

1.3.7 - DEMOGRAPHY AND SOCIAL SECURITY SOME BASIC CONSIDERATIONS

Component 1

China is considered as one of the fastest ageing, if not the fastest ageing country in the world. It has a particularly birth rate (total fertility rate estimated below 1.5) and has experienced rapid improvements in life expectancy (life expectancy at birth doubled since 1950, and is currently above 75 years – “healthy life expectancy” is of 68 years). While 10 years ago the population aged 65 and over was of some 100 million persons, including 30 million 80 and above, the numbers will reach 300 million including 100 million above 80 years of age in 2050. Since the effect of releasing the one-child policy (decision made early in 2016) will take time to be noticeable in terms of dependency ratio, and will anyway be limited – the one child remaining the preferred pattern of many urban households – China will be facing a combination of demographically-linked challenges in the decades to come: finding enough workforce, making work conditions suitable for elder workers, financing pay-as-you-go pension schemes, identifying investment opportunities for growing funded pension schemes, providing residential care for more and more isolated elderly persons, adapting health care provisions to an ageing population, providing social services to elderly in rural areas with very limited if any family support, etc.

1. In a society, demographic ageing may result from a variety of factors: increased life expectancy because of improved living conditions; better access to medical care; early retirement; more financial autonomy of the elderly through decent pension systems; decreased fertility rates not compensated by migratory flows; return of elderly population having spent their active life on different territories, etc.
2. Demographic ageing is a factor common to most European countries – China is still below European levels but may be catching up rapidly.

2010 % of the population	F	Ge	UK	I	Dk	Sp	NI	PRC
Over 65	16.6	20.7	16.3	20.3	16.1	16.9	15.3	8.2
Over 80	5.2	5.1	4.6	5.8	4.1	4.9	3.9	1.34
Dep.ratio OA	25.81	31.7	24.72	30.99	24.98	24.43	22.82	11.3

3. Change in age structure of the population has important implications for social protection as a whole – not only for pensions financing.
4. There is a strong influence on the Labour market – with a need to adapting the workplace to an ageing population. Require particular scrutiny: working conditions, work place ergonomics, transition from income to retirement.

5. Demographic ageing may cause a particular strain on unemployment schemes, since elder workers are more likely to be unemployed – and less likely to re-enter the labour market (pre-pension arrangements, decreasing hours of work with compensation, transition from activity to retirement)
6. Older workers have more frequent use of disability pension provisions. In some schemes, there is presumption of disability once reached a certain age. Arduous occupation is an important factor (individual hardship account)
7. Occupational accident and diseases can occur more frequently for elder workers, who might be victims of more specific types of accidents linked to ageing – also more likely to incur accidents late in the day hence ad hoc preventative measures. In some professions, there are age limits for safety reasons
8. Social services specially dedicated to the elderly may be in more demand. Conversely, services for families with children may be less required, but this cannot be guaranteed (difference between old age and global dependency).
9. Health care is in more demand by the elderly than by the active population (expenditure per head above 65 can be over 5 times more than in age group 15-44). Also needs can be different. Ageing can have an influence on health care organization and provision of health services. Financing is not easy since even when elderly have earned relatively good pensions, their resources are still less than those of the active population. Deductibles can be less for elderly. Also contribution rates on pensions for HC can be higher than on salaries. Ethical questions if limits on health care for elderly because of cost.
10. Dependency is a critical challenge for old age. It relates to the situation where the elderly person cannot care for him/herself without more or less constant assistance from a third party. Dependency grows in number and severity with age. In some cases it requires specialized assistance, in some cases simple family help is sufficient. Modern trend is to try to avoid institutionalization of old age dependent persons. In some countries cost of support to dependency (financing assistance, compensating family members for loss of income, subsidizing specialized institutions) is ensured through a special insurance part of social security (France, Germany, Spain, the Netherlands, etc.). Other provisions exist within social security: pension supplements for constant care attendance; increase in basic pension passed a certain age.
11. Pension systems may be affected by demographic ageing since pensions are paid longer because of increase in life expectancy. Hence a trend in increasing legal retirement age in line with improvements in life expectancy. Demographic factor may also be included in benefit formula. There is no obvious link however between legal and actual retirement age in Europe – the work efficiency of elder workers may not be very high hence a temptation by employers to make them redundant and taken care of through specific provisions when approaching legal retirement age. There is no equality among workers concerning life expectancy at retirement age – a lot depends on working conditions. Increase in actual retirement age may also affect life expectancy.
12. Financing – The demographic base of contributors maybe shrinking with ageing – hence the need for corrective measures and/or expansion in personal scope of coverage. There is no clear evidence why funding would function better than pay-as-you-go in times of demographic ageing. In fact, funding requires high yields in real terms over a long period to provide good results, and there is no historical evidence of such circumstances.

13. Sources of financing alternative to contributions based on salaries should be explored to address demographic ageing (pre-funding, reserve funds, buffers exist. Also, base contributions on non-labour factors for non-labour intensive industries). The % of GDP spent on pensions and health care is a better indicator for affordability than rough contribution rates. Bear in mind that social security benefits as deferred salaries are part of workers' share in economic output – tendency is towards decrease, not increase (to the detriment of capital remuneration).
14. Supplementary schemes may provide some relief to the burden caused by demographic ageing for social security financing. However these schemes are usually voluntary or not accessible to some vulnerable workers. They cannot therefore be considered as a proper solution for ensuring sustainable decent basic protection. Supplementing pensions by income derived from extended work after retirement is probably also not a sustainable approach.
15. Demographic ageing is not only a cost for social protection. It is also an asset for the society – voluntary work available, investment in future generations by elderly, new customers for service industries not too much exposed to outside competition, etc. These positive factors have to be taken into account when debating the issue of affordability of demographic ageing.

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1 February 2016.