Macroeconomic Implications of Population Aging: Lessons learnt and good practice

International Labour Organization

G20 Framework Working Group
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Outline

A. Longer working lives
B. Long-term care (LTC)
C. Pension reforms

A1. Supporting longer working lives

A comprehensive approach

- Incentives for employers to retain and recruit older workers
- Fostering employability via lifelong learning and adult training
- Awareness raising campaigns to combat prejudice and age discrimination
- Improve the responsiveness of employment services to the demands of older workers
- Adapting working time and work organization (eg mixed-age teams or the use of technologies)
- Entrepreneurship programmes

A2. Keeping in mind that …

- **Age by itself is not a valid target** – policy measures and incentives should focus on the most vulnerable older workers

- **Incentives may have crowding out effects** - there is a need to ensure opportunities for quality jobs across <u>all</u> age and population groups

- **There are likely to be fiscal costs** – Participation of older workers in adult training is low; lifelong learning systems need to be put in place

B1. The case for long-term care services

- A growing number of people will need labour-intensive personal care at the end of their lives, but private insurance markets are badly undersubscribed and plagued by adverse selection and individual optimization failures (Black and Rothstein, 2019)
- Expanding quality long term care (LTC) to meet increasing demand might create 50.8 million jobs in the care sectors by 2030 and further 13.9 million indirect (ILO estimates for a sample of 42 countries)
- Expanding LTC services and health care offers a virtuous circle of multiple benefits:
  - Increasing women's labour force participation
  - Supporting economic growth
  - Reducing inequalities in the distribution of unpaid care work
  - Minimizing the intergenerational transfer of poverty
  - Increasing social inclusion (LTC is a major expense)

B2. Developing the formal workforce is crucial to delivering high quality care

Care workers are mostly women

High rate of part-time work

One in four is a nurse…

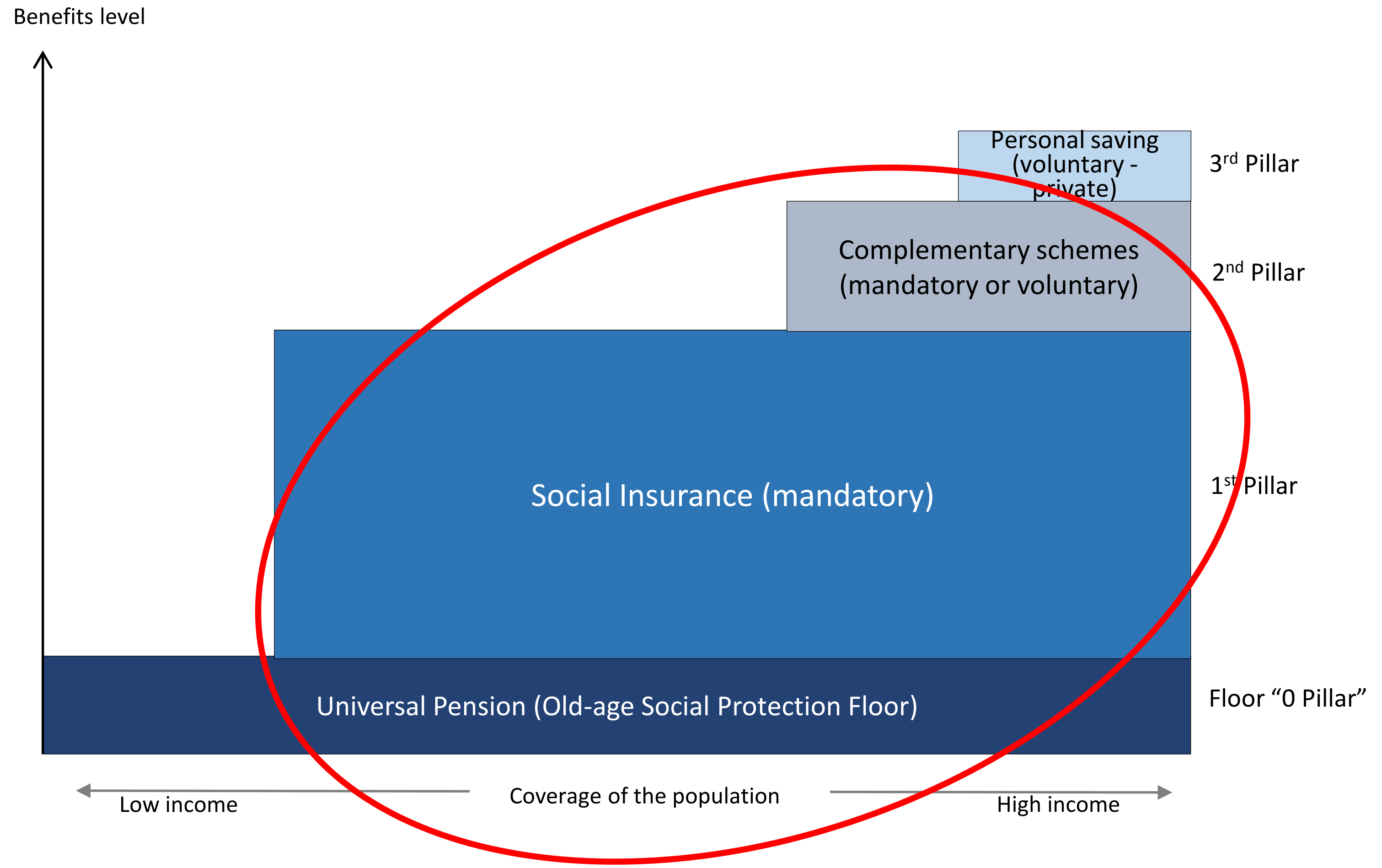
Three in four are lower-skilled personal care workers

Migrant workers are important in many countries

Low pay and tough working conditions mean that in many countries, recruitment and retention of staff is a challenge

Promoting decent jobs in the care economy will require a reshaping of social protection, care, labour and migration policies.

C1. The ILO Multi-pillar Pension Model



C2. Reforming or rethinking pensions?

232 measures were announced by governments to rationalize pension schemes over the 2010-2018 period

Type of announced measures	No. of cases
• **Increasing retirement age (81 cases);** Elimination of early retirement; Increasing eligibility period; Introducing or increasing incentives for late retirement; Introducing or increasing penalties on early retirement; Tightening eligibility criteria	120
• Freezing pension indexation; Modifying calculation formula; Rationalization and narrow of schemes or benefits; **Reducing benefits**; Reducing replacement rate; Reforming indexation method	39
• Increasing contribution ceiling**; Increasing contribution rates (29 cases)**	36
• Contracting coverage; Revoking pensions; **Privatization or introduction of individual accounts**	19
• Eliminating or decreasing subsidies on benefits; Introducing or increasing taxes on benefits; introducing voluntary cash-out option; Merging of several programmes; Partial or total closure of a programme; Reducing or eliminating subsidized interest rate on savings; Reducing subsidies on contributions	18
Total number of contraction measures announced	232

Source: ILO Social Protection Monitor, January 2010 – December 2018

C3. Pension privatization in the past…

30 countries privatized their pension systems between 1981 and 2014

- **14 countries in Latin America**

  Chile (first to privatize in 1981), Peru (1993), **Argentina** and Colombia (1994), Uruguay (1996), Bolivia, **Mexico** and Venezuela (1997), El Salvador (1998), Nicaragua (2000), Costa Rica and Ecuador (2001), Dominican Republic (2003) and Panama (2008).

- **14 countries in Eastern Europe and former Soviet Union**

  Hungary and Kazakhstan (1998), Croatia and Poland (1999), Latvia (2001), Bulgaria, Estonia and the **Russian Federation** (2002), Lithuania and Romania (2004), Slovakia (2005), Macedonia (2006), Czech Republic (2013) and Armenia (2014).

- **2 in Africa**

  Nigeria (2004) and Ghana (2010)

C4. … and its reversal

As of 2018, 18 countries have reversed pension privatization

Terminating Individual Accounts	Downsizing Individual Accounts
■ **Venezuela, Bolivarian Republic of** (2000), Ecuador (2002) and Nicaragua (2005). ■ **Argentina**, 2008 (government ends individual accounts and transfers funds to Pay-As-You-Go or PAYG system) ■ **Hungary**, 2010 (government transfers individual accounts to PAYG system, merging with state budget) ■ **Bolivia, Plurinational State of**, 2009 (constitutional ban on social security privatization and closing of individual accounts system for new entrants) ■ **Russian Federation**, 2012 (contributions to individual accounts are diverted to social insurance) ■ Poland, 2011 (downsizing) and 2014 (transfer of all individual accounts back to the ZUS social insurance PAYG system) ■ **Czech Republic**, 2016 (new government ends Individual Accounts System)	■ **Bulgaria**, 2007 (cancelled the contribution increase in the individual account pillar – currently frozen at 5 per cent) ■ **Estonia**, 2009 (government suspended its 4 per cent contribution to the 2nd pillar) ■ **Latvia**, 2009 (individual account contribution reduced from 8 per cent to 2 per cent) ■ **Lithuania** 2009 (individual account contribution reduced from 5.5 per cent to 1.5 per cent) ■ **Macedonia**, 2011 (Contributions to mandatory individual accounts reduced from 7.42 per cent to 5.25 per cent) ■ **Croatia**, 2011 (mandatory individual account contribution reduced from 10 per cent to 5 per cent). ■ **Slovakia**, 2012 (Individual account contribution reduced from 9 per cent to 4 per cent) ■ **Kazakhstan**, 2013 (transfer of administration to the Government) ■ **Romania**, 2017 (government reduced and froze contribution rates to 2nd individual account pillar)

C5. De-linking social security financing from the labour market did not work as expected

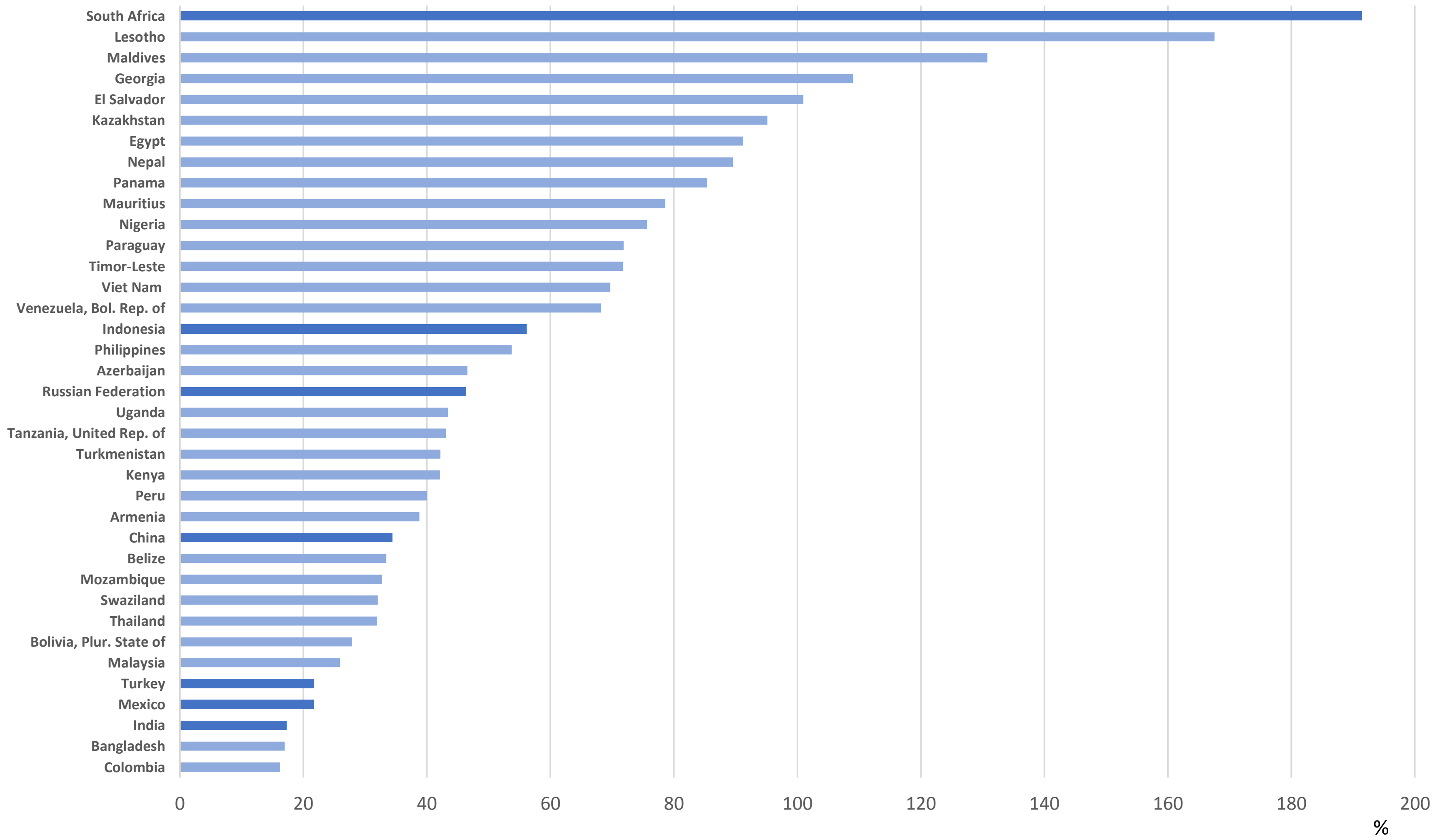
After privatizing pension systems and reducing o abolishing payroll contributions, coverage rates stagnated or decreased in most countries, with no visible effect on informality

Coverage rates of pension systems before and after privatization
(active contributors to pension schemes as % of labour force)

Argentina	Male: 46 % (prior to the reform, 1993) to 35 % (in 2002) Female: 42 % (prior to the reform, 1993) to 31 % (in 2002)
Chile	64 % (prior to the reform, 1980) to 61 % (in 2007)
Hungary	75 % (before 1998) to 71.8 % (in 2009)
Kazakhstan	66 % (before 1998) to 63 %(in 2013)
Mexico	37 % (1996) to 30 % (2004)
Bolivia	Coverage rates stagnated between 1997 and 2009 (12 %)
Poland	Coverage rates stagnated between 1999 and 2013 (78 %)
Uruguay	Coverage rates stagnated between 1995 and 2003 (70 %)

C6. Increase in tax-based pension schemes for basic protection

Non-contributory pensions as a % of the national poverty line, single person, latest available year



C7. To sum up

- Need to mantain a balance across the different pillars in order to ensure fiscal sustainability as well as adequate coverage and benefits
- Expand tax-based universal basic protection linked to social assistance
- Broaden the coverage of mandatory payroll-based social insurance to those engaged in non-standard forms of work
- Ensure that the shift to DC schemes does not shift excessive risks upon individual contributors, thereby exacerbating inequalities
- Be aware of the fiscal downsides of pension privatization
- Effectively regulate and supervise private providers to minimize information asymmetries and governance failures
- Use social dialogue to ensure buy-in and effective implementation of reforms


Thank you!