

Reinventing Retirement:

Reshaping Health & Financial Security for
the EU 27 and Eastern Europe

October 23-24, 2008 | Dürnstein, Austria

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REINVENTING RETIREMENT

AARP Office of
International Affairs

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EXECUTIVE SUMMARY

EXECUTIVE SUMMARY

On October 23-24, 2008, AARP, the European Centre for Social Welfare Policy and Research, and the Austrian Federal Ministry of Science and Research convened a high-level meeting in Dürnstein, Austria, to examine how the expanded European Union (EU) and neighboring countries are “reinventing retirement.” The meeting, attended by representatives from 20 countries, discussed specific aspects of demographic change and debated new ideas on how United States (US) and European societies are addressing the challenges of older citizens.

The number of people worldwide aged 60 and above will triple by 2050, according to the United Nations’ (UN’s) Population Division. In Europe, the demographic change will also be dramatic. By 2050, nearly 34 percent of Europeans will be older than 60, up from 21 percent in 2006.

As noted by Edward Johns, AARP’s Associate Director for International Affairs, “All of us gathered here share the goal of improving the quality of life for older people by advancing the UN Global Strategies and creating a society for all ages.” The current crisis in the international finance system also demonstrates the importance of long-term planning in work, savings, and investment.

This idea was reinforced by Bernd Marin, Executive Director of the European Centre for Social Welfare Policy and Research. He noted in his presentation, “The many dimensions of mid- to long-term fiscal and social sustainability are the key concerns in coping with the challenges of population aging.”

The Reinventing Retirement Conference is particularly relevant given that in 2009 the UN will commemorate the 10th Anniversary of the International Year of Older Persons. Moreover, the European Commission will declare 2012 as the European Year of Active Aging and Intergenerational Solidarity.

Throughout the conference, several key themes emerged:

- There is heterogeneity across Europe concerning a range of social indicators of well-being for the 60+, such as income security, life expectancy, quality of life, and adequacy of health care.

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- Continued reform is critical. In the US, the debate is much more on health care, while in Europe it is on pensions. In both regions, reforms have taken place and most countries now have multi-pillar systems. Still, tough questions remain about sustainability and adequacy. Olivier Bontout, until recently at the Commission of the European Communities and now representing the French Ministry of Social Affairs and the EU Presidency, stressed the importance of promoting longer working lives, reforming labor laws to make them more flexible, and eliminating mandatory retirement ages.
 - There is a need for sufficient long-term care services. Long-term care has been neglected, despite governments having recognized the challenge of rapidly aging populations.
 - There are strong ties between migration and social protection. Immigration is intrinsically associated with the delivery of health and long-term care services in all of the countries represented at the conference. Older people, particularly women, are often left behind as caregivers of children due to current migration patterns.
 - Any future reforms in health care and pensions must take into account a fair sharing of burdens among generations and between men and women.
 - Governments have not provided sufficient public information to prepare their citizens for the extra years gained through longer life expectancy. For example, as Professor Marin noted, the life expectancy of the average Austrian has increased by around 100 days per year during the last half a century.

Overriding all of these issues is the need for new and bold thinking on social protection. “Few politicians are willing to take on these issues,” said Dalmer Hoskins, a senior official with the US Social Security Administration. “New political leadership is needed, and that has to start with conferences like this one.”

The conference was the fourth in a series of AARP symposia examining how different countries confront and address retirement and the needs and talents of older people.

In remarks read at the conference opening, Bill Novelli, AARP’s CEO,

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emphasized the importance of sharing best practices and lessons from countries around the world. “AARP has explored ideas from around the world in an effort to share our experience and learn from other countries to work toward ensuring financial security for all,” he said. “There is no magic formula, but one thing AARP has learned—especially in a shaky, global economy—is that economic growth is clearly linked to the employment of older workers. That is why we are so pleased to be working with the European Centre and leading European experts to further explore these critical issues for the future well-being of older people.”



Mr. Jiri Kral from the Czech Ministry of Labour and Social Affairs welcomes the delegates at an evening reception.



Welcome Remarks

WELCOME REMARKS

Mr. Edward Johns,
AARP Office of International Affairs, opens the conference.



Edward Johns

Associate Director, Office of International Affairs, AARP

It has been six years since the adoption of the UN Madrid International Plan of Action on Ageing, opened Edward Johns. More than 150 countries have adopted the plan, which represents a milestone in

aging policy for the UN. The European Commission has declared that 2012 will be the EU Year of Active Aging and Intergenerational Solidarity.

Yet, many governments, businesses and employers are trapped by stereotypes of older people as weak, incapable, poor or listless, Mr. Johns explained. Others don't want to make even slight accommodations to harness the skills and knowledge of older workers. They fail to see that older people have tremendous market potential as producers and consumers.

Many countries will face labor shortages in the future because of declining fertility rates and an aging population. Some governments may try to address this issue by encouraging immigration, but even with that approach, the market will force countries to reassess policies regarding work and age. However, there is still a question about how much longer older adults will be able to work—or want to work.

All countries face the challenge of determining how their older population will obtain income, housing, and health care. “Governments and business leaders are divided among placing responsibility for providing these necessities on government, individuals, families, employers—or a combination of all of these,” Mr. Johns said. “This question has even more urgency now that the entire world is facing a global financial crisis.”

Economists estimate that more than US\$1.662 trillion dollars have been lost from private US retirement accounts in the past several months. The

International Labour Organisation (ILO) predicts the global financial crisis will result in at least 20 million additional jobs lost. “Older people will likely suffer disproportionately from the resulting decline in wealth and opportunities,” Mr. Johns said.

Turning to AARP’s role in the US, Mr. Johns shared that AARP is a nonprofit, nonpartisan membership organization that helps people 50+ have independence, choice and control in ways that are beneficial and affordable to them and society as a whole. AARP does not endorse candidates for public office or make contributions to either political campaigns or candidates. We produce *AARP The Magazine*, the definitive voice for 50+ Americans and the world’s largest-circulation magazine with over 34.5 million readers; *AARP Bulletin*, the go-to news source for AARP’s 40 million members and Americans 50+; *AARP Segunda Juventud*, the only bilingual US publication dedicated exclusively to the 50+ Hispanic community; and our website, AARP.org.

AARP also advocates strengthening the US Social Security system. “We have opposed initiatives to create private accounts by taking money out of Social Security, because we feel it would add risk that many people can’t afford to take and would undermine Social Security’s guaranteed benefit,” Mr. Johns said. Rather, AARP believes security in retirement should be based on the four pillars of economic security. These pillars include personal savings and pensions; social security or a public pension system; health care; and continued earnings from work.

Mr. Johns stressed that the idea of work in retirement is not contradictory. “In all of our countries, people are living much longer—and for the most part—in better health,” he said. “The idea of ceasing to work at 65 simply because one has turned 65 just doesn’t make sense to us.” However, in order for older people to continue working, there must be a change in attitudes. “Many employers and governments have stereotypes about older people that do not match the reality,” Mr. Johns said. “And, sadly, many older men and women have images of themselves and their abilities that underrate their own work.”

Success comes from focusing on what people have in common and learning from the differences, Mr. Johns closed. “People want to live in

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security, have choices in how they live, and have dignity when they get older,” he said. “This is as true in Europe as it is in North America.”

Bernd Marin

Executive Director, European Centre for Social Welfare Policy and Research, Vienna, Austria

In many European countries, the 50+ group within one or two generations may become the majority population, opened Bernd Marin. There is enormous potential for older people to use their collective voice if they can achieve the level of engagement AARP has accomplished in the US. “I don’t know of any other organizations, apart from some smaller trade unions in a very few countries, where one out of two eligible people are members,” he said.

A general challenge for European countries will be to shift away from the mindset of a fixed “magic” retirement age, Professor Marin noted. When old-age security pensions came into being a century ago, life expectancy, survival rates, pension shares and the number of pensioners, as well as retirement duration, were all drastically lower. Yet, a sort of magic retirement age of 65 has somehow become enshrined—despite the fact that it does more harm than good, he noted.



Professor Bernd Marin, Executive Director of the European Centre, provides demographic context to aging in contemporary Europe.



Session I:

**Overview on the Macro-Economic Context
and Mid-Term Prospects for Central and
Eastern European Countries**

SESSION I

The session was chaired by Agnes Simonyi, Institute for Social Policy and Labour, Budapest, Hungary.

Professor Helmut Kramer, Danube University, emphasized the stark differences in socio-economic development among the EU states.



“MACRO-ECONOMIC PERSPECTIVES OF CENTRAL AND EASTERN EUROPE”

Helmut Kramer
Former Director WIFO and President Danube University Krems, Austria

In offering a macro-economic perspective, Helmut Kramer

noted that the situation varies greatly across Central European countries. Slovenia and the Czech Republic already have a productive capacity nearly on par with Western Europe when measured in purchasing power parity. A larger group of countries, including Hungary, Poland, Croatia, and the Baltic Republics, have a GDP per capita that is between 50 percent and 75 percent of Western Europe. Russia and some of the new EU members have a productive capacity of one-third that of Western Europe. Countries like Serbia, Ukraine and Albania trail behind with a third the productive capacity of Western Europe.

Since making the adjustment to a democratic system in the mid 1990s, most Central European countries have experienced substantial development. “This catching up has been, in the majority of cases, characterized by double the growth rate of Western Europe,” Professor Kramer said.

Since the EU15 in Western Europe have a projected long-term annual growth rate of 2 percent and the average Central European country has a long-term growth rate of 4 percent, more advanced Central European countries will “catch up” with Western Europe over the next few decades, he explained. Middle-income countries will take much longer to catch up, and the lower-progress countries are not expected to ever catch up.

Another advantage of most Central European countries is their attractive taxation systems. That factor, combined with their proximity to Western European markets, gives them a competitive advantage over Asia.

Despite these advantages, Central Europe faces several challenges. Much of their productivity is concentrated in low-tech industries like clothing, footwear, and ship-building. This makes them vulnerable to competition from low-wage producers such as China. Professor Kramer also noted there is a shortage of qualified labor because of emigration and under-developed education systems. Many countries are hampered by burdensome bureaucracy and corruption. Finally, population aging will severely test these countries' social systems, which are already characterized by income disparities and inefficient infrastructure.

Professor Kramer suggested Central European countries should focus on intensifying contact with Western Europe and developing interregional cooperation. In addition, he emphasized that they must strengthen their innovation systems, which are hampered by inadequate institutional arrangements. Currently, they lack the capacity and resources to engage in research and development and organizational development.

Professor Kramer closed by commenting on the current global financial crisis. On one hand, the low market capitalization of many Central European countries means they may take less of a hit than more developed countries. However, some of the countries have very high current account deficits and are therefore more exposed to the effects of the crisis.

DISCUSSANT: ROBERT HOLZMANN, THE WORLD BANK

“What effect will the global financial crisis have on Central European countries?” Robert Holzmann asked, in commenting on Professor Kramer’s presentation. He agreed that countries with less developed financial markets will likely take less of a hit. He also concurred that many countries’ current account deficits are a major problem. “A number of countries that had graduated from the World Bank are asking for a de-accreditation so they will be able to receive money again,” Mr. Holzmann said. “If this continues, the real impact may be much larger, which will

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impact pension and healthcare systems.”

He said he also worried about the rate of return of the new funded pension systems. Poland has experienced a good rate of return, but other countries have seen mediocre or poor rates. Some countries are considering a return to unfunded systems.

Finally, the aging of the population and the potential decrease in labor force may have a negative impact on the implicit rate of return of an unfunded system, Mr. Holzmann noted. It could be up to negative 2 percent, which would have a major bearing on future retirement incomes and how the system should be structured.

GENERAL DISCUSSION

The discussion began with a comment that governments should be focused on sorting out social security systems—not bailing out bankers. Referring to the shortage of qualified labor, another participant noted that emigration is not the only factor. In many countries, there are marginalized groups, such as the Roma and other minorities, which need to be better integrated into society.

It was also noted that both unfunded and funded pension systems are at risk because of aging populations. For unfunded systems, there will be fewer workers to pay for a larger number of retirees. With funded systems, the effect will be felt wherever those with individual retirement accounts invest. As the population ages, there will be more sellers and fewer buyers of assets, so those holding the assets probably won't get the value they expect.

Another participant questioned whether growth forecasts for Central European countries are overly optimistic. Some do not take into account the fact that certain countries are experiencing a rapid shrinking of the labor market due to net emigration.

Ms. Simonyi noted that there is a related issue to the shortage of higher qualified workers. Many countries have large numbers of unskilled people who are out of the formal labor market.

In considering how to finance social security and health insurance systems, one participant urged countries with large informal sectors to look at their taxation policy. Responding to comments about the negative aspects of migration, a participant noted that it is a two-way street. Many countries rely heavily on remittance payments from workers who have migrated to wealthier countries.

**“COMPARATIVE
PERSPECTIVES ON
EXTENDING
WORKING LIVES: EAST-
WEST COMPARISON”**

Olivier Bontout
*Ministère des Affaires
Sociales, Paris, France*

Pension challenges exist because life expectancy is growing while employment rates are stable or declining, explained Olivier Bontout. In most EU member states, the dependency ratio today for the 60+ population is around 40 percent. But that figure is projected to increase to 80 percent by 2050.

Policies are evolving in an attempt to prevent such an increase of the pension systems dependency ratios (number of pensioners to the number of contributors). A key strategy is to increase the effective retirement age. “The role of longer working lives is essential to promoting future adequacy replacement rates and sustainability,” Mr. Bontout said. “One can see prospects in the different countries that will impact future pension expenditures.”

Despite recent improvements, employment rates in the EU still decrease quickly after the age of 55. “There has been improvement in provisions, but there are signs of divergence,” he said. “Some member states benefit more. There is no clear indication of a reduction of the gender gap, and there is some divergence between qualifications.”

Mr. Olivier Bontout,
Ministry of Social Af-
fairs, France, empha-
sized the need to
extend working lives.



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Regarding pension system reforms, countries are making changes to the retirement age and increasing flexibility around exit from the labor market. Self employment and part-time work are increasing and significantly contributing to growing employment rates of older workers. The opportunity to combine earnings and pensions is being offered by a number of member states. However, in addition to pension reforms, states must also look at how to improve the labor market.

Mr. Bontout described the problem of early exit from the labor market as stunning. “Working longer is a key component of achieving future adequacy and sustainability,” Mr. Bontout said. “We’ve seen progress, but there are areas of divergence.”

The contributions from working longer are expected to be higher in Central Europe than in Western Europe, which makes it all the more important to get adequate incentives into the reforms, he noted.

DISCUSSANT: BERND MARIN, EUROPEAN CENTRE, VIENNA, AUSTRIA

Commenting on Mr. Bontout’s presentation, Professor Marin pointed out the large disconnect between academic and public discourse. While most experts agree that working longer is essential, that idea is often not discussed among unions, business associations, politicians, etc. Instead, they extensively debate other solutions, which are unlikely to solve the problem.

He also stressed it is important to distinguish between population aging and longevity. In a solidarity pay-as-you-go system, increasing the formal pension eligibility age of 65 years would not technically be necessary until around 2025, but increasing the actual effective retirement age is important. However, some countries are choosing to inform their populations now about the changes necessary between 2025 and 2050—or to phase them in gradually to make an easier adjustment.

Finally, Professor Marin cautioned that labor participation rates often used by international organizations are a poor measure of countries’ progress in extending work life. He suggested that frequently the large cohort of early baby boomers is pushing up the overall labor participation

rate without changing actual retirement behavior. Therefore, this doesn't necessarily mean that the effective retirement age is increasing parallel to employment rates. He gave examples of countries where increased labor force participation rates go together with actual retirement age as evidence of this.

GENERAL DISCUSSION

There are important differences between men's and women's labor force participation patterns. It was suggested that the discussion is not so much about men working longer, but rather them working later, since many are holding off initial entry due to higher education. For women, there is a different model, whereby they enter early, leave to have a family, and then reenter the workforce. In addition, women have a longer life expectancy.

It was noted that governments have frequently promoted early exit—particularly when dealing with a tough economy. Unfortunately, policymakers that do speak out for prolonging work life are often punished by voters. Among the public, there is a major perception that early exit is a right. One participant suggested addressing this problem with age-sensitive taxation rates.

It is also important to consider that the transition from employment to pension often is not direct, another participant stressed. Some people may be unemployed, disabled or completely inactive in the interim. Thus, what public policy options will be relevant to this heterogeneous group?

Another participant raised the idea of policies that would encourage young people to have children sooner. She noted that Scandinavian countries' pro-family work policies have resulted in higher levels of female workforce participation and higher levels of fertility. She suggested that, in addition to prolonging work life, there are other ways to offset the dependency ratio. Countries can focus on bringing in people from the informal sector and encouraging workforce participation among women and the disabled.

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Another participant suggested that the real problem stems from labor market policies and practices. He recommended looking at hiring practices as well as concerns that wages often rise with age instead of productivity. Increasing on-the-job training opportunities and improving the work environment could also make a difference.

One participant noted that workers will have to face the reality that longer work lives are necessary to ensure their financial security. However, he suggested many people turn to retirement because they feel their skills have expired. He believes the solution is lifelong education.

In closing, Mr. Bontout highlighted the need to explore more about the differences between men and women's labor force participation, as well as the increase of initial education before entry. He also confirmed governments must look beyond just pension reform to changes in training, the work environment, etc. "We know one intervention alone is not enough," he said. "Different types of measures are needed, and not only from the pension-system side."

"SOME FACTS & FIGURES ON AGING IN EASTERN EUROPE"

Bernd Marin et al.

European Centre, Vienna, Austria

Bernd Marin offered an overview of and observations about the European Centre's chart book containing facts and figures on aging in Eastern Europe.

He began by noting that median age is a good indicator of collective aging. For instance, the US in 2005 is about as "young" or "old" as Germany was in the 1950s, and as Armenia will be in 2025. Countries relatively "old" in the 1950s, such as the United Kingdom (UK), may be among the "youngest" in 2050, as their median age will increase only 8.3 years over a century.

Conversely, the median age of previously much "younger" countries like Poland, Italy, Romania, Georgia or Armenia will increase 23 to 25 years within the same time span. Their median ages will be much higher than

that of the UK in less than two generations. In many cases, the majority of the population in these countries will be 50+.

Professor Marin also pointed to many other charts highlighting demographic indicators. Turkey for instance, is close to a classic population pyramid. Turkey in the 1980s looked similar to how Israel looks today. The US has a classic population pyramid above the age of 40, while Germany has one above 65 only.

Turning to fertility rates, Professor Marin noted that very few countries still have a total fertility rate above the reproduction level—Israel, Turkey and Albania. In contrast, a country like Italy is experiencing very early aging and has a higher old-age dependency ratio. Professor Marin also noted the shift in the make-up of the overall demographic dependency ratio. Hungary, for instance, will have the same overall dependency ratio in 2050 as it had in 1900. However, in 1900 there were six children for each older person, and in 2050 there will be two older people for each child.

With respect to early retirement, Professor Marin observed that the exception has today become the rule. As statistics highlight, rarely does anyone retire at the formal retirement age or later, whereas overwhelming majorities in most countries retire early.

The percentage of people who do work past formal retirement age varies greatly by country. They tend to be concentrated in the US and Scandinavian countries—and in some poorer countries where people have no choice but to continue working.

Regarding poverty, Professor Marin noted that, the overall risk is significantly higher in the West than the East. However, he noted poverty is a relative measure, and there are millions of people who have to live on less than US\$2.15 per day—or even on as low as US\$8.00 a month (Kyrgyzstan) or US\$5.00 monthly (Moldova). In addition, gender differences are much more pronounced in the East, especially for women living alone and above the age of 75.

Professor Marin concluded by highlighting a chart that looks at the degree of privatization in the health care sector. Ironically, Luxembourg (9% private health expenditures) and the UK (13%) have much more

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socialized health care systems than many Eastern European former Communist countries farther to the East. To illustrate this point, he noted Georgia (80% private), Tajikistan (78%), Azerbaijan (75%), Armenia (66%), Kyrgyzstan (60%), Albania (60%), Uzbekistan (52%), and Ukraine (47%).

GENERAL DISCUSSION

One participant raised the issue of negative life expectancy growth in Ukraine, Belarus, and Russia. He asked how that reality intertwined with expectations about the appropriate length of work life.

Professor Marin responded that extending working life is typically necessary because of extended life expectancy or later entry into the labor force. Ukraine, Belarus, and Russia are unique worldwide and should be treated as a special situation. “Unfortunately, we have other countries where the majority of the resident population —men and women—are not in paid work,” Professor Marin said. “This is a problem. Not even a minimum pension is sustainable on those grounds.”

Dr. Michael Landesmann, The Vienna Institute for International Economic Studies, noted the negative impact on long-term growth of the current financial crisis.



“THE MACRO-ECONOMIC CONTEXT AND PROSPECTS OF CEE COUNTRIES”

Michael Landesmann
The Vienna Institute for International Economic Studies (WIIW), Vienna, Austria

Over the last seven to eight years, there has been a “catching up” of income and productivity in CEE countries, Michael Landesmann said. The differentiation in the European economy gives a lot of hope for gaining from integration.

However, questions are arising about stability and sustainability. “We can see the instability of credit and financial markets, and there are problems around exploiting the potential of the labor market,”

Dr. Landesmann said.

Yet, Dr. Landesmann noted there has been some relaxation of external constraints to growth. His research looks in detail at the qualitative improvement of export performance and capacity. Internally, there is a more differentiated domestic economic structure, so countries are not having enormous gaps on the import side. There is also some relaxation in fiscal constraints looking backward, but that will likely change if the current global economic crisis persists.

Regarding labor market developments, there is low employment in new member states compared to the EU 15. One trend is a strong sectoral relocation of employment. In addition, Dr. Landesmann stressed that demand has strongly shifted toward high-skilled workers. This change is even more pronounced in Eastern than Western Europe, and supply-side adjustments are needed.

In Europe as a whole, it appears that poor regions are growing at faster rates than wealthier regions. However, Dr. Landesmann noted this trend is explained by high growth rates of new member states. Regions in older EU states that are poor are not catching up. In addition, within new member states, there is an increase in regional inequality.

Some countries have become very important locations for industry, and they are highly integrated into industrial production networks. “There is a strong industry phenomenon of outsourcing from Western Europe to Eastern Europe,” Dr. Landesmann said.

However, the situation in Commonwealth of Independent States (CIS) is quite different. “There is a huge problem with concentrating just on raw material-based industries,” Dr. Landesmann noted. “That is probably the most important industrial and growth problem in CIS countries.”

While Dr. Landesmann was optimistic about the long-term outlook for CEE countries, he worried about the medium-term outlook. “The global situation we’re observing now will likely disrupt the steady, high-growth path for four to five years,” he said. “On the employment side, I think we will see a sharp move from good to bad.”

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Dr. Landesmann worries that there is potential for the repeat of a Latin American scenario where growth policies in the 1970s were formulated with a particular external environment in mind. Once international rates of interest increased in the wake of a large US fiscal deficit, the growth process in Latin America collapsed. “Now the financial markets crisis will impinge on the sustainability of the fiscal situation and the current accounts situation and thus interrupt the growth process in the CEEs,” he said. “Over time it will provide medium-term and long-term pressure for more structural reforms.”

DISCUSSANT: HELMUT KRAMER

Helmut Kramer concurred with Dr. Landesmann’s conclusions. In particular, he agreed that the past Latin American experience appears relevant in some CEE countries.

In addition, Professor Kramer recounted that Polish, Hungarian, and Slavic cities seem to be filled with imported consumer goods—mostly Western brands. Despite the fact that income in those countries averages a third of that in Austria, the prices on imported Western goods are comparable. Professor Kramer worried that private savings may be low, which could cause problems in the long-term outlook. He also noted that many CEE countries are lacking in innovative efforts.

DISCUSSANT: ROBERT HOLZMANN, THE WORLD BANK

Mr. Holzmann suggested that demography will have a substantial impact on growth. He was not optimistic about the impact of people living longer with less young people to support them.

Regarding employment, Mr. Holzmann cautioned that if the labor market does not provide sufficient jobs for the older people, they will simply resist an increase in retirement age as they are afraid of being unemployed before retirement. The prospects for pension reform will be negatively impacted by unemployment.

With respect to financial markets, he noted that lending most often goes to consumers instead of producers. Much of this lending has been in

foreign currency, which creates a major problem once local exchange rates deteriorate. He further suggested that, in order to keep up future growth, countries must return to a culture of savings.

GENERAL DISCUSSION

Professor Marin questioned why CEE countries do not peg their currency to the Euro. He noted this strategy was successfully adopted by many countries before entering the EU. He also worried about regional disparities, not only economically, but also in health care and welfare indicators.

Finally, Professor Marin highlighted the importance of migration on differential growth rates. “If a third of the country leaves, you have a totally different growth potential than in a country which is growing,” he said. He suggested that sorting countries by this demographic indicator would give a more accurate perspective.

Dr. Landesmann agreed there has been a change in savings behavior. As household incomes rise, people tend to spend more and go into debt. Regarding innovation, he noted that countries going through change tend to copy rather than innovate. However, compared to income levels, these countries have a relatively high number of people in tertiary education, so there is potential for innovation in the future. Turning to the labor market, he wondered if the current economic crisis will lead to return migration.

With respect to pegging currencies, Dr. Landesmann noted that the most severe exchange rate crises have been in countries that tried to achieve a strong peg. In order to keep exchange rate stability, they have had to charge very high interest rates, which create enormous debt problems. On the issue of low-skilled workers, he noted that unemployment rates are extremely high. He suggested that the large informal sector contributes to some degree of underemployment.



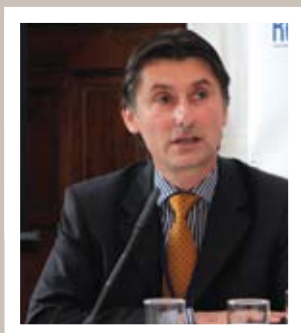
Session II:

**Demographic Developments and Population
Changes in the East in a Comparative View**

SESSION II

The session was chaired by Stepanka Pollnerova, Ministry of Labour and Social Affairs, Prague, Czech Republic.

Dr. Nikolai Botev,
United Nations
Population Fund,
expressed concerns
for potential inter-
generational conflict.



“DEMOGRAPHIC SPECIFICITIES AND CRITICAL CASES OF AGING IN CENTRAL AND EASTERN EUROPE”

Nikolai Botev
United Nations Population Fund (UNFPA)

Nikolai Botev argued that there are at least five features shared by many of the

countries in the region, which impact directly or indirectly on the process of population aging and its social and economic implications.

The first feature that Dr. Botev addressed was the adverse morbidity and mortality trends that many countries in the region have experienced since the late 1960s. While men in France have gained almost 10 years of life expectancy over the past four decades, those in Russia and Belarus have lost six years. “Often, the political discourse about aging revolves around the challenges of longer life societies,” Dr. Botev said. He pointed out that this excludes almost a third of the UN Economic Commission for Europe (UNECE) region where the populations are “aging without living longer.”

The implications of these trends are multifaceted. For example, they contrast with the widely discussed notion of extending work life. One of the most important facets is the unusually high gender difference in life expectancy, as the adverse trends have affected mainly men. In the Baltic countries, as well as in Belarus, Russia and Ukraine, the gender differences in life expectancy exceed 10 years. “This has important implications for living arrangements, care provisions, and income security in old age,” Dr. Botev said.

CEE countries are also unique in that many of them face negative natural population growth along with net emigration. This second demographic feature exacerbates aging, as it is young people who are more likely to migrate. Dr. Botev spoke about some of the other implications of this phenomenon, including the fact that part of the “demographic dividend” is sifted away through migration, the “brain drain/brain gain” dimension of migration, as well as the role of remittances.

Dr. Botev also suggested that it is important to consider the redistribution of care responsibilities for children across generations in emigration settings. In countries heavily affected by emigration, many grandparents end up caring for grandchildren whose parents are abroad.

A third feature Dr. Botev noted is that many CEE countries have experienced disordered cohort flows as a result of their stormy demographic past. “At the macro level, this requires infrastructural adjustments as cohorts of different sizes pass through different stages of their life cycle and place different demands on the specialized infrastructure to meet their demand for services,” he said. “At the micro level, they disrupt individual life cycles as people face a tighter marriage market, for example.” Dr. Botev pointed out that these distortions, along with the aforementioned issues with migration, put a particular spin on the notion of “sandwich generations” in CEE.

Fourth, Dr. Botev stressed that demographic changes in the region are occurring alongside major political and economic transitions. As a result, the inter-cohort differences are probably more pronounced in CEE than elsewhere in Europe (based primarily on the experience of the Communist Era). This creates a higher likelihood for intergenerational conflict. One manifestation is the debate around whether older persons or children are the true “losers” in the transition.

The fifth feature Dr. Botev noted is the earlier childbearing in CEE, which could also impact intergenerational relations. “Does one relate differently to parents and grandparents if the generation gap is 20 years instead of 38?” he questioned.

Dr. Botev closed by highlighting three cases of aging he deemed

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particularly notable. The first involves those countries in the region that are the oldest and are experiencing significant population decline. The second refers to countries like Armenia and Moldova that have experienced abrupt declines in fertility, coupled with massive emigration. As a result, the pace of aging is unusually high. Third, he pointed to the Central Asian countries, which have relatively young populations, and are only now entering the era of demographic dividend. He suggested their focus should be on the creation of a favorable policy and institutional environment so that they can benefit fully from this window of opportunity before it closes.

DISCUSSANT: DIMITER PHILIPOV, INSTITUTE OF DEMOGRAPHY, AUSTRIAN ACADEMY OF SCIENCE

Dimiter Philipov noted he would like to hear more specifics in fertility that underlie population aging, as well as the demographic dividend. The prevalence of widowhood raises a number of social issues, he noted.

Dr. Philipov also emphasized the diversity of the more than 30 countries in the region. Some like the Czech Republic and Estonia are similar to the West, while others like Russia and Moldova are far less advanced in terms of demographic change. Finally, he noted that premature policies can have a large impact on distorted cohort flows. He pointed to Romania as an example, where enforced pronatalistic policies more than 30 years ago created a baby boom not seen in neighboring countries.

GENERAL DISCUSSION

One participant suggested it would be nice to have more research on how socioeconomic class impacts life expectancy. Another was interested in further exploring the impact of shorter gaps between generations.

Professor Richard Rose of the University of Aberdeen, UK, suggested that more attention should be paid to Turkey because its rapidly expanding population will soon surpass that of Germany. Turkey's proximity to CIS and CEE makes it an important factor in labor force migration, and it also has a growing working-age population with unusual labor force participation rates among men and women.

Dr. Botev agreed it is important to address the heterogeneity in CEE countries. He also concurred that the impact of socioeconomics on life expectancy is an understudied issue, as is the impact of the shorter mean length of a generation.

“THE UNIQUE AGING PATTERNS IN CENTRAL AND EASTERN EUROPE: A GLOBAL VIEW”

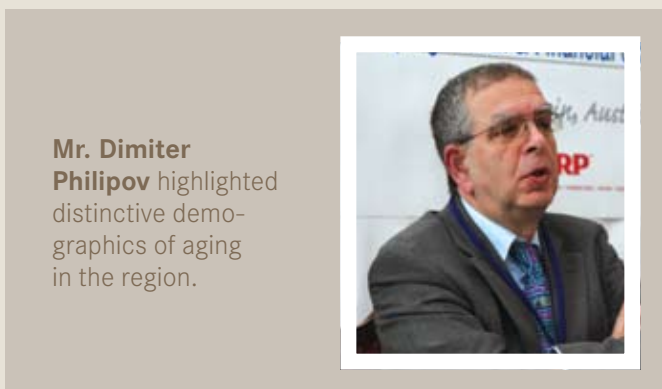
Dimiter Philipov
*Institute of Demography,
Austrian Academy of Science,
Vienna, Austria*

Between 1970 and 2007, Western Europe and Northern Europe saw gradual changes in their total fertility rates, opened Dimiter Philipov. In contrast, Southern Europe experienced rapid declines, and Eastern Europe saw a swift decline as well after 1989.

Eastern Europe witnessed a transition from universal childbearing to voluntary childlessness, Mr. Philipov noted. The single-child family became prevalent, and women began having children later. Eastern Europe also saw an emergence and spread of extra-marital unions and childbearing.

Mr. Philipov explained that these fertility changes have implications for aging in Eastern Europe. As of 2005, Eastern Europe has been experiencing rapid shrinking of the population aged above 15, as the smaller cohorts born after 1989 reach age 15. Change is occurring much more rapidly than it did in Western, Northern, or Southern Europe. In contrast, the effect of mortality changes on aging is currently moderate in Eastern Europe compared to other European countries. Projections reveal a tendency toward an increase in the effect of mortality.

Mr. Philipov also highlighted the effect of migration on aging. Since



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the median age of migrants is typically lower than the median age of receiving populations, positive net migration slows aging. Conversely, negative net migration accelerates aging. One key question is what the effect of migrants' fertility will be in the long run.

Turning to European trends in aging, he noted that aging will continue after 2050 in Eastern Europe, with a temporary plateau in 2010. Aging will be highest in Central Eastern Europe, lower in the Baltics, and lowest in the Balkans.

Regarding old-age dependency ratios, Northern, Western, and Southern Europe will see acceleration after 2010 due to the 1950s baby boom. But their ratios are expected to decelerate and level off between 2040 and 2045.

In Eastern European countries, old-age dependency ratios will decelerate temporarily around 2010, and then accelerate due to the swift change in fertility. They are expected to continue to rise after 2050, Mr. Philipov noted. However, in terms of total dependency ratio, Eastern European countries will experience a demographic dividend until 2020.

In summary, Eastern Europe will experience only modest aging in the short run, followed by subsequent acceleration for about a decade. Then, there will be a steady increase beyond 2050.

Professor Rainer Münz, Erste Group Bank AG, gave an in-depth report on migration patterns' impact on aging trends.



“AGING AND MIGRATORY FLOWS: EAST-WEST AND EAST-EAST”

Rainer Münz
Erste Group Bank AG, Vienna, Austria

During the so-called baby boom of the 1960s and early 1970s, the population of Western Europe was

increasing mainly because of an excess of births over deaths, Rainer

Münz explained. However, since the mid-1970s, population increase in Western Europe has been mainly due to migration.

In contrast, the population of Central and Eastern Europe had reached its historical maximum in 1900. Since then, total population has been declining both as a result of an excess of deaths over births (war and other unrest) and net losses resulting from migration. Professor Münz expects this divergence to continue for quite some time.

Until the 1960s, most countries in Europe had experienced 200 years of net emigration. “Between the 1960s and 1990s, you can see a full change from net losses to net gains from migration in Western Europe,” Professor Münz said. “More and more parts of Europe are becoming immigration countries after having been emigration countries for decades or even centuries.”

During the period of communism, mass emigration from Central and Eastern Europe mainly occurred during times of political crises. The main exception to this rule was the politically brokered emigration of specific minority populations like Jews and ethnic Germans. “After 1990, the restrictions were no longer made by CEE countries, but instead by the West,” Professor Münz observed. “The West had open borders with Central and Eastern Europe as long as there was an Iron Curtain.” Later on, Western Europe started to invest in border controls and restrictive visa regimes. Today—after EU enlargement—the main barrier is no longer between the eastern and the western part of Europe, but between EU member states on the one side and non-EU states on the other side.

In recent years, the EU as a whole reported population increases of 1.5 to 2 million people annually, Professor Münz noted. Eighty to 90 percent of this population growth has been due to net immigration. Some Western European countries, including Austria, the UK, Ireland, and Spain, are experiencing both a surplus of births over deaths and net immigration. Others, like Germany and Italy, have more deaths than births, but a positive migration balance.

For Central and Eastern Europe, the story is more mixed. Countries like the Czech Republic, Hungary and Slovenia have had net immigration

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since the 1980s. Bosnia is experiencing return migration of former refugees.

Professor Münz predicted that other parts of Central and Southeastern Europe—namely Poland, Bulgaria and Romania—will follow this path, as there are indications that the outflows are becoming smaller. He also expects that the economic downturn will contribute to return migration from the UK and Poland.

There is significant mobility from “new” to “old” EU member states, but also among the 15 pre-enlargement EU states (EU 15) and to a smaller extent among “new” EU member states (EU 10). Germans, for example, are the most rapidly growing group of immigrants in Austria. Poles, in recent years, have moved in large numbers to the UK and Ireland; Romanians have gone to Italy and Spain.

Immigration to the “new” EU member states has been rather small. Ethnic Hungarians and other immigrants from Romania are the largest foreign-born group in Hungary. Slovaks constitute the largest group of foreigners in the Czech Republic. In total, the immigrant stock is much larger in Western Europe than in Central and Southeastern Europe.

According to demographic projections by Eurostat, the total population of EU27 will grow from 500 million people today to 521 million in 2035 and then start to decline. As in the past two decades, growth will be concentrated in EU15 while Central and Southeastern Europe will continue to shrink demographically. Western Europe’s population will grow from 397 million today to 425 million in 2050. Central and Southeastern Europe’s population is likely to decrease from 102 million today to 89 million in 2050.

Professor Münz suggested two ways Central and Southeastern European countries could mitigate population decline. First, they could pursue return migration of those living abroad. Second, they could look for new immigration from other parts of the world. For example, Romania recently signed an agreement with China to allow Chinese workers to work there. “I don’t think the story will be as bleak as it is painted by some population projections,” Professor Münz closed.

DISCUSSANT: DIMITER PHILIPOV

Dimiter Philipov began by raising concerns about the data on migration. For example, Germany may list a certain number of immigrants from Austria, and Austria may list a completely different number of emigrants to Germany. “These mismatches can be enormous,” he said. “They give a biased picture of some other indicators of fertility and aging.”

Dr. Philipov also commented that achieving population replacement through immigration is impossible from a practical standpoint.

DISCUSSANT: NIKOLAI BOTEV

Nikolai Botev emphasized that Central and Eastern Europe are becoming increasingly complicated in terms of migration flows. “Traditionally, we talk about Central and Eastern Europe as one large region of origin of migration,” he said. “But now we have countries like the Czech Republic and Slovakia that are primarily countries of destination. Then, we have Russia, which is both a country of origin and destination.”

Dr. Botev also noted that these flows differ in terms of characteristics of migrants, such as age and education level. In addition, he suggested more discussion is needed about the volume of remittances, which in some cases is higher than foreign direct investment. Finally, it is important to consider how migratory flows affect intergenerational relationships.

GENERAL DISCUSSION

During the discussion, one participant raised the issue of transferability of pension rights. Professor Münz noted that currently most people are at a disadvantage in terms of old age pension if they move around from country to country.

Another participant wondered about the political implications of migration within Europe. He asked whether the EU should consider further regulation. Professor Münz noted the EU has moved toward a liberal approach of letting people live wherever opportunities are best for them. However, some EU member states—in particular, Germany and

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Austria—still restrict access to their labor markets for citizens of new EU member states, but these restrictions are temporary.

“On one hand, we are fighting for our citizens to be able to go abroad and send remittances,” he said. “But at the same time, we say they’re not doing enough to take care of their parents. The migrant always can be criticized for some reason.”

Professor Richard Rose, University of Aberdeen, noted that health and stability are as important to older persons as income.



“OLDER EUROPEANS, EAST AND WEST”

Richard Rose
*Centre for the Study of
Public Policy, University of
Aberdeen, UK*

People in retirement are looking to secure a stable equilibrium, and health is of central importance, Richard Rose explained. Instead of

seeking to maximize pension incomes, older people may try to satisfice, that is, guard against the threats of advancing age.

Retirees do so by trying to maintain a portfolio of resources that includes welfare benefits, but also social capital and emotional capital, Professor Rose continued. Pension incomes are not the core concern of older people. It is health, not pensions, which tends to be their biggest priority. Health is affected by continuities, such as the resources people accumulate throughout life, as well as discontinuities arising from advancing age.

In CEE countries, societal transformation has been a major cause of discontinuity. Tens of millions of Europeans now in retirement suddenly found that the society they had lived in for all of their adult lives became abruptly subject to multiple transformations beginning in 1989.

Professor Rose examined the consequences of this transformation on

the health of older people. He used a bottom-up perspective, drawing on surveys of the health and living conditions of more than 20,000 adults interviewed in the “Life in Transition” survey of the European Bank for Reconstruction and Development. His analyses shows strong support for hypotheses about the impact of human capital and economic capital—but not necessarily pensions. In addition, there is some impact of the legacy of having lived in the former Communist countries. The least support is shown for the influence of social capital networks on health.

Professor Rose emphasized that good health is consistently one of the top influences of life satisfaction—even more important than income or related economic characteristics. “While public expenditure on pensions cannot prevent the reduction in health associated with aging, spending on health care is of direct benefit in helping retired people maintain a stable equilibrium,” he suggested. State-funded health insurance not only reaches the older poor, but also households with adequate resources for everyday needs—but not expensive hospital treatment.

When the “Life in Transition” survey asked all age groups about their first priority for additional public expenditure, health came first. Thus, health expenditure has a cross-age appeal from a policy perspective. Professor Rose emphasized, “The quality of a national health service can have a bigger impact on the well-being of older people than a marginal increase in the state pension.”

Moreover, if older people perceive the quality of the state health coverage positively, its accessibility reduces anxieties about the risk of needing treatment. “Insofar as a government is concerned with reducing poverty among its citizens, whatever their age, it would be more effective to improve means-tested benefits to people regardless of age rather than boost pensions for older people,” Professor Rose said.



Session III:

**Economic Security and Pension Reform and
Adequacy in Central and Eastern Europe**

SESSION III

This session was chaired by Dalmer Hoskins of the U.S. Social Security Administration, USA.

“PENSION REFORM IN CENTRAL AND EASTERN EUROPE: PENSION ADEQUACY IN NINE COUNTRIES”

Robert Holzmann

The World Bank, Washington D.C., USA

In many countries of Central, Eastern, and Southern Europe (CESE), pension reforms have raised questions about future benefit adequacy, Robert Holzmann explained. He explored this issue by estimating replacement rates in 2040 for nine CESE countries by looking at income and contribution records. Prior to the reforms, most countries' pension systems were experiencing increasing deficits, which were aggravated by the transition from central planning to a market economy. The systems were also growing more unsustainable in the face of rising old-age dependency ratios.

Currently, the countries studied have multi-pillar systems that all include a means-tested, non-contributory basic benefit. The other pillars consist of mandated, earnings-related public pensions and/or private pensions, and in all cases voluntary private pensions. Mr. Holzmann emphasized that he considers public health insurance an important pillar as well.

In looking at the replacement rates for 2040, he noted there is a wide variety. Bulgaria has a replacement rate of over 70 percent, while countries like Serbia and Croatia are much lower. Most of the countries studied are at around 60 percent.

“In general, replacement rates for full career workers are in line with regional averages and international benchmarks,” Mr. Holzmann said. However, replacement rates for partial career workers signal the importance of continued formal labor market participation. He further noted that all countries have voluntary retirement savings schemes, but they are relevant only for middle- and high-income groups.

Progress on fiscal sustainability has been made in some—but not all—



Mr. Robert Holzmann, World Bank, examined the adequacy of public pensions in the region.

countries. He suggested countries transitioning to privatization need to rethink how to finance the transition deficit.

He also cautioned that more employment is not the “silver bullet” for an unsustainable system. Finally, he noted that pension funds need to improve their financial performance to live up to expectations.

DISCUSSANT: ASGHAR ZAIDI, ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD)

Asghar Zaidi noted that “adequacy” refers to more than simply employment income replacement rates. “I think more in terms of risk of poverty, poverty gap, and wider income distribution among seniors,” he said. Linked with this comment was his interest in asking for an analysis to show how reforms affect specific workers in different income brackets. He said this would allow for a more accurate picture of the success of reforms in each country.

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DISCUSSANT: OLIVIER BONTOUT

Olivier Bontout noted that replacement rates are used in the European context of the Open Method of Coordination (OMC). They are one of the indicators that make it possible to monitor “adequacy,” when they are complemented by supplementary information regarding representativeness of the cases.

As in the OMC, context replacement rate calculations are based on typical theoretical cases and standard common assumptions, which can lead to different types of effects. Mr. Bontout wondered to what extent this may affect comparisons among different states regarding the relative strength of the different effects. For instance, could projected evolutions (declines) of replacement rates be underestimated due to actual lower contributions length than in the assumptions of full careers of 40 years? Could differences between actual parameters and theoretical assumptions be different among member states, for instance, according to wage profiles or genders?, he asked.

Mr. Bontout noted that the projected decline of replacement rates after pension take-up appears generally substantial. He suggested these results may reflect current rules that make it difficult to sustain when further additional demands for revaluation of pensions in the future could be expressed. He wondered to what extent the implicit choices had been the subject of debates between first replacement rates levels, indexation rules, and degree of coverage of health and long-term care expenditures for the older people.

GENERAL DISCUSSION

Elaine Fultz of the ILO asked about the role of transitional financing costs of privatization in causing benefit replacement rates to decline. She said the ILO office in Budapest did a series of national studies on pension reforms. “In all cases, we saw declining replacement rates over time,” she said. “We tried to figure out how much of that was caused by the transitional financing costs of privatization—the hole created by diverting part of the contribution revenues to the new private individual accounts.” In Poland, for example, the hole was quite large.

“THE NEED OF INTERGENERATIONAL EQUILIBRIUM: GOING BEYOND PARAMETRIC ADJUSTMENTS WITHIN PENSIONS SYSTEMS IN EUROPE”

Marek Gora

*Warsaw School of Economics,
Warsaw, Poland*

Professor Marek Gora, Warsaw School of Economics, noted that as long as pensions are connected to wages, there would be a sustainability problem.



“Our population structure has undergone a fundamental change and so must our pension systems,” explained Marek Gora. He noted that traditional pension systems were developed during a time when there were many people coming into the workforce and few people leaving it. Now, the challenge is to bring pension systems back to a reality where they fit the new demographic structure.

Professor Gora cautioned that some wealthy countries mistakenly believe that the situation can be solved by improving GDP performance. “The pension problem is not a problem of the scale of GDP—it’s how to divide that GDP,” he said. Moreover, as long as pensions are related to wages, the problem is unsolved.

The first step, he suggests, is to detach wages from benefits. Other strategies for rationalization of the system include increasing pension eligibility age, increasing formal labor participation, reducing indexation of benefits, and increasing contributions. “What we need in response to this deep demographic change is a fundamental change of our approach,” Professor Gora emphasized. “In the past, the key goal of the pension system was old-age poverty alleviation. Now, it must shift to income allocation over the life cycle.”

Professor Gora also stressed that it is critical to think about the interests of all generations. Up until now, the interests of the retired generation were valued higher than those of the next generations, he argued.

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Professor Gora suggested pension reform should aim at the intergenerational equilibrium, which can be reached if the entire universal/mandatory system is based on individual accounts. In such a system, pension rights are constantly valued and the system is automatically adjusted.

He explained that using financial markets—although possible—is not crucial for the system. The role of the state is simply regulation and supervision. Although automatically adjusting and possibly privately run, the system itself stays public and aims at social goals. “We need a system that allows us to adjust to demographic change instead of requiring us to reverse it,” he closed.

DISCUSSANT: OXANA SINYAVSKAYA, INDEPENDENT INSTITUTE FOR SOCIAL POLICY, RUSSIAN FEDERATION

Oxana Sinyavskaya stressed that poverty alleviation is an important goal of the pension system. If a country agrees to limit the contribution rate, but life expectancy increases, there could be many more poor older people who need to be supported. “We can’t put poverty alleviation aside from the pension system,” she said.

Ms. Sinyavskaya also had questions about the idea of individual accounts. “Isn’t there high uncertainty about the size of benefits?” she asked. “How can the state predict how much money it will need to finance extra poor people?” She also suggested, for individual accounts to work, the public must be very informed.

GENERAL DISCUSSION

Professor Marin stressed that fairness in pension benefits is the most important thing when considering pension reform. “Rhetorically, everyone agrees on the principle of fairness, but it’s much harder to put into action,” he said. In many cases, early retirement is heavily subsidized, and people who work longer are taxed. “That is why they retire early,” he said.

Another issue is that, as demographics change, there will be more people sharing the same size pie. Professor Marin suggested that it

might make sense to revisit how resources are distributed if there is an increasing number of older people and fewer young people. On the flip side, countries need to consider the changing definition of “old” when deciding the retirement age. If a country gains six years of life expectancy, isn’t it reasonable to expect that people work two years longer?

Another participant stressed that pension adequacy is essential to healthy aging. She worried that others were advocating for a move away from systems based on social solidarity.

Professor Gora responded that poverty alleviation can be more efficiently delivered if financed out of general revenues not via pension systems. Given the demographic change, traditional systems (not using individual accounts) lead to over-generosity (present value of benefits higher than present value of contributions paid) of benefits as compared to under-remuneration (net remuneration strongly reduced) of economic activity of the working generation. “Being forced to finance expensive benefits causes some workers to fall into poverty,” he said. “It is a question of fairness and justice.”

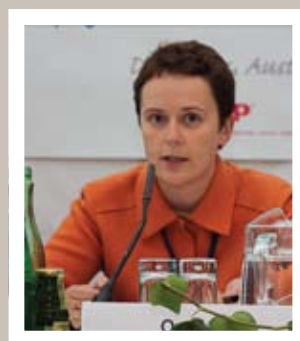
“There is a fallacy that sorting out fiscal sustainability creates adequacy problems,” Professor Gora continued. “If a system is not sustainable, it can’t provide adequate benefits.” He closed by suggesting that the goal of attaining decent pensions should go hand in hand with the goal of attaining decent wages.

“RUSSIAN PENSION REFORM IN A COMPARATIVE PERSPECTIVE”

Oxana Sinyavskaya
Deputy Director, Independent Institute for Social Policy, Moscow, Russian Federation

Russia’s journey of pension reform has been influenced

Ms. Oxana Sinyavskaya, Independent Institute for Social Policy, Moscow, reviewed the complex reforms of the Russian pension system.



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by some unique factors, explained Oxana Sinyavskaya. Life expectancy in Russia has declined during the past four decades, so the government has been reluctant to consider increasing the pension age. In addition, during the economic transition, Russia experienced relatively stable employment, but wages decreased substantially.

Regarding the evolution of Russia's pension system, Ms. Sinyavskaya noted that the Soviet system had a defined-benefit, pay-as-you-go approach that involved separate systems for different groups of workers. However, inactive groups and the self-employed were not covered.

In 1990, Russia failed in its attempt to create a universal pension. Russia then began considering a multi-pillar pension system. The first proposal in 1995 involved minor modifications like voluntary occupational and individual private pensions. Then, in 1997, Russia explored a Chile-inspired approach of a mandatory, fully-funded system with means testing for the uninsured.

But it was a 1998 compromise, inspired by Polish and Swedish reforms, which gained traction with the idea of notional accounts. However, reforms were delayed for a few years due to the financial crisis of 1998—and the proposal was modified.

In 2002, Russia launched the pension reform. The idea, Ms. Sinyavskaya noted, was to create a three-pillar system. The first pillar would consist of a basic pension for all and “public” pensions financed from general taxes. The second pillar would involve defined-contribution pay-as-you-go plus funded labor pensions, and the third pillar would be voluntary pensions.

In the framework of this reform, Russia enacted laws to provide for state ownership of mandatory pension savings, which would be managed by a state managing company by default or by selected private managing companies. There would be no employee contributions—only employer—and the second pillar pensions would have a fixed denominator. Unfortunately, that meant the system would be in deficit if life expectancy were to increase. “The aims of the pension reforms were to strengthen the link between contributions and pensions, increase real

pension benefits, and create a sustainable system,” Ms. Sinyavskaya said.

In reality, although poverty levels among Russian pensioners are low, the average pension is decreasing relative to average wage. In addition, benefits are becoming flatter and less dependent on wage history. Also, most of the working-age population does not understand the system.

Russia is also experiencing a pension fund deficit, which is currently being covered by a federal budget transfer. However, long-term sustainability remains a question. Ms. Sinyavskaya suggested the system will be most strained in 10 to 15 years.

DISCUSSANT: ASGHAR ZAIDI

Russia is risking repeating the mistakes of other countries, Asghar Zaidi cautioned. “We know when a pension benefit becomes flat rate, it creates a disincentive toward work in the formal sector and also in private savings,” he said. “The fixed denominator, which does not provide for adjustments to life expectancy, is another area where so many countries have learned the hard way.”

Dr. Zaidi also suggested that Russia should be doing more to make people aware of how the pension system works. Finally, he cautioned that tax incentives tend to benefit more often those who are already better off.

GENERAL DISCUSSION:

Mr. Hoskins noted that the issue of employer/employee compliance is extremely important. “All of our reform designs are based on the fact that people are documented and paid,” he said. “In the United States, we estimate that 10 to 15 percent of wage earnings are not being captured by the system. In many Eastern European countries, this figure could be as high as 35 or 40 percent.”



Session IV:

**Poverty and Living Standards of the
50+ Populations in Central and
Eastern Europe**

SESSION IV

The session was chaired by Edward Johns, Office of International Affairs, AARP.

Dr. Ashkar Zaidi, European Centre, focused on the comparative, as well as absolute, definitions of poverty.



“POVERTY AND INCOME INSECURITY IN OLDER AGES”

Asgar Zaidi
Organisation for Economic Co-operation and Development (OECD), Paris, France

In discussing poverty and income insecurity in old age,

Asgar Zaidi began by outlining conceptual, empirical, and contextual issues for consideration. “The first challenge is how to define old age,” he said. Some use the entry into retirement as the threshold, while others look to pension eligibility age or age thresholds such as 50 or above, or 65 or above.”

Empirically, researchers must resolve whether income is a sufficient yardstick to measure resources in old age, Dr. Zaidi noted. Other factors to be considered include personal or household assets, public goods provided by the state, and home production. In addition, Dr. Zaidi stressed that data reliability is the hardest part of cross-country comparisons.

From a contextual standpoint, experts should consider that the majority of pension systems are no longer financially sustainable. “Reforms are imminent, and often they’re driven primarily by fiscal concerns,” Dr. Zaidi said. “However, the impact on adequacy of pension incomes needs to be assessed more carefully.” The current financial crisis will add to concerns about the adequacy of pension incomes of future retirees.

Although countries have undergone enormous changes in the past decade, some pension systems still operate the way they were initially

conceived. “We need to consider the impact of greater educational attainment and labor market participation of younger women,” Dr. Zaidi said. “Increased migration and job mobility are also important factors. For example, we know very little about the portability of pensions and their impact.”

Dr. Zaidi noted that, among OECD countries, there has been a major shift in poverty risk over the last two decades. Poverty among older people has decreased while child poverty has increased, according to OECD definitions. The 50+ have also seen improvement in their relative income.

Turning to cross-country comparisons, Dr. Zaidi said that—with respect to income poverty—older people in Eastern Europe are “less often” poor than those in Western European countries. However, he noted that this result may be due to a nuance in definition – relative vs. absolute measures. “We call it poverty, but in fact it is the position of older people relative to the rest of society.” Indeed, the income levels at which people are categorized as “poor” differs widely across countries. “This is one of the strongest areas of debate,” Dr. Zaidi said. “Eastern European countries do not agree that this type of relative poverty threshold captures the actual situation.”

To illustrate this point, when people are asked about their capacity to face unexpected expenses, those in Eastern European countries fare much worse than their Western European counterparts. “We should be looking at a more complete, multidimensional measure of poverty than focusing solely on income,” Dr. Zaidi said.

Regarding future pension policies, Dr. Zaidi stressed that it is important to rethink the role of survivor benefits. “There is a disincentive for women to return to work,” he said. “The system made sense when there was a single male breadwinner model, but we need to move on. The question is how to best compensate mothers for childcare responsibilities without affecting incentives for them to return to work.”

Dr. Zaidi also called for more discussion about the pension rights of migrant workers. In addition, he questioned the usefulness of financial education initiatives, saying they have not been shown to affect behavior

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(although these programs raise awareness). “We need simple, direct policies to address poverty in old age,” Dr. Zaidi concluded. “Universal pension is one robust way to provide suitable social safety nets to older people.”

DISCUSSANT: ELAINE FULTZ

Elaine Fultz concurred that poverty rates among older people are becoming relatively lower than those of younger people. She added that advocates for older people must keep in mind that older people also care about younger generations.

Regarding the need for a universal minimum benefit, Ms. Fultz emphasized that there is chronic underreporting of wages in many Central European countries. This results in underpayment of pension contributions, which she likened to a ticking time bomb.

There are many people nearing retirement who have worked for years, but have paid little or no contributions into the system—thus their pensions will be inadequate. “In the short term we need to think about what to do with these people, and a universal minimum might be part of that,” Ms. Fultz said. “But in the long term, we need to find new ways to collect social insurance contributions that are due by law, but are not being collected due to informality or widespread evasion in the formal sectors.”

Ms. Fultz also stressed that poverty tends to be a gender-related issue. “Women have lower wages, lower pensions, and live longer—often alone,” she said.

Finally, Ms. Fultz touched on the issue of migration. Increasingly, older people are being left to care for grandchildren as parents migrate in search of employment. In some cases, they experience extreme hardship when the remittance payments they depend on cease.

Pension reciprocity between countries is also an important issue. Both the ILO and the EU have conventions suggesting a framework, but it is difficult to negotiate when some countries experience predominantly one-way migration.

GENERAL DISCUSSION

Manfred Huber of the European Centre opened the discussion by comparing financial literacy with “social policy literacy” more broadly. “There are increasing numbers of people who cannot navigate our social policy systems, and education could perhaps play a role there,” he said.

Professor Gora’s responded that the lack of credibility in the financial system can, to an extent, be provided by governments. However, with the pension system, real economy products are needed, which goes beyond governments’ ability to provide. He also suggested that initiatives to increase financial literacy should be thought of as a long-term investment. Much repetition is needed in order for people to internalize the messages and change their behavior.

Professor Marin concurred with Mr. Huber that pension literacy is what is really needed. In his experience, many so-called educated people know little about life expectancy and what it means to their retirement.

Dr. Zaidi acknowledged that financial education does raise awareness. In addition, in the particular case of older workers becoming aware that they will get less by taking early retirement, it also affects their behavior. This is obvious from recent evidence of rising employment among older people in many European countries. “The key point is that we have to figure out which specific awareness campaigns are effective in generating the type of behavior we want,” he said.

Finally, Dr. Zaidi challenged Ms. Fultz’s assertion that old age poverty will remain a gender issue. “The group of women we should be thinking about for future pension policy are women aged 35 to 40 now,” he said. “This is a group that expects to have very similar work experiences as men. One definite area to sort out is how to properly compensate for childcare absences.”

SESSION IV

“WELL-BEING OF OLDER PEOPLE IN AGING SOCIETIES”

Asghar Zaidi

*Organisation for Economic Co-operation and Development (OECD),
Paris, France*

Considering gaps in conventional poverty research, Asghar Zaidi noted that most analyses fail to take into account that health is important in determining the financial well-being of older people. “The additional financial costs of disability are not captured by the analysis of income status alone,” he said. “As people grow older, they often face debilitating and costly health problems.”

In addition, people are now experiencing longer retirement duration than ever before. “It is therefore important to get a picture of income experience in retirement, which is a novel way of measuring income insecurity,” Dr. Zaidi stressed. Traditionally, researchers have looked only at the time of transition to retirement—or at a snapshot during retirement.

“We also need to look at family, employment and living arrangement experiences people have in retirement that affect their income,” Dr. Zaidi added. “Widowhood, for instance, is a critical life-course event that often happens in retirement. We need to be aware of its economic impacts and how they differ across different welfare states.”

The OECD book “Wellbeing of Older People in Aging Societies” looks at the personal well-being of older people in three different ways. One is a multidimensional perspective that combines health and income. The second is through income experience, which takes into account a nine-year period in retirement. Finally, the book takes a comparative perspective of how people are treated in different institutional systems. For example, it compares the economic impact of widowhood in the Netherlands versus the UK.

Dr. Zaidi believes his analysis makes a strong case for developing robust, disability-adjusted measures for adequacy of pensions. “If we do not correct for financial costs of living associated with disability, we underestimate the extent of poverty among older people,” he said.



Jessica Frank, AARP; **Ashgar Zaidi**, European Centre; and **Elaine Fultz**, ILO Moscow, discuss the session.

Regarding his income experience analysis, Dr. Zaidi said it can help identify the processes that generate changes in income. “That will be a much richer analysis of income security,” he suggested.

Looking at income trajectories data, Dr. Zaidi concluded older people experience more income mobility than previously assumed. “That is a sign of income insecurity,” he said. “The evidence suggests there is a need to be studying income experience during old age and its underlying factors.”

In summary, Dr. Zaidi called for robust, disability-adjusted poverty measures, and he stressed that income experience is a justified indicator of income insecurity. “We need to develop more indicators, and governments as well as individuals need to find better safeguards against income mobility risks—especially in view of longer retirement time,” he said. “This is also important because, in the future, we’ll be relying on more diverse and potentially volatile sources of income.”

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DISCUSSANT: ALEXANDRE SIDORENKO, DEPARTMENT OF ECONOMIC AND SOCIAL AFFAIRS, UNITED NATIONS

“It is refreshing to see Dr. Zaidi look at the effect of disability on aging,” Alexandre Sidorenko said. “Too often, people ignore the life experience of older persons once they are past retirement age. We keep preaching that aging is not a disease, but it does affect the prevalence of disability.”

In addition, while Dr. Zaidi shows that disability’s effect on income is important, his work suggests there may also be other factors in assessing life in old age.

Regarding policy implications, since retirement is not a “flat” experience, Dr. Sidorenko suggested that a variety of approaches are needed. However, he questioned whether these approaches would be applicable to developing countries and countries in transition.

DISCUSSANT: PIETER VANHUYSSSE, HAIFA UNIVERSITY, ISRAEL AND EUROPEAN CENTRE, AUSTRIA

Pieter Vanhuyssse praised Dr. Zaidi’s work and urged him to further widen his analysis in order to more fully incorporate the theoretical-philosophical capabilities approach of economists like Amartya Sen into actual policy analysis. “Many people have briefly mentioned the impact and importance of institutions,” Dr. Vanhuyssse said. “This goes beyond just pension systems. Different rich democracies cluster package deals of social rights that affect how they offer citizens ‘cradle-to-grave’ capabilities.”

These welfare regimes differ not only in terms of income adequacy to pensioners, but also in the degree to which they are biased toward different generations. “You’ll find some with a pro-elderly bias and some that are more balanced,” Dr. Vanhuyssse said. “If we are worried about pension adequacy, we must worry about people who are 40 today.” Dr. Vanhuyssse suggested that, from a cross-national policy perspective, Nordic countries do a good job of achieving balance between generations and of simultaneously preserving the fiscal basis of welfare states. They do so through uncommonly high female labor market participation rates, even among older workers.

Dr. Vanhuyse also highlighted the need for new policy ideas regarding the development and provision of better public policy “sticks and carrots” aimed at increasing the fiscal basis of pension systems. In particular, he called for new incentives to participate in the labor market until and even beyond official retirement age.

GENERAL DISCUSSION

Professor Rose opened the discussion by highlighting the importance of considering the ratio of capacities to needs. “The income is meaningless unless you look at the other side...and how it changes over time.” Professor Rose also extended the notion of disruption to include a systems perspective.

Regarding the debate over financial education, Mr. Holzmann noted the World Bank is developing methodology to measure financial literacy as well as the effectiveness of financial education instruments.

Professor Marin commented on the importance of income experience regarding income security. He suggested two new indicators that should be covered in mapping old-age financial security—income composition and income stability. He further suggested income composition could be compared across countries and also across income brackets in individual countries.

Another participant noted that many people living with inadequate pension income develop coping strategies to survive. “The greater one’s ability is to exchange help with friends and neighbors, the greater the ability to maintain well-being,” he said. “This is very important in Eastern European countries, and familial ties are strong in Southern European countries.”

Professor Gora pointed out that 55+ is quite a different phase of life from 75+. He worried that those in the 55+ bracket desire retirement and underestimate the human cost of being out of the labor market. In addition, they don’t think long-term about how early retirement contributes to lower future income. He suggested low retirement ages are an institutional trap driving people toward those mistakes.

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In response, Dr. Zaidi clarified that his methodology for assessing incapacity used a framework with 36 questions on all types of health-related measures. Turning to the question about whether his research applies to developing countries, he reiterated that the main message is “you don’t want to rely only on a single snapshot.” Finally, regarding coping strategies, Dr. Zaidi stressed that income variability is a problem if you have not anticipated it. Thus, coping strategies like finding work while in retirement become a challenge. “The whole point is to have income security through a pension promise made during working lives,” he said.

Elaine Fultz, ILO Moscow Office, emphasized the disadvantages women suffer under most current pension laws.



“WOMEN AND PENSIONS IN EASTERN EUROPE”

Elaine Fultz
International Labour Organization (ILO), Moscow, Russian Federation
(Ken Hirose, ILO Budapest, Hungary; Mariko Ouchi, ILO Moscow)

There are important gender dimensions to the pension reforms that began in the 1990s in Eastern Europe, explained Elaine Fultz. She presented results from a study by the ILO. Prior to the reforms, when state socialism was the norm, women had high participation rates in the labor market. However, they did not have full equality with respect to wages and opportunities.

Socialist systems did provide nearly universal coverage through a flat benefit structure, Ms. Fultz noted. There was generous coverage for periods of childcare and a lower retirement age for women.

In the early transition away from socialism, countries actually saw a rise in the gender wage gap. Even in recent years, little progress has been made toward wage equality. In both 2001 and 2006, the average Central European and Southern European woman earned just 60 percent of an

average man's wage, Ms. Fultz said.

The transition also led to growth in the informal sector, where workers are beyond the reach of the tax collector. In addition, the formal sector began to suffer from underpayment because of chronic underreporting of wages.

Against this backdrop, Ms. Fultz outlined trends that have had a gender impact. The first trend involves greater individualization of benefit formulas. This shift has, in part, occurred as countries partially replace public pension systems with privately managed individual savings. However, even in public systems, some countries now base benefits on contributions that are credited to an individual account. Ms. Fultz noted that, although the laws are gender neutral, they tend to affect women more because women typically have lower wages and spend fewer years in the labor force.

The change in how pension systems handle childcare credits is also significant. On a positive note, many countries now make this benefit available to both men and women. However, instead of basing credit for a year of childcare on the person's professional wage, governments now look to the minimum wage or the childcare benefit itself.

A third change has been the equalization of retirement age between genders. Many EU states are increasing the retirement age twice as much for women as for men. However, from a practical standpoint, this increase makes sense to avoid an increase in poverty for women. Otherwise, under the new system, a woman's benefit would decline to just 57 percent of a man's by 2050. By equalizing the retirement age, her benefit will be 73 percent of that of a man.

Another issue is that women have, on average, longer life expectancy than men. While public pension systems typically offer lifelong benefits, private pension funds tend to compute benefits by considering differentiated life expectancy. There is debate over which rule should be applied to the new hybrid systems, which are privately managed public systems.

Ms. Fultz favors equal monthly benefits for equal contributions to the

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pension system. “When you apply a rule that treats people differently, you create winners and losers,” she said. “Winners are men who happen to live longer than average, and the losers are women who die early.” Furthermore, paying lower monthly benefits to groups with a higher life expectancy would reduce the poverty alleviation function of pensions. In addition, it sets a precedent for a slippery slope.

“Women and men are not the only groups where we can find differences in life expectancy,” Ms. Fultz said. “Would we want to pay higher benefits to smokers or to those with a predisposition to some genetic disease? This is a case where actuarially sound differences don’t necessarily lead to good policy.”

DISCUSSANT: ASGHAR ZAIDI

In considering changes to pension systems, Asghar Zaidi noted it is important to look at which subgroups of women would be most affected. “What are those groups of women who are low skilled and who find it difficult to return to work?” he asked. “It is best to target reforms in labor market policies so as to remove that kind of discrimination instead of adjusting the whole pension policy.”

DISCUSSANT: EPPU MIKKONEN-JEANNERET, HELPAGE INTERNATIONAL, KYRGYZSTAN

Eppu Mikkonen-Jeanneret noted that women earn significantly lower wages and are also in the formal labor market for fewer years than men. In addition, widows tend to be vulnerable because they often don’t know their rights.

Furthermore, a woman’s role as caregiver—both for children and older people—involves significant time and sacrifice of potential income. “It often comes across that women are supporting future generations much more than other groups do,” Ms. Mikkonen-Jeanneret said. “Are there ways to systematically support these types of intergenerational benefits?”

GENERAL DISCUSSION

Ms. Fultz clarified that she favors gender analysis of the pension system, but not gender-specific policies. “Because women and men are overlapping groups in many ways, we can create inequalities for men by gender-targeting policies,” she said. “I think retirement age should be equalized, and childcare credits should be available to women and men. We need, for the most part, gender neutral policies—but we should arrive at them through a gender analysis.” Regarding ILO ideas for extending social protection to the informal sector, most initiatives don’t involve pensions. “With the informal economy, you have to give people something they want to participate in,” she said. “In ILO work, this relates to micro-financed health insurance schemes.”

Professor Gora stressed that childcare subsidization is one of the critical issues for mitigating fertility decline. He prefers childcare payments, as opposed to “credits” that will have to be paid by future generations. He also emphasized that the idea of an earlier retirement age for women is bad, because it makes them more vulnerable to being fired.

Professor Marin agreed that childcare compensation is crucial, especially in systems where contributions and benefits are closely linked. “The single most important way to compensate people for family obligations is to be generous with respect to childcare credits,” he said. He also noted that the equalization of retirement age is an advantage for women.

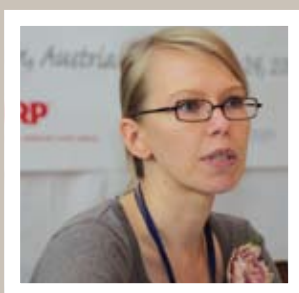
Mr. Hoskins noted that there continues to be a significant problem of poverty among widows in the US, particularly among minority populations. Instead of looking to childcare credits or welfare as a solution, he suggested revisiting the idea of sharing pension benefits as a couple. “This really works to pull women out of a poverty situation,” he said. “However, it’s an idea that I’m finding very difficult to sell—particularly to the women’s movement. They don’t want to rely on a shared Social Security record, but I think it’s an idea we have to put back on the table.”

Ms. Fultz closed the discussion by reiterating that she favors equal retirement age. Regarding childcare credits, she clarified that her point

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was simply that credit should be provided in some way for childcare family responsibilities. She was not suggesting specifically how that time should be paid for. Finally, she acknowledged that the issue of gender-neutral life expectancy is controversial. However, she believes the best public policy is one that treats people as individuals and gives individuals equal benefits based on equal contribution.

Ms. Eppu Mikkonen-Jeanneret, HelpAge International, Kyrgyzstan, advocated for non-contributory social pensions as a universal safety net.



“NON-CONTRIBUTORY SOCIAL PENSIONS: A KEY STRATEGY FOR IMPROVING FINANCIAL SECURITY AMONG THE ELDERLY IN CEE COUNTRIES”

*Eppu Mikkonen-Jeanneret
HelpAge International,
Bishkek, Kyrgyzstan*

For most people in CIS countries, aging means working into old age and a very high risk of chronic poverty, opened Eppu Mikkonen-Jeanneret. “Women are increasingly vulnerable because they typically outlive their spouses,” she said. “They generally receive smaller pensions and suffer from discrimination in property rights.”

In Tajikistan and Kyrgyzstan, about 70 percent of people over 60 live under the poverty line. This is, in part, because pension rates have not followed inflation. The minimum pension in Kyrgyzstan is US\$8.00 a month and in Moldova it’s US\$5.00 a month.

Migration is another issue affecting older people’s life experiences, Ms. Mikkonen-Jeanneret explained. In Tajikistan, 60 percent of GDP comes from remittance payments, but these are not evenly distributed. In addition, older people are left behind—often to care for grandchildren—when parents migrate in search of jobs. “The rural areas are dominated by older people and children, which are the two most vulnerable groups,” she said. Migration is also fueling a shortage of health care professionals,

particularly in rural areas. Ms. Mikkonen-Jeanneret recalled one doctor in Tajikistan saying he must cover 3,000 people.

Institutional corruption and age discrimination are concerns as well. In some CIS states, ambulance dispatchers ask the age of the caller. If the person is over 50, the ambulance simply does not come. There is also a widespread belief that it's better to see an older doctor, as many younger professionals may have "bought" their credentials and therefore may be unqualified.

Ms. Mikkonen-Jeanneret lamented that aging is not being considered a development issue by governments and donor agencies. In addition, while child poverty receives attention, many groups miss the connection that a large number of vulnerable children are being cared for by grandparents.

In terms of social assistance, she noted that systems are bureaucratic, difficult to access, and plagued by corruption. "I frequently hear people say that they know they're entitled to assistance, but the process isn't worth doing," she said. In addition, some of the most vulnerable people are not registered with the state.

In recent years, there has been a shift toward heavily targeted social assistance in an effort to reject communism. "Unfortunately, we now have an environment where people are more concerned about inclusion errors than about ensuring social protection," she said.

"For countries with weak administrative capacities and high old-age poverty rates, the fastest and most effective mechanism to address poverty is social pensions," Ms. Mikkonen-Jeanneret continued. "This is a flat-rate, noncontributory pension that is funded through general taxation."

Ms. Mikkonen-Jeanneret closed by suggesting that social pensions are also a low-cost mechanism for reaching people during times of crisis. "If you have a social pension system that covers everyone over 65, you have a way to immediately access people," she explained. "This will be important as we experience more frequent natural disasters in the future."

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DISCUSSANT: ROBERT HOLZMANN

Robert Holzmann questioned whether it is better to provide social assistance for everyone versus special social transfers for the older people. “Should the older people fall under a special rule?” he asked. “Personally, I favor it, but there are different theories on special treatment.”

He also asked Ms. Mikkonen-Jeanneret to clarify whether the social pension she advocates refers to a universal pension or a conditional means-tested transfer. For low- and middle-income countries, Mr. Holzmann believes a universal pension is highly inefficient. He suggested conditional assistance provides much better redistribution of wealth.

GENERAL DISCUSSION

Professor Marin asked Ms. Mikkonen-Jeanneret to clarify her eligibility criteria for the flat-rate, noncontributory social pension. He questioned whether it would be linked to citizenship or residence—and if there was a vesting period. In Sweden, for example, someone who has lived in the country for only two years would receive a different pension than someone who has been there for 40 years. “Even the unconditional basic benefits are not totally unconditional,” he said. “It’s a question of fairness and social justice.”

Ms. Mikkonen-Jeanneret responded that she supports a universal flat-rate pension with residence—not citizenship—as the condition. “You can be legally residing in a country without being a citizen,” she said. “This is the case with internal migrants and refugees. Even within a country, if you’ve moved from one region to another, getting a new registration is quite a process. We need to make qualifying for a pension as simple as possible.”

She also expressed reservations about targeting and trying to identify who is most vulnerable. “I’ve never seen it work—especially in an environment with corruption, a large grey economy, and a lack of data and records.”



Dr. Orsolya Lelkes, European Centre, reported on the impact of economic transitions on the happiness of older people in the region.

“LIFE SATISFACTION OR DISSATISFACTION OF OLDER PERSONS IN EASTERN EUROPE”

Orsolya Lelkes

European Centre, Vienna, Austria

Orsolya Lelkes discussed the wide disparities in life satisfaction among older persons in Eastern Europe. Russians, for example, have relatively low satisfaction compared to the same income level in other countries. In fact, their level of satisfaction is similar to that of people in Zambia and Nigeria.

More generally, Dr. Lelkes pointed to the puzzling degree of unhappiness among older people in the entire CEE region. It is a generation apparently unhappier than could be inferred from already low domestic GDP levels.

One possible explanation is that it is not the absolute level of income that matters, but relative income, Dr. Lelkes suggested. “People compare their

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own situation to their situation in the past and to the situation of their neighbors,” she said. People often tolerate inequality if they expect that their incomes will also rise soon.

Perhaps, contrary to expectations, there is mixed evidence that income growth might be negatively related to life satisfaction. Other factors matter more than current cash income in determining life satisfaction, she offered.

Among the 65+ in transition countries, only 24 percent think they live better now than in 1989. “The majority regard themselves as the losers in the transition process,” Dr. Lelkes said. “It’s clear that there is a high dissatisfaction with the past and the present among those 65 and over.” In contrast, younger people are far more likely to be satisfied.

There is also variation by country, Dr. Lelkes explained. In Georgia, Bosnia, Romania, and Armenia, around 20 percent or less of older people say they are satisfied. But in Estonia, Uzbekistan, Slovenia, and Tajikistan, the numbers are much better; Russia falls closer to the former group.

Overall, the older people appear to be less satisfied than the working-age population. “Age may not be a cause of dissatisfaction by itself. Rather, old age may be a proxy for other circumstances such as bad health and low income,” Dr. Lelkes said.

Dr. Lelkes suggested that the opening of borders has contributed to dissatisfaction because people are increasingly comparing their situation to that of their rich neighbors.

She also noted that good governance may have a greater influence on life satisfaction than inflation or growth. Other potential determinants of low life satisfaction in the region include risk of income shocks, health and life expectancy, quality of social services, and trust and social cohesion. “Using indicators of well-being is essential, and we need measures other than income,” Dr. Lelkes closed. “Happiness is an interesting and valuable indicator in itself, but also because it explains other economic outcomes as well.”

DISCUSSANT: RICHARD ROSE

Richard Rose expressed concern about tables referenced in the paper, saying that the samples do not sample nationwide populations in many parts of the world. They include a few cities, but in order to generalize about underdeveloped countries, it is important to go beyond urban areas. Professor Rose also expanded on Dr. Lelkes' suggestion that age may be a proxy for something else. "When you look at surveys that ask about satisfaction in particular domains like family life, health, or income, what tends to drive life satisfaction at the individual level is family life and health," he said. "Older people have family life, but health is clearly a big problem."

Emotional capital is also important, Professor Rose continued. "There is a lot to be said for having control of one's life and being able to adapt to what life has dealt you." The third influence is the quality of public service. This goes beyond pension to include other evaluations like the amount of corruption in a country's government, he noted.

GENERAL DISCUSSION

Dr. Vanhuyse noted that happiness data can be a useful way to complement rather than replace more economically orthodox studies on pure income or health and housing. However, he stressed subjective surveys should be treated with caution. He also suggested that, in post-communist countries in particular, there is a strong contextual effect. "These seeming age effects on subjective happiness data are not likely to be life cycle effects," Dr. Vanhuyse said. "They're simply situational cohorts moving on. In Eastern Europe, more than anywhere else, we currently see a lost, confused, and disgruntled older generation that is now increasingly growing old."

With respect to the association between happiness and health, Ms. Maria Hofmarcher, of the Institute for Advanced Studies in Austria, raised the idea that there is large variation in subjective estimation of health status across countries and gender. "I would assume that we have a big correlation between happiness and health status," she said. "In this context, I believe the variation is a function of social capital including

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good governance and social cohesion.”

“This leads us back to universal affairs schemes where people feel secure and have a high life quality,” she continued.

Ms. Sinyavskaya concurred there is a strong correlation between life satisfaction and subjective estimation of health. Surveys show middle-aged Russians assess their health at the level of older people living in Western European countries. She also suggested that pension-age structure may play a role.

Surveys of Russians reveal those born in the 1920s and 1930s felt work was the most important part of their life. It is not surprising, then, that they would have a hard time adjusting after leaving the labor market at age 60. Ms. Sinyavskaya further suggested that state institutions may affect satisfaction of older people in CIS countries. “Older people interact more with the state bureaucracy than younger people,” she said.

Professor Marin suggested that acceptance of the aging process makes more of a difference to longevity than smoking. He also concurred with comments about the lost, confused, disgruntled generation. “The context of this lost generation cannot be overestimated,” he said. “If you have so much disruption and revolution in your life, this has a unique impact on your life.”

Dr. Lelkes agreed about the importance of cohort effects in addition to age and life cycle effects. She also noted there is a strong case for getting better data. Finally, she suggested it is worth considering how family and religion or spiritual life affect happiness in old age.



Sarbani Chakraborty of the World Bank questions the panelists.



Session V:

Public Health and Long-Term Care Issues

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The session was chaired by Jessica Frank, Office of International Affairs, AARP.

Dr. Manfred Huber,
European Centre,
advocated innovative
approaches to long-
term care.



“COMPARATIVE PERSPECTIVES ON LONG-TERM CARE POLICY OPTIONS FOR EASTERN EUROPE”

Manfred Huber, Frédérique Hoffmann, Ricardo Rodrigues,
European Centre, Vienna, Austria

Long-term care tends to be unattractive as a social policy program, Manfred Huber opened. The question is how to make it more attractive to politicians and the public.

Part of what makes long-term care policy a difficult sell is that care has traditionally been handled by family members, Dr. Huber explained.

However, changing demographics and family dynamics are driving the need for a comprehensive menu of long-term care and acute-care options. In particular, home and community-based services are important, because they can support the family care already taking place. Unfortunately, community services—and other options like retirement villages and assisted living—are not yet available in many Eastern European countries.

Interestingly, due to fewer formal care options, Eastern Europeans are more likely to view having an older parent move in as a good option. Conversely, in countries such as Sweden, whose health care system is one of the most developed, adult children are less likely to take in a dependent parent. However, many families in Eastern Europe worry that their current informal care arrangements are unsustainable.

In developed countries, Dr. Huber explained that long-term care expenditure growth is being driven less by age structure, and more by

policy factors like growing public expectations and changes in informal caregiving. He also noted that, although most care is provided in the home, spending tends to be concentrated on institutional care. There are efforts, however, to shift the balance toward home and community-based care.

In conclusion, Dr. Huber questioned whether it makes sense for the East to follow the long-term care journey of the West, or rather, to try to learn from its mistakes. For example, The World Bank has discussed no longer investing in institutional care. The goal, Dr. Huber stressed, should be to learn from good practices, improve quality, and develop the evidence base needed.

DISCUSSANT: MARIA HOFMARCHER, INSTITUTE FOR ADVANCED STUDIES, AUSTRIA

“You seem to be so pessimistic about the attractiveness of long-term care policy,” Maria Hofmarcher said. “But I believe long-term care policies naturally respond to life-lengthening.” “There won’t be an end to long-term care policies,” she continued. “Even as we become able to postpone the onset of disability and sickness through healthy aging, at some point the time will come when people need help.”

Ms. Hofmarcher also raised the need for balance between formal and informal care arrangements. She worried that much of the support being given by families will not be available in the future due to changes in the European lifestyle. For example, more and more women are entering the workforce and families are becoming more geographically spread out. There are also other drawbacks to informal care by family members, she noted. It is difficult to know whether a family has the capacity to properly care for a dependent adult.

GENERAL DISCUSSION

Donald Redfoot of AARP began the discussion by asking what the next generation of caregiving should look like. In the US and Western Europe, the clear preference of older people is to age in place. He said policy is increasingly enabling that goal.

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But Dr. Redfoot also acknowledged, for some people, staying in their home is not the optimal circumstance. In addition to questions about quality of care, there are issues of isolation.

Dr. Redfoot suggested there is a need to reinvent institutional caregiving. He pointed to innovative European models of assisted living that are being adopted in the US. “It’s not an either-or between home and institutional care,” he clarified. “We want to see a greater array of service options that gives consumers more choice and fits individual circumstances.”

Dr. Huber agreed that institutional care settings in Europe are trying to become more homelike. “Institutions in Denmark are no longer labeled as nursing homes,” he explained. “Providing more choice is what many countries are now trying. They’re also packaging benefits onto long-term care, such as pension rights for family members staying at home. Elderly care schemes are spreading as well.”

He also noted that increasing formal care has implications for the job market. He suggested growth in this sector could help reduce European unemployment rates.

“GLOBAL COMPARISONS ON THE KEY PUBLIC HEALTH AND LONG-TERM CARE CHALLENGES”

Sarbani Chakraborty

Health, Nutrition and Population Sector, Europe and Central Asia, The World Bank, Washington, D.C., USA

There is already a gap in health status with Western European countries outpacing the rest of the world Sarbani Chakraborty explained. This gap is measured through statistics such as life expectancy and standardized death rate for cardiovascular diseases.

Ms. Chakraborty stressed that it is important to pay attention to inequalities within a country as well. She pointed out that death rates are much higher in rural China than in urban China, and ethnic minorities in the US have worse health than whites.



Ms. Sarbani Chakraborty, World Bank, noted that inequalities within countries are just as important as inequalities among different countries.

Virtually all countries are also facing an epidemiologic transition. “The burden of diseases is shifting rapidly toward non-communicable diseases,” Ms. Chakraborty said.

Countries will also face increasing health expenditures associated with aging. This will be particularly severe if additional years of life are spent in bad health. Currently, the majority of health expenditures are concentrated on acute inpatient care or curative services. Ms. Chakraborty suggested resources need to be reallocated toward prevention and long-term care.

As the demographics of countries change and the disease burden shifts, health care modalities will have to change. With communicable diseases, interventions tend to be short-term and episodic. For chronic conditions, they need to be long-term and continuous with a greater emphasis on community-centered delivery systems.

Unfortunately, right now, care in many Eastern European countries is

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quite fragmented. There are no referral guidelines between health and social services, and there is weak communication between hospital and primary care services, she noted.

Formal long-term care is scarce in Eastern European countries, and there are questions about quality and sustainability of informal care systems. The formal care that does exist often occurs in hospitals. Ms. Chakraborty worries the hospital-based model has negative psychological consequences for patients and also exposes them to hospital-acquired infections.

Regarding long-term care policy, all countries need to be looking at three key areas, Ms. Chakraborty noted. The first is entitlement—who is eligible for long-term care and how generous benefits should be? Should it be a cash benefit or a benefit in-kind, and who will deliver it? The second is delivery options, and each country's choices should be capacity driven and context driven. Finally, decisions need to be made about the financing of long-term care.

In closing, Ms. Chakraborty stressed that promoting healthy aging is essential. Health care must shift toward prevention, and there needs to be an integrated care system for the older people.

In addition, there must be a greater emphasis on evidence-based approaches and cost-effectiveness analyses. “The long-term care discussion should be about value for money,” she said.

DISCUSSANT: MANFRED HUBER

Manfred Huber began by noting that it can be difficult for countries to learn from each other. However, he hoped lessons would carry over more easily in long-term care than in health care.

Long-term care policy often interacts with anti-poverty policy, Dr. Huber explained. Currently, in many countries, long-term care programs are means tested. In some cases, people must spend down their assets—and even their family's assets—before qualifying for social assistance.

Regarding value for money, it is also difficult to make the case in health care that higher spending equals better care. However, there is some

evidence in long-term care to show that additional funds help improve the situation. The highest spending countries like Sweden are able to offer better options for their older people.

GENERAL DISCUSSION

Professor Rose began the discussion by stating that 75 percent of retired people are “non -poor” and able to make some payment on long-term care. By doing so, they not only put cash into the system, but also send valuable signals about their priorities. Furthermore, this creates a new market for providing for-profit and nonprofit services to older people.

Commenting on Ms. Chakraborty’s presentation, Dr. Redfoot agreed that it’s both the amount of money and how it’s allocated that shapes a system. He noted countries like Austria and Germany have introduced a cash benefit to promote consumer choice. This has helped to reinforce family caregiving, but it also contributes to a large grey economy of caregiving. In contrast, the Nordic countries have pursued benefits in-kind. This has resulted in a more regularized and professionally trained workforce.

Ms. Chakraborty agreed that financing is a serious challenge. “The World Bank believes solutions and identification of options has to be country specific,” she said. “The context matters a lot.” She reminded participants that some countries spend only US\$1.00 on health care per person. For long-term care to improve, older people must have a voice, she continued. There are political issues, empowerment issues—and then very difficult choices. For example, often politicians must close down hospitals in order to fund alternative facilities.

There is a critical need for more evidence-based policymaking. Eastern European countries need better data and information to guide them in decisions about what path to pursue.

Finally, Ms. Chakraborty stressed that the issue of governance must be addressed. “The issue of informal payments is critical,” she said. “If reforms happen in the context where informal payments are rampant, it essentially defeats the point of the reforms.”

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Ms. Maria Hofmarcher, Institute for Advanced Studies, Vienna, stressed that coordinated care is one of the most effective ways of improving health.



“IMPROVED HEALTH SYSTEM PERFORMANCE THROUGH BETTER CARE COORDINATION: EAST – WEST COMPARISONS”

Maria Hofmarcher
Institute for Advanced Studies, Vienna, Austria

There is a shift going on in health systems in

industrialized nations from providing cures for diseases to providing care for the patient, explained Maria Hofmarcher. A recent survey by the OECD and the corresponding report authored by the Institute for Advanced Studies looked at coordination of care in 26 countries. It found that better integration between care and disease treatment is essential to improving health, she continued.

“Our working hypothesis was that coordinated care is a system-wide effort of specific policies that ensure patients receive services that are appropriate to their needs and coherent across settings over time,” Ms. Hofmarcher said. “We needed to make it broad, because countries’ approaches are so diverse.”

An interesting finding was that low-spending countries could potentially mitigate care coordination problems with just slightly more expenditures, Ms. Hofmarcher noted. However, countries that already spend a lot of money on health care would not see vast improvements with additional spending.

The key to addressing health concerns with care coordination is organization and eliminating waste spending, according to Ms. Hofmarcher. “It’s not a matter of money—it’s a matter of how the delivery system is organized.”

Ms. Hofmarcher described three main issues driving the need to reorganize health care: technical progress that has led to increased specialization and longer life expectancy; weak coordination between

levels of care; and the growing importance of chronic conditions that require multiple contacts within the health care system.

“We know from various countries that 20 percent of people receiving services consume 80 percent of resources,” she said. “If you want to get it right in terms of improving performance, you have to make sure that care for this group is appropriate.”

Unfortunately, the role of primary care providers tends to decline as patients move toward institutional care. They are rarely involved in the interface between acute inpatient care and long-term care.

She also noted that even rudimentary communication between care providers is lacking in many countries. “Only half of countries indicate that simple paper-copy information is being shared between care providers,” she said.

Sadly, the chronically ill and older people seem to be most affected by inadequate care coordination. By improving care coordination, governments could potentially improve the quality of care and enhance cost efficiency by reducing acute-care hospital stays, Ms. Hofmarcher suggested.

Countries generally report significant care coordination problems throughout their health care systems, particularly at interfaces with long-term care. While some care coordination exists, there are no senior health professionals following patients through an episode of care. “Perhaps we need a new profession or to redefine the work of what people are doing now,” she said.

Ms. Hofmarcher concluded by highlighting four components that must combine to improve care coordination: improving information transfer; creating better incentives for care coordination; rebalancing spending towards ambulatory care; and breaking down regulatory barriers.

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DISCUSSANT: SARBANI CHAKRABORTY

Sarbani Chakraborty agreed that improving social care without talking about integration and coordination is simply not an effective approach. She thanked Ms. Hofmarcher for bringing this issue to the forefront.

She also asked to what extent it is possible to develop a framework for standardizing coordination of care. What can be standardized, and what must be context specific?

In the realm of quality of care, people are increasingly looking toward clinical guidelines. Ms. Chakraborty asked if it is possible to develop case management guidelines to link social care with health care. Finally, she noted it will be important to bring the consumer perspective into benchmarking and incorporate patient satisfaction measures.

Ms. Hofmarcher responded that she is pessimistic about the potential for providing standardization that would allow for cross-country policy learning. However, she noted countries share similar problems, like the fact that acute hospital care constitutes a large chunk of total health care spending.

With respect to consumer satisfaction issues, she noted, “Disadvantaged social classes seem to benefit most from coordination or disease-oriented care management. It’s really a pro-poor policy that could help lift the problems these people face.”

GENERAL DISCUSSION

Professor Rose opened the general discussion by cautioning against benchmarking care coordination. He worried that benchmarks like that would simply demoralize caregivers.

Mr. Ricardo Rodriguez of the European Centre wondered whether care allowances, which diversify care options, would have a positive or negative impact on care coordination. He also asked how informal care in the home could be coordinated with more formal care programs.

Dr. Huber stressed that electronic medical records need to become a reality in order for care coordination to improve. “We can’t think about

integrating care without better information flows,” he argued.

Regarding the consumer choice issue, Ms. Hofmarcher cautioned that fee-for-service payment appears to discourage care coordination. She feels mixed payment schemes are probably the most effective means for rewarding multidisciplinary care. In terms of integrating formal and family care, she reiterated the need to reengineer the role of health professionals to incorporate more communication with family caregivers.

“GLOBAL PERSPECTIVE ON THE MIGRATION OF HEALTH AND LONG-TERM CARE WORKFORCE”

Donald Redfoot
*Senior Policy Advisor, AARP
Public Policy Institute, USA*

“Care giving has become part of the global economy,” Donald Redfoot explained.

Globalization now applies not only to goods and services, but also to finance, the transfer of ideas, and the migration of people.

The migration of health and long-term care workers from Eastern European states to the EU15 is part of the global migration of such workers. Nurse shortages are predicted worldwide in almost all developed countries, Dr. Redfoot noted. Among OECD countries, staff shortages and staff qualifications are the most frequently mentioned issues with respect to long-term care. Disproportionate numbers of migrating workers are in long-term care settings.

Dr. Redfoot observed that a large driver of these migration patterns is the US. Almost half of foreign-born healthcare professionals in OECD countries are working in the US. However, not all migration is to OECD countries. There is also migration between developing countries, Dr. Redfoot said. Most movement occurs between countries with low wages



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and fewer opportunities to countries with higher wages and more opportunities.

Migration patterns to the US differ greatly from migration patterns within Europe. Migration to the US tends to be from developing countries that have an excess of younger workers. Conversely, migrants to Western Europe tend to be from CEE countries that are aging rapidly and have low fertility rates.

Skill levels also greatly influence migration patterns, Dr. Redfoot noted. In the US, the high-skilled market tends to be global with nurses migrating from the Philippines, India, and Africa. In contrast, the low-skilled market is regional with paraprofessionals originating from Mexico and the Caribbean. Colonial history also plays a role and has impacted the racial make-up of the US workforce.

Policy decisions impact migration patterns as well, Dr. Redfoot explained. In the Nordic countries, there is a strong emphasis on professional, regularized services in both the high-skilled and low-skilled markets. In contrast, Germany and Austria have a growing grey market of low-skilled workers supplied largely by Eastern Europe. This is occurring, in part, because of the cash benefits they offer to older people with disabilities under their social insurance programs.

Gender is also a factor. More women are migrating in search of opportunities. However, this shift has also meant that, particularly in Eastern Europe, older women are being left alone without a family support structure. “This is an enormous problem,” Dr. Redfoot said.

DISCUSSANT: ELAINE FULTZ

Elaine Fultz began by noting the extremely difficult conditions faced by health care workers in Central Europe and the CIS countries. “This is a group of workers that is very much under stress,” she said. “They’re working in deteriorating health care systems that haven’t been reformed, and they have low pay and very difficult work conditions.”

The conditions of supply and demand, along with these stresses, are leading more workers to migrate. However, exploitation remains a

major problem.

The ILO has a number of projects to aid the process of migration. “We’re trying to encourage legal reform that would raise quota levels and allow many more workers to go legally,” Ms. Fultz said. “This would help prevent exploitation.”

The ILO is also trying to help governments learn how to forecast future demand in certain professions, she explained. In addition, the ILO offers pre-training in source countries in language and what to expect culturally. The ILO project is working to promote cooperation among trade unions in source countries and receiving countries. Finally, the organization is encouraging governments to negotiate reciprocal social security arrangements for migrants.

GENERAL DISCUSSION

Dr. Sidorenko began the general discussion by voicing his concerns about the “brain drain” in developing countries. Migration is contributing to a huge shortage of skilled workers in some developing countries. The loss of health care professionals severely undermines the capacity of their national health care systems, he cautioned.

Dr. Redfoot agreed that “brain drain” is a serious issue in some regions. Many African countries invest money into training health care professionals, only to lose them to more developed countries once trained. Central and Eastern Europe are rapidly losing health care professionals who are desperately needed to meet growing needs. “You can see why there is incentive to move for individuals, but on a societal basis, this can create enormous problems for countries who are trying to deal with already stressed systems of health care and long-term care,” he said.

On the other hand, countries like India and the Philippines have deliberately overproduced nurses in an effort to increase remittances. In these cases, migration is part of the source country’s economic strategy. “It’s important to look at individual countries and their situations,” Dr. Redfoot said.

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In response to a comment that the ILO appears to be pushing migration, Ms. Fultz reiterated that migration is already happening. “The ILO couldn’t stop it even if it wanted to,” she said. “But migration needs to be done in an orderly way that supports both the sending and receiving countries.” She emphasized that the ILO is working to protect migrant workers, but also to improve working conditions in source countries. Yet, this is often difficult in CIS countries, where most economic growth comes from energy exports. There, the ILO’s approach has been to support entrepreneurship.



Miroslav Hettes represented the government of the Slovak Republic.



Session VI:
**Regional and International Cooperation
on Aging**

SESSION VI

This session was chaired by Elaine Fultz, International Labour Organization (ILO), Moscow.

“POLICY RESPONSES TO AGING IN THE COMMONWEALTH OF INDEPENDENT STATES (CIS) COUNTRIES: ADDRESSING THE CHALLENGES”

Dr. Alexandre Sidorenko

Department of Economic and Social Affairs, United Nations

With respect to the demographics of population aging, CIS countries are fairly heterogeneous, opened Alexandre Sidorenko. The majority are in the interim stage of demographic transition where the proportion of older people ranges from five to 10 percent. However, quite a few are in the high level, and one country remains below five percent.

Despite the heterogeneity in demographics, the majority of countries are concerned about population aging, Dr. Sidorenko said. Compared to



Dr. Alexandre Sidorenko, UN Department of Economic and Social Affairs, noted that most CIS countries have no national policy on aging.

other regions of the world, their level of concern is comparable to what is seen in more developed areas.

Turning to the seven former Soviet countries that submitted reports on the first review of the Madrid International Plan of Action on Ageing, he noted that a major theme was adjusting social security. Countries also were looking at how to reform social services by moving from categorized benefits to targeted payments. A third focus involved reforming the health care sector—specifically, trying to balance state control with a growing private sector.

Increasing the focus on family for caregiving and reciprocal income security was another theme. Countries are also working to address the depopulation threat. Finally, there is growing attention to development aspects of aging like intergenerational solidarity, participation, integration, and active aging.

Looking at CIS countries' national capacity to address aging, Dr. Sidorenko noted nearly all reporting countries have some governmental structure that deals with aging. However, few have a body responsible for interoffice coordination.

Interestingly, all seven countries reported significant presence of aging NGOs. The academic landscape was less encouraging. Dr. Sidorenko noted human resources is also lacking, as there is only sporadic information about training activities in the health and social sectors.

In terms of policy, very few countries have a comprehensive national strategy on aging. But almost all reported having sectoral policies. In addition, they are making efforts to introduce aging into overall national development strategies.

Dr. Sidorenko closed by reiterating that although aging is a major concern for CIS countries, few have a comprehensive national policy. Aging is typically considered a demographic, social security or population issue—instead of an overall development issue.

In some countries, strategic policy interventions have been disrupted by government transitions. In addition, though governments have

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highly qualified staff, those staff persons are often overwhelmed by a broad range of duties. Finally, information about evidence-based policy processes is limited.

DISCUSSANT: ROBERT HOLZMANN

Robert Holzmann highlighted the need for resources that will help governments better shape their policy responses to aging. “Action plans are great, but we need benchmarks,” he said. “Are governments doing the right things—and are they doing those things the right way?”

Dr. Sidorenko responded by stressing that UN policy documents on aging are not legally binding. Reporting is voluntary, which makes the process of establishing benchmarks difficult.

Regarding research priorities, Dr. Sidorenko clarified that there is a document called the UN Research Agenda on Ageing that was established before the Second World Assembly on Ageing and then recognized by the UN General Assembly. The document was amended in 2007 (www.un.org/ageing).

There have also been a series of regional meetings to develop regional research agendas. The UN Programme on Ageing is currently developing a research agenda on aging for countries in transition—primarily CIS countries.

Ashgar Zaidi
described how to
Madrid Action Plan on
Ageing is monitored.



“MAINSTREAMING AGEING: INDICATORS TO MONITOR IMPLEMENTATION (MA:IMI/II 2008-2012)”

*Ashgar Zaidi,
Eszter Zolyomi,
European Centre,
Vienna, Austria*

Since 2002, the European

Centre has been undertaking follow-up activities to the Madrid International Plan of Action on Ageing (MIPAA) and the Regional Implementation Strategy (RIS), opened Asghar Zaidi. With support from the Austrian government, the European Centre Vienna established a separate unit for the project “Mainstreaming Ageing: Indicators to Monitor Implementation” (MA:IMI). The project’s overall objective is to scientifically and technically assist governments of the UNECE countries in monitoring the RIS. “Our goal was to exchange experiences in aging policy by doing research, organizing events, and disseminating information,” Dr. Zaidi said. “We collected data, carried out research and analysis, and maintained a network of organizations that are active in aging in the UNECE region.”

Notably, the project resulted in a set of agreed upon indicators of achievement. These were incorporated into a recently published book called “Mainstreaming Ageing: Indicators to monitor sustainable policies” (edited by Bernd Marin and Asghar Zaidi).

In the second phase of the project, researchers will continue updating the indicators and collecting data, Dr. Zaidi said. In particular, they will focus on further developing long-term care indicators as well as indicators around gender-specific aspects of mainstreaming aging.

Another focus of work during the second phase will be the Monitoring RIS Web site (www.monitoringris.org). In addition, the project will continue to plan international events and produce policy briefings, reports, and other materials.

GENERAL DISCUSSION

Dr. Zaidi expressed his gratitude and said the project was made possible by support from the Austrian and Spanish governments. He noted that MA:IMI hopes to obtain a five year commitment from at least a dozen governments. There are already contracts in place with several governments as well as NGOs.

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Dr. Pieter Vanhuyse, Haifa University, speculated on the possibility of “gerentocracies” evolving in some European countries.



“THE POLITICS OF POPULATION AGING IN ‘THE NEW EUROPE’: AN OVERVIEW OF STRATEGIC POLICIES AND PATHWAYS SINCE 1989”

Dr. Pieter Vanhuyse
*Haifa University, Israel and
European Centre, Vienna,
Austria*

Political factors are often underrepresented in debates between demographers and economists, explained Pieter Vanhuyse. He suggested politics have massively contributed to booms in early and disability pensioners for some Eastern European countries at a time when they were not yet demographically “old.”

In the communist era, older people were pensioners, but there was full-employment among the working-age population. With the advent of capitalism, countries began to see a degree of unemployment and—more strikingly—large-scale early and disability retirement.

“During the early years of the transition in Hungary, you see that the proportion of people 60+ remained fairly stable, but there was an incomprehensible boom in non-elderly pensioners,” Dr. Vanhuyse said. Specifically, he showed that whereas the number of persons 60+ remained stable in Hungary and grew by 10 percent in Poland between 1989 and 1996, the number of old-age pensioners increased by respectively 20 and 46 percent.

In the same period of just seven years, the number of disability pensioners also increased by one-half in Hungary and by one-fifth in Poland. “Unless you want to claim that more than a minor fraction of these are from accidents at work, you have to admit that something strange was happening,” Dr. Vanhuyse said.

This shift has resulted in a much larger pension constituency, which Dr. Vanhuysse suggests could have numerous further implications on national public policy priorities. “Once you create these booms, they will be quite irreversible in the pension system for years to come,” he said. “Coupled with the often higher voting turnout rates of older compared to younger voters, the larger electoral constituencies in favor of pensions may lead to policy bias toward older generations and away from younger generations in post-communist countries.”

As evidence, Dr. Vanhuysse points to a phenomenon he calls the “premature, overly developed welfare state.” Poland, for example, spends the same proportion on old-age today as Italy, even though Italy has a much higher old-age dependency ratio. However, the same is not true for family spending.

Dr. Vanhuysse called for research on the total social effort by the state with respect to old-age spending versus spending on other generations.

In closing, Dr. Vanhuysse reiterated that the old-age spending bias is increasing in Central European countries. He questioned whether the trend could eventually lead to gerontocracy— democratic policy regimes dominated by elderly voters’ power—and what that would mean for these societies.

DISCUSSANT: RICHARD ROSE

Richard Rose commented that Hungary and Poland are creating a full blown welfare state backward. “If you look at the evolution of welfare states in the EU15 and Western Europe, it was a slow process that involved 20 years of affluence with a smaller proportion of older people and a differently structured labor force,” he said. He noted that Hungary and Poland are experiencing the collapse of a command economy. “We must rebuild from the top down by spending more and letting GDP per capita catch up,” he said. “The good news is that politicians tend to build coalition governments.”

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GENERAL DISCUSSION

In commenting on Dr. Vanhuyse's presentation, Professor Gora noted that reform was especially needed in Poland to keep the balance between generations. The new system, which started in 1999, stopped the increase of costs for workers generated by the inefficient traditional system. According to European Commission projections, it will lead to a strong reduction of those costs in the decades to come.

Another participant called for more research into the quality of work life in these post-communist countries. She said countries should focus on developing programs to keep people active in the labor market and healthy. In addition, they must find ways to "de-sandwich" the sandwich generation.

Dr. Vanhuyse pointed out that, whatever the initial reasons for early exodus, it often continues because society comes to view it as the norm. "It's hard to retrain what is perceived by voting populations as a right," he said. In closing, Dr. Vanhuyse made a plea for a more integrated political-economic analysis of the many issues discussed during the conference.



Andrea Houvenir of the European Centre welcome the delegates.



Closing Keynote Address

CLOSING KEYNOTE ADDRESS

Dalmer Hoskins

Office of the Commissioner, US Social Security Administration, USA

In summarizing the conference, Dalmer Hoskins highlighted four key themes. First, he cited the extraordinary heterogeneity of the new Europe. “It’s an incredible human development challenge to bring these countries together, to develop coherent policies and social protection goals,” he said. “It took the United States over 200 years to bring its citizens into a coherent political system, but Europe does not have the luxury of such a long time frame in the new global economy.”

Interaction and exchange will occur as these countries come more closely together in a new political and economic sphere, and their policies will undoubtedly influence each other. However, there may be important differences in the way the various member states tackle the problem of an aging society.

Not only are the economic realities very different from country to country, but also the historical development, Mr. Hoskins noted. For example, the UK historical path for providing old-age pensions is very different from that of many of its continental neighbors. Thus, there is value in the attempts already underway to establish benchmarks and ways of assessing how social protection schemes are actually performing.

The second theme Mr. Hoskins highlighted was the predominance in the European debate of the old-age pension issue. “On the other side of the Atlantic, we are for the foreseeable future, preoccupied with the reform of the health care system,” he said. “Here, the pension debate is still much more front and center. The younger demographic structure of the US population may give us the illusion that we can keep postponing major old-age pension reform.”

Europeans continue to have strong attachments to early withdrawal from the labor force and political support for relatively high replacement rates in many countries, Mr. Hoskins observed. In the newer member states of Eastern Europe, there is little apparent interest in turning back the clock and overturning the pension reforms that followed the establishment of market economies.



Dalmer Hoskins, US Social Security Administration, emphasized the differences between US and European policy debates in his closing remarks.

The reforms happened, and now we must make these multi-pillar systems work as we move forward, Mr. Hoskins suggested. There are already disturbing signs that the privately-managed pension funds introduced in Hungary, Poland, and elsewhere are not meeting expectations to provide decent benefits in volatile economic conditions. “What adjustments will have to be made to these multi-pillar pension systems, in both the public and private schemes?” he asked. “And how will they fit together to make a coherent retirement income policy?”

Thirdly, Mr. Hoskins stressed that long-term care is still an emerging issue and more insight is needed into its political economy. “Why don’t the players at the national level push more effectively to make the changes that will really transform the system?” he asked. “There are some powerful interests who appear to be uninterested in changing the current national systems, where long-term care falls somewhere between the health care, social services and the income replacement systems.”

“Where are the doctors, hospitals, health insurers, and pension funds that

CLOSING KEYNOTE ADDRESS

all have a stake in long-term care policies?” he continued. “Where are the politically influential constituents that could bring pressure to bear on the political system in favor of change?” Mr. Hoskins said there is a need to understand why a few countries have moved ahead (Austria, Germany and Luxembourg), while others continue to keep long-term care at a low level in their priorities.

Finally, Mr. Hoskins turned to migration. “Migration truly is one of the most important—and most misinformed—subjects in our political systems today,” he said. “If you look at the political leadership and dialogue between parties, the debate is often poorly framed.”

In this new world, countries will have to be better informed about what kinds of skills they will need from migrants; how many migrants will stay and become beneficiaries themselves; and whether they will really be able to exercise their rights in one, two or more of the multi-pillar pension systems where they have worked.

Mr. Hoskins noted that public education of the aging population on such issues will pose a greater challenge. In many European cities, a third of the older population will be foreign-born.

Mr. Hoskins went on to list several topics that merit future discussion. First, there is the issue of intergenerational sharing and balancing of national resources. “Are we shortchanging our children, as some of the participants have asserted, and are older people getting too much relative to other categories of the population?” he asked. “It’s a complicated technical issue, but most of all a highly emotional political question that needs to be better framed and understood as we move forward with pension and health care reforms.”

Gender is another reemerging issue, as gender-neutral reforms have not always produced good social protection outcomes for women. In addition, he suggested the need for more information about the effectiveness of financial literacy efforts. “If we’re going to have a good multi-pillar system, we need to find out better ways of informing citizens about their rights and obligations,” he said.

The issue of achieving universal coverage is also important in the new Europe as well as elsewhere in the world. “Where do social pensions fit in with a minimum guarantee for all residents, regardless of their work record or marital status?” Mr. Hoskins posed. He suggested progress needs to be made in administering targeted and means-tested social assistance benefits. These benefits constitute the minimum guarantee in many countries, yet many older citizens are eligible but not receiving them.

Finally, Mr. Hoskins called for bold thinking about the notion of a new social contract. “New thinking is needed about the expected roles of individuals, employers, and the government in a rapidly aging society,” he said. “These are big issues, and very few politicians seem to be willing to take them on and provide new visions and leadership in this area. The term ‘social contract’ isn’t a word that comes easily to some, but it requires further reflection as we move into an increasingly older and globalized world.”

NOTES

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Areas of priority include: Ageing & Generations; Alcohol, Drugs, Addiction; Childhood, Youth & Families; Citizenship, Civil Society & Volunteering; Health and Disability Policy; Health Economics & Indicators; Health Promotion and Prevention; Incomes, Poverty & Social Inclusion; Labour Market & Social Policy; Long-term Care & Personal Social Services; Migration & Integration; Pensions & Social Security; Tax/Benefit Policy Modelling Welfare Society.

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