

PART I

Chapter 2

Country Actions

This chapter provides a snapshot of the HRM policies of the countries examined:

- *Strategies of cost containment and productivity increases in the public service. This is occurring largely through a focus on the financial sustainability of the pension system (reducing benefits, keeping older workers at work longer and moving from defined benefits to funded defined contribution schemes) and, in some cases, through passive downsizing.*
- *Policies aimed at maintaining capacity. Some countries are doing this through proactive recruitment strategies, delaying retirement age and providing incentives for staying at work longer. Unfortunately workforce planning across sectors remains a rather weak point for most ageing strategies.*
- *Reallocation of resources according to new priorities. This requires balancing the strategic vision for policy priorities, financial and staffing constraints, and reallocation of responsibilities across the levels of government, but remains unfortunately weak across OECD countries.*
- *Avoiding a further tightening of the wider labour market. In most countries, the consequences for the wider labour market and thus for the wider economy of the waves of departures, have not been taken into account in the public service ageing strategy.*

This chapter gives a snapshot of the government human resource management policies which the study has identified in the nine countries examined, as they begin to face the ageing challenge.

1. How are countries addressing cost containment and the need for productivity increases in the public service?

1.1. A strong focus on the financial sustainability of pension systems and on downsizing

1.1.1. Pension reform¹

The financial sustainability of pension schemes has been the main preoccupation for pension reform in OECD member countries.

Pension reform has focused on aligning the rights and benefits of public servants with those of private sector employees. Whilst not all governments have subscribed to all these aims, in general the reforms undertaken have targeted: i) reducing benefits; ii) keeping older workers in the labour force for longer; and iii) moving to funded defined contribution schemes through the following revisions to the pension systems:

- extending contribution or qualifying periods for benefits;
- reducing the reference salary and cutting annuity rates, thus reducing the replacement rate; new schemes that offer lump sum benefits only (*e.g.* Australia's Public Service Superannuation Accumulation Plan (PSSap))
- raising the retirement age and removing a maximum retirement age;
- reducing compensatory entitlements for women;
- changing entitlements for sick and disability benefits in order to limit early retirement;
- financial disincentives for early retirement, for example via investment return on employer contributions;
- financial incentives for deferred retirement, for example by way of increased contributions (due to a longer period in employment) to the fund;
- moving from defined benefits to defined contribution schemes;
- development of funded occupational schemes and contributions by civil servants to the financing of their pension schemes.

Overall, the OECD paper "Public Sector Pensions and the Challenge of an Ageing Public Service" concludes that there is little linkage between pension reform and other public sector management reform strategies.

In most countries, the linkages between pension reform strictly speaking and other ageing strategies are unclear. While one of the goals of pension reform is to retain older workers, it is also one of the goals of ageing strategies in order to maintain capacity. In some countries, pension reform is almost the only really significant reform involved in the ageing strategy. In other countries, its strategic link to any overall ageing strategy and in

Box 2.1. Overview of pension reform in selected OECD member countries

- Australia** The Australian government introduced the PSSap as a fully funded accumulation scheme for most new government employees from 1 July 2005. The Public Sector Superannuation Scheme (PSS), which was an unfunded defined benefit scheme established in 1990, was closed to new members from 30 June 2005. Since 1 July 2005, most new Australian government employees have been able to choose to have employer contributions paid to PSSap or another complying superannuation fund or retirement savings account.
- Denmark** The current scheme came into effect in 1919. The reforms undertaken have not changed the formula for computing pensions. However, eligibility rules have been amended. For example, the normal retirement age has been lowered from 67 to 65 years. Buy-back of certain periods of absence is allowed in defined-benefit schemes. Legislation in the pipeline also provides for retirement prior to this reduced statutory age, but it will include a provision which will make it easier to retain certain categories of employees beyond the normal retirement age. To encourage people to stay in the job despite the reduced retirement age, arrangements have been introduced for gradual retirement. These reforms seek to ensure the financial viability of the schemes and to introduce more flexibility, along with equality between workers. Certain segments of the public sector have in fact been privatised. Since 1 January 2001, appointments of public sector employees have been limited to a series of occupational categories specified in a circular of 11 December 2001. Staff not listed in the circular are considered to be in the private sector.
- Finland** Alignment between the private and public sectors has been ongoing since 1967. For instance, in 1989, partial pensions were introduced in both sectors. Beginning in 1993, a fundamental reform of public and private sector schemes was carried out with a view to correcting financial imbalances stemming from population ageing and early retirement. Because of the reform, the benefits for workers in the two sectors have become more similar. The reform, which had been intended to apply only to new entrants to the public sector, was eventually extended in 1995 to all persons under 55. The 1995 measures led to an increase in the normal retirement age (from 63 to 65) and in the contribution period (from 30 to 40 years). The annuity rate was cut to 1.5% per year instead of 2.2%. In order to retain workers after 55, the annuity rate was increased to 2.5% per year. As from 2005, the rate was changed again and set at 1.9% for people aged 53 to 62 and at 4.5% for those aged 63 to 68. Employees can also receive pension increases. The rules for the basic scheme were also changed in 2005 but the benefits are the same for all. Periods of illness and parental leave now confer pension entitlement. The reference period for computing pensions has gradually been lengthened: the last four years in 1987, the last 10 in 1996, and the average salary over a person's entire working life in 2005. This pension reform was accompanied by changes in government employment, which was reflected in the privatisation of state-owned enterprises. This shift led to a reduction in the categories of staff covered by the pension system. The number of state employees decreased by nearly 70 000 people between 1988 and 2003 – 90% because of privatisation and 10% because of staff cutbacks. Teachers and other public sector employees will receive slightly less favourable pensions as a result of the changes in 1995. Survivors' pensions are based strictly on the pension of the deceased worker.

Box 2.1. Overview of pension reform in selected OECD member countries
(cont.)

France The civilian and military pension scheme has existed in its current form since 1924. It was reformed in 1947, in 1964 and more recently on 21 August 2003. For its part, the scheme applicable to civil servants working for sub-national authorities and public hospitals has been in existence since 1947. The 2003 reform applies to that scheme as well. This latest reform changed the pension calculation rules by gradually extending the mandatory contribution period for a full pension, over a number of years until 2020. It instituted a system of increases and decreases of the reference period to encourage civil servants to work longer. Nevertheless, a public sector employee may not continue to work more than 10 quarters beyond the normal retirement age without incurring a penalty. The rules for drawing a pension and earning income at the same time were relaxed. Non-permanent employees who become civil servants are able to count the time they served as non-permanent employees towards their pension entitlement. In addition, public sector employees may opt to purchase years spent in higher education, although this entitlement is limited.

French legislation had to become compliant with European law in respect of pension benefits by virtue of the principle of equality between men and women. Provisions were adopted in favour of part-time workers, who are now eligible for the same benefits as those working full time, as long as they pay the additional contributions. Progress was also made with respect to surviving spouse pensions, with the abolition of restrictions on widowers' pensions or those of divorced husbands (provided they had not remarried) of female civil servants.

Netherlands The current pension system dates back to 1922. In 1995, the legislation was amended. In 1996, the Netherlands' largest supplemental pension scheme (ABP) was privatised. The current rules took effect on 1 January 2006.

The formula for calculating old-age pensions was changed from that date. The contribution period was increased, as was the normal retirement age (from 62 to 65). Since 2004, pensions are based on average earnings. Early retirement is still an option, although flexible pensions have been abolished. The "levensloopregeling" was introduced, replacing early retirement while keeping some elements of free choice over when to retire. In 2006, the minimum retirement age for public sector employees was raised from 55 to 60.

The scheme applicable to atypical workers was amended so that the entitlements conferred are similar to those of typical workers. Survivors' pension entitlements were halved.

Source: "Public Sector Pensions and the Challenge of an Ageing Public Service", OECD, 2006, GOV/PGC(2006)13.

particular to workforce planning issues, is tenuous. The key message of the OECD/GOV pensions report is that, in addition to fiscal reasons for reform, public service pension reforms could be designed to assist in the task of *attracting and retaining capacity* within the public service as large numbers of experienced public servants retire. In principle higher pensions can contribute to making the public service a more attractive employer, but increasing the attractiveness of public sector employment through enhancing pensions for all public servants is a distinctly expensive and untargeted approach. The primary

contribution of pension reform to meeting the ageing challenge is through the incentives and opportunities that it creates for skilled staff to join, or remain within, the public sector as part of a flexible working career that embraces the public and private sectors. Pension reform has seemingly taken some steps towards encouraging skilled older staff to remain at work for longer, through pension supplements and some tentative moves towards raising retirement ages. However, hurdles to mobility are to be found for staff wishing to pursue a career that encompasses both the public and private sectors and, of most concern in the context of the capacity problems raised by ageing, this very probably includes highly skilled managers and technical staff. Pension reforms have also not, as yet, fully addressed the challenges faced by those workers who would join the public sector if they could work flexibly. In sum, there seems to be a distinctly long way to go before pension reforms serve as an active management tool to assist in retaining capacity within the public service.

Analysis of the case studies and survey data shows that although retaining older workers has an important financial impact on pensions, it only delays the looming capacity crisis in the public services of OECD member countries by a few years. Retaining older workers at work will thus only have a minor impact on capacity.

The real overall financial impact of delaying retirement is also unclear as older workers tend to earn more than more junior workers. Only a few countries seem to have rethought their pay systems following the increased wage bill due to an ageing workforce (Denmark, Germany and Italy foresee such reform in the future).

1.1.2. Downsizing

Some countries have recently been focusing on downsizing their public employment. This is the case in Denmark which has decreased public employment through normalisation² and privatisation of activities, and other countries which have imposed hiring freezes (Italy, the Netherlands and Portugal).

Other countries are using, or planning to use, natural attrition to decrease their public employment, through replacing departures at the rate of less than one for one: Finland and Portugal have decided on a 70% and 50% replacement rate respectively. Other countries have less ambitious goals such as France which has determined it will replace 90% of its civil servants leaving on retirement. But overall, very few are actively using the opportunity of large-scale departures to proactively manage the size of their workforce.

In most countries, the health (because of increased demand in the future) and education (because it is very much affected by ageing and departures) sectors are exempted from the downsizing efforts.

Australia is a special case in that it does not seem to face the need to further downsize the workforce. The federal government thus concentrates on maintaining and improving capacity. There is no mandatory retirement age for the federal public service. Its policy aimed at retaining older workers is much more based on improving recruitment and career paths (to be ready for hiring less qualified candidates in a tighter labour market, to increase the opportunities for lateral entry into the public service at management levels and to develop talent pools ready to move to the executive levels) than other OECD member countries.

1.2. Wider public sector management reforms for productivity increases

In many countries, ageing strategies emphasise cost containment and downsizing which lead to static productivity increases. Most countries, however, have also embarked

on wider public sector management reforms that, it is anticipated, will produce dynamic productivity improvements.³ These include e-government, improved training, knowledge management, performance management. Except in Finland, there is little evidence that countries are linking these wider public sector management reforms to the need to improve productivity due to ageing, apart maybe from training.

Reforms are usually introduced, it seems, more as a way to maintain or improve capacity than to increase productivity.

Box 2.2. Finland: The Productivity Programme and the Decision on Central Government Spending Limits

Both the Productivity Programme and the Decision on Central Government Spending Limits emphasise the importance of strategic planning and human resources development and management. Otherwise, the intended goals of increased productivity and efficiency cannot be reached in a sustainable way.

The Productivity Programme for Public Sector 2005-2015

The Ministry of Finance is currently responsible for leading the Productivity Programme for the Public Sector 2005-2015. Each administrative domain and individual government agency and institution is responsible for carrying out the ministry's policies. The main objectives are:

- increasing the productivity and efficiency of the public administration and services through structural and functional reforms;
- systematic use of productivity advantages;
- encouraging an increase in productivity, economic efficiency and structural and functional reforms through the finance and guidance systems and government subsidy system;
- using IT and data communications to increase productivity;
- introducing adequate reforms to increase labour force competitiveness and know-how;
- making adequate research and development work about public sector productivity available.

Public services should be produced as productively, economically and effectively as possible using the available personnel. The focus is on leadership and management, operational processes, utilising IT technology and, first and foremost, on developing the know-how, motivation and well-being at work of the personnel.

Decision on Central Government Spending Limits in 2007-2011, productivity actions decided by the government

The government has implemented action packages to improve the productivity of government, with service structure reform, improvement of structures and operating methods in central government operations and improvement of the use of IT.

With increased productivity, the number of personnel can be adjusted in a controlled manner. The aim is to reduce the number of central government personnel by a total of 9 600 person-work years by 2011, i.e. 7.9% of the total central government person-work years. The reduction in the number of personnel covers only a third of the estimated natural attrition.

All targets and measures are based on the productivity programmes drawn up by the ministries in the administrative branch in 2004 and 2005 and then further joint preparations are made by the ministries and the Ministry of Finance together.

Source: Finland case study and *Decision on Central Government Spending Limits in 2007-2011*, Ministry of Finance.

In addition, the opportunities presented by an ageing workforce are rarely taken advantage of in order to modernise public services so as to improve productivity. An exception for instance is Portugal which mentions an ongoing human resource management reform which provides managerial flexibility in hiring but only as long as staff are on contracts and do not have civil service status.

Finally, apart from the Netherlands, the countries studied in this review are not placing an emphasis on alternative service delivery as a way to respond more efficiently to the ageing challenge. At the whole-of-government level, no country seems to be considering reviewing government functions and roles in the delivery of services that will be the most affected by the new demands made of public services.

2. How are countries addressing the need to maintain capacity?

Unless productivity increases are very significant, governments will have to address the issue of capacity maintenance throughout government by both hiring and reallocating staff in large numbers. This is particularly the case in the sectors most affected by departures (for example, education in many countries and health) and by increased demands due to population ageing (health and long-term care). In addition, it is clear that specific measures will have to be taken to address capacity needs at managerial levels.

Some countries have proactive recruitment strategies to face future critical skills shortages. In general, the most ambitious proactive strategies concern keeping older workers at work by delaying retirement age and providing incentives for staying at work longer. This is not necessarily a cheap option compared to hiring younger staff. Moreover, at best, these measures will only delay the critical phase of massive departures by one to three years on average. An additional factor, in countries with lower levels of unemployment, is maintaining the competitiveness of the public employer; this will be a critical issue for the public sector.

Workforce planning across sectors remains a rather weak point in most ageing strategies. Of the countries studied, apart from France where workforce planning is at the core of the ageing strategy for all levels of government, and Australia (at least at the federal government level), countries are putting little emphasis on the need for changes to the workforce in the different sectors or at the different levels of government. In the case of countries such as the Netherlands, which has a decentralised approach to

Box 2.3. Attractiveness Programme in Denmark

The State Employers' Authority of the Danish Ministry of Finance has made a high priority of working on improving the competitiveness of the public sector in order to attract new employees to the different state institutions.

This includes marketing activities which target, for instance, recently educated academics (participating in Career and Education Fairs, etc.). It also includes a change in relation to the pay system (making it more attractive for younger persons to enter the state sector) and a modern and active personnel policy (being a front runner in HRM in relation to the private sector).

Source: Ageing and the Public Service in Denmark.

competence needs planning, it is difficult to see how a cross-sectoral approach could be taken.

However, all countries are putting some emphasis on improved training and knowledge management, as well as mobility, with a special emphasis on leadership and management in many countries.

Compared to other countries, Finland and Denmark, which forecast difficulties in recruitment, seem to have the most proactive recruitment strategies: while not replacing all staff leaving for retirement, they have adopted measures to keep older staff at work, and have planned increased hiring in some sectors (although this is only mentioned and not clearly planned in detail yet).

- Finland, which will be one of the countries the most heavily and soonest affected by an ageing civil service, has delayed the mandatory retirement age for civil servants and decreased pension rates in the case of early retirement, and improved working conditions for older workers. However, these measures can at best delay the peak of massive departures by two to three years. Nevertheless, as Finland has a clear policy of downsizing at central government level, this might provide room for manoeuvre for hiring staff in the health sector – although how such a trade-off would work remains unclear. Finally, Finland places an emphasis on lifelong training, improved training for managers, and labour market-wide measures to improve the attractiveness of public sector employment and its capacity.
- Denmark is the only country that has decreased the pension age, from 67 to 65 years in 2004. However, special pension and work-life balance incentives for people to stay in the public service beyond 60 have been established. Presently, the Danish State Personnel and Management Policy is working on a broader recruitment strategy that will target older workers for recruitment and improve the image of the public employer with young graduates. In addition, Denmark forecasts increases in hiring in the health sector, but no specific plans have been made yet. Denmark is also putting some emphasis on increased mobility, especially vertical mobility for senior managers, and special training, knowledge management and performance management for older workers.

France and Ireland, which do not forecast major attractiveness difficulties when they have to scale up their hiring significantly, seem to have already adjusted their recruitment strategies for the coming years.

- France has adopted a number of structural measures to remove incentives for people to take early retirement, and has increased the number of years of obligatory pension contributions in order to receive full pension benefits. As noted below, as part of the GPEEC, many ministries are in the process of identifying their recruitment needs (see Box 2.4). Other recent measures such as abolishing age limits for entering the civil service, or improving mobility across sectors, while they were not necessarily aimed at addressing ageing challenges, will have a positive effect on recruitment. Finally, the government has increased recruitment in the health sector and increased the possibilities for lateral entry into the senior management group.
- Ireland has removed its compulsory retirement age (previously set at 65), increased the pension age of most new-entrant public servants to 65 (this will not impact the peak of departures), and increased financial disincentives for early retirement. The government has launched a new recruitment strategy that is not specifically linked to the ageing challenge, that aims at hiring relatively younger people and other people with specialist

and technical skills in areas where there are skills shortages. In addition, the government has decided to increase open and lateral entry into management but this initiative has had a limited implementation so far. Despite current downsizing efforts for the whole civil service, the new hiring policy might be extended in the future when the government faces new capacity challenges. However, Ireland plans to rethink its human resource policy in order to manage the impact of ageing, especially in terms of meeting skills shortages at managerial level.

Other countries seem to be focusing only on cost savings in their human resource management strategies:

- In Italy, pension reform has also focused on retaining older workers at work by changing the pension and legal retirement age and increasing the contribution period. In terms of capacity and workforce planning, public expenditure containment remains the overarching goal. Hiring freezes have been ongoing for several years in the health and education sectors, and will continue until at least 2007. No new recruitments are planned to offset massive staff departures.
- In Germany, through pension reform, the government has adopted measures to retain older workers as well as to restrict early retirement schemes and increase mandatory contributions for pension entitlements. Federal authorities have decreased employment by 32% since 1998, and only a limited amount of new hiring is taking place.
- In the Netherlands, the government's policy for retaining older workers has mainly focused on restricting early retirement and increasing the contribution period. Apart from priority hiring in the health sector, little emphasis has been put on the need to hire new people.
- Portugal intends to continue its policy of downsizing with the replacement of two employees leaving by one new entrant, and adhere to hiring freezes at the central government level. In addition, Portugal has implemented a pension reform that has increased mandatory contributions and restricted the possibilities of taking early pensions.

3. How are countries addressing the need to reallocate resources according to new priorities?

The issue of reallocation of resources according to new priorities is a complex matter. Reallocating resources requires first having a clear vision of policy priorities, a clear assessment of sectoral needs, and a clear multi-year resource allocation system. Second, it requires some financial and staffing flexibility – which, theoretically, all countries now have thanks to a large number of staff departures.

But most importantly, the reallocation of resources due to ageing is made significantly more difficult by the allocation of responsibilities across levels of government. Most countries recognise the need to save resources at the central government level, and reallocate resources to sub-national levels that are in charge of health and long-term care.

As developed in the previous section, many countries are planning to increase staffing in the health and long-term care sectors while implementing a decrease of the workforce in other sectors. However, few countries seem to publicise the consequences of such changes in hiring practices (the link between general hiring freezes or a low replacement rate of staff retiring and increased hiring in the health and long-term care sectors is rarely made), and on the consequent need to reallocate resources across levels of government.

Box 2.4. **Forward-looking management of employment and competencies (GPEEC) in France**

Introduced in the early 1990s, the GPEEC is a core element of ageing policy over the medium term in the public service. It is an ambitious government-wide strategy which plans how to adapt staffing needs to public policy objectives and which takes into account the ageing of the population and of public servants. However, the GPEEC is not only a unified policy for managing ageing issues, it also aims to improve the efficiency of the public service.

Assessment of the GPEEC in the state civil service

The goals are to:

- design improved policies for recruitment into the public service and for HRM, taking into account the demographic context, in order to increase the possibility of successful competition with the private sector in the labour market;
- allow the state to be more accountable to citizens concerning changes in the number of staff in the civil service;
- nurture social dialogue by opening a debate with the unions. The framework and pace of this dialogue is decided by each minister.

In the state civil service, each minister is responsible for creating a GPEEC plan. These plans are diverse and reflect the distinctive characteristics not only of the public policies addressed but also of the administrative organisations concerned. Ministers can decide, depending on their objectives and constraints, to draw up a more or less complex GPEEC plan. Apart from this necessary diversity, all GPEEC plans use the same methodology, thus assuring consistency.

Concerning the state civil service, the GPEEC has become one of the levers for modernising HRM and one of the ministerial reform strategies. Even if, therefore, the responsibility for drawing up GPEEC plans remains above all a ministerial one, they are also part of a more global strategy for modernising the state.

Analysis of GPEEC plans shows that all ministries have made progress aligning staff with the objectives, tasks and duties of ministries. They all have also integrated, more or less successfully, HRM strategies in their GPEEC plans.

GPEEC in the other civil services (hospital civil service and territorial civil service)

GPEEC in the hospital civil service has also developed over the last few years. The census of professionals by specialisation and by profession will be supplemented by an analysis of care practices taking into account co-operation between professions.

Finally, in the territorial civil service (regional and local civil service), GPEEC mechanisms have also developed. Even if there cannot be a “standard model”, given the very large number of territorial employers (more than 55 000), which are different in size as well as in their structures and functions, GPEEC planning is currently being implemented at the regional level, by means of regional conferences which assemble all the actors in the field so as to draw up territorial employment and training plans.

Source: Ageing and the Public Service in France.

Countries that mention the need to reallocate resources across levels of government include Denmark, Finland, France, Italy, and Portugal. Denmark and Finland even contemplate institutional change with changes in the division of responsibilities across sectors in order to better address the ageing challenges.

No country mentions numbers in terms of changes in resource allocation. In all likelihood, this is due to the fact that this type of reform is institutionally and politically complicated and will probably be implemented on an incremental and *ad hoc* basis rather than following a long-term planning exercise.

4. How are countries managing their public service so that departures do not lead to future hiring that tightens the wider labour market?

Preventing a tightening of the wider labour market following the waves of departures in the public service is not a goal in most countries studied. While high unemployment can justify this policy deficit in some countries such as France, Germany and Portugal, other countries with tighter labour markets (low unemployment and high older worker participation rates) such as Denmark, will be in a more difficult situation. In most countries the consequences of the waves of departures for the wider labour market and thus for the wider economy have not been taken into account in the public service ageing strategy. There is also no indication that countries are working with the macro-economic calculations that would allow them to devise policies aimed at maintaining labour market flexibility in the context of large departures from the public service.

All countries have policies aimed at keeping older workers at work. These policies, however, will only delay staff departures by a few years, and thus their impact on the labour market will be limited. Other more specific policies include the following:

- In Finland, the public sector ageing strategy aims at increasing the productivity of the whole economy, hoping that it will decrease the pressures on the labour market.
- In the Netherlands, static increases in productivity should limit the impact of departures for retirement in the public service on the wider labour market.

Finally, as the hiring and retention of older workers becomes a labour market-wide priority, together with the necessary implementation of age-friendly employment policies and practices,⁴ the public employer could set an example and establish state of the art practices in this field. It does not seem, however, that this has been developed as a priority in the reviewed countries.

Notes

1. This part is based mainly on “Public Sector Pensions and the Challenge of an Ageing Public Service”, OECD, 2006, GOV/PGC(2006)13.
2. “Normalisation” means the move from civil service employment conditions towards employment based on collective bargaining agreements similar to those in the private sector.
3. Improvements to productivity in terms of efficiency as a consequence of improved work practices are referred to as “dynamic productivity gains”. Improvements that result from reductions in inputs are referred to as static gains.
4. See *Ageing and Employment Policies, Live Longer, Work Longer*, OECD, 2006.

Table of Contents

Executive Summary	11
<i>Part I</i>	
Synthesis Report	
Chapter 1. The Ageing Challenge	17
1. Ageing public sector workforces in the context of ageing populations	18
2. Challenges and opportunities of ageing for the management of public services ...	22
Notes	26
Annex 1.A1. Notes for Figures 1.2, 1.3, 1.4, 1.5 and 1.6	27
Chapter 2. Country Actions	29
1. How are countries addressing cost containment and the need for productivity increases in the public service?	30
2. How are countries addressing the need to maintain capacity?	35
3. How are countries addressing the need to reallocate resources according to new priorities?	37
4. How are countries managing their public service so that departures do not lead to future hiring that tightens the wider labour market?	39
Notes	39
Chapter 3. Review of Country Strategies	41
1. Policy tools	42
2. Country-specific enabling conditions and constraints	43
3. Do countries have holistic proactive ageing strategies?	44
Notes	48
Chapter 4. Towards Sustainable Ageing Strategies and Actions for Government	49
Bibliography	53
Annex 4.A1. Country Fact Sheets: Strategy Components	56
<i>Part II</i>	
Case Studies	
Chapter 5. Ageing and the Public Service in Australia	77
Executive Summary	78
1. Ageing: Facts, figures and forecasts	79
2. Adapting the Australian Public Service to ageing challenges: Government strategy and actions	84
3. Impact of government ageing strategy and reforms	93
4. Conclusion	95
Notes	96

Chapter 6. Ageing and the Public Service in Denmark	99
Executive Summary	100
1. Ageing: Facts, figures and forecasts	100
2. Adapting the civil service to ageing challenges: Government strategy and actions	106
3. Impact of government ageing strategy and reforms	115
4. Conclusion	117
Notes	118
Chapter 7. Ageing and the Public Service in Finland	119
Executive Summary	120
1. Ageing: Facts, figures and forecasts	121
2. Adapting the civil service to ageing challenges: Government strategy and actions	126
3. Impact of the government ageing strategy and reforms	132
4. Conclusion	135
Notes	136
Chapter 8. Ageing and the Public Service in France	139
Executive Summary	140
1. Ageing: Facts, figures and forecasts	141
2. Adapting the civil service to ageing challenges: Government strategy and actions	148
3. Anticipated impact of government actions	157
4. Conclusion	161
Notes	161
Chapter 9. Ageing and the Public Service in Germany	163
Executive Summary	164
1. Ageing: Facts, figures and forecasts	165
2. Adapting the civil service to meet ageing challenges: Government strategy and actions	171
3. Projected impact of government action	177
4. Conclusion	179
Notes	180
Chapter 10. Ageing and the Public Service in Ireland	181
Executive Summary	182
1. Ageing: Facts, figures and forecasts	182
2. Adapting the civil service to the ageing challenges: Government strategy and actions	187
3. Impact of government ageing strategy and reforms	194
4. Conclusion	195
Notes	196
Annex 10.A1. Public Service Superannuation – Summary of Changes in Pension Ages and Terms for New Entrants to the Public Service	198
Annex 10.A2. Decentralization Program (December 2003)	199
Annex 10.A3. Developments in the Field of Manpower Planning in the Health Sector	201
Chapter 11. Ageing and the Public Service in Italy	205
Executive Summary	206
1. Ageing: Facts, figures and forecasts	206
2. Adapting the civil service to ageing challenges	210
3. Impact of government strategy and reforms	217
4. Conclusion	218
Notes	219

Chapter 12. Ageing and the Public Service in the Netherlands	221
Executive Summary	222
1. Ageing: Facts, figures and forecasts	222
2. Adapting the civil service to ageing challenges: Government strategy and actions	225
3. Impact of government ageing strategy and reforms	232
4. Conclusion	235
Notes	236
Chapter 13. Ageing and the Public Service in Portugal	237
Executive Summary	238
1. Ageing: Facts, figures and forecasts	239
2. Adapting the civil service to ageing challenges: Government strategy and actions	246
3. Impact of government ageing strategy and reforms	253
4. Conclusion	257
Notes	257

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List of Boxes

2.1. Overview of pension reform in selected OECD member countries	31
2.2. Finland: The Productivity Programme and the Decision on Central Government Spending Limits	34
2.3. Attractiveness Programme in Denmark	35
2.4. Forward-looking management of employment and competencies (GPEEC) in France	38

List of Tables

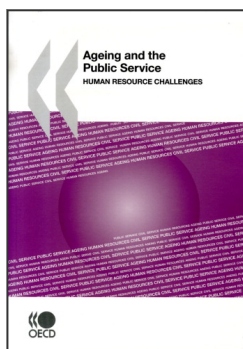
1.1. Changes in old age dependency ratio and participation rates of older workers	19
1.2. Compensation costs and size of departures from government service	23
1.3. Ageing in and departures of staff from management levels and executive functions	25
1.4. Ageing and departure challenges in the health and education sectors: France, Ireland and the Netherlands	26
3.1. The effects of policy tools on the different policy goals	43
3.2. Comparison of public service ageing policies	47
4.1. Lessons from the case studies: Policy emphasis, preconditions, risks and possible best outcome	51
5.1. Australian population for selected age ranges	79
5.2. Australian population projections for selected age ranges (millions of people)	80
5.3. Ongoing employees – proportion by age	82
6.1. Age structure in the Danish state sector (state sector, including agency employees)	103
6.2. Number of employees with a lower mandatory retirement age	109
7.1. Age of personnel in different sub-sectors, in 2004	126
8.1. Age structure of the French population	141
8.2. Distribution of state civil servants, by ministry, age and sex, as of 31 December 2003	146
8.3. Forecasted pensions costs	150
8.4. Financial impact of the various measures in the 2003 pension reform (Horizon: 2020)	158
9.1. Age structure of persons employed by the federal government on 30 June 2003 (%)	168
9.2. Age structure of persons employed by the federal Länder on 30 June 2003 (%)	168
9.3. Age structure of persons employed by the communes on 30 June 2003 (%)	168
10.1. Employees in the public service, by sector	185
10.2. Projected expenditures on public service pensions (in [euro] m at constant 2004 pay terms)	189
11.1. Age structure of population (%)	207
11.2. Total population forecasts	207
11.3. Age structure of population (%) – 1990-2050	207
11.4. Number and average age of public managers belonging to state administrations (ministries) per level in 2006	210

11.5. Pension expenditure (2000 prices – millions [euro])	212
11.6. Number of pensions (thousands)	212
11.7. Employees with open-ended contracts	213
11.8. Recruitment and departure rates in the Italian public service (%)	214
11.9. Employees by type of contract	214
11.10. Public pension expenditures, as a % of GDP	217
12.1. Public service in (sub)sectors versus health care versus private sector	224
13.1. People in the service of private institutions	241
13.2. Total expenses with health care by ADSE (in euros)	241
13.3. Age average of health staff	244
13.4. Public sector	247
13.5. Expenditure on CGA pensions (% of GDP)	254
13.6. Number of CGA retirees and pensioners (2005 = 1.00)	254

List of Figures

1.1. Population ageing in OECD member countries	18
1.2. Proportion of workers above 50, at national/federal government level, in 1995 and in 2005	20
1.3. Proportion of workers above 50 at the national/federal government level and proportion of persons above 50 in the total labour force, 2005	20
1.4. Proportion of workers above 50 in sub-national levels of government, in 1995 and in 2005	21
1.5. Proportion of workers above 50 in sub-national levels of government and in the total labor force, 2005	21
1.6. Proportion of workers at the national/federal level between 40 and 50 and above 50 years old	21
1.7. Illustrative scheme of ages in public and private sector labour forces	22
1.8. Forecasted departures due to ageing at central government level	22
5.1. Projected trends in dependency ratios 2000-2050 (%)	80
5.2. Age profile of ongoing APS employees and labour force (2005)	82
5.3. Ongoing staff – Age profile	82
5.4. Projected age profile 2012 and actual age profile 2002	83
5.5. APS employees (1990-2005)	88
5.6. Resignation/retirement rate for selected ages	94
6.1. Proportion of age bands in the total population	101
6.2. Demographic dependency ratio in OECD member countries, 2000-2050	101
6.3. Age structure in the Danish state sector over the last 10 years	103
6.4. Number of active civil servants	104
6.5. Age distribution in the Danish state sector: 2001 (observed) and 2011 (key forecast)	104
6.6. Per cent of employees in each ministry over the age of 54 years	105
6.7. Age distribution according to sector (%), 2001	106
6.8. Pension recipients and net expenses until 2050	107
6.9. Relative change in number of employees (% of total for each ministry), 1999-2003	110
6.10. Age distribution related to wage-brackets	111
6.11. The most important factors in relation to stay or leave the workplace (in %)	113
6.12. Forecasted departures from the public service due to ageing and forecasted proportion of older workers depending on the achievement of reforms already being implemented (state sector)	116
7.1. Demographic trend in Finland from 1950 to 2040	121
7.2. Demographic dependency ratios, 2000-2050 (%)	122
7.3. Average age in the state sector and the total employed labour force	124
7.4. Cumulative attrition	125
7.5. Forecasted departures from the public service due to ageing and forecasted proportion of older workers depending on the achievement of reforms already being implemented Finland, State personnel	133
8.1. Demographic dependency ratios, 2000-2050 (%)	142
8.2. Evolution of age structure in the public and private sector workforce	143
8.3. Evolution of the age structure of workers in the three civil services	145
8.4. State civil servants by rank category and age, as of 31 December 2003	147

8.5. Age pyramid of teachers in the state civil service, as of 31 December 2002	147
8.6. Civil/military scheme: demographic projections	150
8.7. Forecasted departures from the public service due to ageing and forecasted proportion of older workers depending on the achievement of reforms already being implemented France, central government	159
9.1. Age structure of the German population in 2003 (% of total)	165
9.2. Demographic dependency ratio in OECD member countries, 2000-2050	166
9.3. Forecasts for large-scale departures and increasing proportion of older worker ...	170
10.1. Evolution of the age structure of the total population 1991-2006	183
10.2. Forecasted shares of total population by age group	183
10.3. Projected trends in dependency ratios, 2000-2050 (%)	184
10.4. Age groups in the total labour force (2006)	185
10.5. Age groups in the civil service	186
10.6. Projected proportion of older workers in the civil service	186
10.7. Number of actives per pensioner	188
10.8. Forecasted departures due to ageing and forecasted proportion of older workers	195
11.1. Demographic and economic dependency ratios 2000-2050 (%)	208
11.2. Average age of public personnel per specific areas of public sector – 2004	210
12.1. Demographic dependency ratios, 2000-2050 (%)	223
12.2. Replacement rates 2003 and 2013	230
13.1. Evolution of total population by age	239
13.2. Estimates of dependency ratios of elderly people in Portugal, 2000-2050 (% of people above the age of 65 in relation to the 20-64 age group).....	240
13.3. Ageing index of population	240
13.4. Employment in the public administration by age groups and gender (1999)	242
13.5. Employment in central administration by age group and gender – 2005	243
13.6. Population by age in central and local administrations	243
13.7. OECD forecasts for large-scale departures and proportions of older workers in the public sector	244
13.8. Average age in central administration by organisation (2005)	245
13.9. Total number of pensioners and retired people	247
13.10. Expenditure with personnel in % of the GDP	249
13.11. Forecasted departures from the public service due to ageing and forecasted proportion of older workers depending on the achievement of reforms already being implemented (Portugal, central government)	255
13.12. Forecasted departures from the public service due to ageing and forecasted proportion of older workers depending on the achievement of reforms already being implemented (Portugal, local government)	256



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