

Chapter 1

The Ageing Challenge

This chapter examines issues resulting from an ageing population and an ageing workforce. As a result of large increases in the ratio of older economically inactive persons per worker, two main challenges have emerged: the need to reallocate human resources across sectors and institutions and the need to increase productivity due to the fiscal pressures created by an ageing population.

There are specific challenges within the public service, where workforces are ageing more rapidly. These present opportunities in the management of public services. Although an ageing public service increases the fiscal burden while also decreasing the public service capacity, in the long run it represents a strategic opportunity to downsize the public sector workforce where needed, to make structural changes to the conditions of employment, introducing greater flexibility, and to reallocate human resources across sectors to meet the increased needs in social and long-term care services for the elderly.

1. Ageing public sector workforces in the context of ageing populations

1.1. Ageing populations and workforces

The dimensions of population ageing are now well documented. All OECD member countries are experiencing population ageing, with some changes occurring at a faster pace in some countries compared to others (see Figure 1.1). The countries studied in this review vary – with the Netherlands having to face relatively more minor challenges and Italy and Portugal affected more significantly.

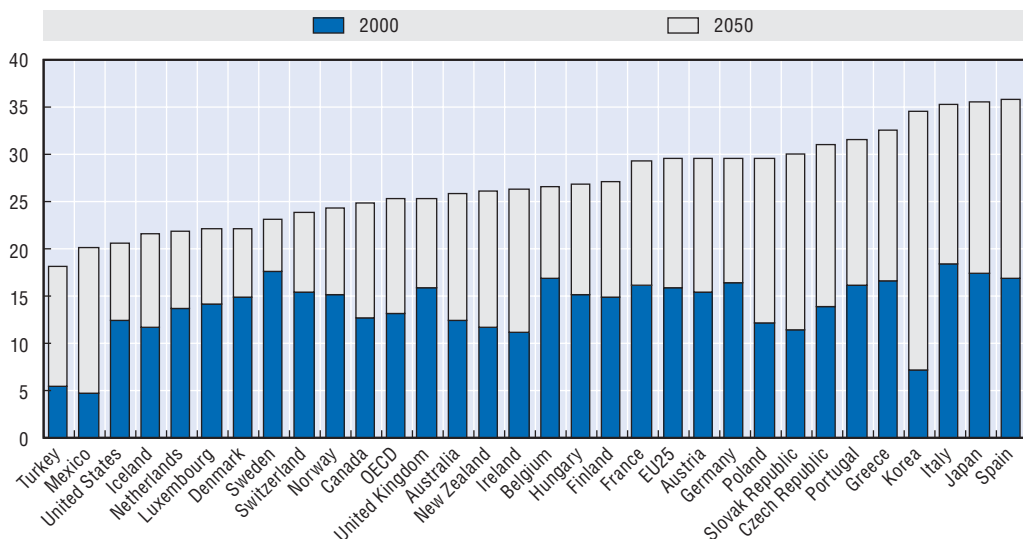
Figure 1.1 shows two phenomena – the proportion of the population that is older and the speed with which that proportion is changing. Presently, Turkey, Mexico and Korea have a relatively low older population (with Korea ageing at a remarkably fast pace). The United States, Denmark and Sweden will have a slower rate of ageing (with Sweden already having a distinctively high proportion of older people in the population).

Without changes in work, retirement and productivity patterns, the ratio of older economically inactive persons per worker will increase from 1:3 in the OECD area in 2000 to just over 2:3 in 2050 (to almost 1:1 in Europe). Associated labour force changes are predicted to lead to 30% lower economic growth in the next three decades than might otherwise have been predicted.²

At the more micro-economic level, the large number of workers who are retiring could result in important adjustment costs for employers and labour shortages in specific areas, especially in the health and long-term care sectors.³

Figure 1.1. **Population ageing in OECD member countries**

% of population aged 65 and over



Source: OECD (2006), *Ageing and Employment Policies, Live Longer, Work Longer*, OECD, Paris.

How difficult it will be to meet these varying challenges will depend on a number of factors, including possible productivity gains and immigration in the short term and, in the longer term, the implications of changes in fertility rates. It will also depend on the room for manoeuvre that countries have for increasing the participation rates of older workers in the labour market. As Table 1.1 indicates, Japan has good reason but little opportunity to bring more workers into the labour market, while Greece and Spain have an equally strong need to do so, but much more room for manoeuvre to make the necessary changes to achieve this.

Table 1.1. **Changes in old age dependency ratio and participation rates of older workers**¹

Participation rate of 50-64 year olds, 2004	Projected change in the old-age dependency ratio, 2000-2050 ²		
	Moderate	Large	Very large
High	Denmark, Iceland, Norway, Sweden, Switzerland, United States	Canada, New Zealand	Japan
Average	Netherlands, United Kingdom	Australia, Finland, France, Germany, Mexico, Ireland	Czech Republic, Korea, Portugal
Low	Belgium, Luxembourg, Turkey	Austria, Hungary	Greece, Italy, Poland, Slovak Republic, Spain

1. Countries have been ranked into the three categories for each variable according to whether they are more than one half of a standard deviation away from the mean for all countries.

2. Ratio of the population aged 65 and over to the population aged 20-64.

Source: OECD estimates based on data on participation rates from OECD Labour Force Statistics and old-age dependency ratios from the OECD Demographic and Labour Force Projections Database. In *Ageing and Employment Policies, Live Longer, Work Longer*, OECD, 2006.

1.2. Ageing public services

In many OECD member countries, public sector workforces are ageing even more rapidly than the rest of society and the wider labour market.

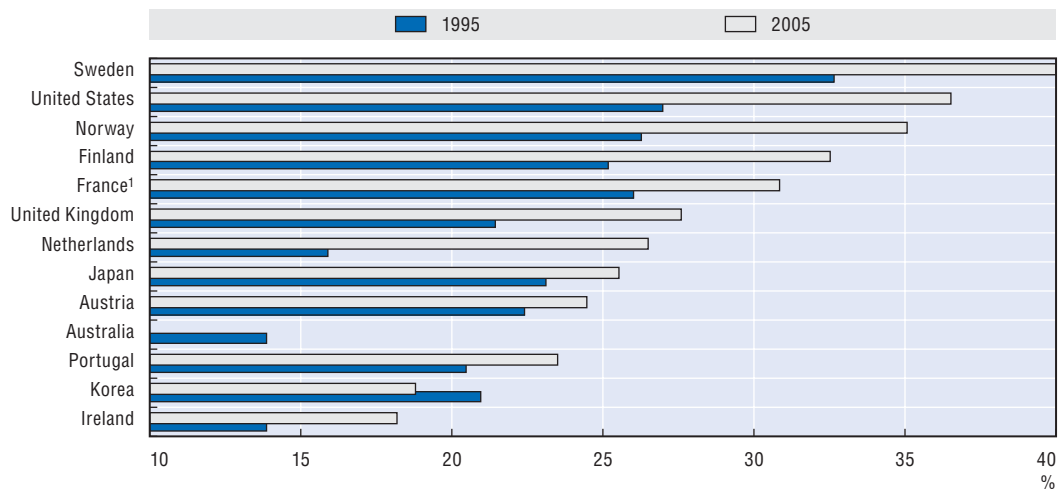
The case studies offer some dramatic headlines:

- Australia – The average age of public servants is increasing by one year every three years.
- France – The average age is increasing by one year every two and half years.
- Ireland – The average age of public servants is increasing by one year every 15 months.

Relatively speaking, the demographic situation of the public services of the countries studied in this report show less variation than the demographic situation of the corresponding wider labour market. Looked at by age group, the largest cohorts in the public services tend to be around 40-49 years old, with an important proportion of employees in the age band 50-54 and 55-59 depending on the retirement age. In sum, the proportion of young employees is far smaller in the public sector than in the private sector.

The roots of this demographic profile lie in the rapid expansion of public services from the 1970s until the mid-80s and the massive hiring that took place at this time. This was followed by a period, in the 1980s and 1990s, when the numbers in the workforce were stabilised and hiring freezes occurred in many countries. Reinforcing this trend, it seems that the age at entry to the public service has increased. For example, Australia mentions that there is more recruitment at mid-career now than there used to be and a general trend exists towards higher ages at entry into the federal public service. Today, more than 40% of new recruits in the Australian Public Service are 35 or over, compared to less than 20% two decades ago. Similarly, the average age at entry in the Irish civil service has increased from the 20s to the 30s in the last decade.

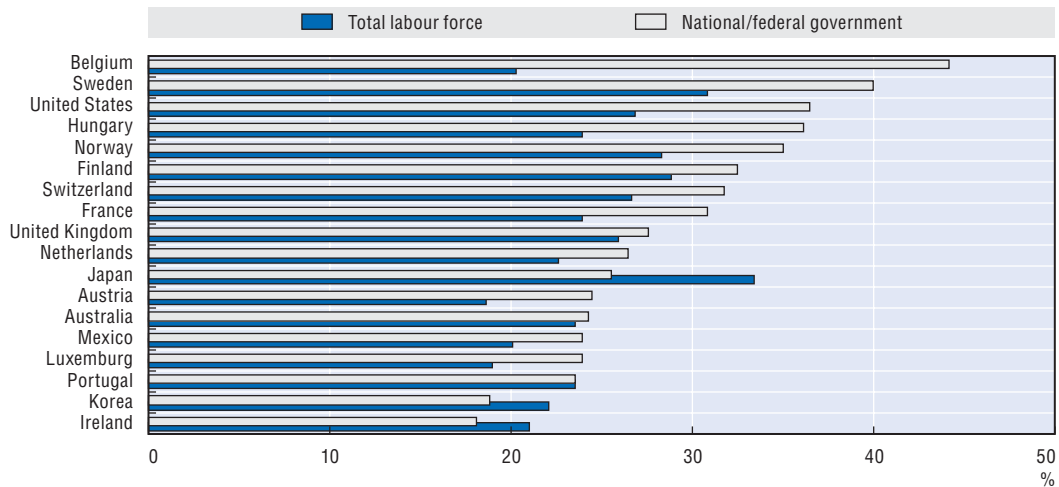
Figure 1.2. **Proportion of workers above 50, at national/federal government level, in 1995 and in 2005**



Note: See Annex 1.A1 for details on data coverage.

Source: OECD/GOV forecasts.

Figure 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**



Note: See Annex 1.A1 for details on data coverage.

Source: OECD/GOV forecasts.

In addition, employees leave the workforce at a younger age in the public sector than in the general labour market, due to pension incentives and early retirement arrangements in many public services. A number of civil servants tend to retire earlier, for such legal reasons or because of tradition (Australia for example, or France where the legal retirement age is 60 but where the actual average retirement age is 57). Denmark is a significant exception.

As with the general labour market, it is important to look at trends as well as current age proportions in the public service. Some countries are facing immediate challenges with

increased departures (particularly Denmark, Finland, France, Germany and Portugal). However, the largest waves of retirement in those countries will start between 2009 and 2015 and will continue until 2020 (see Figure 1.8).

Figure 1.4. **Proportion of workers above 50 in sub-national levels of government, in 1995 and in 2005**

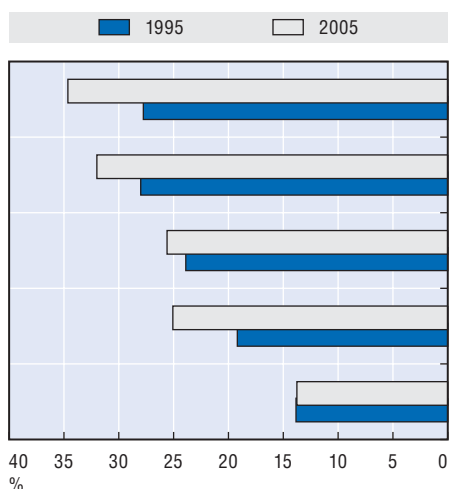
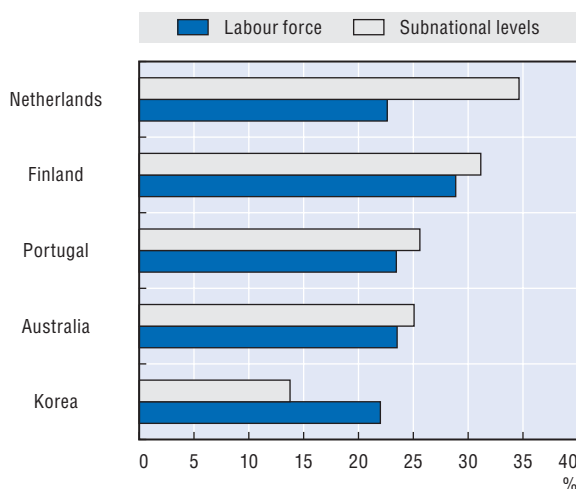


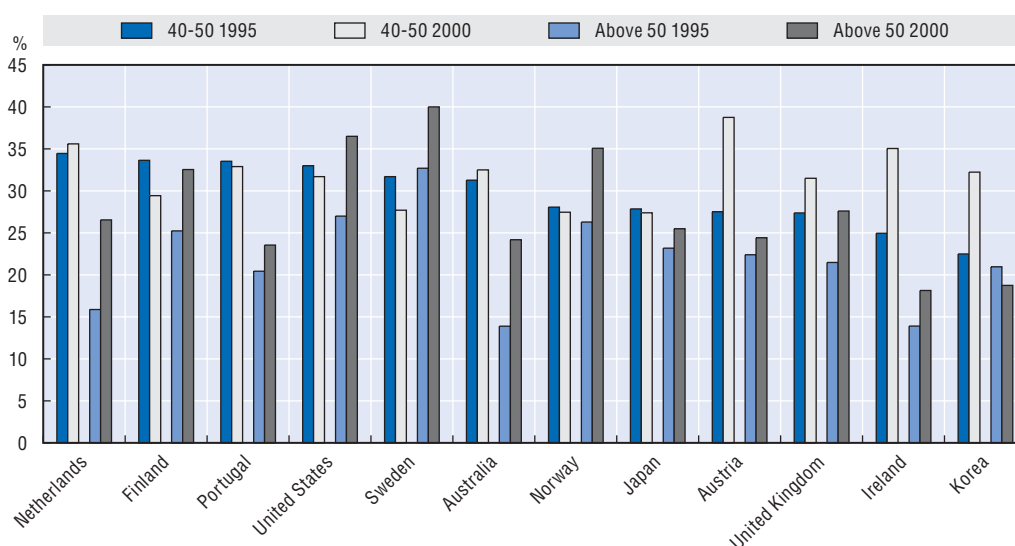
Figure 1.5. **Proportion of workers above 50 in sub-national levels of government and in the total labor force, 2005**



Note: See Annex 1.A1 for details on data coverage.

Source: OECD/GOV forecasts.

Figure 1.6. **Proportion of workers at the national/federal level between 40 and 50 and above 50 years old**



Note: See Annex 1.A1 for details on data coverage.

Source: OECD/GOV forecasts.

Figure 1.7. **Illustrative scheme of ages in public and private sector labour forces**

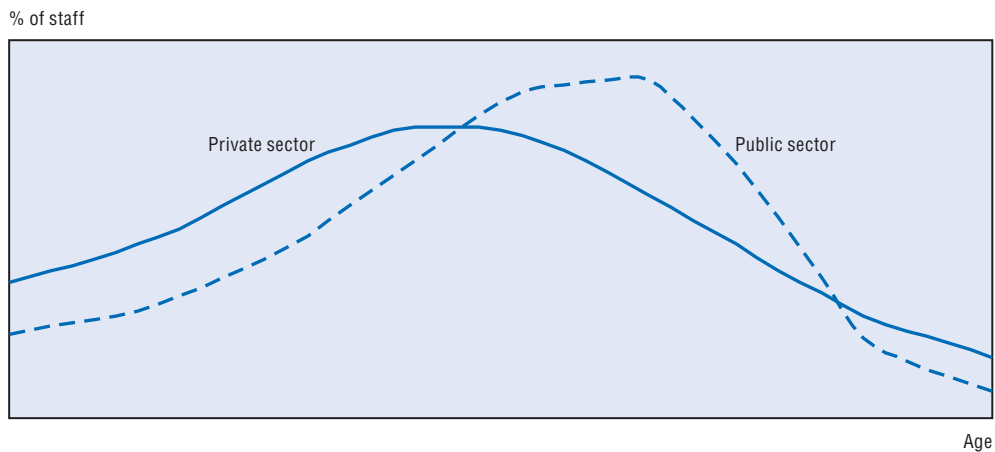
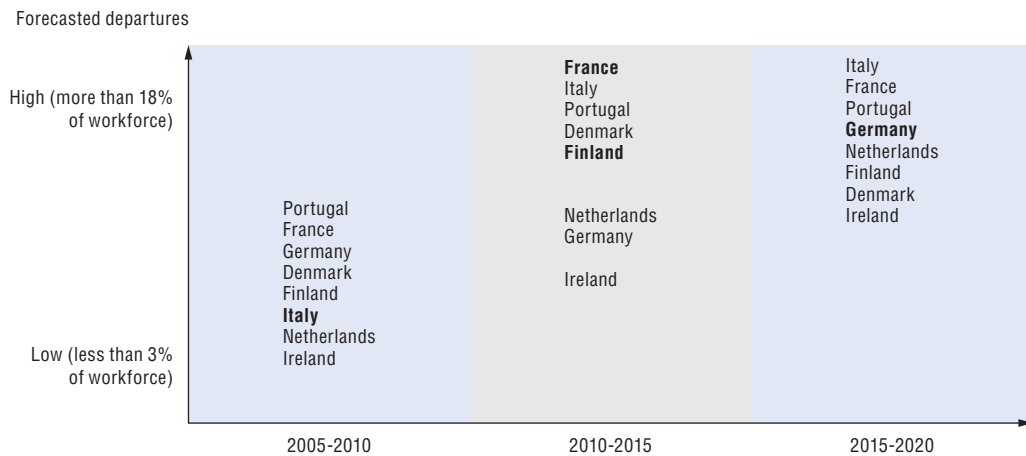


Figure 1.8. **Forecasted departures due to ageing at central government level**



Note: Percentages are percentages of current workforce cumulative over the entire five-year periods. Countries are in bold when they start to face significant decreases in the proportion of economically active workers in the general labour force.

Source: OECD/GOV forecasts.

2. Challenges and opportunities of ageing for the management of public services

Ageing populations and general labour market constraints exacerbate the capacity problem caused by ageing public service workforces in the relatively short run. Ageing populations create new demands on the public service and may cause lower economic growth (and thus less fiscal room for manoeuvre); the ageing public service increases the fiscal burden while decreasing the immediate capacity to respond to the new ageing challenges. However, in the longer run, the ageing public service may also present an opportunity for governments to seize so as to better organise the public service to face the consequences of an ageing society.

2.1. Direct financial and fiscal challenges

On the financial and fiscal sides, governments will have to face a considerable increase in the sums allocated to covering pensions for both society as a whole and the public service in particular, as well as increased health costs. Age-related spending will increase substantially, from 21% of GDP in 2000 to 27% of GDP by 2050.⁴ Spending on old-age pensions and spending on health and long-term care are each projected to increase on average by more than 3 percentage points of GDP (reduced spending on child benefits and education may provide a small offset) between 2000 and 2050.⁵

An ageing civil service is all the more of a problem as public service pension schemes have traditionally been more generous and not as well funded as private sector schemes.⁶ In addition, an ageing public service tends to be more costly as it includes more senior staff on average. In principle, increased cumulative experience could help increase labour productivity in the public service, but there is no hard evidence for this.

In the longer run, however, an ageing public service represents a strategic opportunity: to downsize the public sector workforce where needed and adapt it to the changed needs of an older population; to hire younger (and thus cheaper) employees; and also to make structural changes to the conditions of employment of these new employees under different – i.e. more flexible and maybe cheaper – conditions of employment where this is considered reasonable. Table 1.2 indicates that the room for manoeuvre is largest where labour costs and the rates of departure are both high. In this sense, France and Portugal benefit from a particularly advantageous situation.

Table 1.2. **Compensation costs and size of departures from government service**

Compensation costs as a % of GDP (in 2005)	Relatively low < 8% of GDP	Medium 8%-13% of GDP	Relatively high > 13% of GDP	
Relative size of departures due to ageing until 2020				
Relatively low		Ireland		
Medium		Netherlands Germany	Denmark Finland	
Relatively high		Italy	Portugal France	Wider room for manoeuvre implied by departures due to ageing

Source: National accounts, GOV forecasts.

2.2. Challenge of contributing to flexibility in the wider labour market

As noted above, with an increasing number of retirees, the labour market as a whole will be affected by ageing, leading to slower economic growth. In countries with high unemployment levels (France, Germany, Portugal in this study), the resulting tighter labour market might provide some relief to this problem and ultimately have even more positive consequences if the skills of the unemployed match the available vacancies. However, given the large share of public employment in many OECD member countries (including those covered in this report), the high replacement needs in the public sector could risk pre-empting the private sector's access to new labour market entrants, which in the past have been a source of flexibility.⁷ In addition, it is possible that in some countries, a tighter labour market will lead to increased costs in attracting and retaining younger employees,

decreased attractiveness of public sector employment, and the need to hire staff who are less qualified than those whom public services attract today.

A recent OECD study concludes that depending on the replacement scenario, the consequences of an increased number of government employees retiring will be either a significantly increased share of government hiring of new entrants into the labour market – and thus major competition between the public and private sectors in the wider labour market – or the need for an increase in government productivity by 0.5-0.75% per year between 2005 and 2030 (over and above current average productivity increases).⁸

Other labour market measures which might mitigate these problems, including supply-side changes ranging from educational reforms to skills-based immigration policies are not covered in this report.

2.3. New demands on the public service and consequential need for reorganisation

The ageing of society as a whole will put new pressures on the public service. It will have to make major readjustments to face the increased demand for social and long-term care services for the elderly. For the 19 countries where this information is available, the OECD projects an average increase in health and long-term care spending of around 3-3.5 percentage points of GDP over the period from 2000-2050.⁹

Again, departures of staff retiring from the public service provide a unique opportunity to reallocate staff numbers across sectors. Governments will be in a position to hire new staff in sectors other than those which are losing them rather than having to engage in the somewhat more costly option of re-training staff before reallocating them to different sectors. With health services being at least partially provided in many countries at sub-national government levels, it is likely that the reallocation of staff numbers will have to be accompanied by reforms aimed at reallocating resources across levels of government. This reallocation of resources represents a major challenge for OECD member countries.

In addition, these changes are also an opportunity to rethink the organisation of the provision of public services in many sectors, and especially in the health and long-term care sectors. With many staff retiring and major institutional and reallocation changes ahead, it will be easier for governments to reform the way public services are provided, including devolving responsibilities to lower levels of government or a regionalisation of services. In addition, and after careful reviews of costs and benefits, governments should be in a relatively good position to privatise some functions, contract out some services or, in some cases, create new public-private partnerships.

2.4. Short- and long-term capacity of the public service

With a very large proportion of the public service retiring over a relatively short period of time, maintaining the capacity of the public service to deliver the same level and quality of public services for all citizens is a complex management task – and all the more so since this must be achieved in tandem with service delivery changes to meet the new demands from an ageing society. In addition, the costs of maintaining capacity are in conflict with the pressure to decrease staff costs so as to be able to meet the costs of essential new recruitment, to pay for retaining older and hence more expensive workers in the workforce, and to increase resources devoted to training. It is also important to limit public/private sector competition for new workers within the general labour market when undertaking new hiring.

Table 1.3. **Ageing in and departures of staff from management levels and executive functions**

Australia	As underlined by the <i>State of the Service Report 2004-2005</i> , the ageing of more senior employees is particularly pronounced: since 1996, the proportion of Senior Executive Service employees aged less than 45 has fallen from 32.8 to 28.1%, while the proportion aged over 50 has risen from 34.9 to 43.9%. As the 55 and over age group shows a similar pattern, 44% of current managers and 28% of executives are expected to leave their posts by 2010.
Denmark	The central government has a relatively high number of older managers.
Finland	The occupational group with the highest natural attrition rate is senior management. The average age of the central government's senior management is 12 years higher, and for middle management eight years higher, than that of central government personnel as a whole. It is estimated that by the year 2020, 90% of current senior management in the central government will have left due to retirement or for employment in other sectors. The corresponding figure for middle management and senior officials is 69%.
France	According to surveys and data that focus specifically on the senior civil service, a drastic skills reduction is anticipated, beginning in 2006, as many employees in leadership positions retire.
Germany	The majority of current executives are in the 55-60 age group, at all three levels of government. The proportion of executives in the younger age groups is very low. As a result of this, large-scale departures of managers are forecast between 2010 and 2015.
Portugal	As in all other OECD member countries studied, senior officers are one of the functions most affected by the ageing process. The only exception affects top management positions. In recent years, younger top managers have been appointed, making this group less affected by ageing.
The Netherlands	As in the majority of OECD member countries taking part in the project, management functions will be the most affected by the ageing process. A large proportion of managers will leave the workforce over a short period of time, and will need to be replaced.

Source: Country case studies.

These challenges must be faced however, as in all countries measures will have to be taken to address the looming capacity crisis. The crisis seems to be particularly acute at management levels in all OECD countries. Management employees tend to have a much higher average age than public servants as a whole and are thus nearer to retirement. In addition, countries have also noted that because of the baby boom bulge within the public service workforce, managerial positions have been dominated by this age group with little prospect for younger staff to be prepared to assume these positions.

In most countries also, it seems that in absolute terms, the social sectors are most affected by the capacity crisis. This is not surprising since these represent the sectors which grew most strongly during the largest wave of hiring in the public service. Although eventually the education sector will face reduced demand due to a decrease in the young population, in some countries the projected departures far outweigh the numbers involved in the decreased demand for this service.

The most significant capacity problems take place at different levels of government depending on the country. Among the countries studied, national governments will be the most affected by an ageing civil service in France, while sub-national governments will be the most affected in Denmark, Germany and the Netherlands.

Table 1.4. Ageing and departure challenges in the health and education sectors: France, Ireland and the Netherlands

France	<p>The evolution of the age structure in the hospital civil service shows a considerable ageing process over the past decade: the proportion of workers 50 years old and over was 13.1% in 1992, rose to 16.6% in 1997, and reached 23.9% in 2002.</p> <p>Teachers at the primary and secondary levels benefit from early retirement schemes (average retirement age is around 55). Against this background, large-scale departures have already started and will continue to increase in this sector from 2008 to 2010, while one civil servant in four may have retired between 2005 and 2010. By 2020, more than 60% of current employees in the education sector will have retired.</p>
Ireland	<p>The health care sector is expected to be one of the sectors of the public service in Ireland most affected by ageing issues.¹ 2006 data on the health sector (excluding staff from voluntary hospitals²) show that around 27% of staff are over 50, and thus expected to leave mainly between 2015 and 2020. National projections for the health care sector conclude that if the demand for medical practitioners rises in line with population growth between 2004 and 2015, the gap between the demand and the domestic supply would be very high (around 20% will be needed than will be available³); however, if supply from immigration is maintained, then the gap will be quite low. The position in relation to nurses, the most important professional occupation in the health sector, is of most concern. The health care survey predicts that current education provision can not supply the number of nurses needed: if demand for general nurses rises as it has done in the past, 48 000 nurses will be needed in 2015. However, the continued immigration of nurses will alleviate nursing shortages in the short term.⁴</p>
The Netherlands	<p>The education sector is projected to be one of those most affected by ageing.⁵ Half of all education employees are aged over 45: 28% in primary education and 39.6% in secondary education are older workers, who will be retiring in large numbers between 2010 and 2015. The most affected function within the education sector is teaching. As for the health sector, the workforce is younger than in the public service as a whole but still has a significant proportion of older workers (22.6%).</p>

1. The government, the Minister for Health and Children and the Department of Health and Children are responsible for health service provision in Ireland. On 1 January 2005, the Health Services Executive took responsibility for the delivery of all health and personal social services nationally.
2. The total health public sector has 101 000 public employees, among which roughly 23 000 are employed by voluntary hospitals.
3. The number of medical practitioners required in 2015 is forecast to be 10 555. The gap between the demand and the supply will be 2 330. In "Healthcare Skills Monitoring Report", August 2005, op. cit.
4. Op. cit.
5. Responsibility for the management of the education sector belongs to the local government level, even if more than 80% of the wage bill is centrally determined and then redistributed to local units (corresponding to primary and secondary education). Local governments are responsible for public school management, through school boards that are established by individual municipalities.

Source: Country case studies.

Notes

1. www.oecd.org/document/12/0,2340,en_2649_34139_35845324_1_1_1_1,00.html.
2. See *Ageing and Employment Policies, Live Longer, Work Longer*, OECD, 2006.
3. See *Ageing and Employment Policies, Live Longer, Work Longer*, OECD, 2006, p. 24.
4. Not including the impact of some reforms. "Policies for an Ageing Society: Recent Measures and Areas for Further Reform", *Economics Department Working Papers No. 369*, OECD, 2003.
5. Not including the impact of some reforms. "Policies for an Ageing Society: Recent Measures and Areas for Further Reform", *Economics Department Working Papers No. 369*, OECD, 2003.
6. "Public Sector Pensions and the Challenge of an Ageing Public Service", OECD, 2006, GOV/PGC(2006)13.
7. See "The Labour Market Impact of Rapid Ageing of Government Employees: Some Illustrative Scenarios", *Economics Department Working Papers No. 441*, OECD, 2005.
8. "The Labour Market Impact of Rapid Ageing of Government Employees: Some Illustrative Scenarios", *Economics Department Working Papers No. 441*, OECD, 2005.
9. "Projecting OECD Health and Long-Term Care Expenditures: What are the Main Drivers?", *Economic Department Working Paper No. 477*, OECD, 2006.

ANNEX 1.A1

*Notes for Figures 1.2, 1.3, 1.4, 1.5 and 1.6***“Workers at national/federal government levels” include:**

Australia: Ongoing employees only – around 123 000 persons in 2005

Austria: Federal administration

Belgium: Around 85 000 persons in the core federal civil service

Finland: Central government sector

France: State civil service

Hungary: National and sub-national levels

Ireland: Around 30 000 employees in the core civil service

Korea: Core ministries. i.e. Ministries, agencies, administrations which are part of the central administrative organisations (the Executive).

Norway: The 117 000 employees at the federal level (in 2005)

Switzerland: Federal administration (departments, offices)

United States: 1.8 million employees at the federal level

“Workers at the sub-national levels of government” include:

Australia: State, territory and local (all employees)

Finland: Total public sector

Hungary: National and sub-national levels

Netherlands: Figures contain the subsectors for which labour conditions are not determined at national government level. These subsectors are: municipalities and their bodies of cooperation, provinces, waterboards, professional education, adult education and scientific education agencies

Portugal: Local administration, excluding the regional administrations of Madeira and Azores

Exceptions regarding the years taken into account:

Australia: 2000 and not 2005 at the sub-national level

Finland: 2000 and not 2005 at sub-national level, and 1997 and not 1995 for the national level

France: Data are for 1997-2002 for the national level

Ireland: 2000 and not 2005 for the national civil service

Japan: Data for total labour force are for 2002.

Korea: 2004 and not 2005 for the labour force

Portugal: 2000 and not 2005 for the civil service at the national and at the sub-national levels

Sweden: 2000 and not 2005 for the civil service at the national level

United States: 2004 and not 2005 for the civil service at the federal level and for the total labour force

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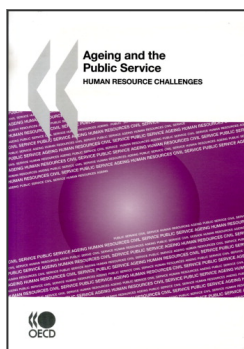
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