



Re-designing Institutions for the Longevity Society

Rethinking pension and care systems Angela D'Elia

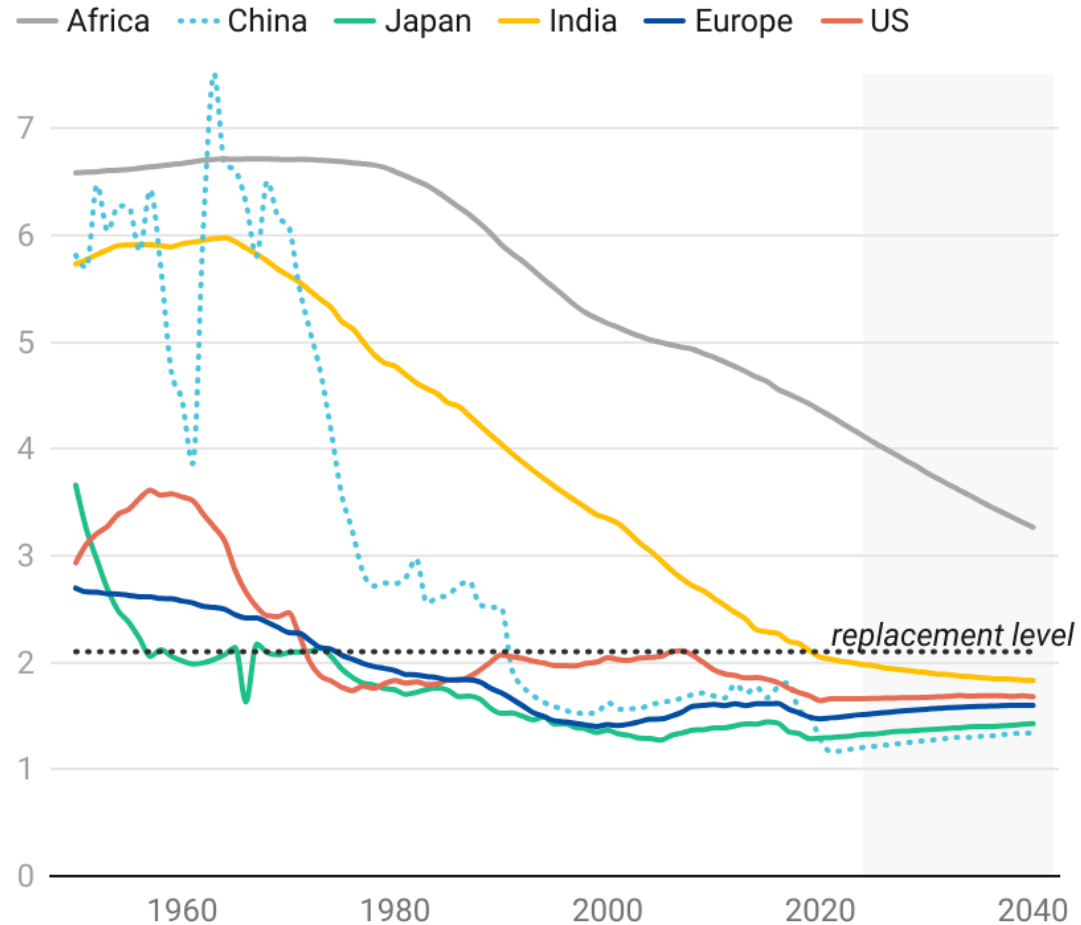
HoU: Sustainability of public finances and public expenditure trends
European Commission

CEPR RPN Economics of Longevity and Ageing
Athens, 18-06-2025

Population ageing is a global phenomenon

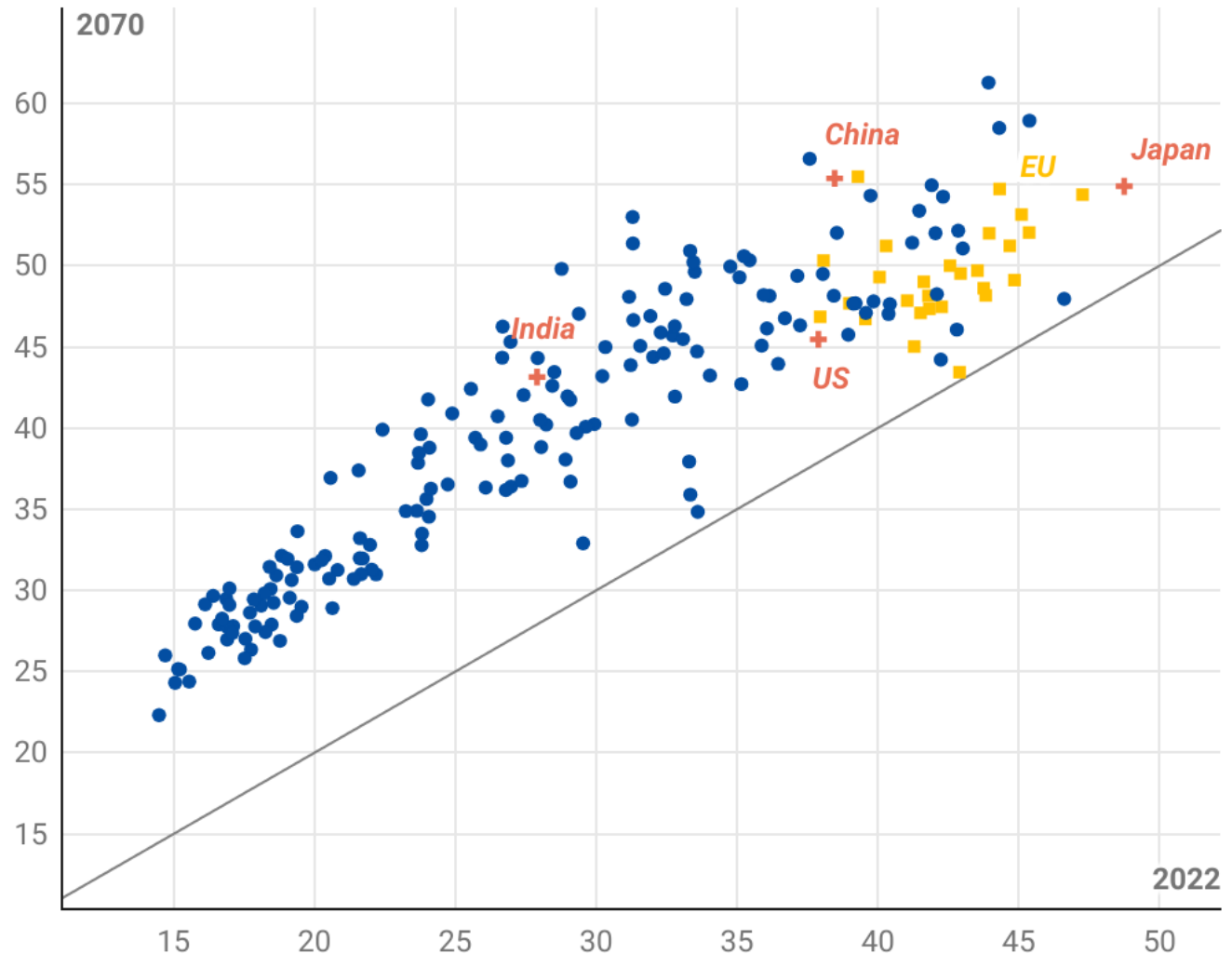
Total fertility rate

number of live births per women



(source: UN)

Median age: 2022 and 2070



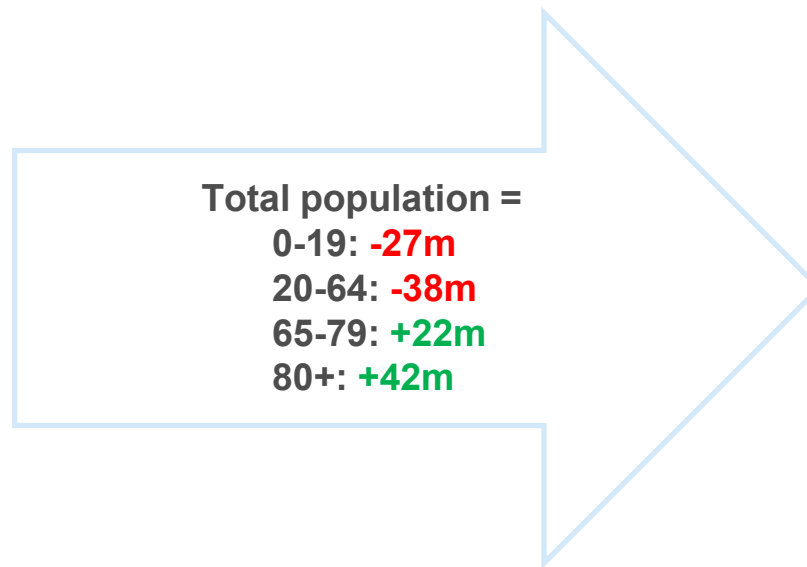
(source: UN)

Shift from working age to old and very old age

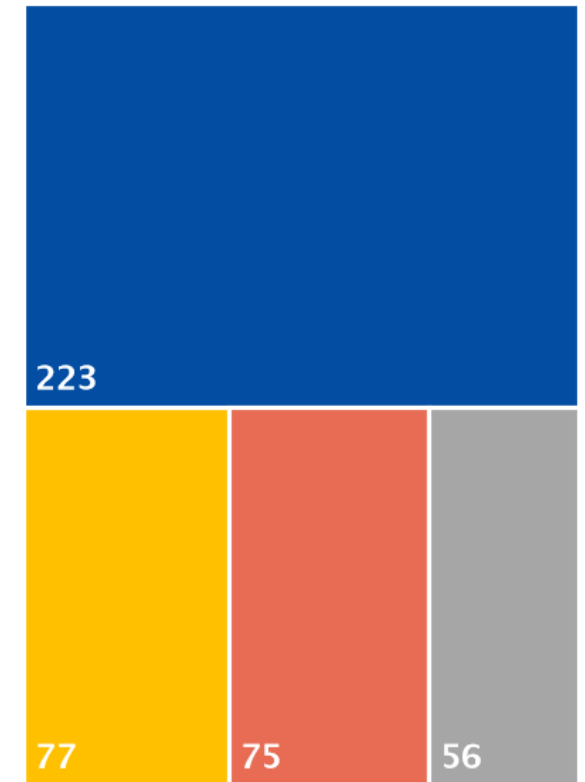
EU population (million people)

■ 0-19 ■ 20-64 ■ 65-79 ■ 80+

2000: 432m



2070: 432m



An older population...

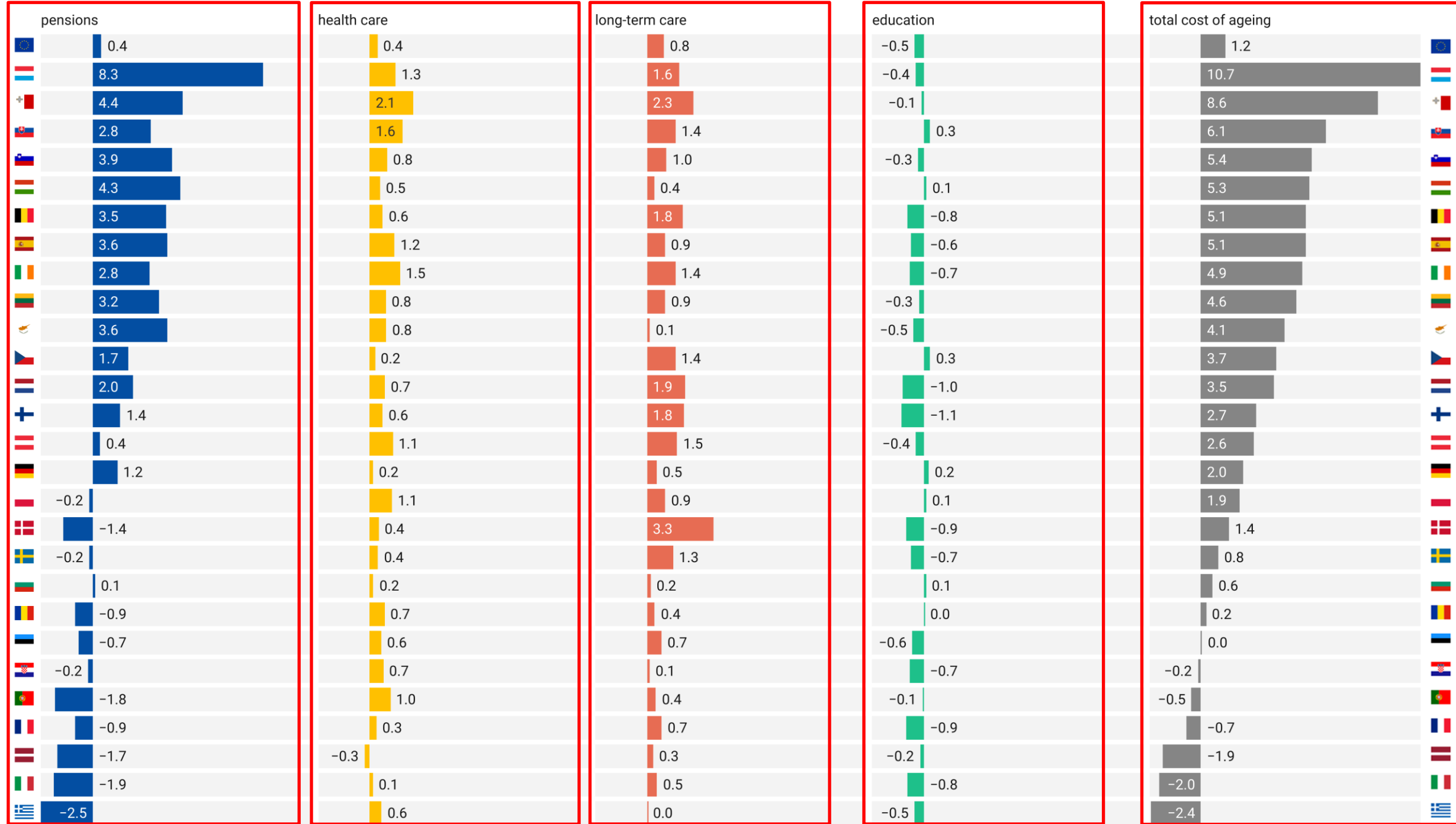
... behaves differently: work less (labour/growth ↓), save less (capital ↓), consumption pattern, housing preferences.

... has different needs: higher demand for specific healthcare treatments, long-term care, personal assistance.

... puts pressure on pay-as-you-go pension systems since more time is spent in retirement while fewer people pay contributions.

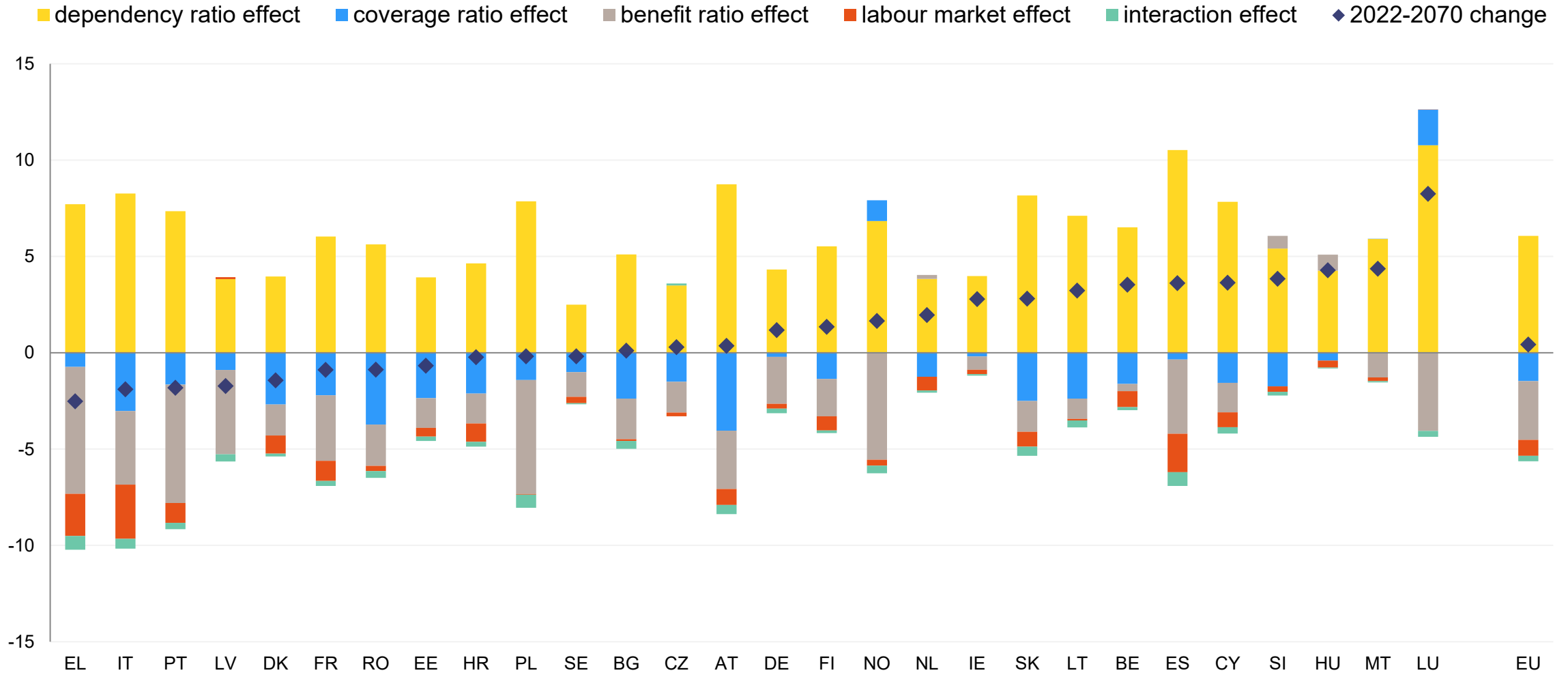
Projected change in age-related expenditure in 2022-2070 (pps of GDP)

(source: 2024 Ageing Report)



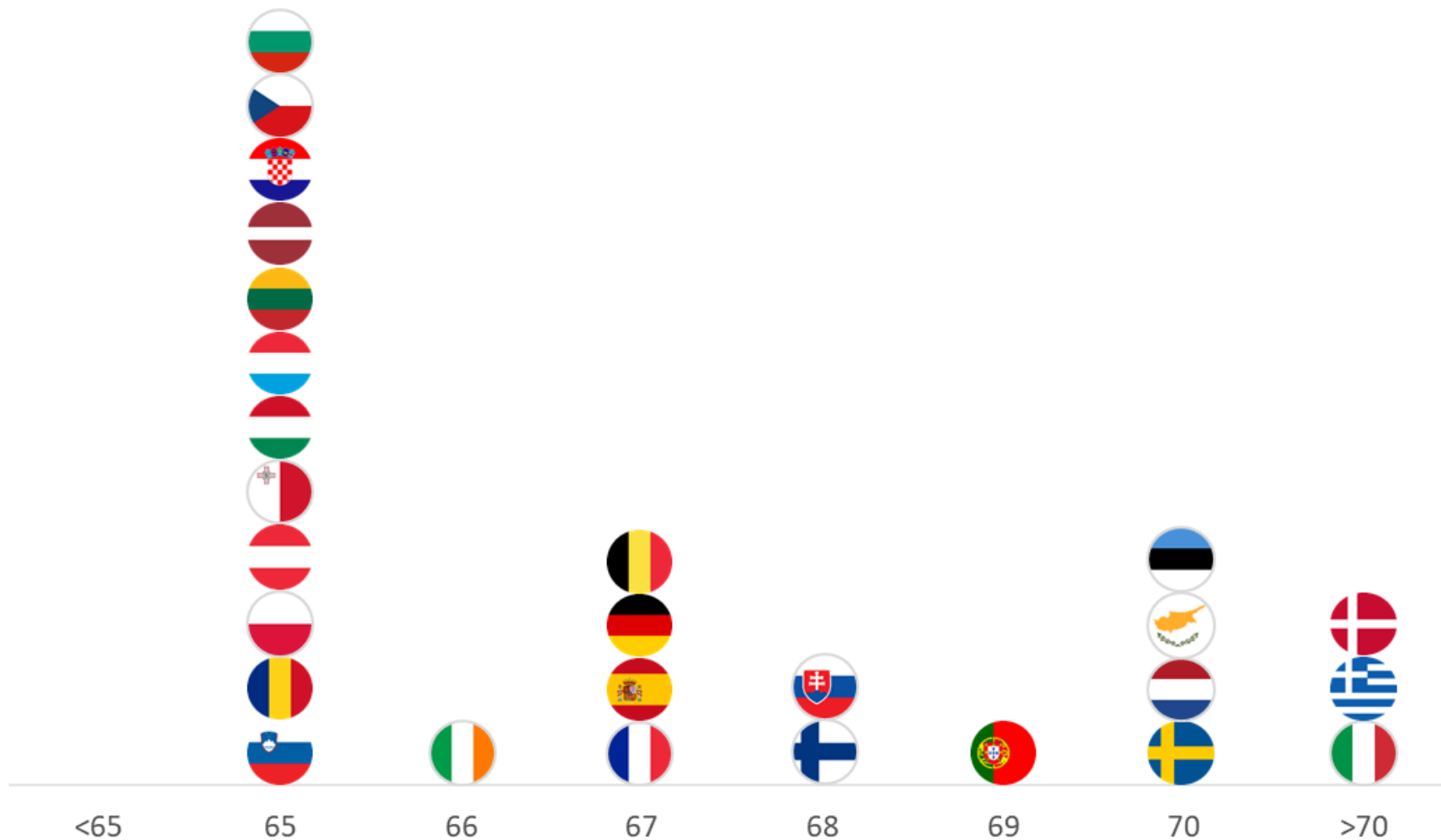
Observations on pensions

spending



Legal retirement age. Sticky at 65 vs. rising with life expectancy

Statutory retirement age, men (2070)



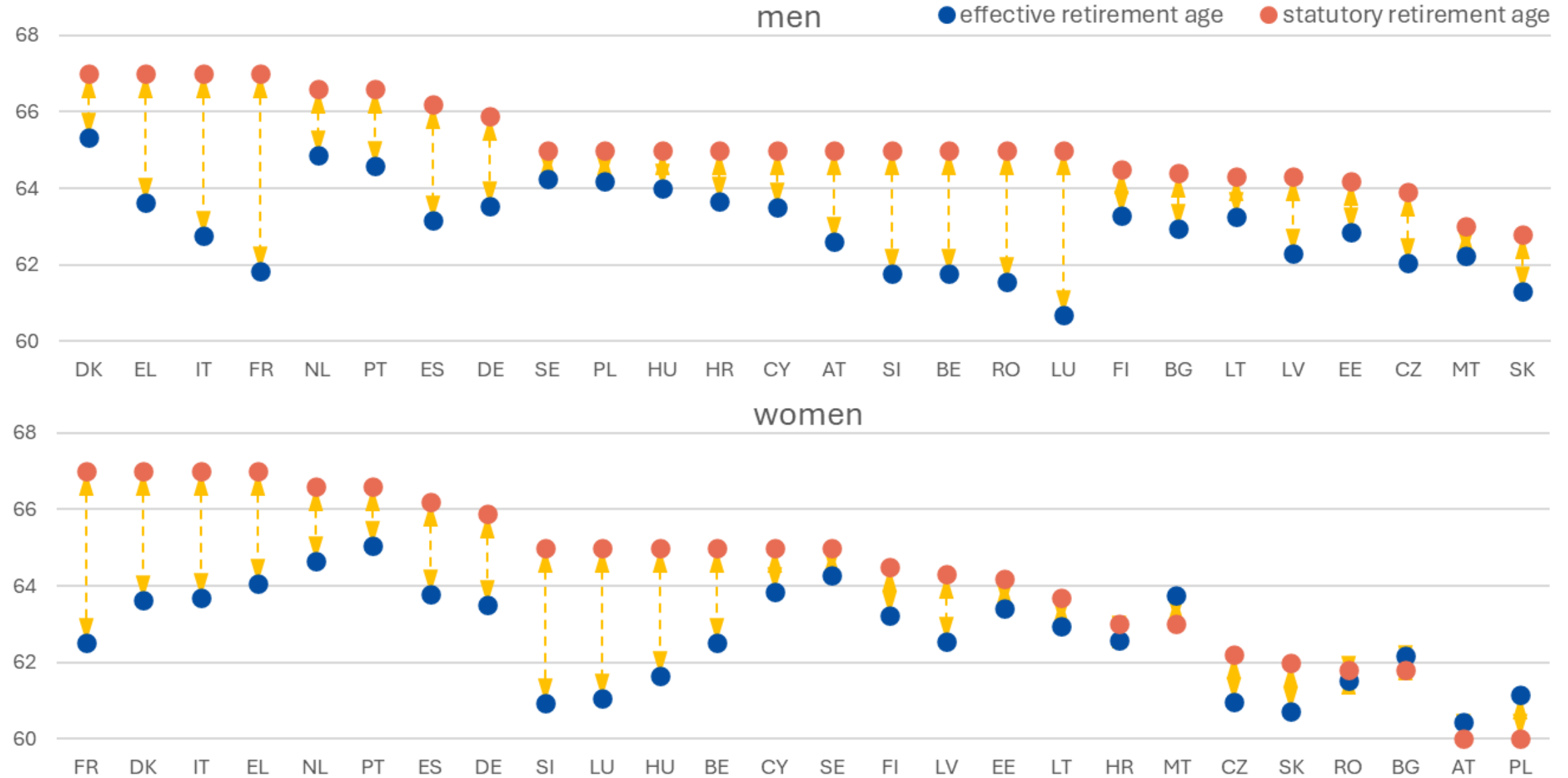
System design: automatic adjustment mechanisms

	Automatic balancing mechanism	Sustainability factor (benefit linked to life expectancy)*	Retirement age linked to life expectancy	<i>legislated</i>
IT		X	X	1995 & 2010
LV		X		1996
SE	X	X	X	1998, 2001 & 2022
PL		X		1999
FR		X		2003
DE	X			2004
FI		X	X	2005 & 2015
PT		X	X	2007 & 2013
NO		X		2009
EL			X	2010
DK			X	2011
CY			X	2012
LU	X			2012
NL			X	2012
LT	X			2016
EE			X	2018
SK			X	2023

*NDC systems link benefits to changes in life expectancy through the annuity factor (IT, LV, PL & SE)

(source: 2024 Ageing Report)

Effective versus statutory retirement age

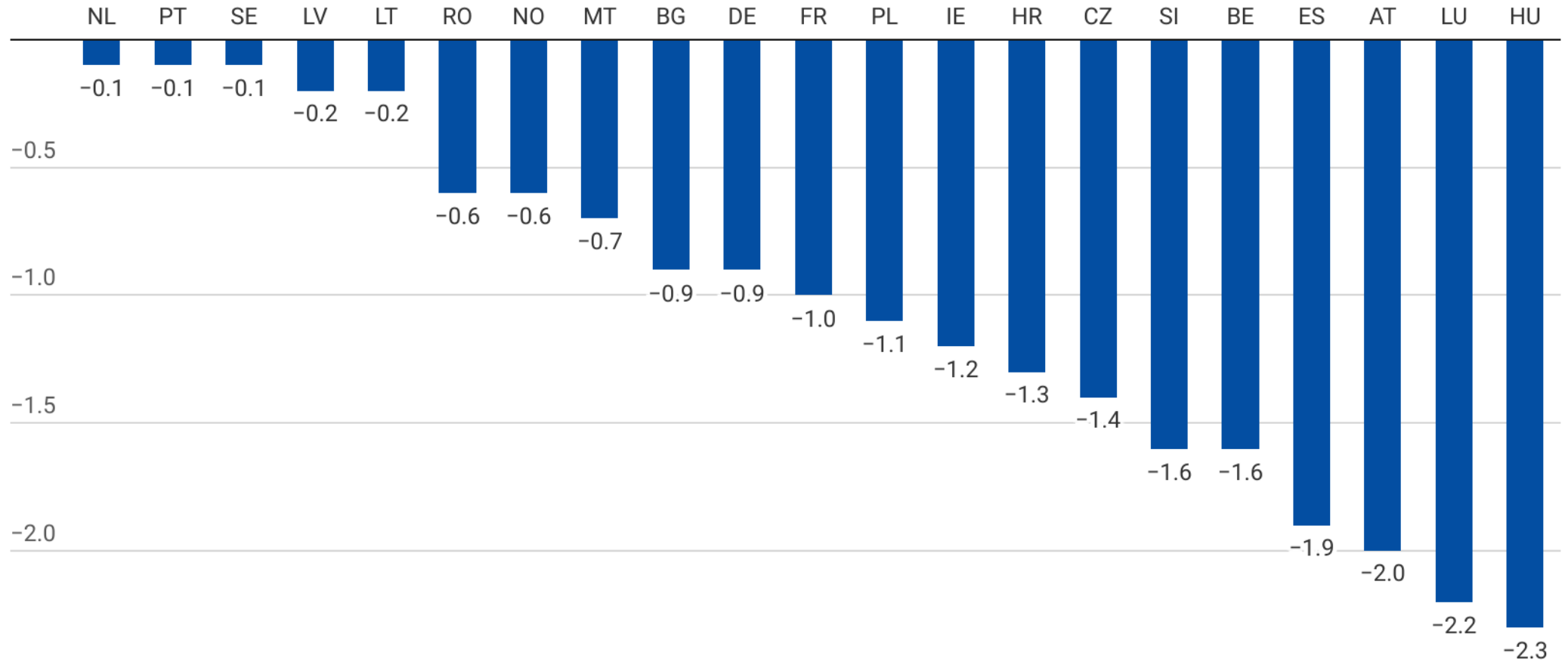


(source: 2024 Ageing Report)

What if... retirement ages were linked to longevity?

Public pension expenditure - link to life expectancy

pps of GDP deviation from baseline



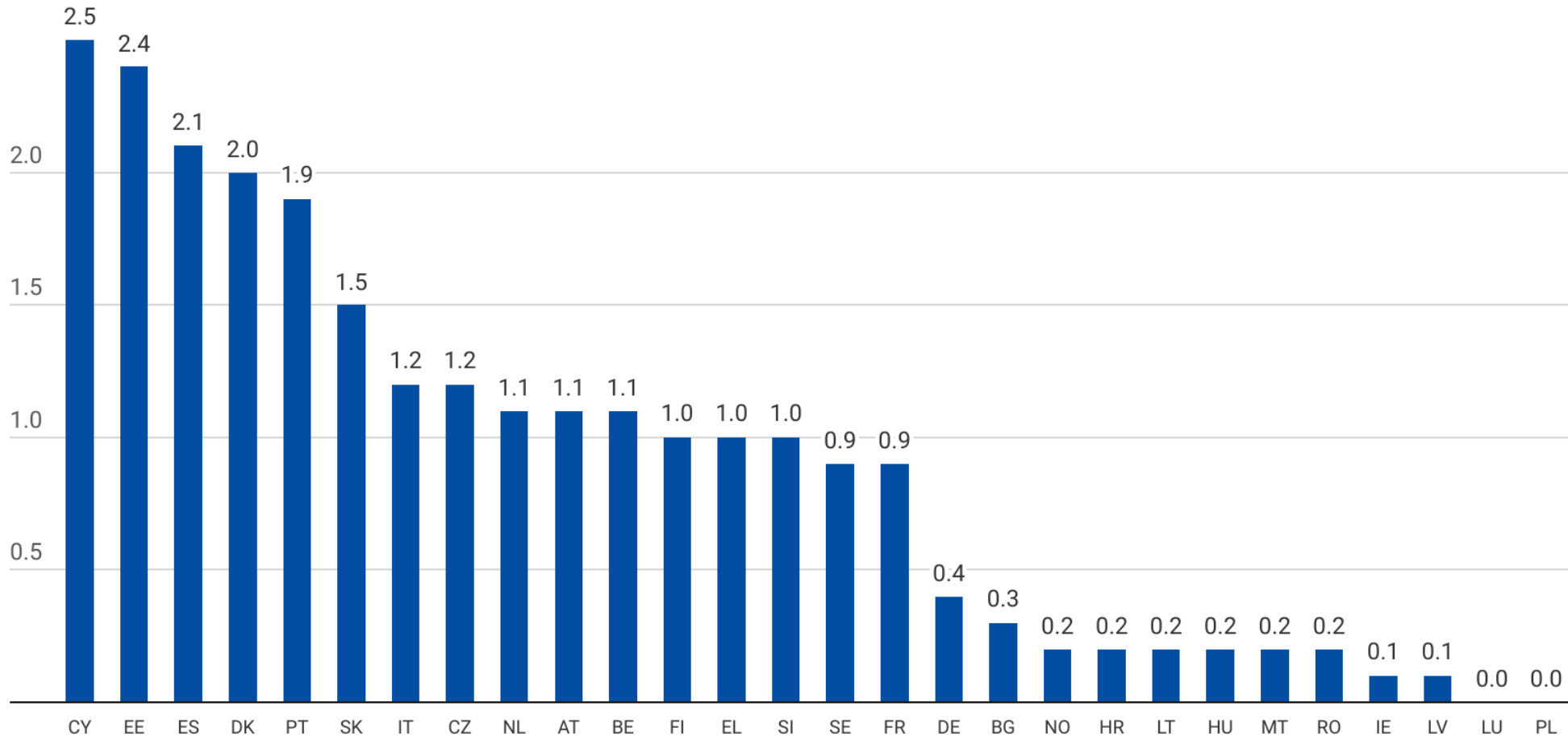
Scenario assumes 3/4th of gains in longevity is passed through in the effective exit age. The scenario is only run for countries that currently do not have a link; NL, PT and SE apply a partial link.

Source: 2024 Ageing Report • Created with Datawrapper

What if... people were to retire at current ages

Public pension expenditure - constant retirement age scenario

pps of GDP deviation from baseline



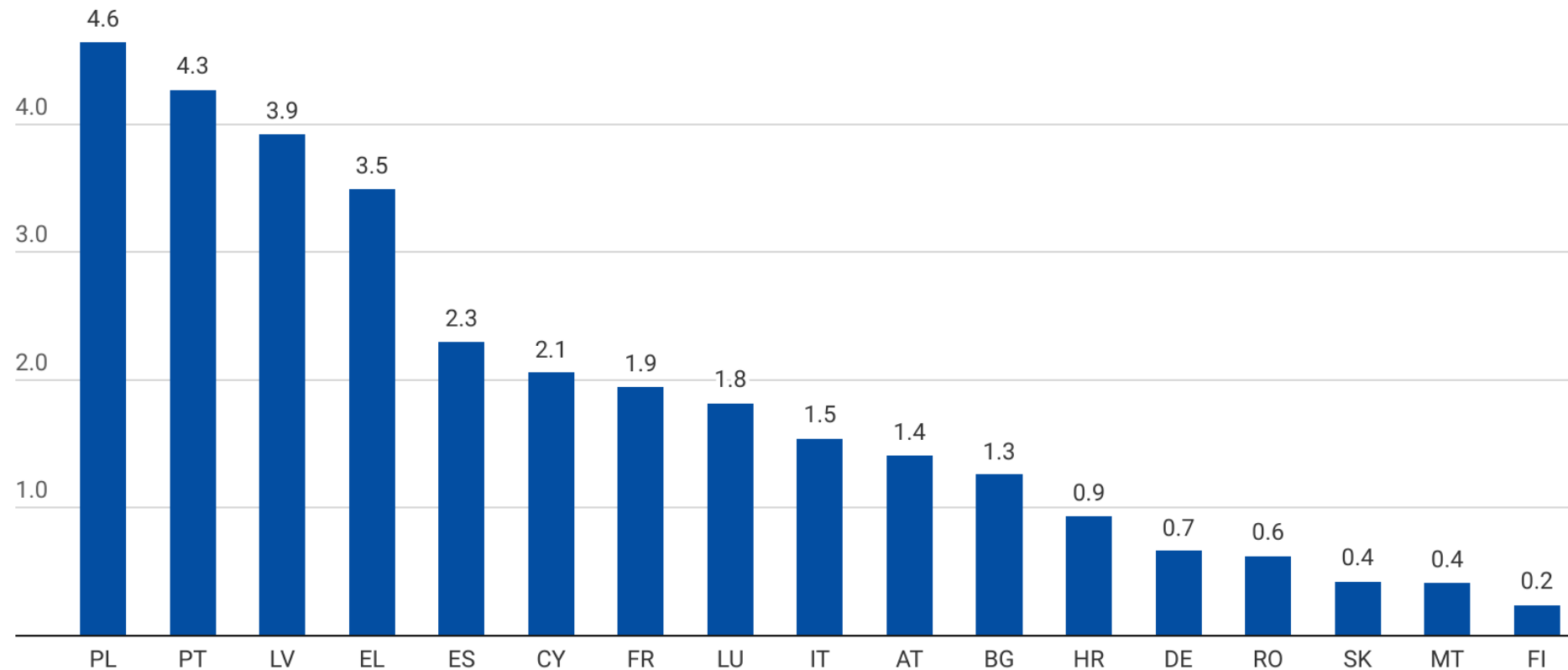
Source: 2024 Ageing Report • Created with Datawrapper

Legal retirement ages are kept constant at the 2023 level.

What if... measures were taken to prevent pension adequacy from falling?

Public pension expenditure - constant benefit ratio scenario

pps of GDP deviation from baseline



This scenario prevents the earnings-related public benefit ratio from falling below 90% of the 2022 level. Countries not shown in the graph have benefit ratios staying above the 90% mark.

Source: 2024 Ageing Report • Created with Datawrapper

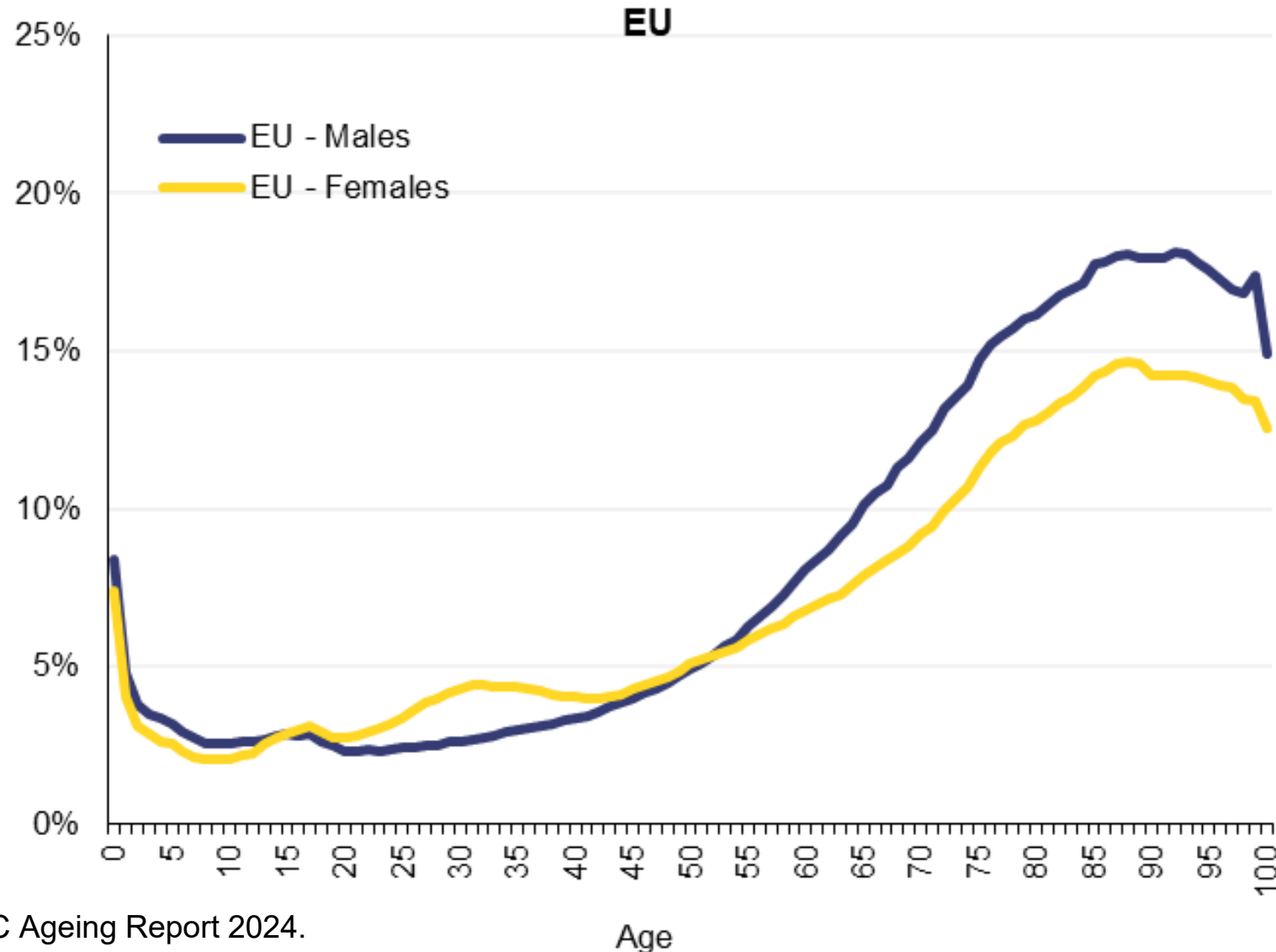
Reform design

Three dimensions: sustainability, adequacy & fairness : tackle all three simultaneously, also to make changes more acceptable

- Guiding principles to reform pension systems:
 - working more or longer should lead to higher pension rights
 - deviations from the general rule must be justifiable (review special pension arrangements)
 - higher focus on career length versus age
 - gradual, widely-supported and predictable changes (automatic adjustment mechanisms)
- Supplementary pension schemes
- Scope for financing-side solutions?
- Flanking policies: labour market, preventive care, productivity, migration

Observations on health care and long-term care

Age-sex cost profiles for public health care expenditure in the EU, as % of GDP per capita



Source: EC-EPC Ageing Report 2024.

Determinants of public health care spending

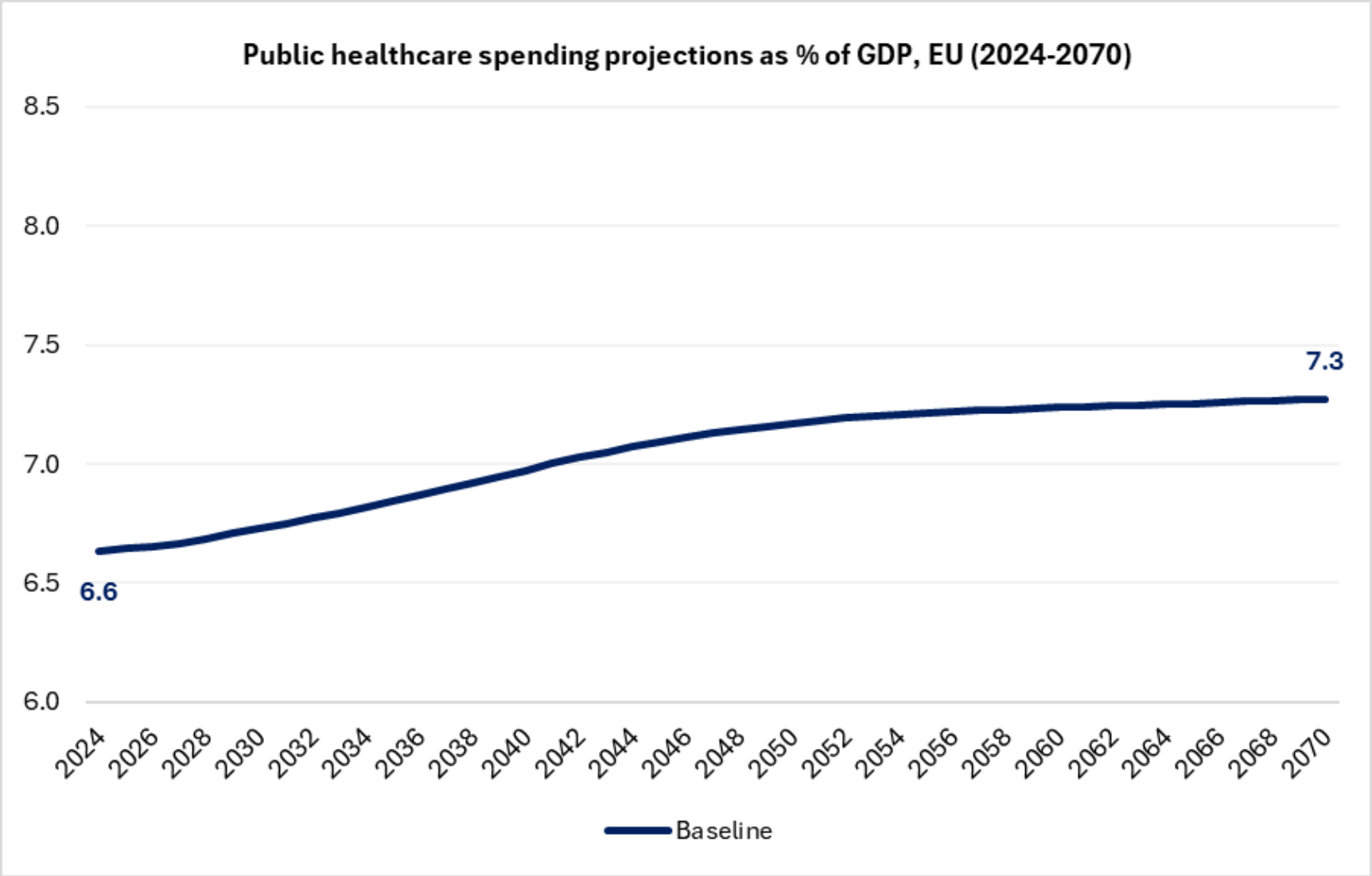
Demand-side factors

- **Population size and structure** (number of people in need of HC)
- **Health status** (increase in LE vs HLE, proximity to death)
- **Income** (elasticity of demand at individual and aggregate levels)
- **Prevention policies**
- **Environmental policies & climate change**
- **Social policies**
- **Educational policies**

Supply-side factors

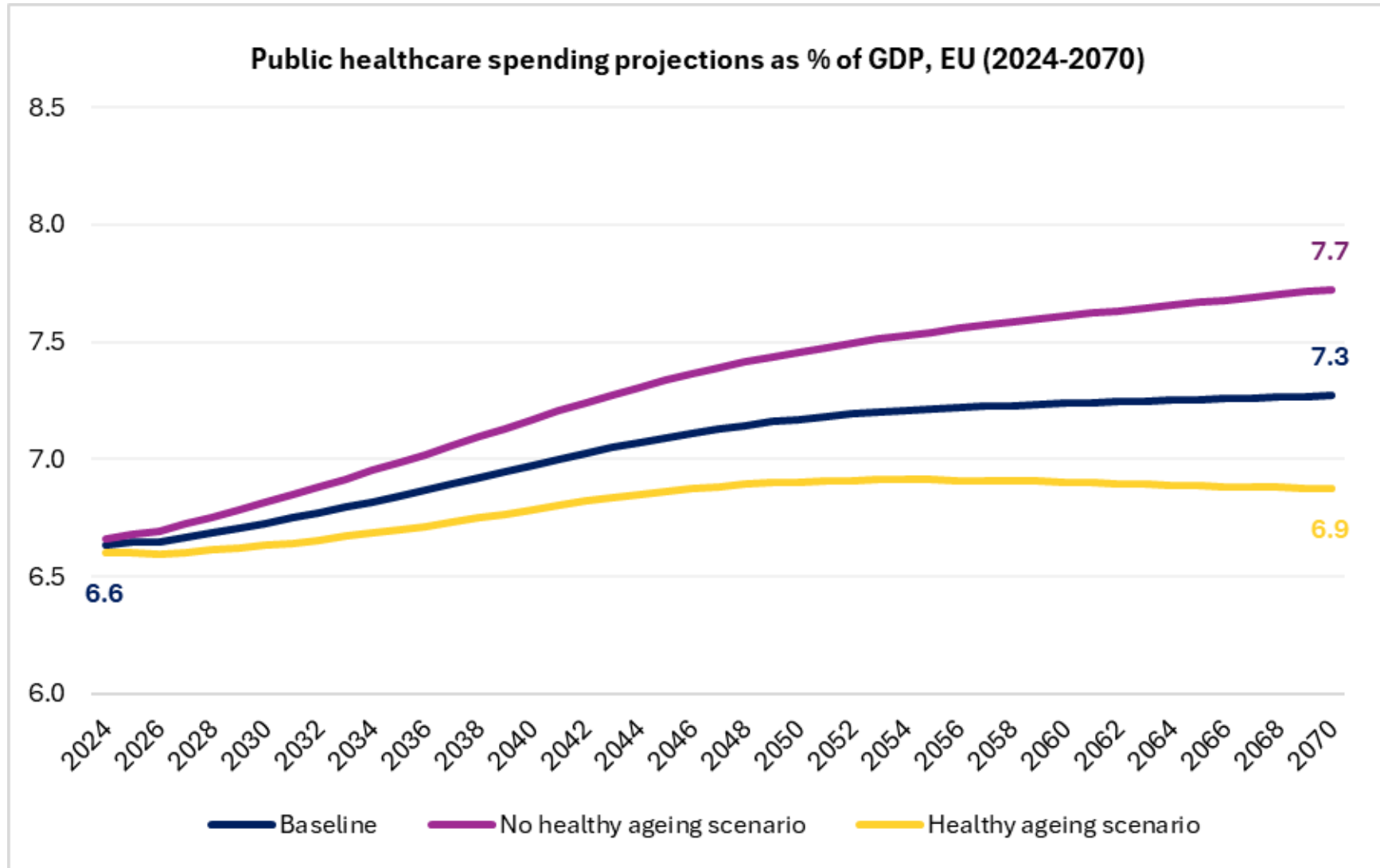
- **Health technology**
- **Government policies and institutional settings** (coverage, gatekeeping, referrals, positive/negative lists for prescription medication, mandatory use of generics, ...)
- **Relative costs in the health care sector** compared to the economy as a whole (wages, regulated prices)
- **Resilience of health care systems**

Healthcare spending: baseline projections



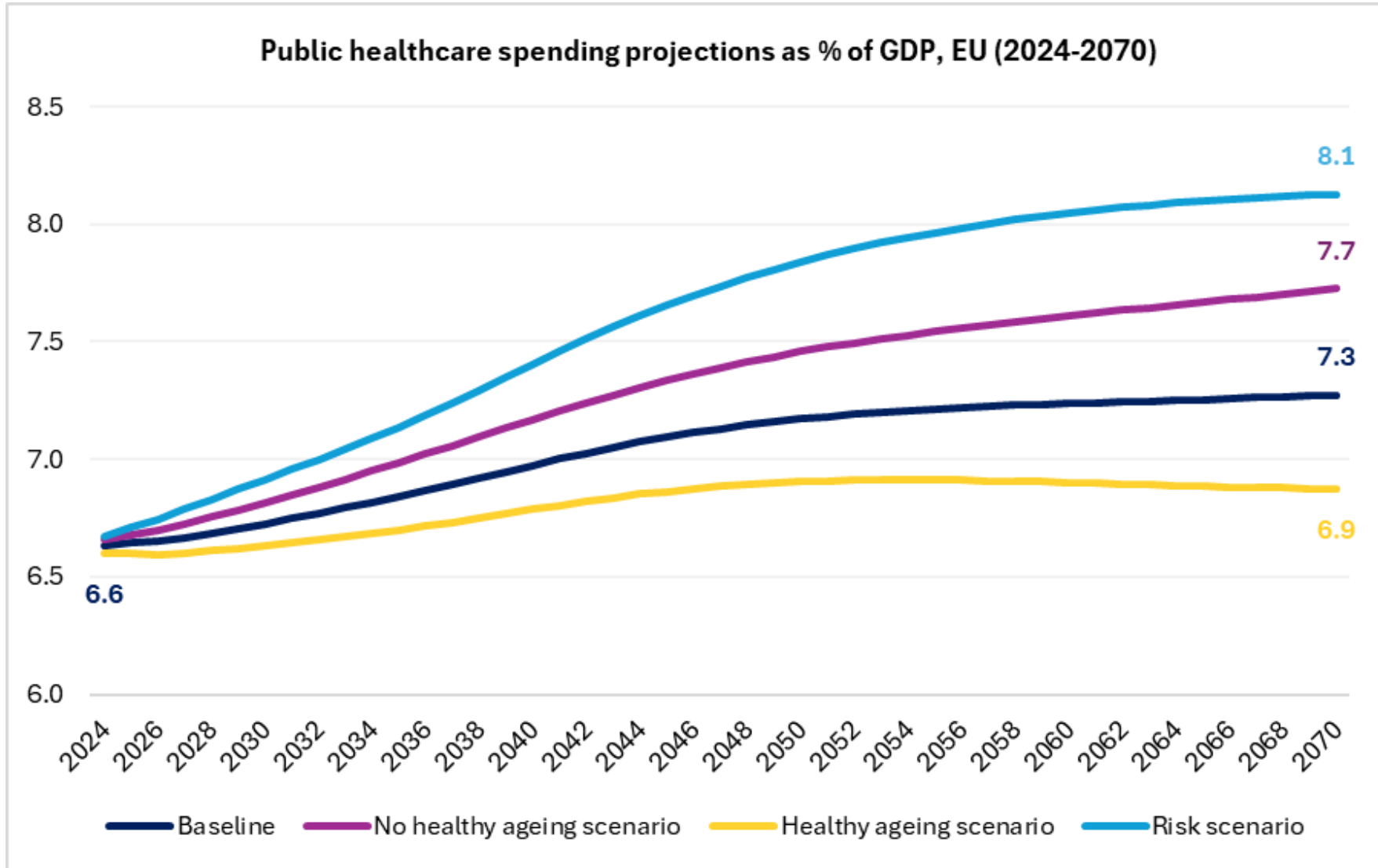
Source: EC-EPC Ageing Report 2024.

Healthcare spending. Effect of ageing and health status



Source: EC-EPC Ageing Report 2024.

Healthcare spending: effect of ageing and non-demographic determinants



Re-designing health care for the longevity society

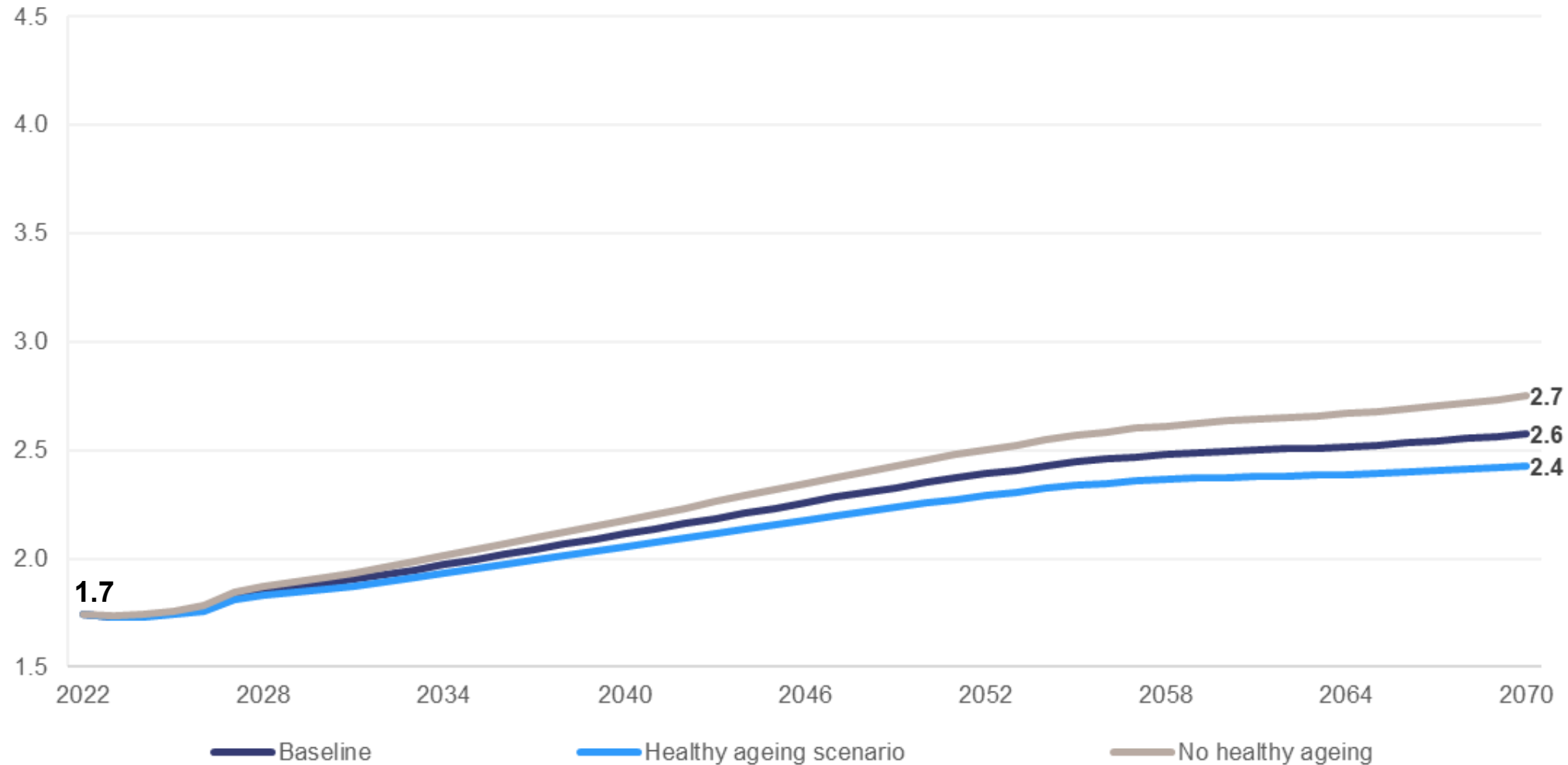
- Invest in and raise public awareness about **health prevention and promotion** to prevent or postpone the onset of chronic conditions in the population.
- Create incentives and institutionalise **integration of health care** (primary care with outpatient care with hospital care and rehabilitative care) and beyond with long-term care.
- Address staff shortages
- Use the potential of digital solutions for health to prevent and manage chronic conditions.
- Integrate health prevention and impact on health status (healthy ageing) in the impact assessment of other public policies (e.g. environmental, urban, social, etc.).

Long-term care spending: baseline projections

- **Long-term care** helps dependent people carry out (i) Activities of Daily Living like washing themselves, getting in and out of bed and eating and (ii) Instrumental Activities of Daily Living like cooking, shopping, using the phone, managing their finances, etc.
- It can be provided formally or informally and funded privately or from the public purse. It can be provided in a care home, in the private home of the recipient or as cash benefits.

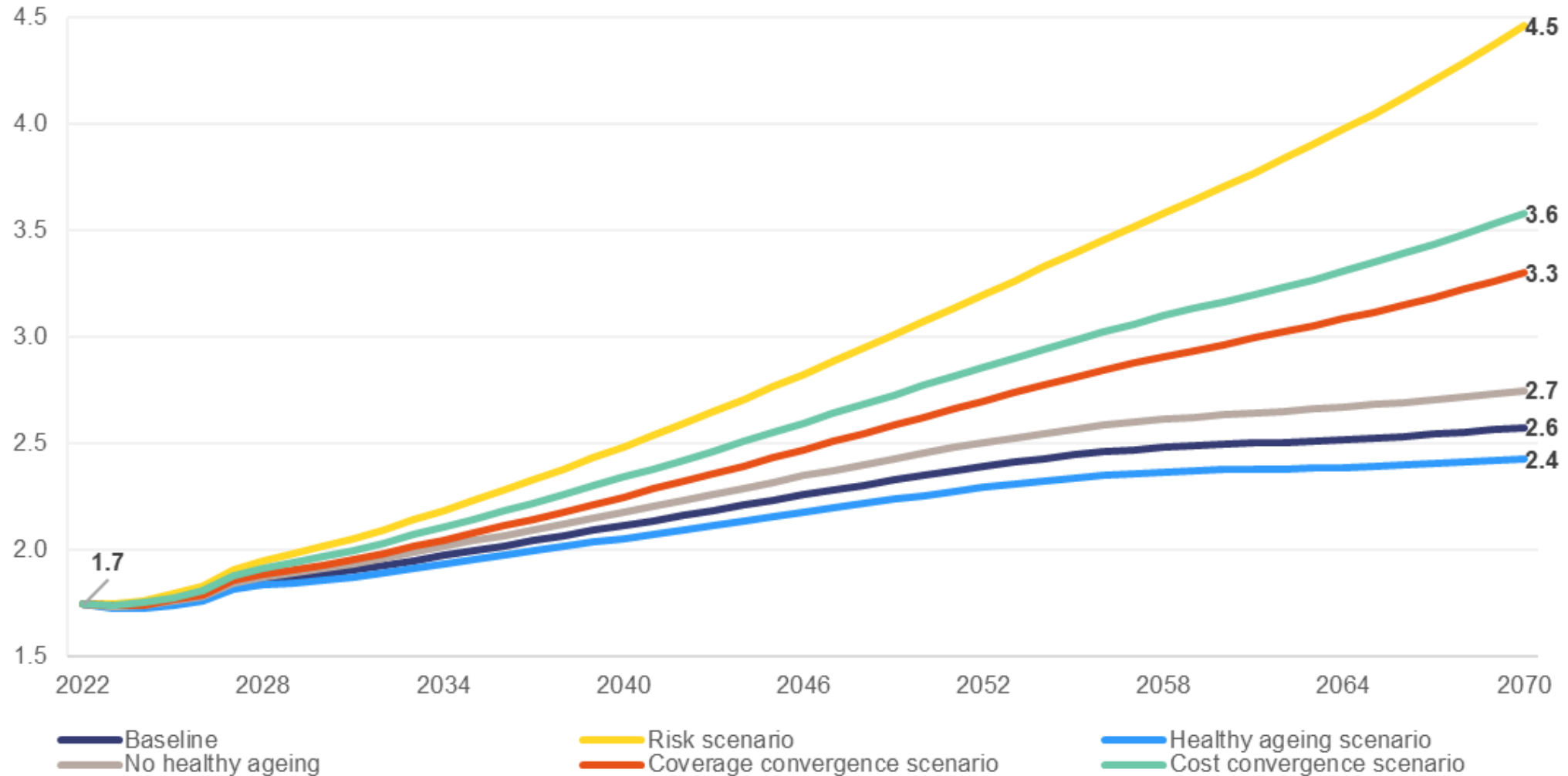


LTC spending: Healthy and no healthy ageing scenarios



Source: EC-EPC Ageing Report 2024.

LTC spending: 'upward convergence to EU average'



Re-designing LTC for the longevity society

- The projected increase in LTC expenditure up to 2070 can cause fiscal sustainability concerns for certain MS.
- A well-functioning LTC system can help HC and social systems be more efficient: focus on structural reforms rather than horizontal expenditure cuts to improve fiscal sustainability.
- The [Joint Report on Health Care and Long Term Care systems Fiscal Sustainability](#) (COM/Ageing Working Group) identifies structural reforms to improve the fiscal sustainability of LTC system:
 - **appropriate care settings for each care recipient**
 - reduce governance fragmentation
 - benchmarking performance

Concluding remarks

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- Public expenditure on pension, health and long-term care is set to increase due to ageing, leading to **greater pressure on public finances**
- **Reform pension and care systems** to address the rising demand in a fiscally sustainable and financially adequate manner.
- **Intergenerational fairness**: policies to serve young, working-age, retirement-age and future generations positively contribute to growth
 - European Semester of economic policy coordination
 - Next Generation EU and Recovery and Resilience Facility
 - Multi-annual fiscal structural Plans



European
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Economic & Budgetary Projections for the EU Member States (2022-2070)

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Thank you!



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