

## Impact of Population Ageing on the Labor Market. Active Ageing and the Necessity to Increase Solidarity Between

Ionescu Oana Claudia<sup>a</sup>

<sup>a</sup> Titu Maiorescu University, Bucharest, Romania

### ARTICLE INFO

*Article history:*

Received: November 28, 2014

Received in revised form: December 10, 2014

Accepted: December 15, 2014

Available online: December 20, 2014

**KEYWORDS:** solidarity between generations; equality of opportunities; right of elderly; combating discrimination; retiring age; active ageing

### ABSTRACT

UE population is undergoing an intense process of ageing because of the considerable progresses of the society and concretized in a mortality rate substantially reduced and a higher life expectancy. The average lifetime of the Union is now of 39.8 years, but according to an Eurostat estimation, in 2060 this average will grow to 47.2 years and the segment of population over 65 years will grow with approximately 2 million persons/year. Under these circumstances, the ratio between active working persons and elderly will grow from 1:2 to 1:4 from this perspective.

The demographic ageing process represents, under the current context, a real challenge for labor market, for the health system and life quality after retiring. Promoting a life environment where "getting old" is not a synonym to "being dependent on the others acquires a special importance, "active ageing" becoming a reality and a necessity of these days.

This study is aimed at making an analysis of the current status of the labor market and points out the necessity to reform it by implementation of the concept of active ageing, result of increasing the participation level of elderly in all the fields of activity of the society.

It also points out the main measures and actions to be taken in this sense, in the near future.

### **Concept of Active Ageing and the Necessity to Reform Labor Market**

The concept of active ageing supposes preserving the health condition and the status of active members, financially independent and involved in the social life, regardless the age.

The World Health Organization defines active ageing as being the process of optimization of opportunities related to health, social participation and safety, in order to improve the quality of life of elderly.

The United Nations Organization was the one that adopted the expression "active ageing" at the end of the '90s, in order to transmit a message more comprehensive than "healthy ageing" and to acknowledge also other factors – not only health and care – affecting the way in which individuals and populations are ageing.

The approach of active ageing is based on the acknowledgment of the rights of elderly and moves the barycenter from the needs-based approach to the rights-based approach, which acknowledges the right to equality of opportunities and treatment as they are getting older.

The commitment of the European Union towards “active ageing” is based on its essential values, as defined in the treaties. According to the Lisbon Treaty, the European Union is based on valorization of human dignity, liberty, democracy, equality, rule of law, as well as compliance of the human rights.

Also, UE combats social exclusion and discrimination and promotes social and protection justice, equality of opportunities, between women and men and solidarity between generations.

The most powerful and explicit manifestation of such values is expressed in the Charter of Fundamental Rights of the European Union, whose compliance is mandatory and applies to all member states.

### **1. EU legislation and Charter of Fundamental Rights of the European Union in support of active ageing**

EU, although it has a limited competence in various key-domains of active ageing, it can significantly contribute to the support of the actions taken in the member states, by specific instruments, as for example: European legislation; EU funding by structural funds and the cohesion fund; European initiatives in terms of research and innovation; numerous strategies, programs, processes and initiatives at the community level aimed at enhancing mutual learning between the member states and regions.

The implementation of the core values of EU defined in treaties involves the approach of various types of discrimination, including age-based and disability-based discrimination.

The Treaty of Lisbon from 2009 acknowledged the fact that the “Union is based on the values of human dignity, liberty, democracy, equality, rule of law, as well as compliance of the human rights (Consolidated version of the Treaty on European Union, art. 2)... The Union combats social exclusion and discriminations and promotes justice and social protection, equality between women and men and solidarity between generations.” [European Commission, 2012]

The approach of age discrimination on the labor market is essential for achieving active ageing within work force employment.

The Charter of fundamental rights of the European Union, which is mandatory from the legal point of view for the actions of any UE entity, being also applied to the member states in their implementation of UE legislation, contains additional rights, relevant for the objectives of active ageing in domains as gender equality, social security, medical care and education.

Therefore, Article 21 concerning non-discrimination, any discrimination based on any ground such as sex, race, color, ethnic or social origin, genetic features, language, religion or belief, political or any other opinion, membership of a national minority, property, birth, disability, age or sexual orientation shall be prohibited.

Article 25 also refers to the rights of the elderly to lead a life of dignity and independence and to participate in social and cultural life.

The European Union signed the UN Convention on the rights of persons with disabilities, covering individual autonomy, non-discrimination, complete and effective participation in the society, equality of opportunities and accessibility, being key-aspects of active ageing for many persons who suffered a physical incapacity or developed various types of disability.

In 2000, EU adopted the Directive 2000/78/CE of the European Council, creating a general framework to combat all kinds of discrimination on grounds of religion or belief, disability, age or sexual orientation in employment and occupation. According to the same, member states have the obligation to consider illegal any unequal treatment of persons, including on grounds of age and disability, in the field of hiring, work force employment and non-salary activities,

including in terms of selection criteria, promotion, professional training, working conditions and affiliation to any organization.

In addition, Article 6 (2) of the Treaty on European Union commits EU to the adherence to the Convention for the protection of Human Rights and Fundamental Freedoms of the European Council, setting up the European Court of Human Rights.

The European Commission also created e-Justice portal in order to help people understand the rights conferred by such instruments and the way in which they can be enforced.

More than this, 2012 was designated as "European year of active ageing and solidarity between generations", promoting this concept in three fields of activity: employment, participation in the society life and independent living.

## 2. Reform of labor market by increasing the participation rate of elderly

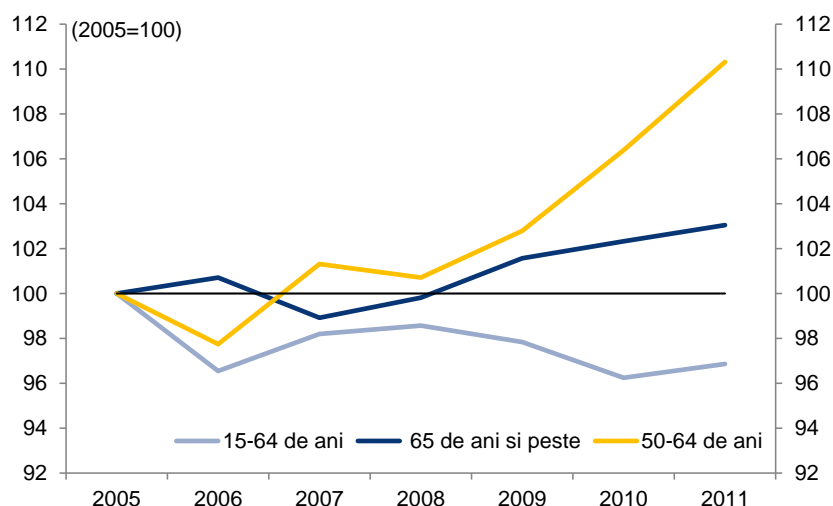
In terms of employment, within the current demographical context of increasing life expectancy and ageing rate of population, Europe should focus on improving professional perspectives on elderly.

Demographical change can be managed by a positive approach, based on the potentials of old age groups. Providing sustainable alternatives on the labor market to people over 50 years represents a priority for Romania, considering that inactive population in this age group grew strongly after 2008 because of the retirements made by virtue of economic recession (figure 1).

EU also aims at valorizing the participation to social life of elderly, by encouraging authorities to create a favorable framework pointing out the play of elderly in the society and better conditions for their health, an independent life by adopting some measures in order for the environment to be more adapted to people with health problems and disabilities.

In spite of the fact that the health conditions get worse while getting older, the states of the European Union should adopt measures and regulations enhancing us to live more without being dependent on others.

An important effort is the change of the perception according to which old people represent a burden for the society and pointing out the potential and opportunities they have and not their lacks and obstacles. To enjoy a more active and successful life at any age is for our personal benefit and also for the benefit of the society as a whole!

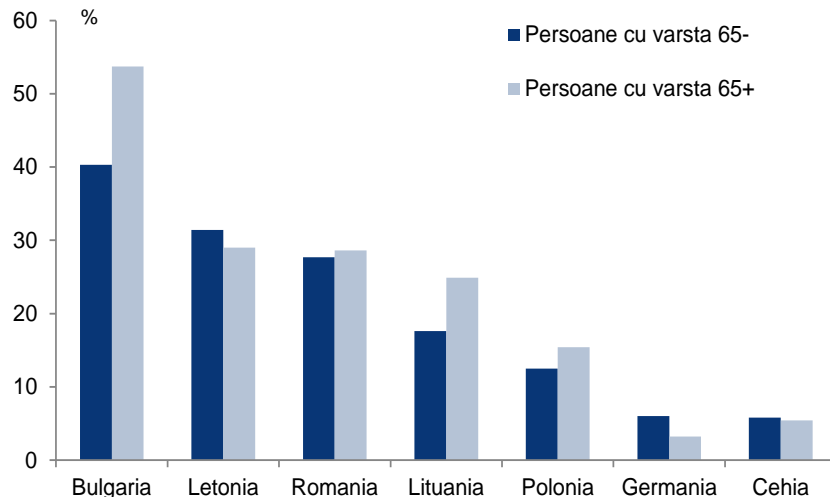


**Figure 1: Inactive population according to age categories**

In 2011, 29% of the total Romanian population was affected by a severe material poverty. The vulnerability of elderly in front of severe material poverty is slightly higher than that of people under 65 years. The main answer of authorities should be in the sense of development of

economic fields which may reduce poverty (market-oriented agriculture) and only subsidiarity in the sense of granting social benefits (figure 2).

As the share of persons affected by poverty is much higher in old population, creating a better society both for people getting older and also for young people, should represent a desideratum of these days.



**Figure 2: Share of persons affected by severe material poverty in the total population according to age (%)**

Therefore, the concept of active ageing is situated in the middle of a positive reaction towards demographical changes, which is essential for preserving solidarity between generations. So, active ageing supposes three main dimensions:

- overcoming structural barriers, gender differences, by creating possibilities in order for both women and men to remain as much as possible in the active life of the labor market, which creates advantages both at the level of the system and also at individual level;
- providing a social environment which should valorize the possible contribution to the society both of old women and men;
- creating the conditions to maintain themselves healthy and to live independently as they are growing old, by an approach of active ageing although their life, combined with adapted houses and favorable local environments allowing old persons to remain as much as possible in their own houses.

The modernization of the tax system, increasing the retiring age and the number of public-private partnerships are some of the solutions for governments of the entire world to face the ageing trend of population and the global level.

According to a study made by Deloitte, global ageing will determine governments to reanalyze the services provided to citizens and the modalities of funding the public services.

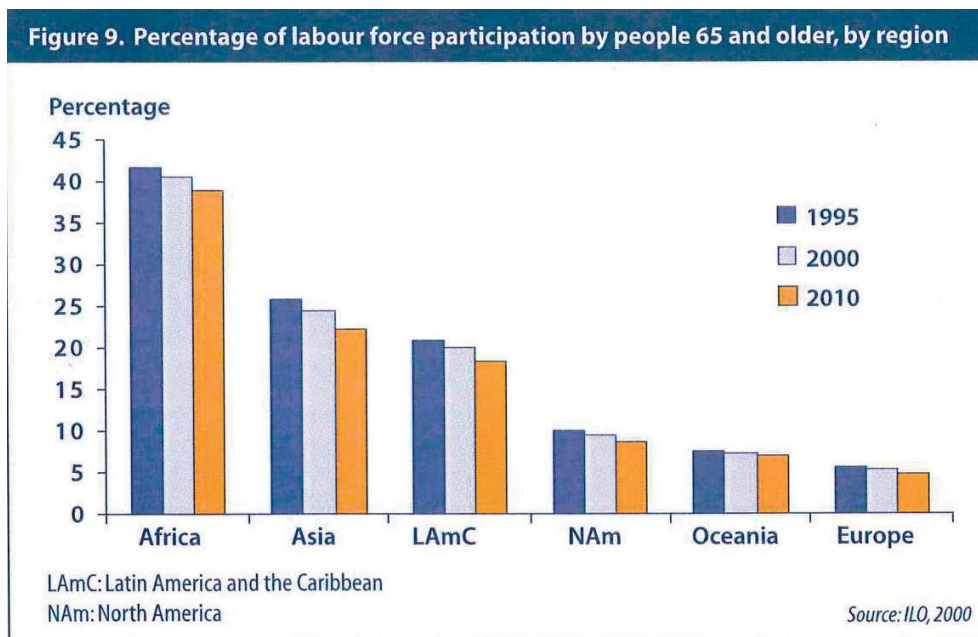
The erosion of tax revenues derived from taxes might be counterbalanced by increasing the average retiring age.

Active ageing represents an essential component of the strategy Europe 2020, whose success depends to a great extent on the creation of the possibility of a full contribution of the elderly inside and outside the labor market.

Analyzing the situation at the level of 2010 as compared to 1995 and the trends of 2010, in terms of the share in work of population aged 65 years and more, there is a considerable decrease in most areas of the world (Figure 3).

In this interval Europe is facing the lowest levels of participation of elderly, up to 10%, as compared with countries of Africa (approx. 40-43%) , Asia (approx. 23-25%), as a result of the low retiring ages, early retiring and poor health condition of the existing population especially in underdeveloped countries, being in a transitional period. Please note that the situation got worse, as a result of the economic crisis, which determined the necessity to reform the pension systems and to find efficient solutions to increase the level of involvement of elderly in all the fields of the economic, political and social life.

In this, according to the results of a Euro barometer study made in 2012, most Europeans (60 %) reject the necessity to increase retiring age.



The strongest rejection was recorded in Romania (87 %), Latvia (86 %) and Slovakia (83 %), while in countries as Denmark (58 %), Netherlands (55 %), Ireland (53 %), United Kingdom (51 %) and Austria (49 %), most respondents approved the necessity to increase the official retirement age.

This rejection does not necessarily mean that Europeans are not prepared or ready to take into consideration the possibility to work more years. Approximately 61 % are in favor of the idea to continue the activity also after reaching the official retirement age, and 53 % reject the idea of an age when retiring is mandatory.

Active ageing represents therefore the basis of solidarity between generations and is a target of the European Union written in Article 3 of the Treaty of Lisbon.

### **Participation to Labor Market. Impact of Population Ageing**

The phenomenon of world population ageing has an impact which will be felt also on the labor market by decrease of the employment offer and labor productivity.

In this context, it becomes extremely important to encourage high employment rates of women and elderly.

In countries as Finland, France, Italy, Netherlands and Portugal, the potential of increase participation rates on the labor market of elderly is very high.

Blondal and Scarpetta [Blondal, Scarpetta, 1999] estimated that, by measures aimed at maintaining in the labor field of old men, increases of participation rates of 8 – 9% might be

obtained in such countries, while the percentage ranges between 4 – 6% in the other European countries and less than 4% in Japan and United States .

EU states don't succeed in maintaining old employees and attract young people in the labor market as good as USA [Turmam, 2006].

It is important that the policy of increasing participation rates to the labor market to be correlated to the factor of total productivity, the financial capital and the human one. Therefore, France, although it has one of the highest unemployment rate (approx. 9.7% on 2003) as compared to the OECD average of 6.9%, in terms of the productivity expressed in GDP/worked hour, it is among the first countries after Norway, Luxemburg and Belgium, exceeding USA and Germany[OECD, 2005].

The lowest productivity rates belong to Poland, Turkey and Mexico. Poland is the country with the highest unemployment rate (19.6% in 2003), while in Mexico the unemployment rate was 2.5%, one of the lowest ones, which means that in order to increase productivity, the increase of participation rates on the labor market is important but not enough.

### **1. Impact of the increase of the ageing rate of population on public finance**

The reduction of dependency rates means a reduction of the number of taxpayers correlated with the increase of the number of beneficiaries. The increase of public costs can induce a pressure on the public debt, as taxpayers are fewer and fewer, which means a transfer of the burden of population ageing over the further generations.

Ignazio Visco estimated that on a whole 40% - 60% of the total public costs are sensitive to population structure.

Down from 1996, Roseveare, and his workfellows, [Roseveare et al., 1996], further to the simulations made on 20 countries, member of OECD, identified the weaknesses of the redistributive-type pension system. So, countries with generous pension systems were to face increases of the public debts of pensions of approximately 15% as compared to 10% of GDP in other countries. Their studies reflect the evolution of the public costs of pensions in the eve of the retirement of "baby-boom" generation. Besides this scenario, Roseveare and his workfellows simulated, during the same period of time (1995-2070) another 4 ambitious scenarios 4 which are:

- late retirement scenario, which involves the gradual increase of the retiring age up to 70 years, in most countries of the study the pressure over public costs being counterbalanced;
- cost control scenario (the increase rate of public costs of pensions cannot exceed the GDP increase rate, starting 2015), in this case the tax implications being similar with the first scenario, except that the pension replacement rate is considerably reduced from approx 40% of the average salary, in 2015, up to 30% in 2030;
- the target scenario consisting in preserving the replacement rates constant starting 2010, provided that the share of elderly receiving a pension be gradually reduced by 30%, which means a limitation of public pensions to people with small incomes and a reorientation of people with average and high incomes towards pensions from pensions. As compared to the previous scenario the pension will be higher, but for fewer beneficiaries, the universality principle being therefore limited, pensions for everyone buy very small.
- the scenario of indexation with salaries lays stress on pension benefits, unlike the method of indexation with prices. In this variant pensions will be increased by 2-3 % of GDP.

Experts of OECD AND EU, in collaboration with the national authorities have also made studies showing average increases of public costs of pensions or approximately 3.2 – 3.5% of GDP and significant differences between countries. Therefore, in the conclusions of the meeting of the Ministerial Council of OECD dated 13-14 May 2004, the representatives of the countries

admitted that retirement models are grounded on counterproductive policies, which require change.

The correlation between life expectancy, the level of pensions and the retiring age is the one which will set the bases of a strong pension system [President of the Ministerial Council, O.E.C.C., 2004].

## **2. Impact of population ageing in the field of consumption and saving**

Keynesian theory on consumption claims that people increase their consumption as their income is higher, but not with the same rate, which means that, as incomes are higher, saving also increases.

On the other hand, Modigliani theory starts from the idea that people desire to ensure resources for the inactive period of their life is the basis of saving, while Friedman enunciates the permanent income theory, in which the individual calculates both the consumption and the savings, taking into account also the future expectations on income increase.

In conclusion, the lifecycle theory cannot be fully found in the real life, more specifically the theory according to which the individual accumulates enough savings to prevent the decrease of the standard of living after retiring, does not happen each and every time.

Please note that population ageing can also induce a decrease of dynamism in the area of innovation, or on the contrary, insufficiency of work force will stimulate innovation [Mustăţea, 2008].

Population ageing will generate a decrease of savings; the problem being to identify to which extent such reduction of savings will have a significant impact on economic growth and on the standard of living. The specialists' opinion in this sense are distinct, a part of them considers that the decrease of savings generates a reduction of investments and finally a reduction of economic growth and an increase of the standard of living, while the other part considers that as workers are less numerous, they will need less investments, and the reduction of savings as a result of population ageing will not affect the standard of living.

The results of some economic analysis [Marins, et al., 2005] pointed out the fact that an increase of the number of pensioners in the population structure has a strong negative impact on the saving rate, more than five times higher than the positive impact of the increase of the share of active population in the population structure.

Therefore, if in order to ensure sustainability of the pension systems, instead of increasing contributions, they would be maintained constant and the retiring age and replacement rates for the future pensioners would be gradually increased, savings would grow significantly during the following decades, due to the fact that each individual would act accordingly, in order to maintain the standard of living during the pension age [Fit, 2005].

## **3. Impact of population ageing on financial markets**

The impact of population ageing on financial markets mainly depends on the share that accrual pensions will have in the total incomes of pensioners. Therefore, the success of reforms in the field of pensions will depend on the future performances of financial markets, but also vice-versa.

Financial markets play a crucial role in global ageing, the capital being the factor with the fewest barriers of movement from one country to another and which allows the transfer of resources from a period to another.

By its free movement, the capital allows international diversification of demographic risks, and by time transfer it allows inter-temporal substitution of resources, even between generations [Borsch, 2004].

The increase of the number of pension funds may lead to a reassignment of savings to the detriment of the banking system, increasing the role of the instruments specific to financial markets.

Therefore a more diversified system is necessary, which should be based less on the banking system and more on the financial market.

## **Conclusions and recommendations**

In 2060, the ratio between persons of a working age and elderly will be of 1 to 2.

Demographic ageing in Europe supposes some challenges for the labor market, for the health systems, but also for the quality of life after retiring. Many people expect to a degradation of the quality of the life after retiring, others consider that pensioners will be concerned only by their own interests, therefore leaving on the shoulders of the young generation a heavy burden.

Should we be afraid for the future because our society is undergoing an ageing process?

Of course not, if we promote ageing in good health conditions, we create more opportunities on the labor market for the elderly, we remain active in the community and we promote a life environment in which "getting old" is not a synonym to "being dependent on the others".

Therefore, of "active ageing" becomes a reality for all of us, we have no reason to be afraid!

Starting from here, the European Union indicates a couple of action areas in relation to active ageing:

- work and employment, even at old ages;
- social participation and solidarity between generations;
- health and preservation of autonomy.

Together with the increase of the life expectancy, the retiring age also increases in Europe, in the same rhythm with the fear of losing the job or impossibility to find another one that would provide a decent pension.

So, old workers should be offered better opportunities on the labor market, as for example:

- *lifelong learning and development of new competences;*
- *optimum working conditions;*
- *strategies for managing the age pyramid in companies;*
- *specialized services employment for old people;*
- *combat of discrimination on grounds of age;*
- *Systems of social and tax benefits enhancing employment;*
- *transfer of experience, etc.*

Old people should have the possibility to work also after the retiring age!

The conclusions of the Euro barometer of the European Commission, held during the period September – November 2011, in UE member states as well as in Macedonia, Island, Norway and Turkey, concerning active ageing, indicates the fact that there are some barriers preventing the participation on the labor market of old people, such barriers mainly consisting of:

- *lack of training;*
- *lack of flexibility of the working hours, in the sense of progressive reduction of the number of working hours;*
- *negative perceptions of employers.*

The general opinion was that the retiring age should be equal for men and women, but without preventing individuals from working beyond the retiring age, if they want to.



In terms of people expectations concerning the end of the carrier, most respondents (70%) said that they expected them to be able to work until around 60 years.

Instead, there was a general disagreement concerning the maintenance of a distinct retiring age for men and women. Most respondents rejected the idea of a higher retiring age for women due to the fact that they have to take carrier breaks in order to take care of their children (81%) or due to the fact that women live more (83%). However, 62% of the respondents do not agree with a smaller retiring age for women either.

Asked if people should have the possibility to keep on working beyond the official retiring age, 61% of the respondents agreed with the idea, and 33% placed themselves at the opposite pole. There were big differences at the level of states: 93% of the Denmark respondents and 91% of the Netherlands answered that people should be entitled to keep on working, and 71% of the Greek respondents and 66% in Slovenia considered that people should give up their carrier when they reach the retiring age.

The conclusions of the survey show that 54% of the respondents would not want to work anymore after retiring. Also, 65% would sustain that the variant to combine a part-time job with a partial pension is an alternative to full retirement.

Retiring should not mean lack of activity. In terms of solidarity between generations, there are two forms of solidarity, the family one, providing the transmission of values to the next generations but also of the financial resources and public solidarity providing financial transfers from active adults to the elderly.

The two forms of solidarity overlap and must complete each other.

Also, it is acknowledged the fact that the ageing process is the real problem which makes old people vulnerable, but their capacity to cope with the society conditions with their incomes.

This is why we need: to ensure the security of incomes when we grow old; support for social participation and volunteer ship; support granted to the elderly taking care of another person; to ensure an equilibrium between the professional life and the duties towards the dependent person; solidarity and dialogue; to overcome differences concerning the use of new technologies.

Besides the increase of life expectancy, the decrease of the birth rate puts an additional pressure on the pension and social security systems, because there are fewer and fewer employees who have to support, for a longer period of time, one or even more pensioners.

In this context, the restructuring of the pension, health and social security systems is required, especially when demographic evolutions bringing an even higher life expectancy and a decreasing birth rate result in a less and less numerous work force which will have to fund the entire system.

The introduction of reforms in the pension system based on individual savings for own pensions also result in an additional burden for younger employees, who have to fund the current pensioners but also to save money for their own life.

A solution to improve this situation would be to increase the quality of life of elderly by shortening the years of suffering, meaning by an ageing as healthy and active as possible.

## References

- [1] Blondal, S.; Scarpetta, S, "*Pensionarea anticipată în țările membre OECD; rolul sistemelor de securitate socială , Early retirement in OECD countries, the role of social security systems*"; Studii Economice OECD, nr. 29, 1999, pag.42
- [2] Borsch Supan, A, "*Global Ageing: Issue, Answer, More questions*", Centrul de Cercetare a Pensionării Michigan, lucrarea 84, iunie 2004, pag. 25

- [3] Casey, B. et al. (2003) Policies for an Ageing Society: *Recent Measures and Areas for Further Reform*, OECD Working Paper.
- [4] Comisia Europeană,(iunie 2012), Direcția Generală Ocuparea Forței de Muncă, Afaceri Sociale și Incluziune , Unitatea D3, „*Contribuția UE la îmbătrânirea activă și la creșterea solidarității între generații*”, Luxemburg: Oficiul pentru Publicații al Uniunii Europene, ISBN 978-92-79-25 136-8,doi 10.2767/6870. Available at [www.ec.europa.eu](http://www.ec.europa.eu)
- [5] Deloit Central Europe, „*Deservirea populației îmbătrânite*”, martie 2007, Available at <http://www.business24.ro>.
- [6] Dorel, Mustăța, „*Securitate socială. Provocări și reforme*” în Raportul de muncă nr.5/2008, pag. 23-25
- [7] Gabriel A Stefura, „*Sistemul de pensii, experiență internațională și lecții pentru România*”
- [8] Marins, O. J.; Gonand, F; Antolin, P.C. de la Maisonneuve, Yoo, K-Y „*The impact of ageing on demand, factor markets and growth*”; Economic Departure, Working Paper, nr. 420, OECD, 2005, pag.8
- [9]Paul Matei, Centrul Europe Direct,Iași, „*Ghid de bune practici in imbatranirea activa*”, Materiale informative preluate de pe site-urile gestionate de C.E.și organismele afiliate, 2010-2012, [www.eudirect.ro](http://www.eudirect.ro), 18.08.2014
- [10] Roseveare, D; Leibfritz, W; Fore, D; Wurzel, E in „*Ageing populations, pensions systems and goverment budgets: simulations for 20 OECD countries*”; OECD Paper, Economic Department, nr. 168, 1996, pag. 6-7
- [11]Rezumatul președintelui Consiliului Ministerial OECD, 13-14 mai 2004, Paris, <http://www.oecd.org>
- [12] Simona Fit, „*Propunere de politică publică privind viabilizarea sistemului românesc de pensii*”, Editura Mirton, 2009, Timișoara, pag. 47
- [13] Supliment al observatorului OECD, 2005, pag.83 „*OECD in figures: Statistic on the Membre Countries*”
- [14] Turmam, Anna „*Getting Europe to work. The roe of flexibility in tapping the unse potential in european labour markets*”; document în lucru CEPS, nr. 250/sept. 2006, <http://www.ceps.se>