coverage: Concepts, global trends and policy issues", in *International Social Security Review*, 60(2–3) (Geneva, ISSA, 2007), pp. 39–57.

- (4) **Income security and adequacy:** Older persons should live in basic income security at least at a nationally defined minimum level. Those with earnings equal to or lower than the reference wage should be guaranteed a pension of at least 40 per cent of their pre-retirement earnings after 30 years of contributions (as set out in ILO Convention No. 102).
- (5) **Actuarial equivalence of social insurance contributions and pension levels:** A minimum replacement rate for all contributors adequately reflecting the level of the contributions paid should be guaranteed.
- (6) **Guarantee of a minimum rate of return on savings:** The real value of contributions paid into savings schemes should be protected.
- (7) **Gender equality and gender fairness:** Pension policies should follow the principles of non-discrimination, gender equality and responsiveness to special needs. Benefit provisions should be gender-neutral and gender-fair for working parents.
- (8) **Sound financing:** Pension systems should be financed in a financially, fiscally and economically sustainable way with due regard to social justice, equity and social solidarity, aiming at avoiding uncertainty about their long-term viability.
- (9) **Fiscal responsibility:** Pension schemes should not crowd out the fiscal space for other social benefits. Pensions should form part of a national social security extension strategy aiming at closing gaps in protection through appropriate and effectively coordinated schemes, reflecting national priorities and fiscal capacities.
- (10) **State responsibility:** The State should remain the ultimate guarantor of the right to income security in old age and access to adequate pensions.

239. The ILO has always maintained that retirement should be flexible and include an element of individual choice. However, the decision to retire may not be entirely voluntary, either because enterprises force workers to retire or because workers are in poor health. These workers should be able to retire on acceptable terms and with a decent retirement pension. It is therefore necessary to strike a delicate balance between the interests and income needs of elderly persons and the need to maintain a level of pension scheme expenditure that is acceptable to the active population. In countries facing a more advanced stage of ageing societies, many have already moved to define a set of rules that stipulate a fair ratio between the average period of time per cohort (and possibly occupational group) spent in retirement, and the period spent in activity in the labour market. This is the case for most of the Nordic countries of Europe with the Swedish model as the main precursor to many reforms in other countries. Earlier retirements could be possible by “buying” additional years of retirement through the reduction of pension levels or the payment of real actuarial cost to the pension funds by employers who wish to shed labour at pre-normal retirement ages.

240. There is a variety of further measures that balance social and financial objectives. The inclusion of minimum retirement ages and strong economic incentives to contribute longer have become a significant component of all pension reforms everywhere over the last two decades – either through strengthening the relationship between the amounts of benefit and contributions paid within the defined benefit schemes, or through partially or totally replacing defined benefit schemes by defined contribution schemes (either PAYG-financed, such as the “notional defined contribution” schemes or fully funded schemes).

241. However, such reforms have to include solidarity-based solutions to provide income security in old age to those who, for various reasons, have shorter or broken working careers. These include – primarily but not only – solutions compensating the unfavourable position of women in the labour markets who have had shorter spells of formal employment for childcare purposes and often receiving lower wages on average. They must also seek to provide protection to those who have had long unemployment

spells throughout their working lives. This can be done by basic universal pensions supplemented by contributions for periods of childcare, other unpaid reproductive and productive work, and periods of involuntary unemployment.

242. It is possible that a pension system pyramid might emerge, in line with national development patterns that would gradually be built up and consist of:

- the introduction of universal or social pensions at an early stage of economic development, but nonetheless aiming at 100 per cent population coverage;
- a mandatory social insurance tier for all formal economy workers and such informal economy workers that can be included;
- a voluntary tier consisting of occupational pensions or other voluntary private arrangements;
- a non-pension old-age income security tier that supports various non-pension benefits, aiming to guarantee a certain income security for older citizens (guaranteed housing, access to financial and other assets, as well as access to long-term care and affordable health care).

### Making use of international labour standards and social dialogue

#### (a) *International labour standards*

243. The ILO has a wide range of Conventions and Recommendations relevant in the context of demographic change and that can be used to guide policy decisions and reform processes (see appendix). These instruments are also safeguards for workers and their families. As such, they have an essential role to play in achieving the public consensus needed to adopt and implement national policy frameworks responding to the new demographic context.

244. The consequences of ageing societies on the world of work and social protection mechanisms have most directly and specifically been addressed in the Older Workers Recommendation, 1980 (No. 162). Recommendation No. 162 is structured around the main subject matters considered relevant for effectively addressing the challenges that arise in this respect: (i) equality of opportunity and treatment; (ii) employment protection measures; and (iii) preparation for, and access to, retirement. These issues are also dealt with by a number of other ILO standards which fall within the following two categories: equality and non-discrimination in employment and occupation; social security, employment and skills.

245. The question of age is to be analysed from the standpoint of promoting equality of opportunity and treatment. Recommendation No. 162 provides that employment problems of older workers should be dealt with in the context of an overall and well-balanced strategy for full employment. Each country should take measures for the prevention of discrimination in employment and occupation with regard to older workers in the framework of a national policy to promote equality of opportunity and treatment for workers whatever their age.

246. While the ILO fundamental Discrimination (Employment and Occupation) Convention, 1958 (No. 111), does not include age among the enumerated grounds of discrimination, it also provides for the possibility to determine additional grounds of discrimination, such as age, after consultation with representative employers' and workers' organizations, and with other appropriate bodies. Once considered by the legislation or by other means, as an additional prohibited ground, any distinction,

exclusion or preference made on the basis of age will be deemed to be discrimination, unless age is considered an inherent requirement for a particular job (Article 1(2) of Convention No. 111). In addition, to address de facto inequalities that may exist for older or younger workers, some countries have provided for special measures, including affirmative action in the Constitution or labour legislation, in accordance with Article 5 of Convention No. 111. The Termination of Employment Recommendation, 1982 (No. 166), states that age should not constitute a valid reason for termination, subject to national law and practice regarding retirement.

247. National legislation has clearly followed the trend of including a broad range of prohibited grounds of discrimination, including real or perceived age, health, disability, HIV status and AIDS, employment status, nationality, sexual orientation and gender identity. Over the past 15 years, there has been steady and rapid progress in the adoption of legal provisions prohibiting discrimination on the basis of age. While a number of countries have included “age” in their national constitutions, in most cases, the ground of age has been included in general labour legislation or in specific anti-discrimination or equality acts. In some countries, legislation specifically provides that awards and enterprise agreements must include terms that prohibit discrimination based on age. It is important to stress in this respect that human resources development policies and tools, such as those envisaged by relevant ILO instruments, are complementary to the prohibition of discrimination based on age in order to increase the employability of older workers. In practice, discrimination on the basis of age is also observed in relation to the compulsory retirement age and the conditions of employment of elderly and of young workers. The current trend in most industrialized countries is towards a more flexible approach to the compulsory retirement age, as opposed to cases whereby employment may lawfully be terminated upon the reaching of retirement age.

248. The ILO social security standards adopted since the 1950s, and most particularly the Social Security (Minimum Standards) Convention, 1952 (No. 102), and the recent Social Protection Floors Recommendation, 2012 (No. 202), provide an international reference framework as to the range and levels of social security benefits that are necessary and adequate for ensuring income maintenance and income security, as well as access to health care throughout the life cycle, including in active and in old age.

249. Another important challenge raised by demographic change is to enable older persons during their active age, both in the case where they are in employment and in search of employment, to maintain their employability. Social security plays a key role in this respect, and is widely recognized as a prerequisite for active ageing. This concern is fully taken into account in the Employment Promotion and Protection against Unemployment Convention, 1988 (No. 168), and its accompanying Recommendation No. 176, as well as in the Human Resources Development Recommendation, 2004 (No. 195). Convention No. 168 is based on the recognition of the key role of employment promotion in coping with demographic pressures on social security systems. Sustainable economic growth and high rates of labour market participation by all age groups are a precondition for demographic pressures on social security systems to be manageable in the future. Recommendation No. 202, by promoting coherence between social security policies and other public policies (for example, policies that enhance vocational training, skills and employability, that reduce precariousness and that promote secure work), and complementarily with active labour market policies (including vocational training or other measures) also provides valuable guidance in this regard.

250. A key instrument of particular relevance for countries wishing to develop employment policies responding to their needs, including in the context of ageing, is the Employment Policy Convention, 1964 (No. 122). Convention No. 122, a governance

Convention, serves as a blueprint for member States as they formulate active employment policies and implement labour market measures that may target vulnerable categories of workers such as older workers. The Human Resources Development Convention, 1975 (No. 142), as complemented by the Human Resources Development Recommendation, 2004 (No. 195), also plays an important role in the successful design and delivery of effective training policies and programmes targeted at older workers. Convention No. 142 specifically calls on countries to gradually extend, adapt and harmonize vocational training systems to meet the needs throughout life of both young persons and adults at all levels of skill and responsibility. The Employment Relationship Recommendation, 2006 (No. 198), sets out to provide protection to vulnerable workers who are uncertain about the existence of an employment relationship, including women workers, young workers, older workers and workers in the informal economy. Other relevant instruments to promote employment for older workers include: the Employment Service Convention, 1948 (No. 88), the Vocational Rehabilitation and Employment (Disabled Persons) Convention, 1983 (No. 159); and the Private Employment Agencies Convention, 1997 (No. 181).

251. The transition between active life and retirement (“from working life to freedom of activity”) is addressed in Part IV of Recommendation No. 162.<sup>42</sup> Such transition should be progressive, allow for voluntary retirement and coupled with provisions for making the pensionable age flexible, thereby giving greater freedom to persons to decide upon the age at which they wish to stop working. In a number of countries this was done through the introduction of flexible retirement arrangements in the legislation, for example, voluntary early retirement, deferred retirement or progressive retirement, with greater flexibility as to the pensionable age according to various specific criteria designed to take into account the actual situation of those concerned, for example, arduous or unhealthy occupations, long-term unemployment.

252. Another important social policy challenge of ageing societies is to secure an adequate level of income for all persons in old-age without overstressing the capacities of younger generations. ILO social security standards, and more precisely Convention No. 102, Convention No. 128 and Recommendation No. 131, make provision for the payment of pensions, that is long-term benefits, in the case of old-age, disability and death of the breadwinner, at guaranteed levels, upon completion of a qualifying period and to be regularly adjusted to maintain pensioners’ purchasing power. Recommendation No. 202 completes this framework by calling for the guarantee of basic income security for all persons in old-age. It thus acts as a safeguard against poverty, vulnerability and social exclusion in old-age, for persons who are neither covered by contributory pension schemes nor entitled to a pension under these schemes. It is also for pensioners whose benefits are affected by financial losses of the fund, whose pensions are not regularly adjusted to changes in the costs of living, or whose pensions are simply inadequate to secure effective access to necessary goods and services and allow life in dignity. ILO social security standards thus provide a comprehensive set of references and a framework for the establishment, development and maintenance of old-age pension schemes at national level.

253. In view of the financing and sustainability challenge faced by social security systems in the context of demographic change, the State has a vital role to play in forecasting in the long term the balance between resources and expenditure in order to guarantee that institutions meet their obligations towards persons in old age. The overall and primary responsibility of the State established by ILO social security Conventions

<sup>42</sup> [http://www.ilo.org/dyn/normlex/en/f?p=1000:12100:0::NO::P12100\\_ILO\\_CODE:R162](http://www.ilo.org/dyn/normlex/en/f?p=1000:12100:0::NO::P12100_ILO_CODE:R162).

and strongly reaffirmed recently by Recommendation No. 202, is no doubt to play an important role in how governments are in the future held accountable for the sustainability of national social security systems in view of, inter alia, demographic changes.

254. The issue of ageing is of particular concern for migrant workers and their families. This category of workers is taken into account generally in a large number of Conventions and Recommendations with a view to ensuring the maintenance of their acquired rights and rights in course of acquisition (see appendix).

255. In view of the vital role that international labour standards play for ILO constituents by helping them to manage demographic changes and protect the population groups most affected by demographic transition, an initiative to increase the number of ratifications of the relevant Conventions could be an important component in the follow-up to this report. Another follow-up could be for the Office to increase awareness and build capacities on the Older Workers Recommendation, 1980 (No. 162). The discussion may also be an opportunity to envisage the prospects of revising Recommendation No. 162 with a view to adopt a new instrument on employment and social protection in the new demographic context.

(b) *Social dialogue*

256. Social dialogue has a key role to play in facilitating the better management of demographic change and combatting age discrimination. There is no single prescriptive model for this, and each country must address the issues in accordance with its own social and economic conditions, traditions, and cultural perspectives. Social dialogue provides the framework in which it is possible for these needs to be fully articulated and consensus to emerge.

257. Demographic change is an issue of high concern for the social partners in almost all parts of the world. The EU, for example, has initiated a wide-ranging programme of technical work on the basis of which regular social dialogue takes place to deal with the major concerns of Europe's workers and employers.<sup>43</sup> Two major agreements have been adopted by the EU social partners: the 2002 Framework of Actions for the Lifelong Development of Competencies and Qualifications and the 2010 Framework Agreement on Inclusive Labour Markets. The latter provides for the fact that inclusion is an important element of Europe's response to demographic change, the shrinking working-age population and the sustainability of social protection systems.

258. For efficient dialogue, it is important that certain preconditions are met, in particular the existence of political will on the part of the government to involve the social partners in the design and implementation of appropriate policies to deal with the issues related to demographic changes and the availability of capacity and technical expertise among all parties to support the design and implementation of such policies.

259. There is evidence that various forms of partnership and social dialogue, which should not be limited to the specific context of tripartite collective bargaining, enhance the effectiveness of found solution, especially regarding the effectiveness and coverage of social protection systems. While governments, workers and employers constitute the core partners, it is important to expand this partnership, so as to promote in particular social protection for low-income workers in self-employment and the informal economy

---

<sup>43</sup> UNICE/UEAPE, CEEP and ETUC. *Work Programme of the European Social Partners 2006–2008* (Brussels, 2006).

to make social security more effective.<sup>44</sup> Many NGOs are active in this field and need to be included. They can provide a large knowledge base. Notable examples with exceptionally large membership are the AARP<sup>45</sup> and the European AGE Platform.<sup>46</sup>

260. ILO research allows for a deeper insight into the role of social dialogue in relation to age-related social security provision, specifically in national pension systems reforms.<sup>47</sup> The range of countries in which social dialogue provided a firm foundation for the building of sound national pension systems increased. Experience, notably in Canada, Finland, Denmark and Sweden during the deep recession of the 1990s clearly demonstrates that negotiated reforms have always worked better, particularly in times of crisis.

261. The appropriate and equitable treatment of women in both labour market policies and social security systems presents a major societal and economic challenge. Social dialogue should offer the most effective framework within which agreement may be reached on the means to improve the quantity and quality of female employment and promote equality of opportunity and treatment between women and men. Specific issues in this regard include those of improving provisions for parental leave and care, and the provision of universal, accessible, high-quality and affordable facilities for both childcare and care of the elderly in order to secure a better balance between work and family responsibilities.

262. The management of migration is another important area in which social dialogue is vital. Indeed, labour migration policies are likely to have broad support if they are developed with the full participation of the relevant actors representing the interests of those most directly affected – in both origin and destination countries.<sup>48</sup>

263. Social dialogue and collective bargaining are vital to creating a broad commitment to education, training and a learning culture, strengthen support for the reform of training systems and develop lifelong learning strategies.

264. Social dialogue is also instrumental in the equitable and efficient distribution of the benefits of improved productivity, a key issue for countries in demographic transition.<sup>49</sup>

265. An important issue for inclusions in collective bargaining agreements is that of occupational safety and health. Employers' and workers' organizations can bring their workplace experience to bear in the design of preventive and protective policies and programmes, and these should take into consideration the particular needs of age and ageing workers.

266. Social dialogue and collective bargaining agreements should address questions regarding working time and work organization. These may be resolved through, inter alia, negotiated flexible working arrangements within a broad range of innovative forms of work organization.

<sup>44</sup> ILO. Report VI, ILC, 2001, op. cit.

<sup>45</sup> AARP originally stood for the American Association of Retired Persons. However, in 1999, to reflect that its focus had become broader than American retirees, it officially changed its name to just AARP.

<sup>46</sup> <http://www.age-platform.eu/en>.

<sup>47</sup> Sarvati, H. and Ghellab, Y. *The political economy of pension reforms in times of global crisis: State unilateralism or social dialogue*; ILO. 2012 joint publication of Social Dialogue and Social security Departments.

<sup>48</sup> ILO. *Towards a fair deal for migrant workers in the global economy*, Report VI, ILC, 92nd Session, Geneva, 2004.

<sup>49</sup> ILO. Report V, ILC, 2008, op. cit.

267. The experience of Finland (box 3.4) demonstrates that ageing can be a win-win situation. It underlines the need for governments' commitment to a voluntarist, long-term policy based on social partnership and broad public awareness. It is noteworthy that this outcome was achieved in the context of a substantial economic restructuring in the wake of a deep recession and an exponential rise in unemployment.

268. The global financial and economic crisis, feeding a rapid increase in public deficits and debts, has added to strains, especially regarding pension systems, prompting governments to accelerate the reform process in order to restore the sustainability of those systems while at the same time not necessarily paying adequate attention to questions such as coverage and adequacy. Pressure is also being exerted by the International Monetary Fund (IMF), the World Bank, the EU and the Organisation for Economic Co-operation and Development (OECD) whose policy prescriptions are pushing governments, often in haste, to introduce significant reforms. Notably, these reforms concern pension systems, often focusing primarily on cost containment and less on mitigating their potential adverse social impact. This does not allow for effective consultation with the social partners and other stakeholders. Even in countries which have traditionally managed such issues through strong systems of social dialogue, the strains have been significant.

#### **Box 3.4**

##### **Finland: Addressing the challenge of ageing through tripartite consultation**

In 1990, Finland had the highest early retirement rate of all the Nordic countries, with an employment rate as low as 47 per cent for men aged 55–65. To reverse this trend, the Government and the social partners agreed on a five-year national strategy, launched in 1998, which aimed at changing the attitudes of all stakeholders towards the ageing population through turning it into an asset for society by maintaining their health status and working capacity, improving their work environment, promoting partial retirement through employment subsidies, and helping the older unemployed back to work. As a result a significant cultural shift towards older workers took place. The early retirement trend has been reversed and the effective retirement age increased by a year and a half, raising the employment rates of older workers by ten percentage points between 2000 and 2005.

In 2003 the Finnish Government and the social partners adopted legislation to reform private sector pensions with the objective of deterring early exit.

The reform provides a more flexible retirement age, rewarding those who remain in employment, restricting early retirement options, abolishing certain types of pre-retirement pensions, increasing the age limit for early old-age pension from 60 to 62 and introducing flexible retirement between ages 63 and 68 (previously the retirement age was 65). It substantially improved pension accrual rates for those who work beyond age 63. Employers and workers in the majority of workplaces regarded the flexible retirement option positively, particularly in the public sector and in large companies.

In the latest move to secure the future financing of earnings-related pensions, the social partners agreed to increase pension contributions in 2007 and 2008.

The strategy adopted by Finland shows the need for an ongoing, coherent and substantive effort over a long period of time to adapt the welfare system and attitudes to the challenges of demographic ageing.

Source: Sarfati H., Ghellab, Y., op. cit.

269. In Greece the financial and economic pressures to which the country is presently subject are extreme. As a result, although the mechanisms of social dialogue have been set in motion, they are with little influence on present outcomes. In Sweden and other



European countries, it is felt by some that the traditionally strong systems of dialogue have been, to a degree, bypassed in the latest round of pension reforms.

270. Some positive experience may also be noted. In France, the systems of tripartite social dialogue have largely been maintained, although the stress arising from the financial crisis has been expressed in street protests. Also, in Singapore a Tripartite Committee on Employability of Older Workers was established in May 2007. Among the Committee's recommendations, two are particularly relevant. The first is to set up a Tripartite Alliance for Fair Employment Practices, comprising the Government, trade unions and employers, with a view to promoting fair and equitable employment practices. The second calls for consideration of legislation for the re-employment of workers aged 62 and above by 2011.<sup>50</sup> In China, the advances made in social security recently, notably in health and pensions, have been subject to discussion and consultations with the social partners.

### 3.2. Policies for older workers

271. The ILO's Older Workers Recommendation, 1980 (No. 162), addresses issues related to equality of opportunity and treatment; employment protection; remuneration; preparation and access to retirement; and encourages different methods of implementing policies and laws that can lead to decent conditions of work and the employment of older workers.

272. A prolongation of working life is not appropriate for everyone. First, there are older people with ill health, or who spend their working lives in difficult working conditions, or with long contribution periods. The qualitative aspects of work and health are both important factors in determining the involvement of workers over 50 years old in the labour market.<sup>51</sup> To work longer, an individual must be in good health, be receptive to the idea of working longer and have the opportunity to do so. The working conditions of elderly employees, health and safety at work, possibilities for lifelong learning and adequate working time and work organization throughout the life cycle all play a vital role in this respect.

#### Promoting non-discriminatory practices of diversity and age management

273. Attitudes and prejudice with respect to older people are a major obstacle to opening up employment opportunities for them and often lead to direct and indirect discrimination against older workers.

274. Awareness-raising campaigns conducted by governments, the social partners and the media can help to combat negative attitudes and misconceptions about older workers. A number of countries, such as Australia, Finland, Netherlands, Norway and the United Kingdom, have carried out large-scale government-sponsored information campaigns aimed at overcoming employer reluctance to hire and retain older workers. The United Kingdom Age Positive campaign uses research and publications, the press, special events, awards and its own website to put across its message. It has identified over 120 Age Positive Champions – individuals, businesses, academic and research institutions and lobbying organizations – who serve as examples. In Australia, programmes have

<sup>50</sup> Thangavelu, S. *Country study on the promotion of decent work for older persons in the formal and informal economy – Case of Singapore* (Singapore, National University, 2008).

<sup>51</sup> Debrand, T. and Lengagne, P. *Working conditions and health of European older workers*, Institute of Research and Information in Health Economics (IRDES) (Paris, 2008). Paz, J. 2010, op. cit.

been developed to promote recognition of the value of older workers among employers.<sup>52</sup> In 2006, the Georgian Government launched a strategy to promote the employment of older persons by combating discrimination and negative stereotypes regarding professional activity of people aged over 65.<sup>53</sup>

275. Policies and adjustments at the enterprise level can also play a major role in addressing myths and overcoming stereotypes. Company-run diversity programmes represent an especially positive and forward-looking approach to overcoming age discrimination. More and more enterprises are taking a long-term view of their staffing needs and view older workers as a valuable resource within an age-diverse workforce that offers the company a range of abilities and comparative strengths, including work shadowing and mentoring. Diversity programmes place equal opportunities at the heart of both human resources management and age management. Moreover, emphasizing age diversity rather than concentrating solely on older workers' needs reduces the risk of reinforcing the myth that they are less productive. Age diversity and an all-inclusive workforce, in addition to giving employers access to a wider labour pool, may also help them to seize new market opportunities or adapt more quickly to changing market conditions.<sup>54</sup>

276. Age management is "... the various dimensions by which human resources are managed within organisations with an explicit focus on ageing and also, more generally, to the overall management of the workforce ageing via public policy or collective bargaining".<sup>55</sup> Good practice in age management has been defined as those measures that combat age barriers and/or promote age diversity.

277. Non-discriminatory practices of diversity and age management are important managerial tools and are central to increasing efficiency and productivity. At the same time, legislation to prohibit age discrimination is crucial to establishing equality of opportunity.

278. Age discrimination legislation is intended to address a number of important issues that affect older workers in the labour market and the workplace. It should ensure that age is not a factor in the hiring or dismissal of older workers. This legislation is also important to help to make sure that older workers are not denied training or promotion prospects based strictly on age related considerations. In this sense, age discrimination legislation outlines the rights and responsibilities of organizations and older workers that should guide the behaviour of all parties involved.

279. Increasingly, countries are making efforts to enact age discrimination legislation. About 30 countries<sup>56</sup> have some form of age discrimination legislation which explicitly forbids, prohibits or makes forms of direct and indirect age discrimination unlawful.<sup>57</sup>

---

<sup>52</sup> Bisom-Rapp, S. Frazer, A. and Sargeant, M. 2011. "Decent work, older workers and vulnerability in the economic recession: A comparative study of Australia, the United Kingdom and the United States", in *Employee Rights and Employment Policy Journal*, Vol. 15, No. 1, pp. 43–122.

<sup>53</sup> UNECE. 2011. Age-friendly employment: policies and practices, *Policy Brief on Ageing*, No. 9, Geneva: UNECE.

<sup>54</sup> Fortuny, M., Nesporova, A. and Popova, N. *Employment promotion policies for older workers in the EU accession countries, the Russian Federation and Ukraine*, Employment Paper 2003/50 (Geneva, ILO, 2003), pp. 62–63.

<sup>55</sup> Walker, A. *Combating Age Barriers in Employment – A European Research Report*, European Foundation, Dublin, 1997.

<sup>56</sup> Armenia, Australia, Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Guyana, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, New Zealand,

280. Within the OECD, the United States has the oldest age discrimination legislation. It covers workers aged 40 and above,<sup>58</sup> with no upper age limit. In addition to prohibiting age discrimination in employment, the legislation aims to promote employment based on ability rather than age. However, the Act exempts firms with fewer than 20 employees from its coverage. The Republic of Korea has enacted affirmative action legislation under which businesses are required to ensure that at least three per cent of their workers are aged 55 years or older. Furthermore, its Aged Employment Promotion Law identifies 77 types of jobs for which hiring priority should be given to older people.<sup>59</sup>

281. A European Council Directive (2000/78/EC), introduced in 2000, established a general framework for equal treatment in employment and covers a number of grounds of discrimination including age. The Directive requires all the Member States to introduce legislation prohibiting direct and indirect discrimination at work based on age and other grounds. It covers employment, self-employment and occupation, as well as vocational training and guidance. However, an important issue is the enforcement of this legislation. In some cases actions have been perfunctory, provisions weak and the response of the social partners only lukewarm.<sup>60</sup> The United Kingdom has sought to deal with discrimination-related problems with older workers through the Employment (Age) Regulations legislation (2006) which was incorporated into the Equality Act 2010. Norway, similarly, has sought to address discrimination in its Working Environment Act, a piece of legislation which also requires workplace adaptation for older employees. Norway's Annual Holidays Act entitles employees over 60 to an additional week's holiday annually in an attempt to offset exhaustion.<sup>61</sup> While most European countries have adopted anti-discrimination laws on the grounds of age, certain countries allow employers (in Ireland for example) or collective agreements (as in Spain) to provide for a mandatory retirement age. In addition, in some countries, employment contracts automatically terminate when an employee reaches a certain age (the laws of Finland and Luxembourg contain such provisions) and in others, employers may dismiss an employee after reaching a certain age without any other justification. Such dismissal is possible in Italy, Netherlands, Romania and Sweden. Other countries still apply a mandatory retirement age despite having adopted laws implementing the European Directive on Discrimination.

282. The African Union Policy Framework and Plan of Action on Ageing, adopted during the 38th Ordinary Session of the Assembly of Heads of State and Government of the OAU in July 2002, states that member States should recognize the fundamental rights of older persons and commit themselves to abolishing all forms of discrimination based on age. Among the actions put forward are the development and review of legislation to ensure that older people, especially women, receive equitable treatment from customary and statutory laws, including the review of legislation on property and land rights, inheritance and social security.

---

Norway, Poland, Portugal, Republic of Moldova, Romania, Russian Federation, Slovakia, Slovenia, Spain, South Africa, Saint Lucia, Sweden, United Kingdom and United States.

<sup>57</sup> Ghosheh, N. *Age discrimination and older workers: Theory and legislation in comparative context*, Conditions of Work and Employment Series No. 20 (Geneva, ILO, 2008).

<sup>58</sup> The United States Age Discrimination in Employment Act is one of the few that does define "older workers" and "age".

<sup>59</sup> UN. *World Economic and Social Survey. Development for an ageing world*, Department of Economic and Social Affairs (New York, 2007), p. 62.

<sup>60</sup> Eurofound. 2006, op. cit.

<sup>61</sup> Engelen, L. 2012, op. cit., p. 33.

283. Anti-discrimination laws tend to allow for legitimate policies of positive discrimination especially with respect to age if the means are appropriate and necessary. One example of positive age discrimination occurs in Slovakia, where older workers benefit indirectly from preferential treatment given (as a legal obligation) to those categorized as “disadvantaged” among jobseekers: anyone seeking work who is over 50 years of age is denominated as “disadvantaged”.<sup>62</sup>

284. There is interplay between gender discrimination and age discrimination, together with other types of discrimination, such as race and ethnic origin. Forms of discrimination that affect women throughout their lives may be compounded as they grow older by age-based discrimination.<sup>63</sup> Among the EU-15, almost 23 per cent of women who reported having experienced age discrimination also cited gender discrimination.

285. Similarly, there is a link between age discrimination and discrimination based on disability. Thus, it is argued, since the incidence of disability rises with age, legislation banning discrimination on the basis of disability will also affect a significant minority of older workers.

286. All in all, proactive and concerted efforts by all of the key players can go a long way towards erasing negative stereotypes and removing barriers to enhanced employment opportunities for older workers.

### Active labour market policies

287. Active labour market policies (ALMPs) comprise the provision of training, the subsidization of job creation in the private sector, job search assistance, and direct job creation.

#### (a) *Education, training and skills development*

288. The Human Resources Development Recommendation, 2004 (No. 195), urges member States to “promote access to education, training and lifelong learning for people with nationally identified special needs, such as ... older workers”. The conclusions concerning skills for improved productivity, employment growth and development<sup>64</sup> call on governments to focus on “as part of their lifelong learning agenda, providing ... appropriate active labour market measures such as training programmes targeting older workers”. It also urges the social partners to contribute through “providing coordinated packages of age-friendly employment measures, including the continuous updating of skills, in particular in new technologies”.

289. Those countries in which older workers participate to an above-average degree in formal and non-formal continuing education (Sweden, Finland, Norway, Denmark, Netherlands and United Kingdom) are among the most competitive. When there is a high integration of work and learning, when older workers are specifically targeted for involvement in life-phase-oriented job-related training programmes, and when comprehensive age management is conducted, the percentage of older persons in the workforce is visibly higher.<sup>65</sup>

---

<sup>62</sup> Engelen, L. 2012, op. cit., p. 33.

<sup>63</sup> ILO. *ABC of women workers' rights and gender equality*, second edition (Geneva, ILO, 2007), p. 146.

<sup>64</sup> ILO. Conclusions on skills for improved productivity, employment growth and development, ILC, 97th Session, Geneva, 2008.

<sup>65</sup> Pramstrahler, W. 2012. “Lifelong learning and work quality: Two approaches for coping with demographic change”, in *Sociologia del lavoro*. No. 125 (2012).

290. In Latin America, Puerto Rico, El Salvador and Mexico have developed training programmes targeting their older workforce. In Mexico, the National Institute for Older Persons (INAPAM) has developed a training programme targeting older adults who would like to be reintegrated into the labour market, and together with the Secretariat for Social Development and the Fund of Social Enterprises, has also set up a fund targeted at older people who would like to set up a viable enterprise.<sup>66</sup>

291. Rapid technological developments call for a continuous renewal and updating of skills. In the United States, the Senior Community Service Employment Program administered by the Department of Labor provides job training, including computer classes, to workers aged 55 and over whose incomes are well below the federal poverty line.<sup>67</sup> SeniorNet represents another creative approach to helping older citizens acquire computer skills. It is a non-profit organization of computer-using adults, aged 50 and over, comprising 240 learning centres throughout the United States and other countries, such as Australia and New Zealand.

292. Participation of older workers in education and training measures is among the highest in Scandinavian countries where the principle of “lifelong learning” makes up an integral part of national education and labour market policies (figure 3.11). A notable feature of education in these countries is that it follows a “life course approach” relying on the constant updating of qualifications throughout an individual’s entire working career. The basis of these high training rates is a well-developed social dialogue and the involvement of the social partners in providing both the legal framework as well as training opportunities “on-the-job”. In contrast, in many other European countries, lifelong learning policies are still in the process of evolution (such as in Austria, where an integrated national lifelong learning strategy is just being introduced). In these countries, training rates of older workers lie well below that of mid-career workers. The competitive disadvantage of older workers is clearly high, thus fostering the persistence of stereotypes concerning their qualification profile.<sup>68</sup> It is noteworthy that figure 3.11 shows much higher involvement of older women in training as compared with men in most countries.

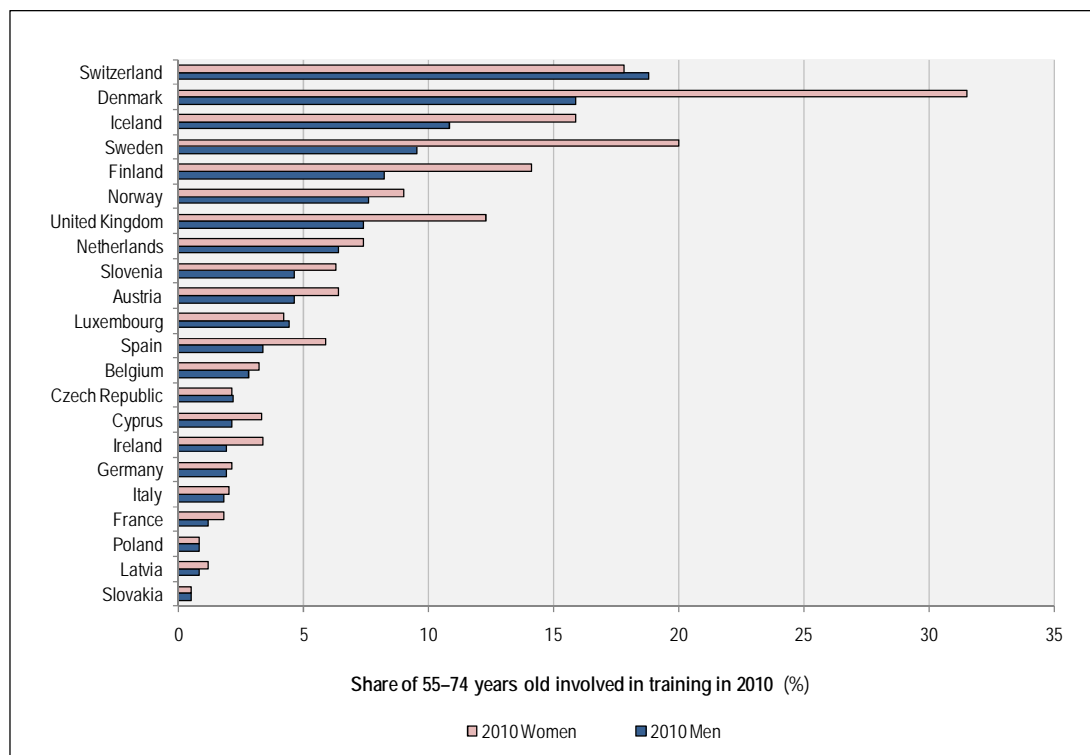
---

<sup>66</sup> Paz, J. 2010, op. cit.

<sup>67</sup> Eyster, L., Johnson, R. and Toder, E. *Current strategies to employ and retain older workers* (Washington, DC, The Urban Institute, 2008).

<sup>68</sup> Hofäcker, D. 2012. *Globalization and the Labour Market Situation of Older Workers: Exploring Trends, Challenges and Strategies for Adaptation*. Thematic Review Seminar on “Employment policies to promote active ageing”. Brussels, 11 June 2012.

Figure 3.11. Share of 55–74-year-olds involved in training (formal and non-formal) in 2010, selected countries



Note: Indicator on training (formal and non-formal) refers to formal and non-formal education and training in school/university systems, but also courses, seminars, workshops, etc. outside formal education and regardless of their topic.

Source: UNECE. 2012. *Ensuring a Society for All Ages: Promoting Quality of Life and Active Ageing*. Synthesis Report on the implementation of the Madrid International Plan of Action on Ageing in the UNECE region. Vienna, Austria, 1–20 September 2012.

293. One approach is to generalize in-work benefits in the form of individual accounts for investments in learning, which would enhance the competence and employability of low-skilled older workers. In Europe, the implementation of funding measures to support adults to engage in learning include a variety of forms of individual learning accounts, voucher systems and career breaks. Such measures constitute financial stimuli for adults to invest in the maintenance and improvement of their human resources through participation in adult learning. *Bildungskonto* in Upper Austria, *Opleidingscheques* in Belgium, *cong  individuel de formation* in France, and *WeGebAU* in Germany, are just four examples of a variety of funding arrangements available for low-qualified employees to finance their learning and employability, which also include priority for older workers.<sup>69</sup>

(b) *Incentives for employers to retain and recruit older workers*

294. Government subsidies to employers fall into two broad categories. Many countries subsidize the employment or re-employment of older workers by reducing or eliminating employers' contributions to national insurance or social security. For example, Spanish employers are being compensated for between 40 and 100 per cent of social security contributions depending on the age of the worker hired. The second category includes cases where the state directly contributes to the costs of employing older workers. This second category of subsidy breaks down into a range of different alternative forms of

<sup>69</sup> Hake, B.J. 2011. *The role of public employment services in extending working lives: sustainable employability for older workers*. Brussels, European Commission.

payment including fixed bonuses, wage subsidies and transfer of unemployment benefits, and seems to be relatively popular among EU Member States.

295. In Poland, employers have the choice between standardized reductions of social security contributions or a “one-time refund” of up to €1,075.<sup>70</sup> An illustrative example are the German integration wage subsidy vouchers through which German firms that hire a worker above the age of 50 are being granted a subsidy of up to 50 per cent of their wages; for people with disabilities this subsidy may even rise to 70 per cent. Yearly bonuses are being offered to companies employing older workers in Spain (€1,300–€1,500 per year for hiring a worker above the age of 45 for an unlimited contract), and in France (€2,000 per year for hiring a worker of the same age group).<sup>71</sup> The New Start Jobs programme in Sweden includes a provision to reduce employers’ tax contributions for a period equal to the unemployment spell of a newly hired worker. An indirect effective tax break arises from the fact that employers’ contributions to the public disability system stop at 65. This implies an indirect wage subsidy targeted at workers older than 65 and at self-employed workers older than 65. This effectively incentivizes continued employment of over-65s and continued self-employment for the same age group.<sup>72</sup>

296. In Argentina, a Labour Code reform carried out in 2000 offers rebates on social security contributions if workers hired on trial contracts are subsequently offered permanent employment. Rebates are larger if new contracts are for women head of households, workers aged 45 and over or young workers aged 24 or less. The Argentinian *Programa de Inserción Laboral* (labour market insertion programme (PIL)) provides a wage subsidy to encourage labour market insertion for those older than 45. The programme was originally aimed at those beneficiaries of unemployment insurance. The PIL provides a wage subsidy equivalent across age groups, but for those aged 45 or more it extends the benefits for an additional three months. Nevertheless, take up among those aged 50 or more is small and no evaluation of the programme is available.

297. Since the end of the 1990s, the Chinese Government, confronted with mass lay-offs and the concomitant rapid increase of urban unemployment, has adopted active labour market policies targeted at older workers (defined as women workers above 40 and men workers above 50). Social insurance subsidies are granted to enterprises that hire an older worker for a period of at least three years. The amount is calculated based on the level of pension contributions and medical and unemployment insurance paid by the employer. In addition, tax rebates up to a ceiling are granted to enterprises that hire older workers who have been unemployed for more than one year.<sup>73</sup>

(c) *Employment-friendly tax benefit systems:  
Making work pay for older workers*

298. The employment subsidy need not always go to the employer, especially if the resistance or disincentive is more on the worker’s than the employer’s side. A variety of tax benefit system measures can be used to entice older workers to stay in employment or to return to employment.

<sup>70</sup> Hofäcker. 2012, op. cit.

<sup>71</sup> Hofäcker. 2012, op. cit.

<sup>72</sup> Engelen, L. 2012, op. cit.

<sup>73</sup> ILO. 2011: *China: From an active employment policy to employment promotion law*. Employment Policy Department, Geneva, ILO.

299. There is a general lack of employment-friendly tax benefit systems in operation. Where they do exist, they include in-work top-up benefits, exemptions from unemployment insurance contributions and increased tax credits or personal allowances. Germany, Austria and Belgium are all examples of countries where older unemployed workers can receive additional benefits on top of their wages. In Germany, in-work benefits are granted to workers over the age of 50 who accept lower wages in order to avoid or escape unemployment. In the first year, they can get 50 per cent of the net wage difference and 30 per cent in the second year. The number of older workers receiving in-work benefits nearly doubled and reached 19,900 in 2010.<sup>74</sup> In the United Kingdom, under the New Deal 50 Plus programme, persons aged 50 and over who have been receiving income benefits for six months or longer are eligible to receive an in-work benefit for up to 52 weeks once they obtain work of more than 16 hours per week. The earnings top-up is higher for those with lower household incomes.<sup>75</sup>

300. Denmark provides a tax-free premium for workers who forgo drawing Voluntary Early Retirement Pay (VERP) despite being eligible, and continue to work until the age of 65. In a similar vein, Belgian workers who continue working beyond age 62 receive a daily bonus of around €2.21. Other countries have allowed older individuals who are already drawing regular or early retirement pensions to have additional income from paid employment up to certain income thresholds. Beyond motivating older people to continue working and to accumulate further income for old-age security, such schemes may also help to reduce informal employment among older workers.<sup>76</sup>

301. There is a concern that the offering of subsidies to older workers as a group may reinforce negative attitudes of employers towards hiring and retaining them. Age by itself is not a valid target. For example, older employees differ in their educational backgrounds and qualifications as well as with regards to their health conditions, and thus may not all be able to prolong their working careers. Older workers also differ with regards to their work orientation and their plans for navigating their own retirement decision. A “one-size-fits-all” approach – treating older workers as a homogenous group and applying measures to all of them in the same way – may be to the disadvantage of specific groups of older workers. Policy measures thus need to be differentiated enough to meet the requirements of different groups of older workers.<sup>77</sup> It is a particular challenge to target those facing labour market disadvantages, such as older people with disabilities, immigrants or the older unemployed. A wage subsidy that is targeted at low-income, low-skilled or long-term unemployed older workers, for example, may represent a more suitable approach. An example is the Norwegian Competence Reform that targets adults who lack formal education, older people who did not have access to education when they were young, and adult immigrants with educational qualifications that are not recognized.<sup>78</sup>

(d) *Career advice and counselling*

302. The Older Workers Recommendation, 1980 (No. 162), calls upon member States to take all appropriate measures “to ensure that guidance, training and placement services

<sup>74</sup> Engelen, L. 2012, op. cit.

<sup>75</sup> OECD. 2006, op. cit., pp. 125–126.

<sup>76</sup> Hofäcker. 2012, op. cit.

<sup>77</sup> Hofäcker. 2012, op. cit.

<sup>78</sup> The programme, introduced in the late 1990s, is an agreement between the Government and the social partners, which primarily sets out to meet growing competence demands, but also to promote increased participation by the older workforce.



provide older workers with the facilities, advice and assistance they may need to enable them to take full advantage of equality of opportunity and treatment”.

303. Enterprises and organizations that are large enough to provide career counselling and career guidance from within are much better placed to assist older workers. This is particularly useful when there are opportunities to redeploy and – as far as possible – re-equip older workers for jobs elsewhere in the firm. However, where the size of the operation precludes the possibility of career guidance and retraining from within, outside options should be seriously considered. In this regard, public employment services and private employment agencies can be enlisted. Equitable access to good employment services is essential and can affect the ability of older workers to find and keep a job.

304. Public employment services can advise older people on how to set up their own businesses. For some older workers who have the capital and the motivation not only to go on working, but to shift from wage- to self-employment, this may represent a path worth pursuing. For those entrepreneurs wishing to make the transition from the informal to the formal economy, guidance in financial management, marketing and sales can help to spell the difference between success and failure.

305. In the United States, One-Stop Career Centers and the Senior Community Service Employment Program provide job-search assistance to older workers. In Japan, the Associations of Employment Development for Senior Citizens, located across the country, assist older white-collar unemployed persons, in particular through the Career Exchange Plaza Project. The success of the programme is largely attributed to the sharing of experiences by its participants.<sup>79</sup>

306. Older women can often benefit from special career guidance and job-search assistance tailored to their specific needs. In this respect, it is interesting to note a programme in Singapore designed to encourage older women to return to work. The National Trade Union Congress (NTUC) scheme of “Women Back to Work” is to be turned into a national programme focused on more career guidance, training and counselling of women in the workforce.<sup>80</sup>

### Box 3.5

#### Employment pacts for older workers, Germany

In Germany, the Federal Ministry of Labour and Social Affairs has launched a national programme “Perspectives 50 plus – employment pacts for older workers in the regions”. In 2011 the third programme period started which will run until 2015. About 78 regional employment pacts have been set up so far. Partners include centres as well as a wide range of local stakeholders and key actors, such as companies, chambers and various associations, trade unions, municipalities, training institutions, churches and social service providers. Implemented measures include training in communication skills and job application training, internships and wage subsidies. In 2011, more than 200 000 out of 550 000 older long-term unemployed people could be activated and 70,000 of them were placed on the regular labour market. An earlier evaluation of the first phase of the programme conducted in 2007 showed that the success rested on the combination of individualized counselling and coaching, as well as on proactive and targeted outreaching of the employer. The quality of the pre-selection of candidates for vacancies was highly valued by small enterprises. Both older long-term unemployed people and employers assessed the programme positively.

Source: European Commission. 2012. EEO Review: Employment Policies to Promote Active Ageing.

<sup>79</sup> Nagawana. “Re-employment of older white-collar workers”, in *Special Topic*, Vol. 41, No. 02, Feb. 2002.

<sup>80</sup> Thangavelu. 2008, op. cit.

307. Guidance and advice play an important role when older workers need to take decisions on retirement and face options such as taking up phased or part-time retirement. For instance, it is important that they have the right advice on the effects flexible retirement will have on their net pay and pension entitlement before they retire. Recommendation No. 162 suggests implementing retirement preparation programmes with the participation of representative organizations of employers and workers.

### Adapting working time, working life and work organization

308. Working time is an important dimension of “decent” employment conditions for older workers, and working time flexibility is an important policy tool to promote “active ageing”.<sup>81</sup> There is evidence that among EU countries reduced working hours would generally help to raise employment levels among older people. Countries with greater shares of older workers in part-time employment have higher employment rates for the 55–64 age group.<sup>82</sup> Although increasing the availability of arrangements allowing for reduced working hours for older workers appears a positive step, in principle, ILO research shows that it may have unintended consequences such as inducing those who would stay in full-time work to take part-time employment, or even marginalizing and stigmatizing older workers in the workplace.<sup>83</sup> An evaluation of the Austrian old-age part-time scheme that allowed flexible retirement options with an aim to increase labour supply showed that older workers substituted part-time work for full-time work if they had a chance, and that the overall effect of promoting part-time work on the total labour supply of older workers is negative.<sup>84</sup> Furthermore, the OECD<sup>85</sup> points out that if reductions in working time are heavily subsidized, there is a risk that they might involve reductions rather than increases in the effective labour supply of older workers. Finland and Sweden have given subsidies to encourage people to work part time. However, while these initiatives may have encouraged some older workers to delay retirement, the impact on aggregate labour supply in terms of hours worked is less clear.

309. There is recognition that policies geared towards promoting the participation of the older age groups should consider flexibility in working time and work organization. However, age-specific measures are not always desirable nor effective. Older workers’ physical and mental capabilities, and their preferences and attitudes toward work, are the function of both past and present conditions. Therefore, options allowing workers to adjust their working time should be provided at all stages of employment – and not only at the end of their working lives.

310. It has been taken for granted by many that work–family responsibilities end when adult children leave the family home. However, due to economic conditions in many countries older workers may still need to address work–family concerns. This is especially true for older women who play a major role in meeting the care needs of their

---

<sup>81</sup> Age and the workforce, IDS HR Studies, No. 948 (Aug. 2011): UNECE 2011. Policy Brief on Ageing No. 9, op. cit.

<sup>82</sup> European Commission (2007). Employment in Europe Report, Brussels.

<sup>83</sup> Jolivet and Lee. 2004, op. cit.

<sup>84</sup> Graf, N. et al (2009). “Labour Supply Effects of a Subsidised Old-Age Part-Time Scheme in Austria”, IZA Discussion Paper. <http://ftp.iza.org/dp4239.pdf>.

<sup>85</sup> OECD. 2006, op. cit.

grandchildren.<sup>86</sup> In the absence of applicable family policies for older workers, such choices can impact on the wages earned in the job in the short term and pension contributions in the longer term.

311. It is of critical importance to know the extent to which working-hour constraints discourage older workers from continuing to work or to return to work, especially beyond the standard retirement age. The rise in the availability of part-time work over recent years would therefore appear to be an important factor in addressing the working-time desires of older workers who might otherwise be inactive.

312. Regarding atypical forms of working-time arrangements, certain forms are more amenable to older workers than others. Shift work, for example may not be advisable for workers over 50 as they may have greater trouble recovering and recuperating from the stress of variable working time schedules. Also, new technologies could be used to provide better working conditions.

### Ensuring a safe and healthy working environment

313. As the Older Workers Recommendation, 1980 (No. 162), points out, measures designed to enable older workers to remain at work have to be developed within the framework of a national policy to improve safety and health for all workers at all stages of working life. Many countries around the world have developed safety and health legislation and/or policies based on the principle of prevention. The proposed framework of action is increasingly being based on assessment of risks to all workers, with the implementation of a hierarchy of preventive measures starting with the elimination of risk. This is an important concept, because to become an “older worker”, one has to survive being a “younger worker”. Across Europe, for example, 18–24-year-olds are at least 50 per cent more likely to be hurt at work than older people. Young people are also more likely to suffer from an occupational illness.<sup>87</sup> The problems of occupational safety and health of younger workers are exacerbated in developing countries, where the sheer numbers of child labourers and young people in employment in hazardous sectors make them especially vulnerable.

314. On the other hand, older workers may experience a decline in some abilities, such as muscle strength, but they usually have compensatory strategies that arise from experience and training. Most studies indicate that older workers tend to have fewer accidents, but their injuries are often more severe. They may also take longer to recover. In addition, the types of injuries experienced by older and younger workers can be different. Anyone who is pushed to work harder than he or she safely can, irrespective of age, is at risk from injury. Therefore, a national policy to improve the working environment for all and promote well-designed workplaces benefits everyone. Workstations and tasks that are matched to the needs of the individual employee are the aim. In this way, different conditions for different workers may be needed to meet the needs of any employee. Ageing workers should therefore not be considered as a category apart, as protective measures that are too targeted or too accentuated could marginalize and weaken their position.

315. At the workplace level, it is important to anticipate individual and collective changes related to age, as well as changes in work techniques and organization in order

<sup>86</sup> Ghosheh Jr, N.S., Lee, S. and McCann, D. *Conditions of work and employment for older workers in industrialized countries: Understanding the issues*, Conditions of Work and Employment Series No. 15 (Geneva, ILO, 2006).

<sup>87</sup> *ibid.*

to adapt workplaces to the needs of ageing. In general, organic decline with age is more noticeable in extreme situations, especially the often unregulated or unmonitored conditions in developing countries. When considering the older person's ability to work, account must be taken of the fact that differences within the older population are greater than between older and younger groups.

316. Declines in health or cognitive, physical or sensory functioning can be minimized, prevented or overcome by simple adjustments. There is thus a need for a systematic evaluation of posts that are – or may be – occupied by older workers. Such a “risk assessment” would allow an inventory to be drawn up and priorities established for action. Adjustments should be made to workstations or work organization to make conditions as safe as possible for older workers.

317. There is also a significant gender dimension to ageing and occupational safety and health. At all stages of their working lives, women are more likely than men to work part time; to be concentrated in certain areas of employment; to be in low-status jobs; and to earn less than men. All these factors influence the well-being of women workers, especially in the later years of their employment.

318. Physical fitness in older workers also determines their ability to continue working. Employers should therefore help older workers to remain fit and healthy by providing time, resources and access to facilities, so that they can take part in healthy activities inside and outside the workplace. General health promotion would significantly reduce preventable diseases for older workers.

### Providing health care and long-term care for the elderly

319. Health services and long-term care may be financed by a variety of sources – public, international, private and contributions – and they can be supplied by various types of service providers (public, private, NGOs, etc.).

320. Both developed and developing countries are already simultaneously employing various financing mechanisms to work towards providing universal coverage to the whole population based on adequate benefit packages. In middle-income developing countries, there may be greater scope for combining social health insurance with private health insurance schemes to provide universal coverage for all, including older persons who have never been insured previously. For low-income developing countries the expansion of health-care systems also needs a combination of different private and public mechanisms. However, if financing this expansion risks crowding out other social goals, external financing would be needed for the formation of an ultimately self-sustaining health-care system.

321. Worldwide experience and evidence show that there is no single right model for providing universal access to social health protection and long-term care protection. Countries use various means of resource generation, risk pooling, health-care delivery and financing. Experience has also revealed that social protection evolves over years or even decades and is contingent upon historical and economic developments, social and cultural values, institutional settings, political commitment and leadership within countries. In addition, most national health financing systems are based on multiple options that cover disjointed or overlapping subgroups of the population, while others remain uncovered.

322. Of particular relevance in the context of demographic change is the guidance provided by ILO Recommendation No. 202, which sets out that all residents and children should have access to a nationally defined set of goods and services,

constituting essential health care, which meets the criteria of availability, accessibility, acceptability and quality. Such a basic social security guarantee should ensure that persons in need of health care should not face hardship and an increased risk of poverty due to the financial consequences of accessing health care. This is not only of particular importance for addressing the health needs of older people, but also for promoting health for people at all ages and containing the effects of demographic change on the health of the population and health-care systems.

323. The ILO<sup>88</sup> suggests coordinating all financing mechanisms within a country to increase the volume of resources and risk pools available for universal health care. However, this increase should not be consumed by an equal increase in transaction and administrative costs.

324. A pragmatic strategy to rationalize the use of various health financing mechanisms with a view to achieving universal coverage and equal access should be developed in three stages: (i) by first taking stock of all existing financing mechanisms in a given country; (ii) by subsequently assessing the remaining coverage and access deficits; and finally (iii) by developing a coverage plan that fills gaps in an efficient and effective way.

325. The government plays a pivotal role as facilitator and promoter and defines the operational space for each subsystem. This entails developing an inclusive legal framework for the country and ensuring adequate funding and comprehensive benefits for the whole population. The framework should also regulate voluntary private health insurance, including community-based schemes, and consider regulations to ascertain good governance and effective protection. This framework establishes a rights-based approach to social health protection, which takes into account the needs and capacity to pay, thereby realizing the objective of including the population not covered by social health protection.

326. When developing the coverage plan, all options of financing mechanisms – including all forms of compulsory and voluntary schemes, for-profit and non-profit schemes, public and private schemes ranging from national health services to community-based schemes – should be considered if they contribute towards achieving universal coverage and equal access to essential services for the population as a whole.

327. The coverage plan should be accompanied by, or include, an overall national health budget, making it possible to establish and project – on the basis of a national health account – the total resources such as taxes, contributions and premiums available to finance health care. It should also estimate the expenditure of the different subsystems.

328. While it is obvious that the elderly are consuming more health care per capita than people in younger age groups, policies that increase the relative share of health financing of their income should be avoided. In their active years, the elderly have subsidized the health care for previous older generations and they should benefit from the same arrangements when they get old. Health-care costs should not become an undue burden in old age and thus undermine the degree of income security that is provided by national pension schemes.

## Comprehensive approaches

329. Successful countries have adopted a comprehensive approach to securing increased and sustained participation among older workers in the labour force. Ideally, taking a

<sup>88</sup> ILO. *Social health protection: An ILO strategy towards universal access to health care*, Social Security Policy Briefings, Paper No. 1 (Geneva, 2008).

long-term approach, strategies to ensure decent employment opportunities for older workers should include workers at the various stages of their working careers as opposed to aiming measures at specific target age groups. Some important aspects of such approaches can be drawn out from countries that have comprehensive programmes in place (see boxes 3.6 and 3.7). In this respect, in 2006 the Canadian Government introduced the Targeted Initiative for Older Workers (TIOW) which has continued to provide employment and income assistance to unemployed older workers throughout the crisis. TIOW is a federal–provincial/territorial cost-shared employment programme that offers a range of employment activities for unemployed older workers in vulnerable communities to help them to reintegrate into employment.<sup>89</sup>

### Box 3.6

#### Spain's policies targeting older workers

1. **Promoting healthy and secure working conditions.** The intention is to evaluate specific risks for older workers, and reinforce training and the provision of information on healthier labour conditions.
2. **Enhancing internal flexibility within companies, especially for older workers.** Some 25.9 per cent of older workers would not withdraw from the labour market if they could reduce their working hours. The role of social dialogue is essential to devise schemes addressing the capacities and needs of older workers.
3. **Re-adapting Public Employment Services to the demands of older unemployed workers** to improve their employability and building better links between employment, social services and training schemes.
4. **Fostering the transfer of experience on self-employment between older and younger workers and entrepreneurs.** Improving monetary incentives to become self-employed and stimulating the transfer of experience to young entrepreneurs has also been taken into account within the strategy.
5. **Combating age discrimination within companies.** The strategy calls for corporate social responsiveness to the positive values associated with keeping older workers in the labour market.

Source: Engelen, L. (2012): op. cit.

330. Social dialogue would appear to be a crucial element in putting active ageing on the agenda. In this context, bringing decision-making processes closer to the workers themselves has been identified in the Netherlands or in Singapore (box 3.7) for example, as an important way forward.

### Box 3.7

#### Population ageing and productivity in Singapore

In 2007, the Government and the social partners adopted four objectives: expand employment opportunities for older workers; enhance the cost competitiveness of older workers; raise the skills of older workers; and shape positive perceptions towards older workers.

**Legislative measures:** To urge companies to adopt re-employment practices, the work group issued tripartite guidelines on the re-employment of older employees in March 2010. The guidelines tell how to plan and prepare employees for re-employment, how to draft re-employment contracts and to assist eligible employees whose employers are not able to re-employ them.

<sup>89</sup> See [http://www.hrsdc.gc.ca/eng/employment/employment\\_measures/older\\_workers/index.shtml](http://www.hrsdc.gc.ca/eng/employment/employment_measures/older_workers/index.shtml) for details and the ILO/OECD Policy Brief at <http://www.oecd.org/els/48723921.pdf>.

**Measures to support employers:** Financial grants to help companies put in place re-employment policies and processes prior to the enactment of legislation in 2012; employment assistance payments are to be offered to eligible employees as a last resort when employers are unable to re-employ them; training programmes for companies to help them to make adjustments to their HR policies for re-employment.

**Measures to enhance the employability of older workers:** Subsidize skills upgrading and work training or retraining programmes to make them accessible and affordable to workers; augment the capacity and quality of the continuing education and training infrastructure with the launching of the Continuing Education and Training Masterplan in 2008; encourage non-working women back into the workforce through the setting up of a tripartite workgroup on enhancing employment choices for women in 2007; encourage those over 55 to stay in employment by providing a higher workfare income supplement payout to low wage workers above the age of 55.

Source: Asian Productivity Organisation. 2011: *Population Ageing and Productivity in Asian Countries*. Tokyo.

331. The components of a comprehensive approach include:

- a focus on healthy, secure working conditions;
- adapting working time, working life and work organization to enable older workers to continue working while at the same time putting in place support for employers in their efforts to do so;
- improving responsiveness of public employment services to the demands of older workers;
- identifying ways to improve workers' employability via lifelong learning and career development initiatives; and
- combating prejudice and age discrimination, and improving attitudes towards older people in general.

332. As more and more enterprises recognize older workers' abilities and comparative strengths, while at the same time facing the challenge of maintaining a productive workforce as the average age rises, companies have also been adopting comprehensive approaches to address the challenge and grasp the opportunities of their age-diverse workforces (box 3.8).

### Box 3.8

#### Company good practice: Lanxess

In Germany, Lanxess has established a five-pillar programme consisting of:

- (a) **An additional savings programme** providing incentives for employees to save, including the possibility of converting part of bonus payments and unused vacation into savings. This can be used for several purposes, including flexible retirement, part-time working, sabbaticals, etc.
- (b) **A programme of continuous training** available to all employees, regardless of age. The company plans its vocational training according to detailed demographic analysis unit by unit. They see training as being the mutual responsibility of employee and employer.
- (c) **A review of working conditions.** For example, Lanxess is rethinking the shift system to make it easier for the older workers to continue on shift work.
- (d) **Health management.** This includes such issues as wellness, ensuring a healthy culture and a change in self-awareness.

- (e) **Work–life balance.** In addition to childcare, for which the company supports its own kindergarten in Germany, it also makes eldercare an equally important priority. A company-wide programme allows employees to reduce their hours on advantageous financial terms to care for elderly parents. This programme makes special loans available to employees to pay for eldercare should they choose to stay in their job.

Source: Beard, J.R. , Biggs, S., Bloom, D.E., Fried, L.P., Hogan, P., Kalache, A. and Olshansky, S. Jay (eds.), *Global Population Ageing: Peril or Promise*, Geneva, World Economic Forum, 2011.



## Chapter 4

---

### The way forward: An integrated decent work framework for the demographic challenge

333. The demographic transition is a major achievement of social and health policies. Globally, the rate of population growth is slowing, but the projected increase of more than 2 billion people in the next four decades remains a major challenge. The number of people aged 60 and over is growing faster than any other age group and will nearly triple between now and 2050.

334. Globally by 2030, there will be more people over 60 years of age than children under 10, and 73 per cent of the world's older population will be living in developing countries. Only one in five older people worldwide currently accesses even a basic pension, and the financial sustainability and demographic balance of existing systems are already challenged.

335. This chapter recapitulates the core challenges posed by the demographic transition and policy options to cope with change. It argues that the promotion of full and productive employment for all persons of working age, together with the extension of financially sustainable social protection to all population groups, are key to successfully manage the labour market impact of the rapid demographic changes that are taking place in the world. These are the premises for an integrated decent work framework that should span the life cycle and promote inter-generational solidarity.

#### 4.1. Core challenges and policy options

336. Population growth, youth bulges, ageing, migration and urbanization are the global trends characterizing the new demographic context in the twenty-first century, as underlined in the June 2012 report of the UN System Task Team, *Realising the future we want for all*.<sup>1</sup>

337. Societies in demographic transition face two main challenges. First, they have to generate productive employment and decent work in order to mitigate the effects of demographic transition on income levels. Lessons from emerging and high-income countries show the importance of utilizing the period when the share of the working-age population is high in the total population and the dependency burden is low. In general, this window of opportunity is stable for about four decades, allowing the introduction of social security systems without the financial pressure exercised by demographic ageing. Second, societies have to redistribute an adequate proportion of national income from

---

<sup>1</sup> UN System Task Team 2012, *Realising the future we want for all: Report to the Secretary-General*. This is the first report from the UN system on the post-2015 development agenda. [http://www.un.org/millenniumgoals/pdf/Post\\_2015\\_UNTTreport.pdf](http://www.un.org/millenniumgoals/pdf/Post_2015_UNTTreport.pdf).

the active to the inactive or less active groups in the population to enable the recipients to lead a decent life. Putting in place comprehensive social security systems, including social protection floors for all, in parallel with creating work and livelihood opportunities, would go a long way to ensure access to income for all ages.

338. The discrimination and exclusion that older people may face must be recognized and tackled. Even in countries with younger populations, the demographic impacts of migration, urbanization and HIV/AIDS are transforming the situations of older people, and are being felt in family structures, health systems, food supply and the disaster vulnerability profiles of many countries.<sup>2</sup> Maintaining economic per capita growth and well-being in developed countries requires measures to increase the number of people in the labour force. Productivity gains are also essential, but alone will not be enough to cater for a growing number of dependants.

339. Current national and international development frameworks too often do not take a life-cycle approach. Investment in human development – education, training, lifelong learning, health, occupational safety and health – throughout life is essential. Ensuring that people of all working ages have access to decent work and secure access to livelihood assets will enable countries to take advantage of their demographic dividends, whether a youth bulge or an ageing dividend.

340. In addition, comprehensive social security systems that ensure at least basic income security across the life cycle for all, as understood in the social protection floors Recommendation, are a key element of the virtuous development cycle described in Chapter 3. In the absence of transfer incomes, many children have to start working at an early age – and older workers have to continue working late in life – even if that is detrimental to the health of both these population groups. It is not surprising that their productivity may be considered by some parties to be relatively low. Hence, extending social security to provide at least a floor of protection to all is a key policy challenge. Not only simulations but also a growing body of actual evidence show that even poorer developing countries can afford basic social security schemes with broad coverage. Well-designed and managed social security systems invest in people over their entire life cycle to enable them to lead a meaningful and productive life.

341. Tackling the above challenges requires an integrated approach that promotes decent work based on the following principles.

- (a) It is imperative that employment and social protection interventions must be linked and complementary so as to reinforce each other; this holistic approach becomes more obvious in the context of demographic change and in the context of the economic and financial crisis.
- (b) A long-term life-cycle and inter-generational approach is needed. Focusing on particular groups – youth, women and older workers for example – and prioritizing indicators accordingly does not respond to demographic realities. A life-cycle approach is required. Policies should not be built around a growing list of “vulnerable groups”, but instead be sensitive and responsive to the way that factors such as age, gender and where people live affect equality, access to income and social protection, and the enjoyment of labour rights across the life course. While overarching goals should not be age-specific, monitoring and evaluation indicators must be able to measure how these broader goals are achieved for people at

---

<sup>2</sup> HelpAge International 2012. *Building a future for all ages: Creating an age-inclusive post-2015 development agenda*. Discussion Paper, Oct. 2012.

different stages of their life, including through disaggregation of information by age and sex.

- (c) Demographic challenges vary between countries, which is why countries should develop tailored responses to different demographic profiles. Policy interventions require a mix of policies and measures and this policy mix needs to be considered in the national and local contexts.
- (d) Finding innovative and context-specific solutions requires a solid and agreed information basis and can entail difficult choices of alternative policy options. This is only possible through informed social dialogue.

## 4.2. Elements of an integrated framework for maintaining high levels of employment and social protection throughout the crisis and beyond

342. In both developed and developing countries, policies tackling the challenges of the demographic transition should seek to create productive employment and promote decent work. Macroeconomic and employment policies have to play a key role in this area. Furthermore, measures are needed to create the workplace conditions that enable people of all ages to become increasingly economically active, and to be able and willing to maintain their activity or expand their productivity, so that a decent standard of living can be shared with those who cannot or should not be forced to work.

343. Employment strengthens the prospects for growth and social protection and vice versa. Decent employment generation increases the income of families and economic units, boosting production and the tax basis for financing additional social protection, labour market policies and further development policies. In the current context of crisis, these linkages become even more important. Demand-side macroeconomic policies were successful in stabilizing employment levels and mitigating the increase in unemployment and poverty in the first two years after the onset of the global economic and financial crisis. However, today the debt crisis and forecasts of a prolonged economic slowdown have led to austerity measures being implemented in many countries. While there is broad agreement that debt has to be managed in the long run, the risk of immediate and drastic cuts may result in the successful synergies being lost, with further employment losses and additional pressures for the financing of social protection. There is concern that the crisis conditions that prevail at the moment should not be used to enforce reforms with long-term repercussions that challenge the original intent of national social protection policies built up over long periods of time.

344. Therefore, there is a great risk that the current economic and financial crisis might compromise or stall policies that help to cope with demographic transition. To mitigate the employment and social impact of the financial and economic crisis, the ILO has identified a number of short- and medium-term policy measures to be considered, including those concerning the macro policy mix to promote employment and social protection.<sup>3</sup>

---

<sup>3</sup> ILO. *Recovering from the crisis: A Global Jobs Pact*, ILC, 98th Session, Geneva, 2009; *Employment policies for social justice and a fair globalization*, Report VI, ILC, 99th Session, Geneva, 2010; *Social security for social justice and a fair globalization*, Report VI, ILC, 100th Session, Geneva, 2011.

## Pro-employment demand-side policies

345. Adequate demand-side policies are required to generate jobs in sufficient numbers as the collapse of aggregate demand in the global economic and financial crisis remains the major obstacle to labour market recovery. A pro-employment macroeconomic framework that promotes investment in infrastructures and in human capital, sustainable enterprises and a fair distribution of income can effectively support the creation of decent job opportunities, as stated in the conclusions concerning the recurrent discussion on employment at the 99th Session of the ILC in 2010.

346. Economic diversification and investment in infrastructure and in human capital are needed not only to generate more opportunities for the young people of today, but the dividends of such investments are essential for creating the necessary productive conditions to properly deal with society's inexorable ageing.

347. The identification of growth sectors is particularly important. The "care" sector has high potential to generate new employment opportunities while developing essential services for dealing with ageing populations.

348. Social security has to be viewed as an investment in human capital rather than a cost. Social security systems invest in people over their entire life cycle to enable them to lead meaningful and productive lives. Individual benefits schemes need to guarantee – in all countries, including developing countries – at least a minimum level of income security to all and allow workers to retire when they reach a certain age. This prevents old-age poverty and places the support of the elderly on a solidarity basis rather than leaving individual families with an unequal burden of maintaining the older generation.

349. Public expenditure on employment programmes and guarantee schemes for temporary employment, emergency public works programmes and other direct job creation schemes which are well targeted and include the informal economy, are important policy measures to consider. Increasing investment in infrastructure, research and development, and public services are similarly important tools for creating jobs and stimulating sustained economic activity.

## Creating decent jobs and extending social protection in countries with high fertility and rapidly growing populations

350. In countries with young populations, and an increasing share of working-age adults, a demographic dividend can arise only if they are able to create productive jobs for the increasingly larger working-age population. If a large share of the workforce consists of low-skilled workers, employed in low-quality jobs in the informal economy, earning very low wages, or if a large part of the population is unemployed, discouraged or excluded from the labour market, these people will contribute very little to economic growth. In order to benefit from the opportunities created by the demographic transition and to attain a permanently higher economic growth rate, the creation of full and productive employment of all working-age persons will be of crucial importance.

351. Gender discrimination is a violation of human rights that entails a waste of human talents, with detrimental effects on productivity and economic growth. The growth opportunities wasted by the underutilization of women will not easily be recaptured. Creating more and better work opportunities for women in this context will thus be key factors when addressing the demographic transition.

352. Ensuring that there is sufficient productive employment for young people is another key policy area. The prompt implementation of the interventions spelled out in the call for action adopted by the 101st Session of the ILC in 2012 is crucial.

353. Another key policy area is to support a transition from informality to formality. The resolution and conclusions concerning decent work and the informal economy adopted by the ILC in 2002 – as well as the subsequent discussions on policy development and good practices cutting across several policy areas,<sup>4</sup> including discussions on social security at the ILCs of 2011 and 2012 – provide a menu for action that can be adapted to specific conditions.

354. Social insurance schemes, often built on the principle of earned entitlements, should be complemented by a component that is built on societal solidarity. This would avoid undue loss of entitlements if people undergo occupational training or other periods of skills retooling, or experimentation with self-employment to ensure the flexibility that global labour markets are demanding. Special social insurance crediting approaches should be envisaged.

### Managing labour and skill shortages and ensuring the financial sustainability of social security systems in ageing countries

355. In ageing societies with shrinking working-age populations, countries have to rely either on productivity growth to overcome labour shortages, or to promote the labour market entry of population groups that are not yet fully active.

- (a) **Women's labour market participation** can be a vital source of relief for labour shortages as a result of demographic transitions – as long as the jobs they are engaged in are decent. Action must be taken to improve the situation of women in the world of work. The reconciliation of professional, private and family life has an essential role to play in increasing female participation, and promoting gender equality as well as being a vital factor in work quality. Provisions for social insurance schemes must address their specific circumstances, namely when they are engaged in temporary employment and away from the labour market for childcare purposes.
- (b) Tapping the talents of **people with disabilities** (many of whom are of advanced age) and increasing their participation is a key factor in increasing overall activity. In this context, policies and programmes targeting people with disabilities, and in particular a supportive legislative and social policy framework, are of utmost importance. The ILO code of practice on managing disability at the workplace provides guidance to employers on ways to adopt a positive strategy in managing disability-related issues in the workplace.
- (c) Migration can be an option to compensate for the reduction in working-age populations in ageing societies. Nevertheless, migration also poses serious challenges. Many migrant workers, especially low-skilled workers, experience serious abuse and exploitation. Women, increasingly migrating on their own and now accounting for almost half of all international migrants, face specific protection problems. A rights-based approach to labour migration which takes account of national labour market needs, as presented in the ILO Multilateral

---

<sup>4</sup> ILO. *The informal economy: Enabling transition to formalization*, Tripartite International Symposium on the Informal Economy, Geneva, 2007.

Framework on Labour Migration, can be an effective tool to counteract domestic labour market shortages in fast-ageing countries.

- (d) In many countries, extending working lives and increasing the employment rates of older people are high on the political agenda. However, adequate complementary measures must be put in place to promote productive employment and decent work among the elderly willing to remain active.
- (e) Societies have to redefine rules pertaining to the time when people withdraw from the labour market to retire. These rules should take into account proportions between the average length of time spent in retirement and the period spent in the labour market by different population cohorts and different occupational groups, as well as the different health status and life expectancies of these groups.
- (f) Providing minimum benefit guarantees in countries where pension or health funds may no longer be adequately funded is essential to ensure workers are adequately protected and in considering how to better protect workers' savings in the design of future schemes. Similarly, providing adequate coverage for temporary and non-regular workers is an important policy measure.
- (g) Investing in employability within a lifelong learning framework. Education, training and lifelong learning foster a virtuous cycle of higher productivity, increased employment of better quality, income growth and development. However, in most countries older people have lower prior levels of education and engage in less training when compared to their younger counterparts, and older women are more disadvantaged than older men. An adequate response to the low levels of education and training of older workers should not focus only on participation among this age group. The experience of workers at younger ages will have a key impact on their labour market decisions and outcomes when older. The concept of lifelong learning is particularly relevant. Public and private employment services that are gender-sensitive and adequately designed and targeted to older age groups can be of great assistance.
- (h) Aiming at a balance between the objective of affordable social security schemes and adequate benefit levels: reforms with a long-term impact should be avoided when a cyclical downturn occurs such as at present. Instead, efforts should be made to review the objectives of the comprehensive social security system, including both non-contributory and contributory elements, before a crisis occurs and the views of all parties can be duly taken into consideration for national planning purposes.

### Policies for older workers

356. The components of a comprehensive approach for older workers include:
- a focus on healthy, secure working conditions;
  - adapting working time, working life and work organization to enable older workers to continue working while at the same time putting in place support for employers in their efforts to do so;
  - improving the responsiveness of public employment services to the demands of older workers;
  - fostering employability via lifelong learning and career development initiatives; and

- combating prejudice and age discrimination and improving attitudes towards older people in general.

#### 4.3. Possible ILO follow-up action within an integrated decent work framework

357. Each country has to adopt its own policy mix that strikes a fair balance between the interests of society as a whole and specific population groups. The resulting national policies and strategies should take as a guiding principle the Declaration on Social Justice for a Fair Globalization, adopted at the 97th Session of the Conference in 2008. The recognition of two key principles which define the Decent Work Agenda is at the heart of the 2008 Declaration: the universality of the ILO's objectives; and the recognition of the indivisibility of these objectives, which the Declaration describes as "inseparable, interrelated and mutually supportive", and the fact that failure to promote any one of these objectives hinders progress towards achieving the others.

358. The Office might provide support in the following ways.

- (a) Assisting Members to improve their data and information bases on labour market developments and the performance of national social protection systems. Such information systems support the evidence-based development and monitoring of policies.
- (b) Systematically collecting labour market information disaggregated by age.
- (c) Undertaking additional research and analysis on demographic transition, its impact and possible policy responses.
- (d) Mainstreaming the issues arising from the demographic transition into all its current programmes and frameworks across the Decent Work Agenda and within a coherent framework as called for by the 2008 Social Justice Declaration.
- (e) Deepening policy research including evidence-based assessment of the linkages between employment and social protection at micro and macro levels.
- (f) Increasing the number of ratifications of ILO Conventions that are directly relevant to the formulation of national policies on demographic changes, as discussed in Chapter 3.
- (g) Providing technical assistance for developing national action plans on ageing and older workers based on existing ILO instruments. Such action plans should be developed on the basis of tripartite consultations. National action plans could be reviewed on a voluntary basis in the form of peer reviews organized by the Office.
- (h) Ensuring that the conclusions of the general discussion are duly accounted for by the UN System Task Team on the post-2015 development agenda so that the new goals reflect the ILO's rights-based approach. Population dynamics issues are of importance to the employment and social protection agenda in the context of demographic change. These have been broadly defined to focus on four mega trends, namely population growth (fertility considerations), ageing, urbanization and migration.

- (i) Following up, as part of the life-cycle approach, the call for action for youth employment in line with the strategy for 2012–17 endorsed by the Governing Body in November 2012.<sup>5</sup>
- (j) Extending technical assistance to establish income security and social health protection as well as ALMPs for older persons in ILO member States on the basis of the Social Protection Floors Recommendation, 2012 (No. 202), and other international Conventions such as the Social Security (Minimum Standards) Convention, 1952 (No. 102), and the Invalidity, Old-Age and Survivors' Benefits Convention, 1967 (No. 128).
- (k) Studying the long-term social effects of the crisis on social security schemes, namely the likely immediate and delayed heavy social consequences as a result of the austerity measures in the EU area and how the modification of pension rights affects all persons.<sup>6</sup> Six countries are envisaged, including Cyprus, Greece, Ireland, Italy, Portugal and Spain.
- (l) Launching an initiative to increase the number of ratifications of the relevant Conventions and increasing awareness and building capacities on the Older Workers Recommendation, 1980 (No. 162).

---

<sup>5</sup> GB.316/INS/5/2.

<sup>6</sup> GB decision, 316th Session (November 2012), on the Office strategy up to 2019 for building social protection floors and comprehensive social security systems.



## Chapter 5

---

### Suggested points for discussion

359. The Conference may wish to discuss the following points:

1. What are the key challenges and the main social and economic implications of the demographic transition, for developed and developing countries in different regions?
2. What combination of social, labour market and economic policies can ensure high levels of employment, income security and gender equity over the life cycle?
3. In the light of the challenges identified under point 1, what policies should be put in place:
  - (a) to fight discrimination based on age;
  - (b) in the areas of new technologies, preventive health and safety and life-long learning;
  - (c) to provide adequate workplaces, working conditions, working time and work organization; and
  - (d) to maintain high levels of productivity growth with ageing and shrinking workforces?
4. How could the care economy be promoted and sustained?
5. How can governments, employers' and workers' organizations and strengthened tripartism best contribute to the development and implementation of timely and appropriate policy responses?
6. How can the Office support constituents' efforts in developing policies and action plans and contribute to the development of international policies?



# Appendix

---

## ILO instruments concerning demographic change

### 1. Conventions

Convention No.	Title	Number of ratifications
<b>Social security</b>		
Convention No. 102	Social Security (Minimum Standards) Convention, 1952 (Parts II, III, IV, V, VI, IX, X)	44
Convention No. 121	Employment Injury Benefits Convention, 1964 [Schedule I amended in 1980]	24
Convention No. 130	Medical Care and Sickness Benefits Convention, 1969	15
Convention No. 168	Employment Promotion and Protection against Unemployment Convention, 1988	7
<b>Social security for migrant workers</b>		
Convention No. 118	Equality of Treatment (Social Security) Convention, 1962	37
Convention No. 157	Maintenance of Social Security Rights Convention, 1982	4
<b>Equality of opportunity and treatment</b>		
Convention No. 111	Discrimination (Employment and Occupation) Convention, 1958	168
Convention No. 156	Workers with Family Responsibilities Convention, 1981	40
<b>Employment</b>		
Convention No. 122	Employment Policy Convention, 1964	98
Convention No. 159	Vocational Rehabilitation and Employment (Disabled Persons) Convention, 1983	80
Convention No. 181	Private Employment Agencies Convention, 1997	21
<b>Social policy</b>		
Convention No. 117	Social Policy (Basic Aims and Standards) Convention, 1962	32
<b>Migrant workers</b>		
Convention No. 97	Migration for Employment Convention (Revised), 1949	48
Convention No. 143	Migrant Workers (Supplementary Provisions) Convention, 1975	23

## 2. Recommendations

Recommendation No.	Title
<b>Social security</b>	
Recommendation No. 67	Income Security Recommendation, 1944
Recommendation No. 69	Medical Care Recommendation, 1944
Recommendation No. 121	Employment Injury Benefits Recommendation, 1964
Recommendation No. 131	Invalidity, Old-Age and Survivors' Benefits Recommendation, 1967
Recommendation No. 134	Medical Care and Sickness Benefits Recommendation, 1969
Recommendation No. 202	Social Protection Floors Recommendation, 2012
Recommendation No. 167	Maintenance of Social Security Rights Recommendation, 1983
<b>Older workers</b>	
Recommendation No. 162	Older Workers Recommendation, 1980
<b>Equality of opportunity and treatment</b>	
Recommendation No. 165	Workers with Family Responsibilities Recommendation, 1981
<b>Employment</b>	
Recommendation No. 166	Termination of Employment Recommendation, 1982
Recommendation No. 169	Employment Policy (Supplementary Provisions) Recommendation, 1984
Recommendation No. 176	Employment Promotion and Protection against Unemployment Recommendation, 1988
Recommendation No. 188	Private Employment Agencies Recommendation, 1997
Recommendation No. 195	Human Resources Development Recommendation, 2004
Recommendation No. 198	Employment Relationship Recommendation, 2006
<b>Migrant workers</b>	
Recommendation No. 86	Migration for Employment Recommendation (Revised), 1949
Recommendation No. 151	Migrant Workers Recommendation, 1975