Panel Address

The Honorable
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U.S. Mission to the OECD

"The Aging Population and Increasing Societal Costs"

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Thank you, Amber (Sechrist), for that kind introduction. It's a pleasure to be here in Berlin and to be able to participate in the TransAtlantic Conference once again, this time as a member of this distinguished panel on "The Aging Population and Increasing Societal Costs."

While globalization is bringing countless benefits to societies around the world, it is also bringing new challenges to governments and citizens alike. One of the benefits of globalization is that people all over the world are living longer, healthier lives, but they are also having fewer children. The result is that societies around the globe are facing the daunting prospect of having to support huge numbers of older people and smaller families, with fewer workers to fund social security programs. Governments world wide are faced with reforming policy in order to mitigate any negative effects.

The pace of change today is unprecedented. Developed countries are themselves struggling to secure globalization's benefits, while the developing world is struggling to reform fast enough to raise living standards.

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At the Organization for Economic Cooperation and Development (OECD), whose membership includes 30 of the most industrialized nations in the world, challenges posed by demographic changes are recognized as extremely important developments that require analysis and the development of innovative policies. All 30 OECD countries are experiencing significant population aging due to falling fertility rates and increasing life expectancy. On average, the share of the population aged 65 years and over is projected to nearly double between 2000 and 2050. As labor force growth slows, countries around the world will experience skill shortages, lower economic growth and pressure on public finances. Higher participation rates among older workers is key.

The most extreme example would be Japan, which in 2000 had roughly 27 people aged 65 and above for every 100 people of working age (aged between 20 and 64), and is expected to have 70 for every 100 by 2050. The United States, although the least rapidly ageing, is still projected to undergo an increase from 20 people aged 65 and above per 100 workers to 38 per 100 by the year 2050.

Unless fertility rates rise, future gains in longevity will continue to increase the 'old-age dependency ratio' -- the number of people of retirement age relative to the number of working age. Unless governments reform and individuals take more responsibility for their retirement income, realizing the true benefits of the 'golden years' could be more difficult to achieve.

The "Ageing Societies" phenomena have arguably had the most noticeable impact on public policy in recent years, primarily pension policy, but also health care policy. OECD projections show that pension spending for retirees could rise on average by 3 - 4 % of gross domestic product (GDP) in the period up to 2050. The OECD's publication *Health at a Glance* also indicates that because old age entails higher health care costs due to older people tending to be in poorer health, a rise of two to three percentage points is also projected in this area as well. Given these likely spending increases, either the cost of social programs will increase and with them the contribution and taxes required to finance benefits, or benefit levels will have to be reduced. Failing either, deficits will increase.

But as the recently released OECD publication *Pensions at a Glance 2007* advises, these developments also have implications for individuals. People in OECD countries will have to save more and invest wisely for their retirement as a result of major pension reforms carried out in recent years. Those pension reforms have resulted in the average pension promise in the 16 OECD countries studied being cut by 22%. For women, the reduction was 25%.

As societies age, the pension-eligibility age is expected to increase. When pension reforms are complete, most OECD countries will have a standard retirement age of 65 years. Many other countries have increased the full pension age to 67, as has the United States. Although pension reforms in the OECD as a whole were substantial and necessary to ensure the financial stability of pension systems, more remains to be done. Policies to increase employment among senior citizens, people with disabilities, women, particularly mothers, and also the unemployed will be key.

Responding to the challenge of the ageing population and its societal costs will not simply be a matter of reforming pension systems. Attention needs to be given to education, training, combating discrimination against older workers, and changing employer behaviors that hinder employment of older workers – companies need to be less reluctant to hire and retain older workers.

Clearly, while governments must continue to institute reforms so that a level playing field exists in as many countries around the world as possible, individuals will have to take greater responsibility for their retirement incomes. More education and awareness are necessary to help individuals understand the need to save and invest for retirement and how best to do that. Surveys across OECD countries and worldwide consistently show alarmingly low levels of financial literacy in general and the understanding of the need and importance of saving for retirement, in particular.

For example, surveys in the U.S. have shown that four out of ten workers are not putting any money aside for retirement. A report in New Zealand found that many workers are either “unwilling or not able” to save enough for retirement, and in fact around 30% of households spend more than they earn. In a Japanese survey, 71% of respondents had no knowledge about investment in equities and bonds, and in Canada, respondents considered a trip to the dentist less stressful than choosing the right investment for a retirement savings plan.

In assessing reforms and an abundance of proposals, it is necessary to keep in mind the fundamental objectives of social protection, including how to provide an income adequate to prevent poverty and poor health in old age, and to provide security once people have retired. But pension systems also need to be sustainable, just as health care must be reliable and accessible. Clearly, there needs to be a better balance between the public and private sectors and individuals need to take more responsibility for their financial futures. We must recognize that differing cultures and social norms will mean different ways of providing protection to an aging population.

Our role at the OECD is to analyze international social and economic conditions and to develop policy options to improve the functioning of member country economies. This is no less so when it comes to pension challenges and reform. The growth of economies in the developing world can add significantly to continued prosperity in the developed world. Educated societies lead to lower unemployment; lower unemployment leads to higher incomes; and higher incomes ensure that individuals and governments have the resources necessary to fund retirement and old-age security programs. Globalization is here to stay. Our individual role is to make sure that we benefit from it, preparing today for the challenges it will bring tomorrow.

Thank you.