

**ENSURING SUSTAINABILITY AND ADEQUACY IN AGEING SOCIETIES: A  
COMPARATIVE LOOK AT CANADA AND THE EU**

**REPORT**

**Mr. Donald J. Johnston, Secretary-General of the OECD** headlined the Conference on *Ensuring Sustainability and Adequacy in Ageing Societies: A comparative look at Canada and the European Union*, held in Brussels on Thursday December 2<sup>nd</sup>, 2004. This conference, hosted by the Mission of Canada to the European Union and the Center for European Policy Studies (CEPS) discussed the growing challenges of population ageing in Canada and the EU, analyzed its implications for pensions, health care and immigration and offered possible policy responses and examples of reforms undergone in some countries, notably Canada. The conference was attended by 80 experts and relevant stakeholders from Canada and the EU, while the luncheon address by the OECD Secretary General attracted a crowd of 120 persons from various permanent missions to the EU and EU institutions, as well as journalists and policy experts.

Mr. Johnston's keynote luncheon address identified the major issues arising from the ageing of populations in OECD countries, including the impact on their economies, the financial pressure on our health and pension systems, as well as possible reforms. Johnston noted that the demographic profile of OECD countries is quite alarming, showing the increase in the older population that has significantly altered the demographic pyramid. The proportion of older people (40 to 59) to younger people (0-19) has increased significantly. This situation is not yet observed in non-OECD countries, but the tendency is spreading.

The population is ageing because of lower fertility rates and increased longevity. As troubling as the ageing of the population is the ageing of the work force which may result in lower labour input and lower productivity.

All in all, the demographic challenges endanger the sustainability of pensions and other social protection schemes. The OECD estimates that ageing alone would add 3 percentage points of GDP to health spending by 2050. It is to be noted that immigration has not proved to be a long term solution to offset the declining fertility on the population and the work force.

The OECD has made the issue of demographic change and its implications a policy priority, including it on the agenda of its May 2004 Ministerial Meeting. The OECD has been stressing the need for all OECD countries to take serious efforts to alleviate the urgent need of financial, social and fiscal reforms. Big lines were drawn in term of policy action. The OECD recommends four courses of action: (a) promote fertility, (b) increase work participation and extend working time, (c) to re-adjust the pension parameter, and (d) diversify the sources of retirement income and encourage private pensions.

In addition to the keynote address, the conference held four different sessions focusing on specific aspects of the ageing challenge: 1) the macro-economic effects of ageing ; 2) pension reforms; 3) health care reforms; and 4) migration and integration. A concluding panel brought out a number of key findings of the conference.

The opening session focused on the macro-economic and fiscal effects of ageing. Although the demographic challenges vary country by country, most speakers agreed that ageing will increase spending pressures on public programs, notably on health and pension. To ensure continual growth in living standards, Western societies will increasingly have to rely on higher productivity to counteract the effect of ageing since employment will be marked by a diminution in labor growth. As well, efforts to achieve long term sustainability will have to be supplemented by important pension system reforms and public debt reduction along with the extension of the working life of individuals.

Canada's efforts on the restoration of its fiscal health and on public debt reduction, which provide a strong basis for dealing with the eventual fiscal burden of ageing, were seen as impressive but difficult to copy in EU countries because of the relative incapacity of many to establish broad public consensus in these areas.

Similarly, the Canadian pension system was regarded as sustainable and even well off. It relies on three pillars of pension income: 1) a government funded component (a universal basic pension and an income-tested benefit), 2) a social insurance plan composed of contributory earnings-related pensions funded by both employers and employees, and 3) tax assisted and private (self-help) pensions.

In the EU, pensions are still the exclusive competence of Member States, and the new Constitution will not modify this. However, a lot of work in the field of pension is being carried at the EU level under the auspices of the Open Method of Coordination, the EMU program and the internal market legislation. The EU Commission also provides policy advice to Member States in this connection.

The session on **pension reforms** probed a more technical view on the changes needed to readjust pension regimes to sustainability. The goal of those reforms is to provide pensioners with an adequate replacement income while avoiding undue financial stress on public finance. Although longevity is increasing, there is a persistent trend towards early retirement which contributes to a growing gap between years of work and years of retirement benefits. All agreed that it was crucial to delay retirement age. A panelist suggested that pension regimes were always driven by poverty prevention when they should rather be looked at as insurance and should be directed toward efficiency in terms of actuarial principles.

In Canada, a panelist noted that reforms were achieved without compromising integrity or adequacy of benefits under the public system. Canada multi-pillar retirement income system, which favors a mix of public and private funded pension income, has enabled Canada to achieve a high degree of income security at a modest public cost. In fact, total

government expenditures as a percent of GDP have been on a downward trend and are at about 13% of GDP today. As an indicator of those achievements, the incidence of low income on Canadian seniors dropped from almost 70% in 1970 to less than 15% in 2000. A Canadian Pension Plan Board was created in 1997 to administer at arms length and maximize the return of employers and employees contributions under the social insurance component, the Canada Pension Plan (CPP) and the Québec Pension Plan (QPP).

The session on **healthcare reform** looked at ageing through the prism of growing health care expenditures. The two speakers came to a similar conclusion, that little had been done to date to address the sustainability issue of ageing and little had been done at fundamentally reforming the health care systems. However, work has been done on estimating the impact related to ageing on health care cost, which represents a sometime slow but significant pressure to reform for the future. The estimated fiscal impact of ageing on health care system will be of about 1% increase of the cost every year.

Potential areas that the Government of Canada feels could positively affect the health care system in the long term are health promotion through addressing life style related illness associated with tobacco and alcohol abuses, obesity, and lack of exercise. The speakers expressed the imperative need to examine alternatives to institutional health care institutions in order to provide greater level of support for less costly option such as home care.

In the last session, demographic issues were looked at through a perspective of **migration, multiculturalism and the exportability of the Canadian model**. Canada is one of the only OECD countries that has significant immigration. The speakers doubted that migration was the silver bullet to offset the demographic of ageing. It certainly helps to alleviate the impact of declining fertility on population and work force growth, but in itself it is not a feasible long-term and complete solution to the fiscal problems. The number of immigrants needed would be massive and there would be social cohesion issues arising from integrating them.

The speakers addressed the growing concern among the public that multiculturalism policies weakened the welfare state, and that immigration was increasing the burden of social spending. It appears that no such links could be drawn, although immigration appears to be re-shaping the pace of changes in spending.

Another important aspect of migration scheme highlighted by the speakers is the integration policy. The Canadian model - *Multicultural Welfare State*- proved to encourage the integration of immigrants through political and economic integration by helping them to integrate the labour market and the society in general (example language and skills training). As well, the Canadian model was in many ways a two way deal- Canada offered citizenship, a Charter of Rights and Freedoms and multicultural policies which helped with integration. This model is not easily exportable considering the fact that Canada is a nation of immigrants.

Any society interested in an integral integration of minorities would be wise however to look at the Canadian model which combines an active two way deal. Until now, the EU countries have not had active immigration policies, although they do receive a higher number of refugees. As a result, European countries tend to see immigration in the more negative light of having to deal with refugees and asylum seekers, and not as a positive element in the ageing puzzle. There is space and need for dialogues and improvement.

The **concluding panel**, chaired by the Ambassador Jeremy Kinsman, agreed to the common benefit of exchanging experiences and ideas in the field of ageing between Canada and the European Countries and fleshed out some major conclusions.

- While Canada has been very active on reforming the pension system, European countries appear to have given greater priority to the reform of health care systems and have made more impressive gains in this field.
- The Canadian pension reform was possible in part because of the readiness of the population to changes, as Canada was facing fiscal difficulties. However, the changes were phased over a period of time in order to avoid “apparent pain” and to make them more acceptable to the Canadian public.
- Europe is aware that reform of the pension system should have been carried out a long time ago, and is now faced with imperative reforms. Despite this urgent need, the panellists thought gradualism would be the order of the days as new pension measures were introduced in Europe.
- The present pensioners should not be affected too heavily by reforms since they were brought up to depend on the pension plan as they are presently entitled to. On the hand, the younger generation can have its expectations changed and have the time to adapt to new alternatives such as private pension schemes.
- The panel agreed with Ambassador Kinsman’s observation that the prospect of appropriate reforms to deal with ageing seemed more negative than positive. The increasing awareness of the problem by governments and populations, however, is already a good sign that progress is underway.

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