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What's next in aging Europe:

AGING

AGING WITH GROWTH
IN CENTRAL EUROPE
AND THE BALTICS



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Aging with Growth: Implications for Productivity and the Labor Force

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Presentation structure

1. Growth, productivity and aging

2. Barriers to employment at older ages

3. Supporting more balanced demographics

4. Turning aging into an opportunity

Concern: An aging population...

1. ...decreases the share of the labor force in the total population (growth concern)

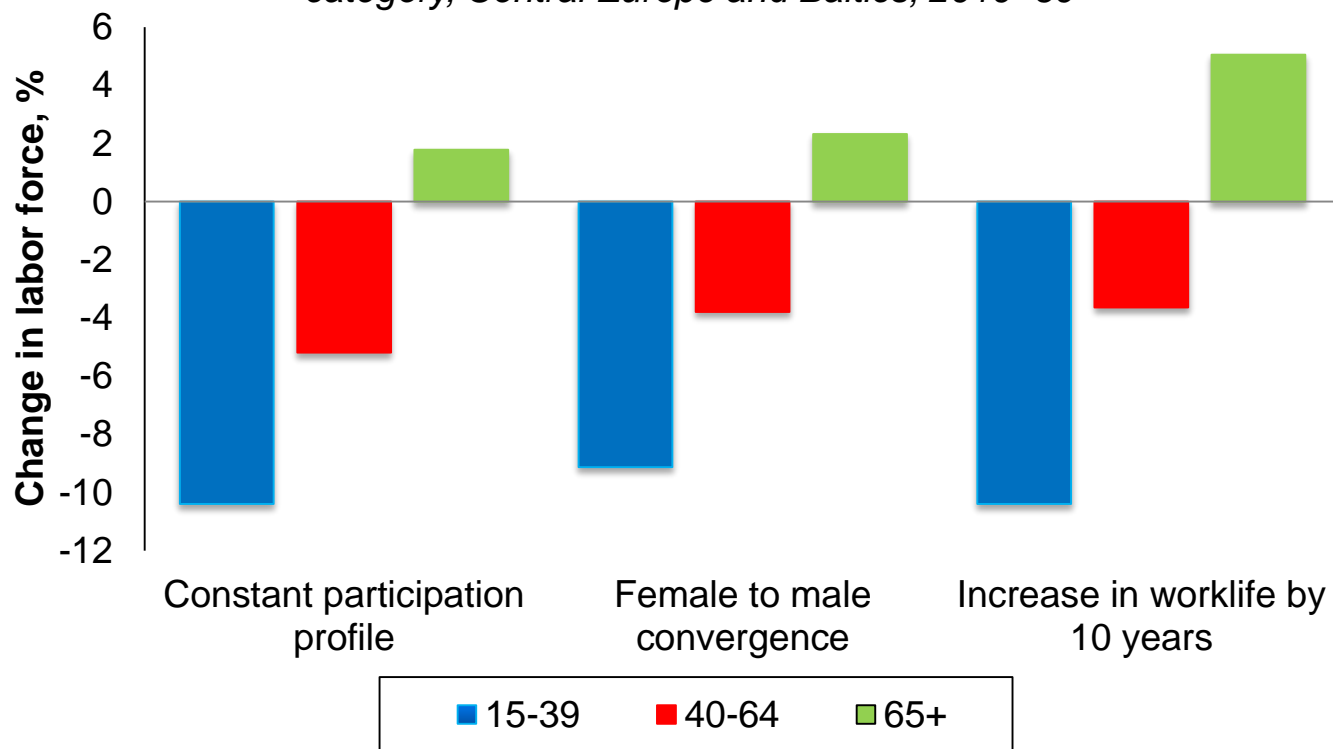
- Shrinking labor force
- Expanding inactive older population

2. ...alters the structure of labor force (productivity concern)

- Out-dated skills
- Less dynamism: less job reallocation across occupations, sectors, and places

Dependency ratios not fixed: Size and composition of the labor force can be altered by higher participation

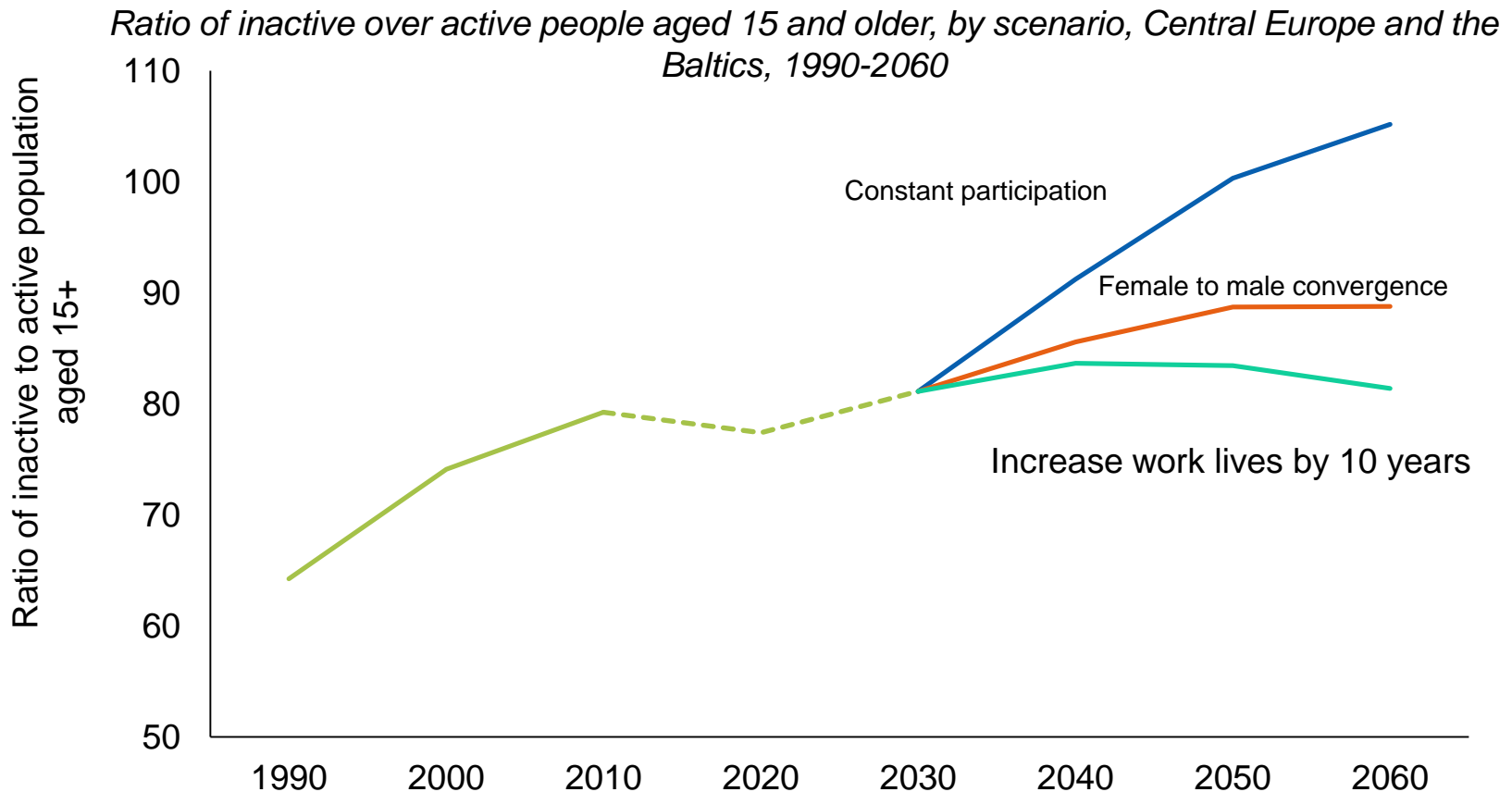
Projected changes in the size of the labor force under different labor force participation scenarios, by age category, Central Europe and Baltics, 2010–60



Note: Data are based on past estimates of participation rates in 1990–2010, projections of the International Labour Organization (ILO) for 2015–30 based on past trends, and scenarios for 2035–60 developed by the World Bank for this report (female participation convergence to male participation rates and working life gradually increases by ten years)

Sources: Based on ILO (2013) and UN Population Division (2013)

Dependency ratios can remain relatively stable if labor market participation rises

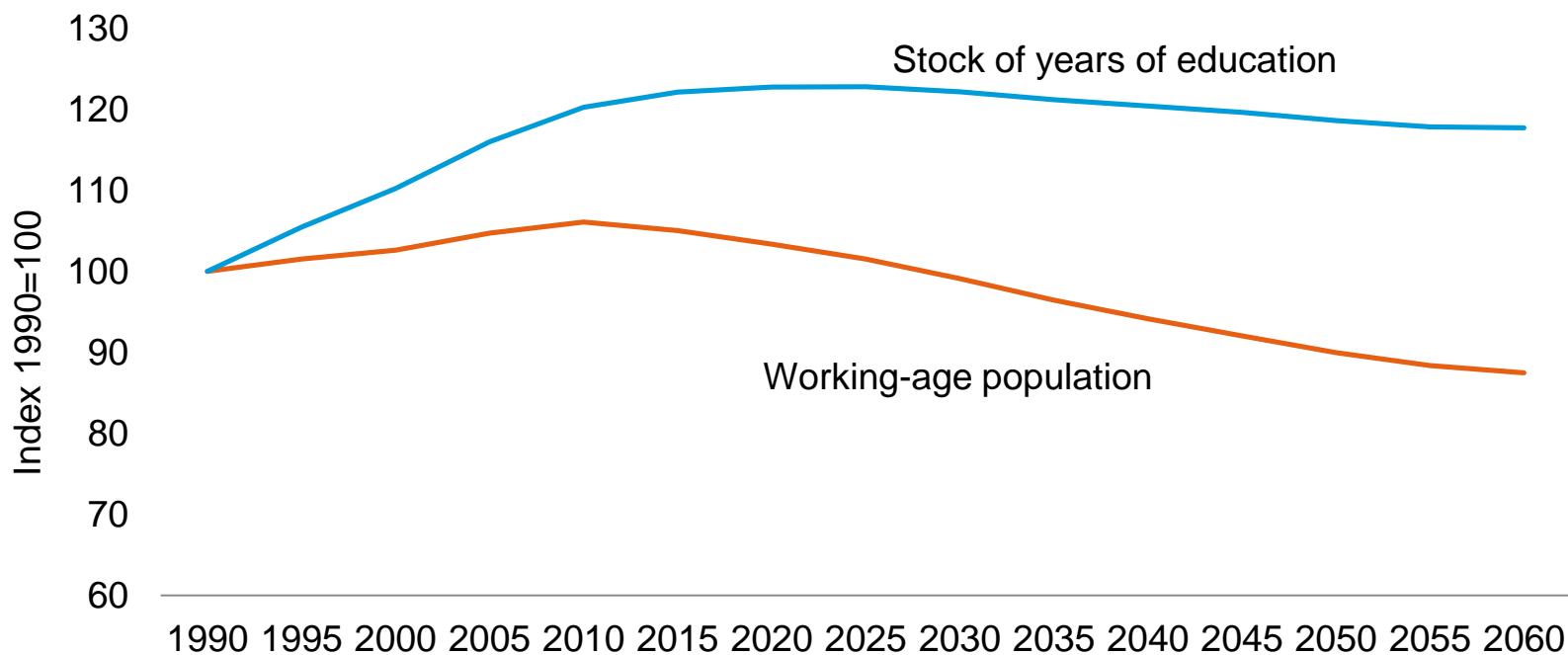


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Potential for rise in stock of human capital, even as working-age population falls, in some countries

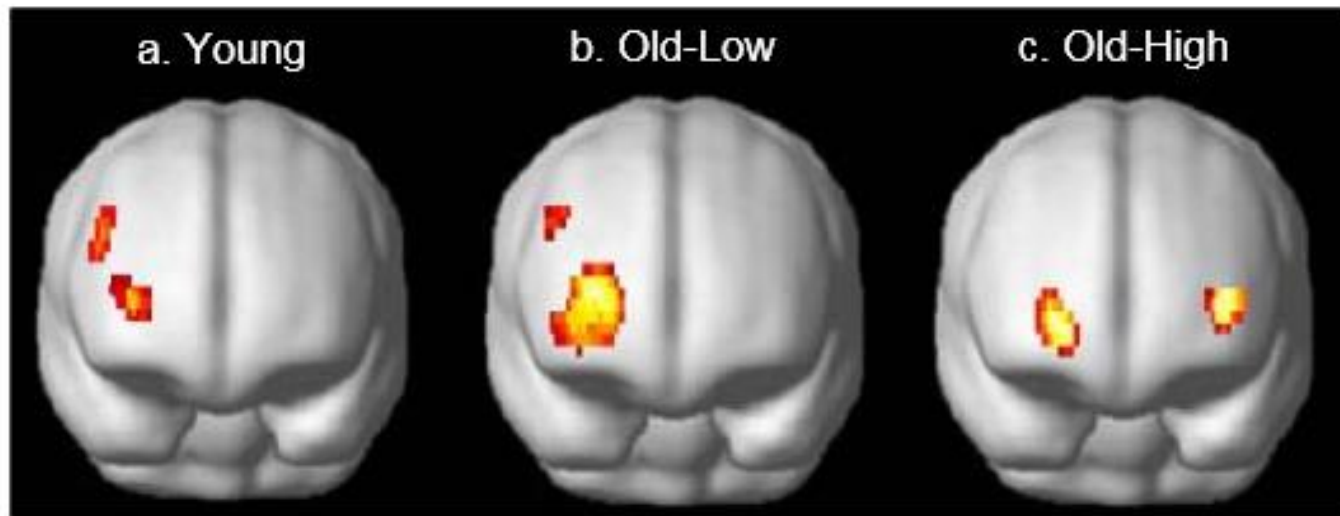
*Working-age population and stock of human capital
EU28, 1990-2060*



Source: Calculations based on Lutz, Butz, and KC 2014.

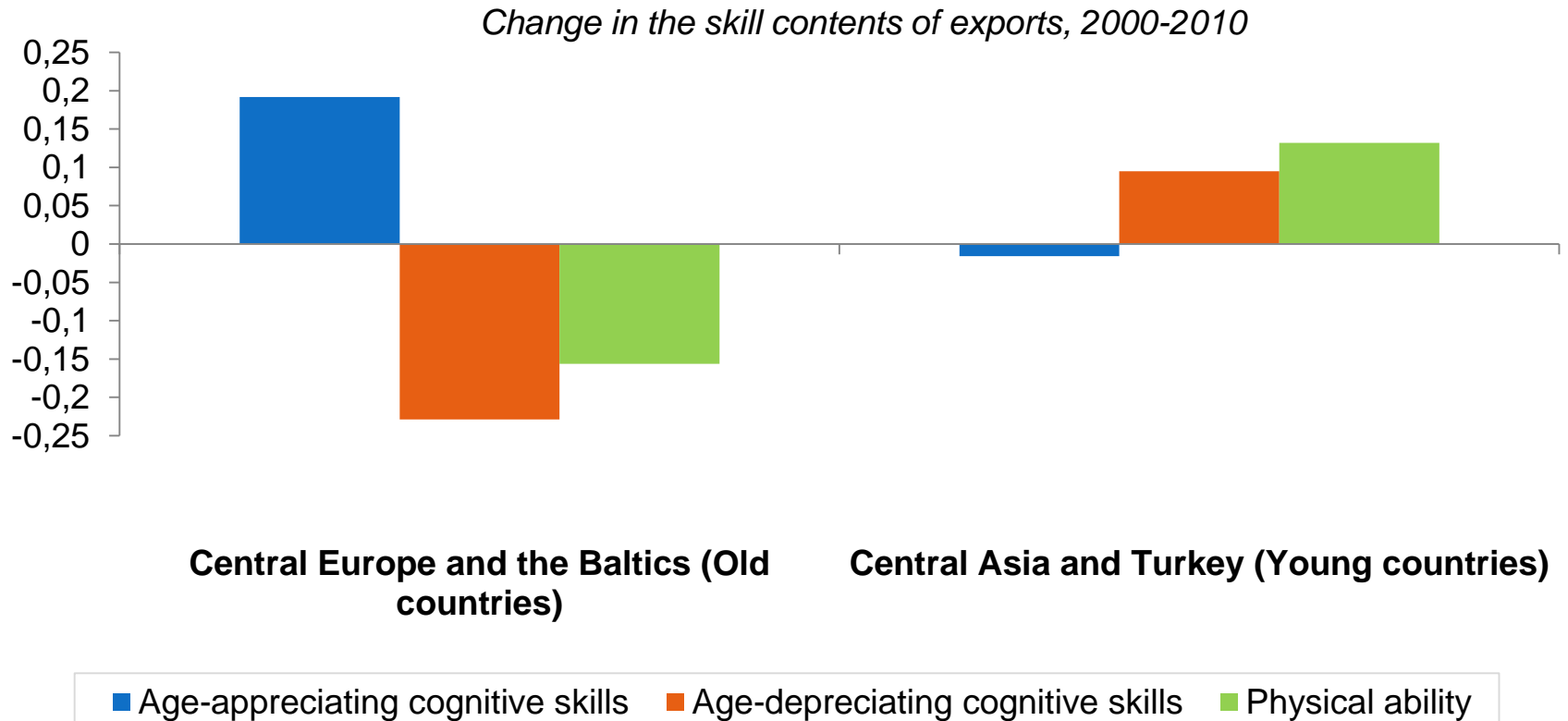
The aging brain can compensate

Better-performing older participants compensated for age-related memory decline by reorganizing the episodic retrieval network



Source: Daselaar and Cabeza (2004)

Employers take advantage of new strengths



Source: Calculations based on data in Cai and Stoyanav 2014; UN Comtrade.

Confronting three myths about work at older ages...

- 1. Myth 1:** Older workers do not want to work and prefer retirement – Fact: 2/3 prefer options of gradual retirement and part time work (Evidence for 27 EU countries)
- 2. Myth 2:** Older workers are less productive, more difficult hires – Mixed evidence, but policies can be put in place to alleviate lower productivity or even increase it (e.g.: age-diverse teams)
- 3. Myth 3:** Lump of labor fallacy; older workers take jobs from young – Well, it's a fallacy

But older workers do face some barriers when looking for work and in the workplace...

Presentation structure

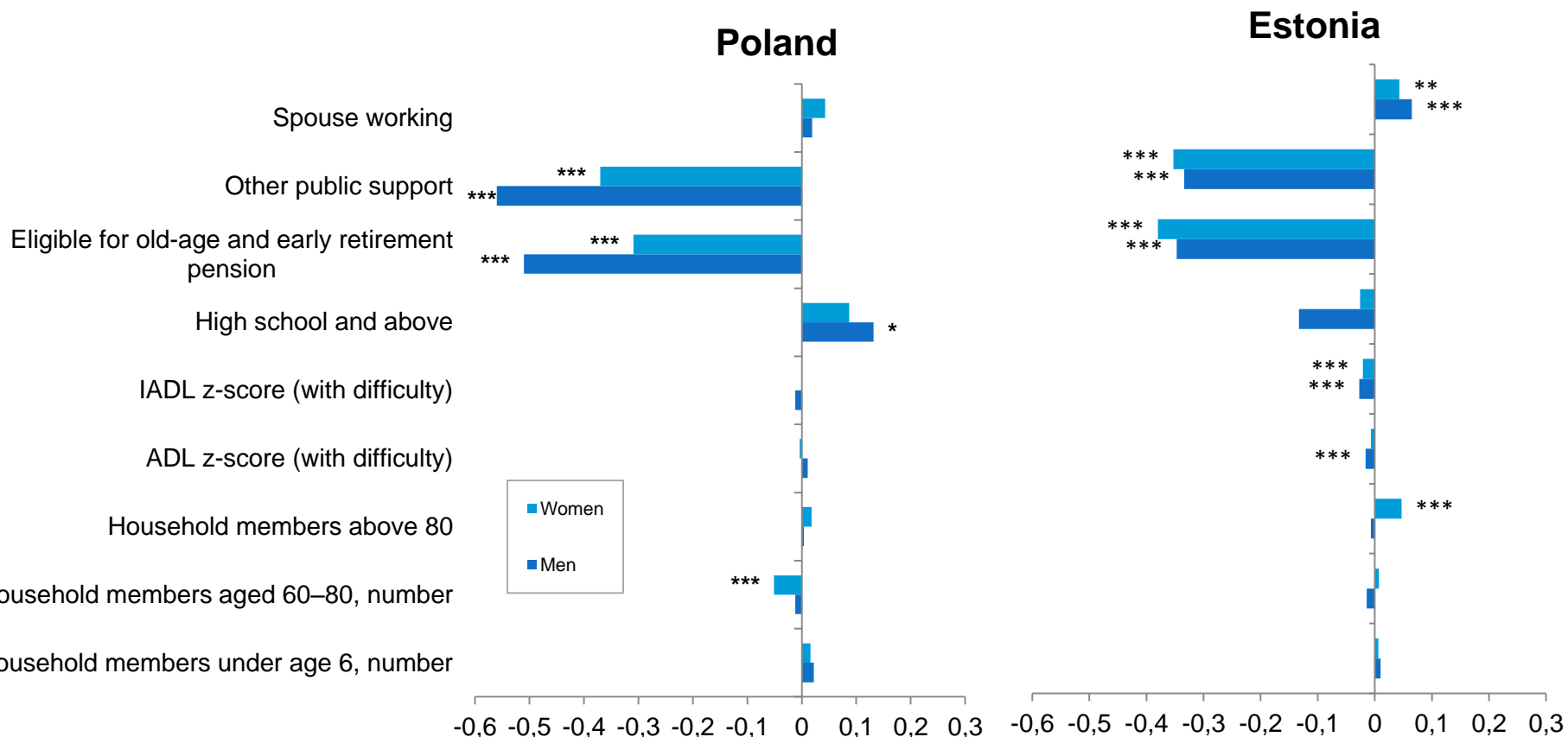
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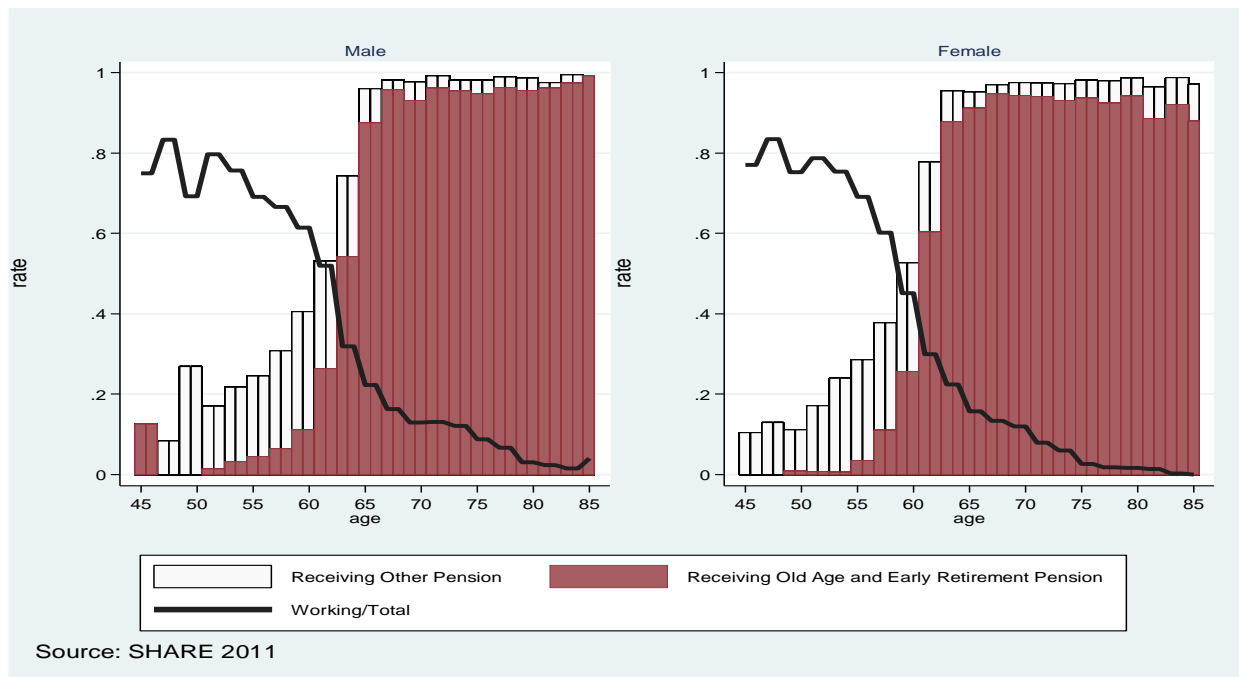
Determinants of labor supply in the EU: regression-based evidence



Source: Estimates based on SHARE..

Determinants of labor supply in the EU: Benefit eligibility plays a large role in reducing participation

- The receipt of a pension or other public support is strongly correlated with exit from work in CEB countries.

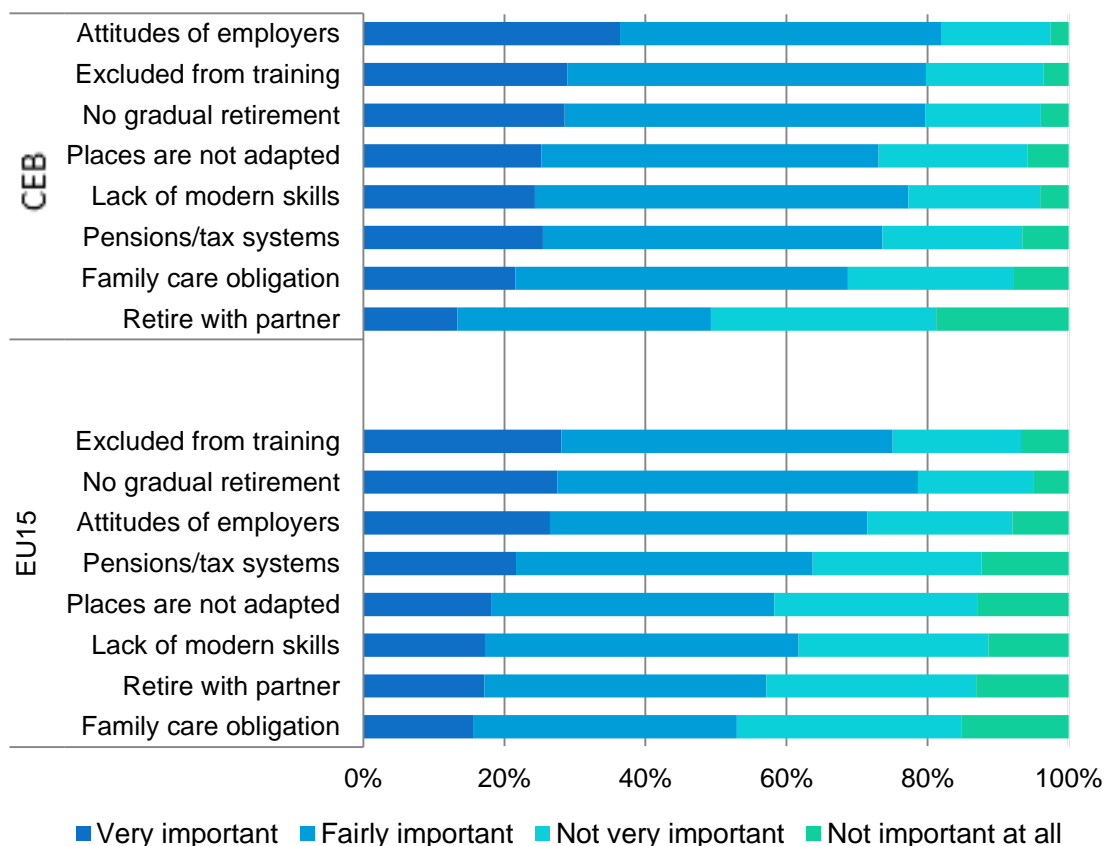


- Changes in the official retirement age or benefit structure have potential to incentivize later retirement → Examples: Austria and Germany.

Barriers to Employment: Attitudes of Employers, Health status and household structure

Perceived barriers for employment after 55:

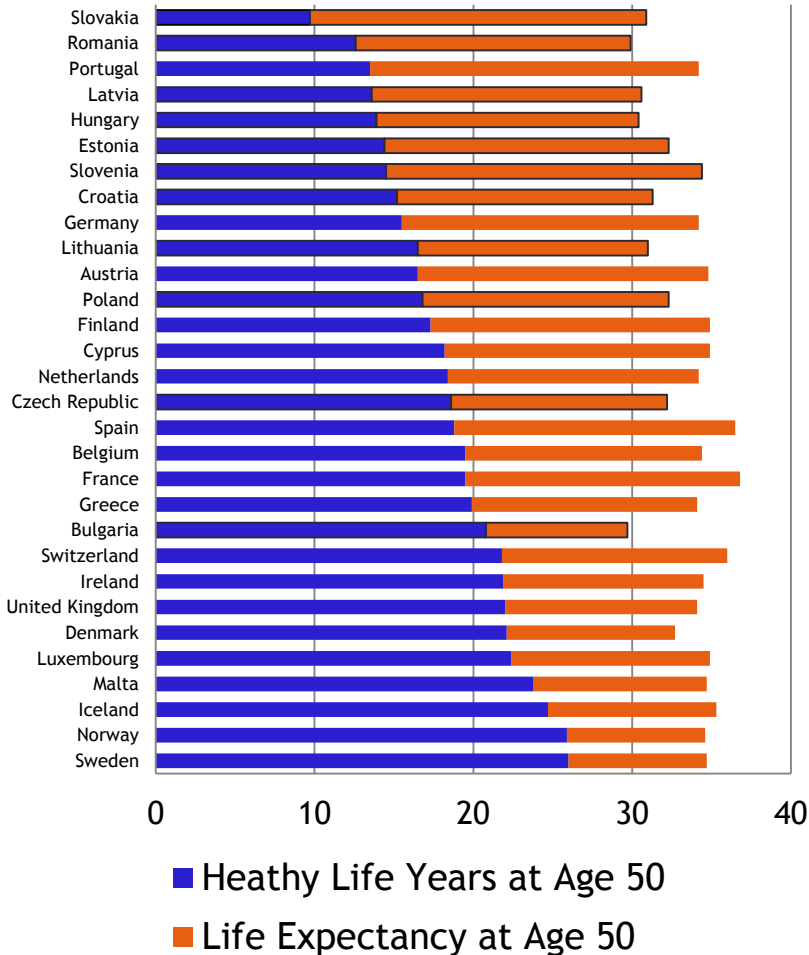
% reporting each reason as very, fairly, not very, not at all important, 2011



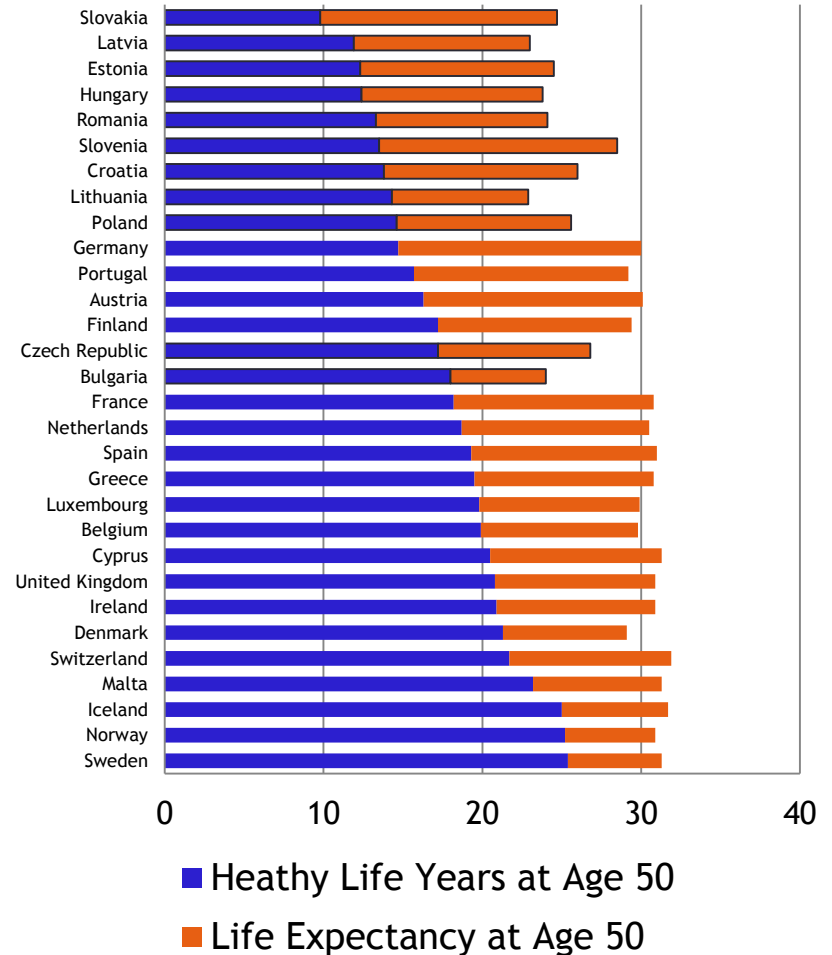
- Deterioration in health and the ability to live independently is associated with exit from work.
- Care responsibilities interact with older worker's labor supply.
- Higher likelihood to work if the spouse is working: preference for joint retirement.

The importance of making older age healthier

Female life expectancy at age 50

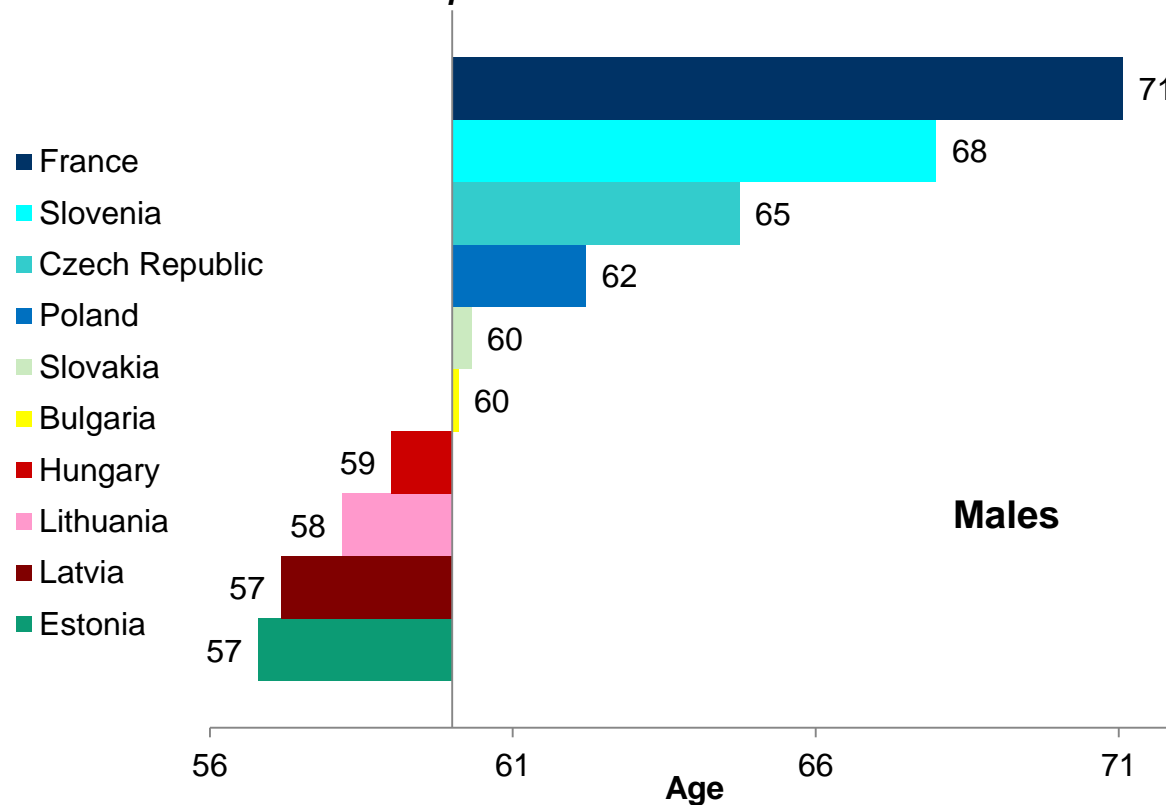


Male life expectancy at age 50



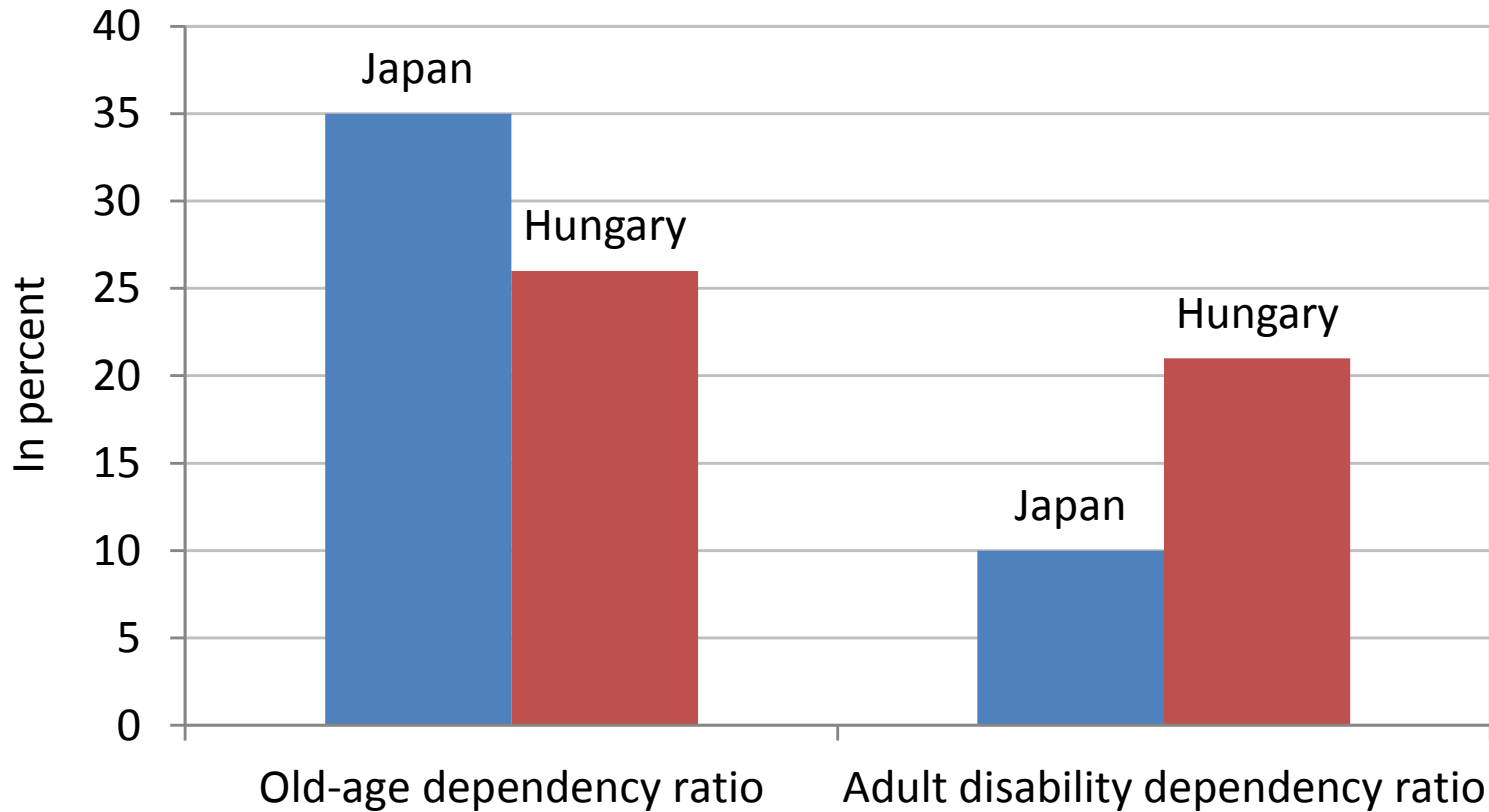
Age not a concept fixed over time: “60” as the new “70” ... but not everywhere

How old you have to be today to have the same mortality as a person of 60 in 1959



Source: World Bank staff calculations for all ECA countries with data available using Human Mortality Database. University of California, Berkeley (USA), and Max Planck Institute for Demographic Research (Germany), www.mortality.org

Dependency measured as disability diverges from chronological age definition

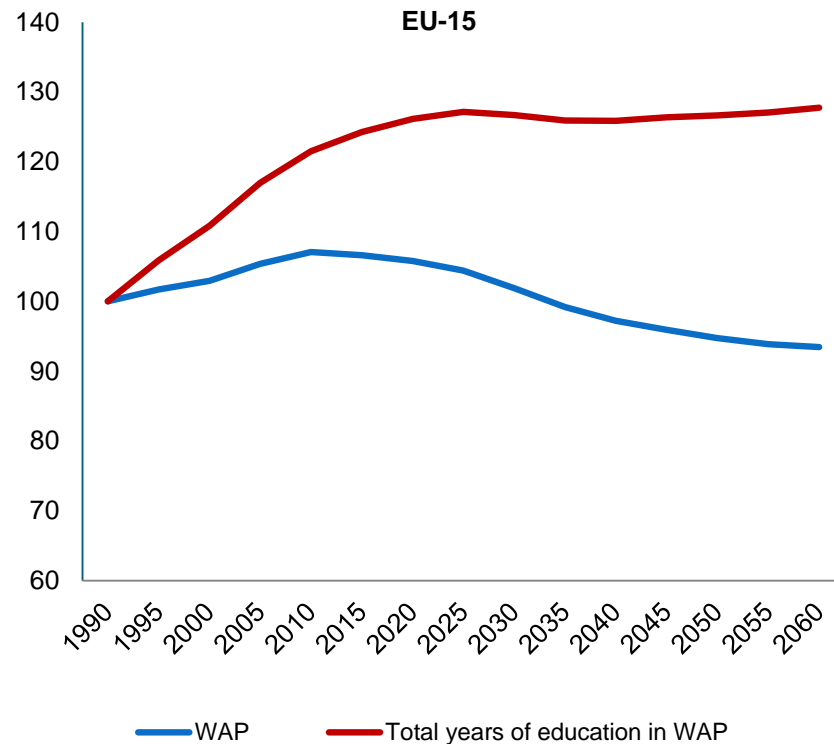
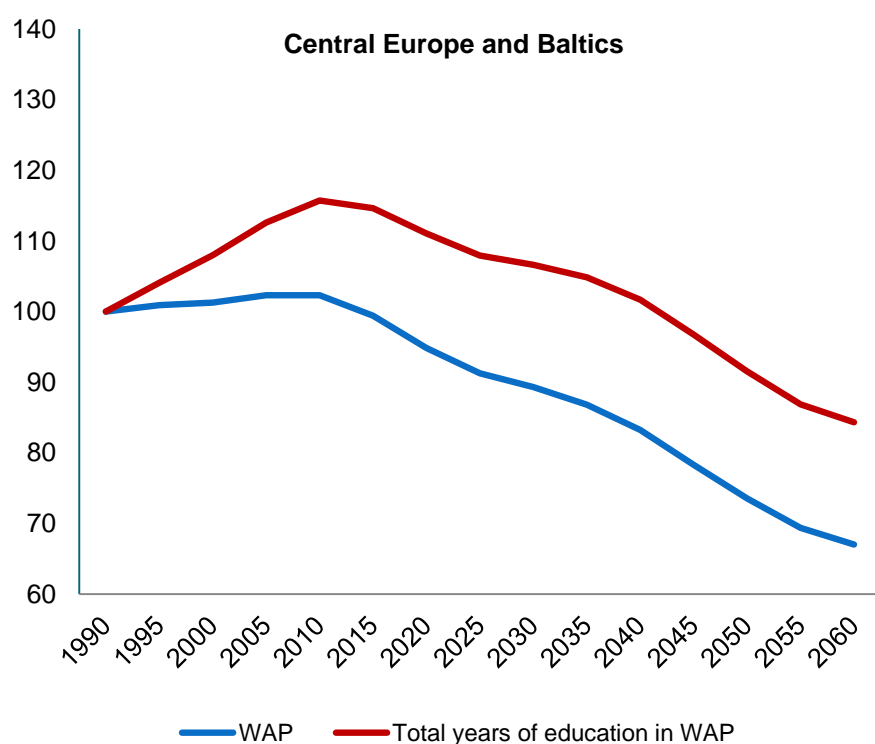


Notes: Adult disability dependency ratio (ADDR) defined as the number of adults at least 20 years old with disabilities, divided by the number of adults at least 20 years without them.

Source: Sanderson and Scherbov (2010).

Stock of human capital has room to increase

Index of the Size of the Working-Age Population and Its Stock of Years of Schooling, Central Europe and Baltics and EU-15 (1990-100), 1990–2060



Note: Working-age population here defined as 15 to 64 years old.
Source: Based on Lutz, Butz, and K. C. 2014.

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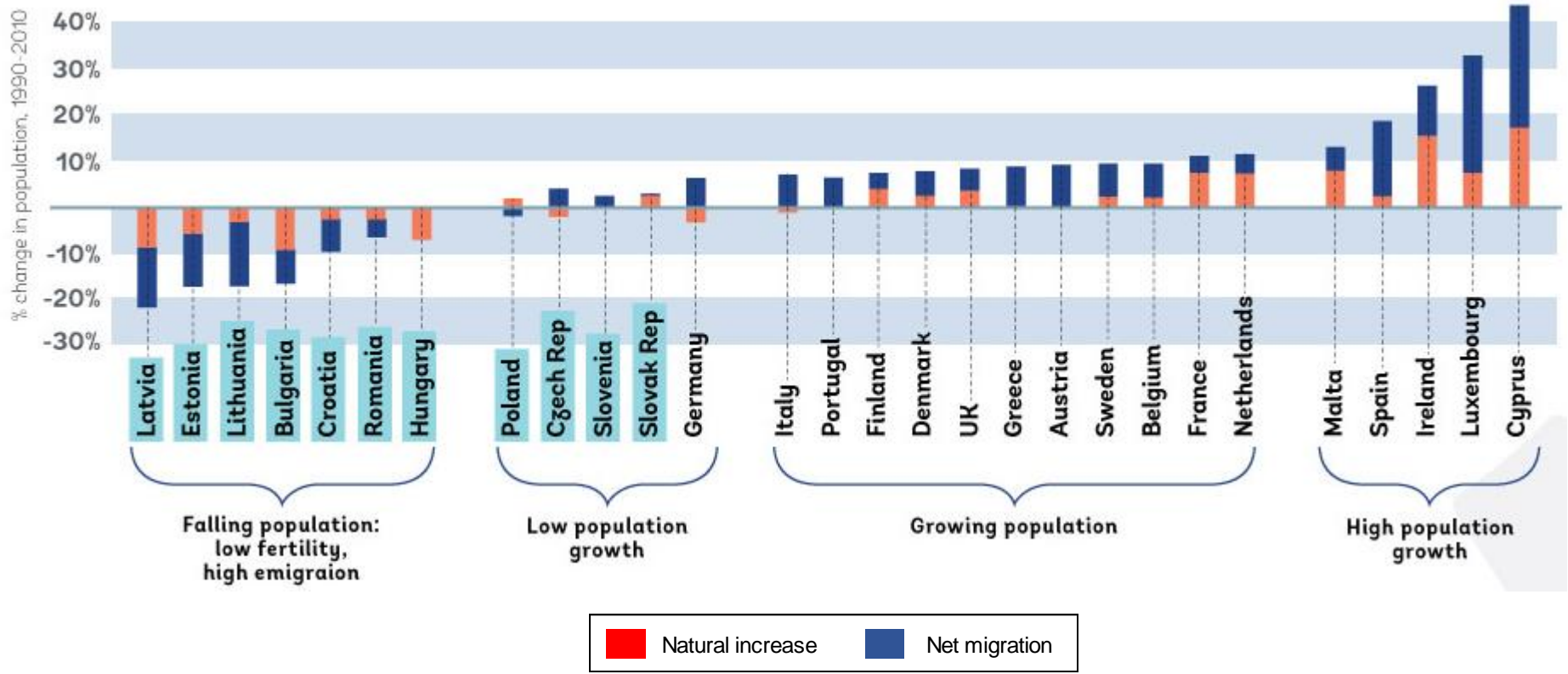
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Aging from below due to shrinking younger generations vs. aging from above due to longevity

Cumulative population change 1990-2010, in percent



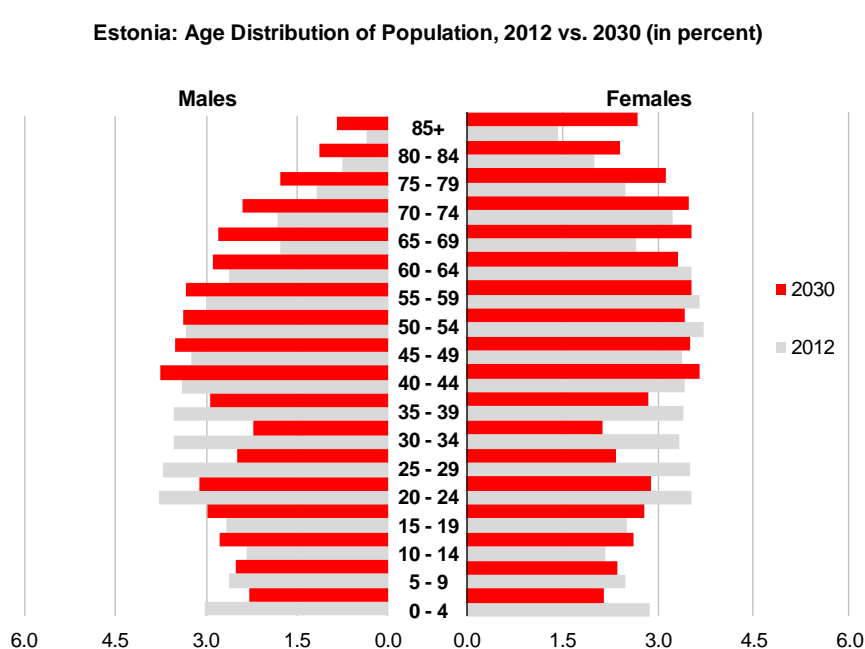
Source: Based on United Nations (UN) Population Division (2013).

Larger imbalance in size of generations where emigration high and fertility low

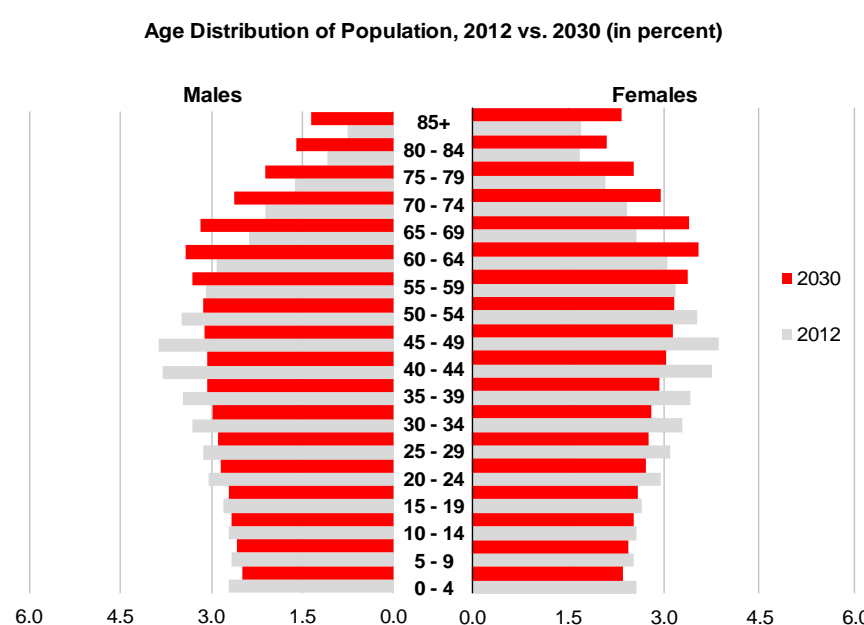
Young cohorts are expected to shrink further in Estonia by 2030

Generations are set to be more equally sized in the EU-15

Estonia: Age Distribution of Population, 2012 vs. 2030 (in percent)



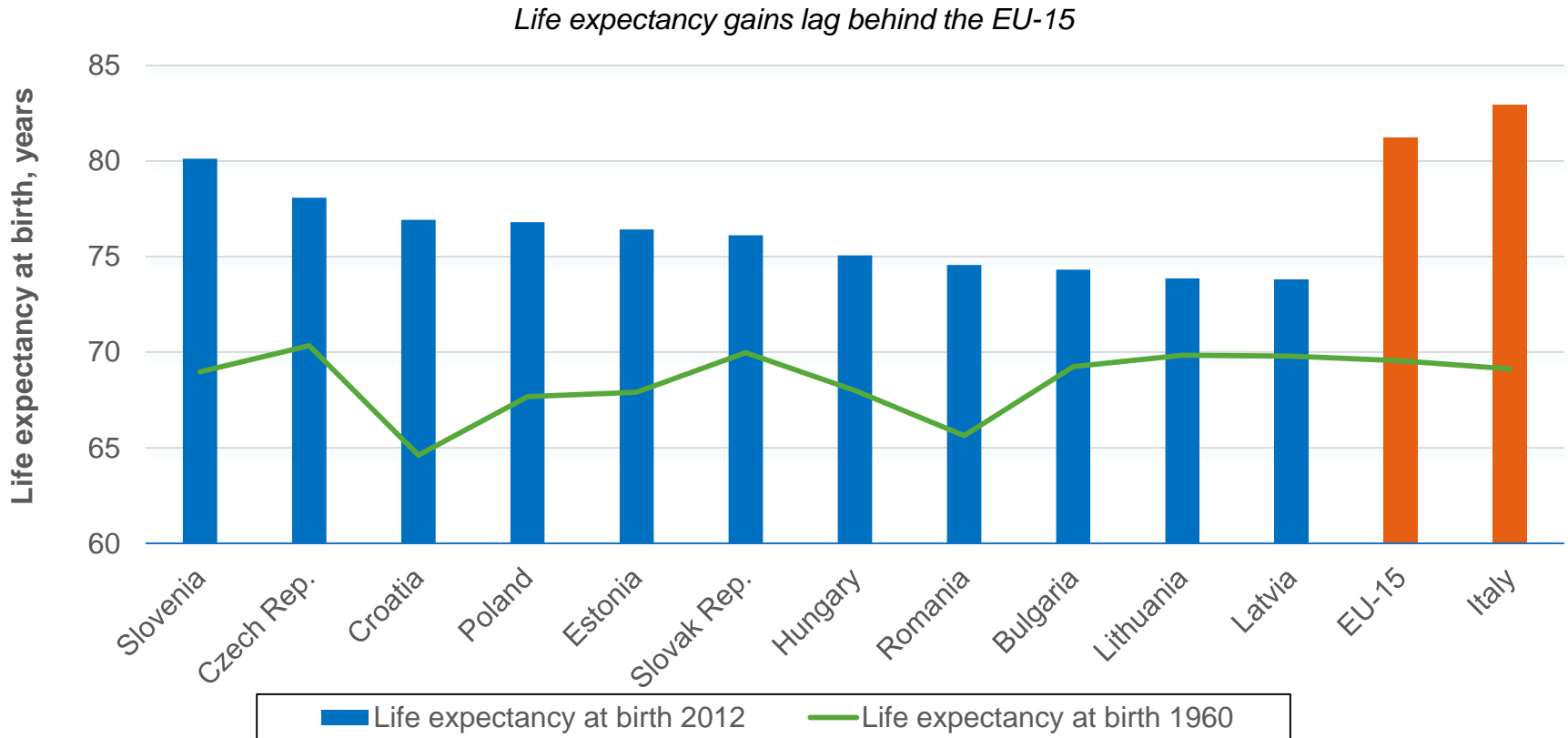
Age Distribution of Population, 2012 vs. 2030 (in percent)



Source: Eurostat.

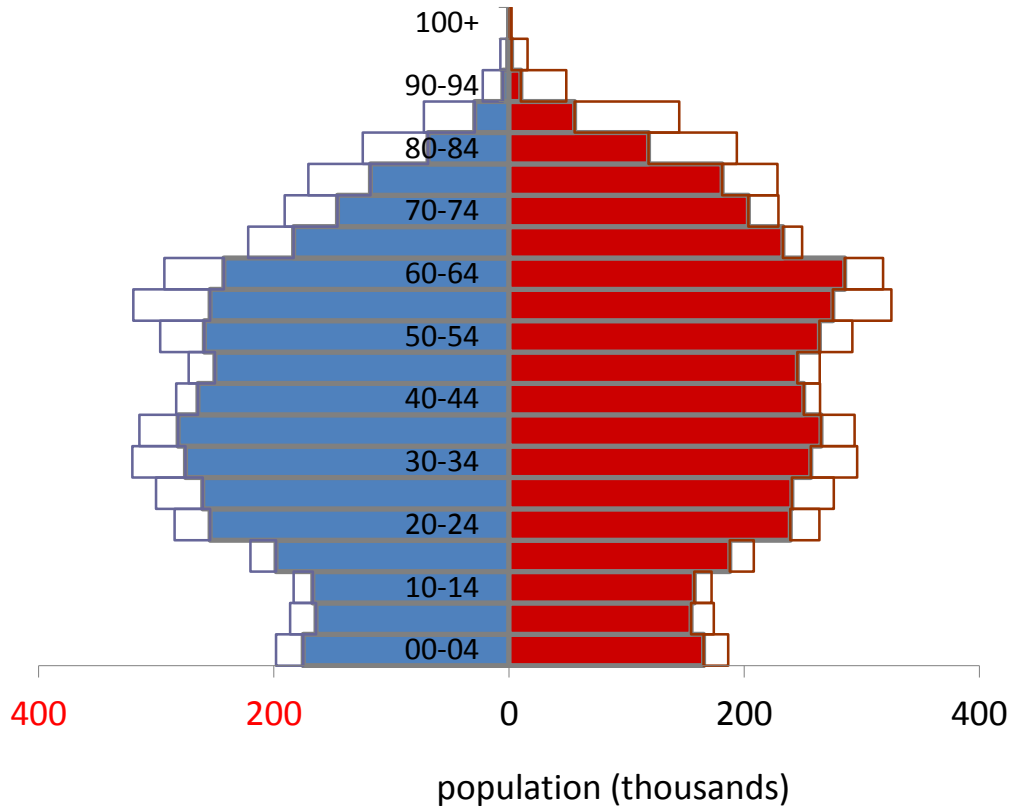
Central Europe and the Baltics aging differently: Lives cut short

Italy gained 14 years of life expectancy since 1960 and Latvia just 4 years



Source: Based on World Bank's World Development Indicators.

Bulgaria's labor force would be 13% bigger in 2010 if mortality had declined as in France from 1950



■ Male
 ■ Female
 Size of age cohort in 2010 if Bulgaria had experienced the same mortality reduction of France from 1950

Source: World Bank calculations using UN (2013).

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Positive net migration helps balance demographics now; fertility changes contribute (but longer term)

- Macro and micro econometric evidence suggests families in less rich EU countries don't have the critical second child due partly to not having adequate incomes
- Some evidence of a re-increase in fertility occurring at high country income threshold and that stable employment for mothers may play a role
- Supporting families can also play a role in stemming out-migration

Table 1. Changing Profile of EURES Clients in Latvia, 2004-2010

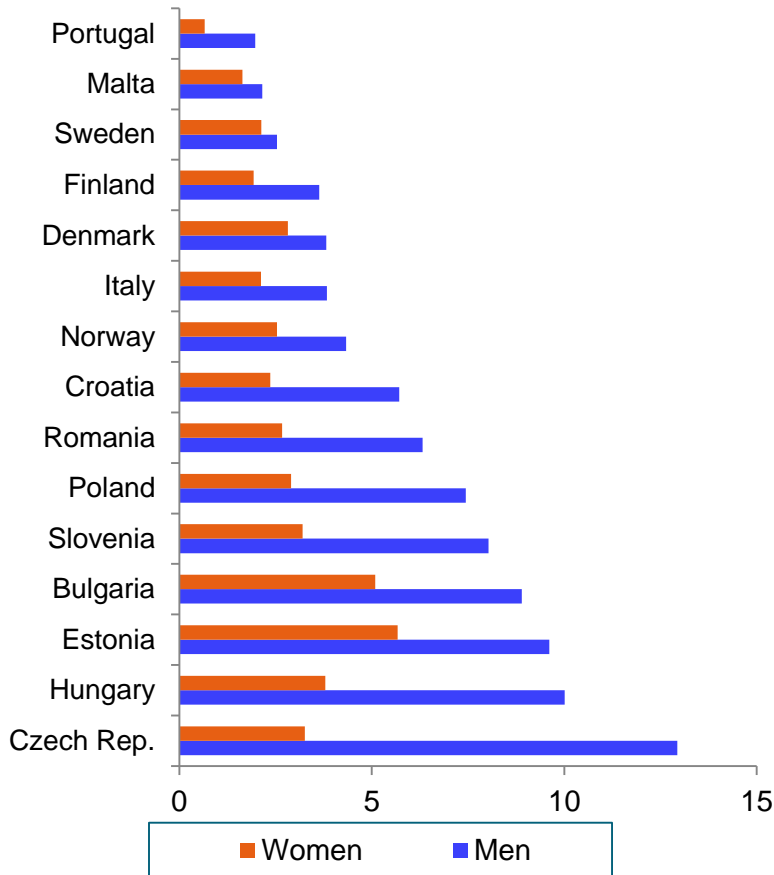
2004-2007	2008-2010
Planning to move alone	Planning to move with family
Looking for temporary, low-skilled job	Looking for permanent, skilled job
Minimal knowledge of foreign languages	Better knowledge of foreign languages, higher qualifications
Planning to return	Interested in legal employment and social security

Note: Based on the daily records of European Employment Services (EURES) consultants in Latvia.

Source: Hazans (2013: Table 4.6)

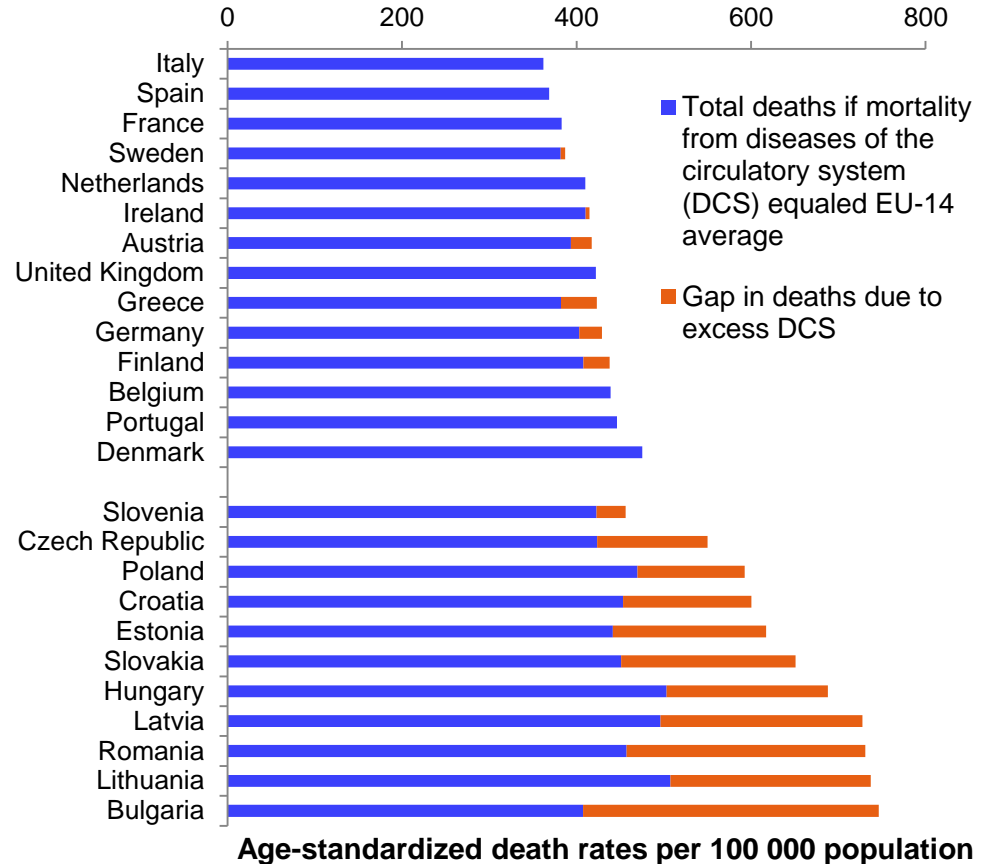
Achieve healthier aging by reducing inequality and achieving the “cardiovascular revolution”

Gap in life expectancy at 50 years old between those with high and low education, by gender, 2010



Source: Based on Eurostat.

Excess deaths due to diseases of the circulatory system

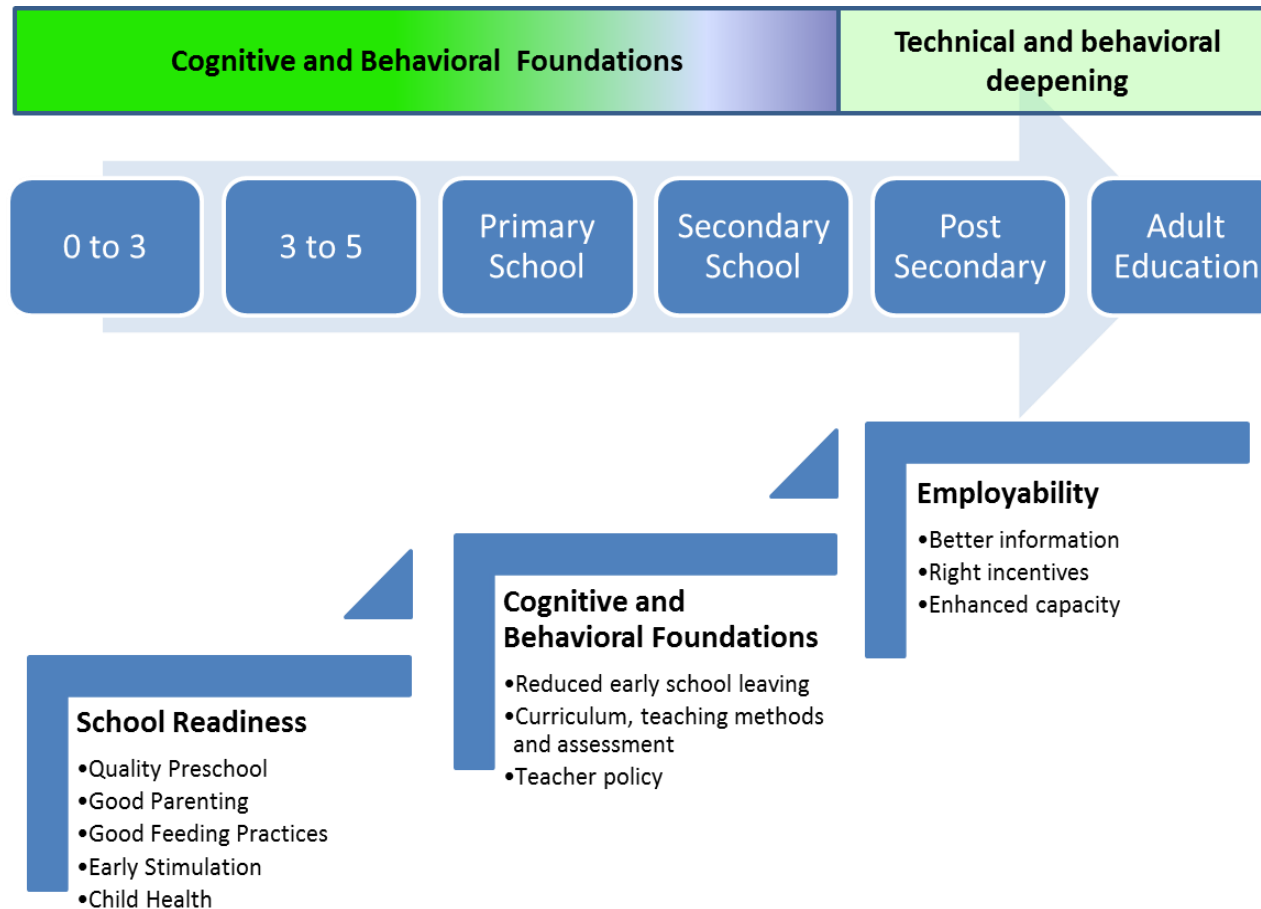


Age-standardized death rates per 100 000 population

Notes: Data for 2010. EU-14 is Eu-15 group of countries excluding Luxembourg for which data is not available.

Source: Based on the WHO Mortality Database.

Focus on skills development across the life cycle



OECD's PIAAC reveals younger adults perform better than older adults across all countries (with large differences in certain countries)



- increased educational attainment of younger cohorts
- But also probably skills depreciation over life cycle (need for better and more adult training and lifelong learning)

Source: Bodewig, 2014.

Employer interventions: Age-specific staffing strategies can help

- Firms have tried many approaches:
 - Age-specific equipment or work place adaptation
 - Age-specific tasks for old workers
 - Mixed-age working teams
 - Working time reductions/flexibility
 - Age-specific training/human resource management strategies
 - Evidence that some do work (in red)
- Adoption rates are unknown
 - Scope for dissemination

Productivity: BMW 2017 production line pilot in Bavaria



Help Older Workers be as Productive as Younger Staff

Initial condition: Aging assembly line workforce

Result 7% productivity improvement in 1 year, similar to that of lines staffed by younger workers

How?

- 70 changes to workplace equipment reduced physical strain
- Job rotation across workstations during a shift in order to balance the load
- Physiotherapist developed exercises for workers to do every day

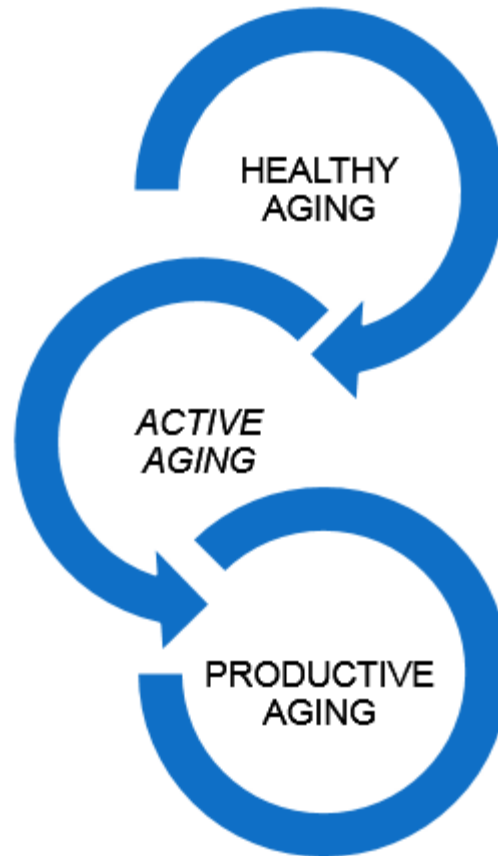
Cost-effective: US\$40,000

Stepping up response to aging

Increase healthy life expectancy and reduce health inequalities

Increase labor force participation at all ages

Plan now for public spending trade-offs



Invest in skills and adapt to older labor force

Target those who will be vulnerable to elderly poverty early on

Support immigration; support families and female integration in the labor market



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Thank you

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