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to the European Parliament, the Council, the European Economic and Social
Committee and the Committee of the Regions
- Dealing with the impact of an ageing population in the EU
(2009 Ageing Report)

Delegations will find attached Commission document COM(2009) 180 final.

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COMMISSION OF THE EUROPEAN COMMUNITIES

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**COMMUNICATION FROM THE COMMISSION
TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN
ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE
REGIONS**

**Dealing with the impact of an ageing population in the EU
(2009 Ageing Report)**

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**Dealing with the impact of an ageing population in the EU
(2009 Ageing Report)**

1. INTRODUCTION

For the first time in history, the vast majority of Europe's citizens are able to lead active, healthy and participative lives well into old age. At the same time, ageing societies bring new opportunities to innovative firms through the demand for new or adapted goods and services. However, the combination of ageing and low birth rates also poses major economic, budgetary and social challenges. Europe has started to prepare for these challenges, and encouraging progress has been made by some Member States, notably through reforms of pension systems and a better balance between professional and family life. However, without further institutional and policy changes, demographic trends are expected to transform our societies considerably, impinging on intergenerational solidarity and creating new demands on future generations. Such trends will have a significant impact on potential growth and lead to strong pressures to increase public spending, not only in terms of pension and health expenditure, but also in infrastructure, housing and education.

Successive European Councils have recognised the need to tackle the impact of ageing populations on the European social models. The policy challenge is broad, covering the ongoing debate on modernisation of welfare systems and extending working lives as a follow-up to the Hampton Court Summit of October 2005, the renewed Lisbon strategy, the renewed EU Sustainable Development Strategy and the "Integrated climate and energy policy", the Open Method of Coordination on pensions, health care and long-term care and a strategy for youth¹, and ensuring progress towards sustainable public finances in the context of the Stability and Growth Pact.

It is within this framework that the ECOFIN Council instructed the Economic Policy Committee and invited the Commission to update the long-term budgetary projections by the end of 2009. The joint projections² which apply new, upgraded methodologies, broadly confirm the projections of 2006. They provide key input to the analysis of the impact of population ageing and are an integral part of the EU's multilateral budgetary surveillance. They will also be of use for policy-makers in preparing reforms of pension and health care systems.

¹ COM (2009) 200 final.

² See the '2009 Ageing Report: economic and budgetary projections for the EU-27 Member States (2008-2060)', European Economy, forthcoming and 'Demography Report 2008: Meeting Social Needs in an Ageing Society' (SEC (2008) 2911).

This Communication presents the latest long-term economic and budgetary projections and a first take on the Commission's views on Europe's ability to tackle the challenge of ageing in view of new data and the current economic developments.

Recent analysis confirms that there is a window of opportunity – a period of about ten years during which labour forces will continue to increase – for implementing the structural reforms needed by ageing societies³. Taking no action would weaken the EU's ability to meet the future needs of an ageing population.

The economic crisis could make the challenges created by ageing more acute. The deployment of a targeted and well-coordinated policy response to the crisis, as outlined by the European Economic Recovery Plan⁴ (EERP) adopted by the Commission on 26 November 2008, must therefore be seized as an opportunity for concerted efforts to overcome the recession by supporting economic activity in the short run and through reforms geared at strengthening investment in a more sustainable economy and society and putting age-related spending on a sustainable path⁵. Investment to boost training and human capital will help address the impact of the crisis in the short run and contribute to preparing for an ageing society.

2. THE LONG-TERM CHALLENGES OF DEMOGRAPHIC AGEING

The economic impact of ageing

Long-term projections are not forecasts, but are prepared on a 'no-policy change' basis, and as such provide important information of the effects of not taking action. The latest projections presented in the 2009 Ageing Report are based on Eurostat's new demographic projections released in April 2008. Demographic developments differ significantly from country to country, but the overall population in the EU is now projected to remain the same in 2060 as today, thanks to a slight rebound in the fertility rate in some Member States and more dynamic immigration flows, while in 2006 it was projected to decline over time. However, the new demographic projections do not differ substantially in terms of population structure and they confirm that low birth rates, rising life expectancy and continuing inflow of migrants can be expected to result in an almost unchanged, but much older, total EU population by 2060⁶, meaning that the EU would move from having four working-age people (aged 15-64) for every person aged over 65 to a ratio of only two to one. The largest decrease is expected to occur during the period 2015-35 when the baby-boom cohorts will be entering retirement.

For the EU as a whole, the labour market participation rate is expected to increase from 70½% in 2007 to 74% in 2060, most of which will materialise before 2020. The gap between male and female participation rates is expected to narrow gradually, especially in countries where it is currently large. Overall, employment rates are expected to increase from 65½% in 2007 to about 70% in 2060. The employment rate of older workers is expected to grow as a result of reforms aimed at prolonging working life in many Member States. Overall, however, employment in the EU is projected to shrink by about 19 million people by the year 2060.

³ COM (2006) 571 final.

⁴ COM (2008) 800 final.

⁵ See the '2006 Sustainability Report', European Economy, No 4, 2006.

⁶ See the '2009 Ageing Report: economic and budgetary projections for the EU-27 Member States (2008-2060)', European Economy, forthcoming and 'Demography Report 2008: Meeting Social Needs in an Ageing Society' (SEC (2008) 2911).

Increasing labour force participation rates in most countries and rising net immigration levels in some will only moderate the fall in employment due to the shrinking working age population over the period from 2020 to 2060.

With decreasing labour supply, productivity will have to be the source of future economic growth. A prudent assumption is that Member States' labour productivity growth would converge to a long-term historical average in the EU of 1¾%, close to that recorded in the US over the very long term. As a result, the annual potential GDP growth rate would decline significantly. A shrinking working-age population will act as a drag on growth and on per capita income. Owing to the differences in demographic trends, growth rates would differ substantially from country to country.

The budgetary impact of ageing

As a consequence of ageing populations, the need for public provision of age-related transfers and services will increase. The fiscal impact of ageing is therefore projected to be substantial in almost all Member States, becoming apparent already over the course of the next decade. Overall, on the basis of current policies, age-related public expenditure is projected to increase on average by about 4¾ percentage points of GDP by 2060 in the EU and by more than 5 percentage points in the euro area – especially through pension, healthcare and long-term care spending. For the EU25, the projected increase is slightly higher compared with the previous projections in the 2006 Ageing Report, by around half a percentage point of GDP over the whole projection period. Compared to the 2006 Ageing Report, the largest downward revisions in the budgetary impact of ageing have occurred in Portugal, Hungary and the Czech Republic (reflecting notably the impact of pension reforms), while large upward revisions are reported in Greece, Luxembourg, Malta, Estonia, Austria, Poland and Lithuania (reflecting primarily revised projected changes in pension expenditure stemming from reform reversals and improved modelling techniques).

Overall, there are notable differences in the impact of ageing across Member States:

- The increase in public spending is likely to be very significant (7 percentage points of GDP or more) in nine EU Member States (Luxembourg, Greece, Slovenia, Cyprus, Malta, the Netherlands, Romania, Spain, and Ireland), although for some countries the large increase will be from a fairly low level.
- For a second group of countries – Belgium, Finland, Czech Republic, Lithuania, Slovakia, the United Kingdom, Germany and Hungary – the cost of ageing is more limited, but still very high (from 4 to 7 percentage points of GDP).
- Finally, the increase is more moderate, 4 percentage points of GDP or less, in Bulgaria, Sweden, Portugal, Austria, France, Denmark, Italy, Latvia, Estonia and Poland. Most of these countries have implemented substantial pension reforms, in several cases also involving a partial switch to private pension schemes (Bulgaria, Estonia, Latvia, Poland, and Sweden).

Demographic trends would push up **public pension expenditure** very significantly in all Member States. However, pension reforms enacted in a number of Member States are bringing positive results in terms of the sustainability of public finances. Almost all Member States have *tightened the eligibility requirements for receiving a public pension*, notably by raising the retirement age and restricting access to early retirement schemes. Typically phased

in over a long period, such reforms would lead to higher participation rates of older workers, which may also result from a stronger link between pension benefits and pension contributions and thus a greater incentive to remain in the labour market. While the employment rates of older workers have been rising in recent years, there is still a lot of room for further progress. Only around 50% of people in the EU are still in employment by the age of 60.

Reforms are also leading to a gradually smaller share of *public pension benefits in overall pension provision*. This will happen through many mechanisms, including changes in the indexation of benefits which, in some countries, cause benefits to rise more slowly than wages. Recent analysis suggests that future relative pensioners' income will decline substantially in a number of Member States⁷. The assessment of sustainability of public finances must take into account the risk of inadequate pensions resulting in unforeseen pressure for ad hoc increases of pensions or higher demand for other benefits, highlighting the need to tackle jointly the issues of pension adequacy and sustainability⁸. There are examples of Member States where future adequacy of pensions has recently been improved without endangering financial sustainability (e.g. in Estonia).

Alongside reforming public pensions systems, many countries have introduced, and are planning to expand, *supplementary pension schemes*. Some have even shifted part of the contribution from public schemes to mandatory funded and privately managed schemes (Bulgaria, Estonia, Latvia, Hungary, Poland, Slovakia and Sweden). At present, these funded schemes are in the build-up phase, but their share in the overall pension package will be significant in the coming decades. Several countries (e.g. Sweden, Denmark, the Netherlands, the UK and Ireland) are already relying to a large extent on private occupational pensions, of which some are planning to boost their role further.

Healthcare systems in the EU are expected to face substantial challenges in the future. Public expenditure on health care is projected to grow by 1½ percentage points of GDP in the EU by 2060. Healthier living can contribute to limiting future spending. Healthcare spending is also strongly related to income growth and technological progress. Newly developed methods for early diagnosis and treatments strongly contribute to growth in spending, but some of the medical progress may well be cost-saving in the long term. Investment in prevention and health technologies offers instruments for the population to stay healthy and productive for longer. Developing treatments for less known pathologies also provides employment and growth opportunities. The effective management of technology is therefore a major determinant of future spending.

An ageing population will also require increased public spending on **long-term care**. Based on current policies, public spending on long-term care is projected to increase by 1¼% of GDP by 2060 due to the fact that the very old (aged 80+) will be the fastest growing age class of the population in the future. Again, demographic factors will not be the only drivers. Currently, care for the frail elderly is provided, to a very large extent, on an informal basis by relatives. Changes in family structures, higher labour force participation of women and increased geographical mobility, could reduce the availability of informal care. For countries whose formal care systems are less developed, the projected increase in public spending on

⁷ COM (2009) 58 final.

⁸ COM (2006) 574 final.

long-term care could underestimate future pressure on public finances, due to the likely need for increased formal care provision.

In terms of public **education** spending, despite the decreasing number of children over the coming decades, current objectives on education policy and targets in the EU, as well as a substantial improvement in the quality of education, may well require higher educational expenditure in the future. Investing in the human capital of young people and adult workforce will be crucial to future productivity growth. Hence, the small decrease in the public education expenditure ratio over the projection period in the projections, which results solely from changes in the demographic composition (fewer children in the future) may not materialize.

3. PREPARING FOR AGEING IN TIMES OF ECONOMIC RECESSION

The current financial and economic crisis has led to an unusually sharp and rapid decline in economic activity and to a global recession. Employment is being severely hit by the current downturn, unemployment rates are rapidly increasing and the EU faces the risk of a decrease in its potential growth, already put at risk by population ageing.

The financial distress and economic downturn are leading to a rapid deterioration of the good progress made by Member States in recent years towards balanced government budgets and reduced debt, as governments have to intervene to stabilise the financial system and to support the recovery. The short-term outlook for public finances has therefore worsened and progress achieved in fiscal consolidation in recent years has been set back.

Moreover, the crisis adds to the economic impact of demographic ageing on pension provision, although the consequences will critically depend on the depth and length of the downturn. For public "pay as you go" pension systems, the slowing of the real economy is bringing additional fiscal pressures on financing and contributions. For funded schemes, the crisis has exposed their vulnerabilities to the decline in financial markets. In defined-benefit schemes, increasing deficits as a result of falls in the value of assets is impacting members of the funds through adjustments to indexation rules or contribution rates, and the closure of such schemes to new members. For people paying into defined contribution pension funds, the impact of the crisis depends critically on the fund's asset allocation and the member's age. Older workers with high equity exposures are the most affected as they are closest to retirement and the value of their assets has fallen.

This highlights the need for policymakers, regulators and supervisors to promote prudent management of people's retirement savings. A careful monitoring and an in-depth and open discussion about pension systems in Europe, and in particular a critical review of the relative role, design and performance of the private pillar will be necessary.

In the current juncture, characterized by very subdued economic activity and highly uncertain prospects, Europe's ability to rapidly emerge from the downturn and address its ageing challenges lies crucially in the articulation between actions taken to support the recovery and longer-term structural reforms. Targeted and well co-ordinated policy responses, as stressed by the European Economic Recovery Plan, are designed to promote "smart" investment, fostering the right skills to promote energy efficiency, clean technologies, and infrastructure and inter-connection that will support efficiency and innovation, ultimately enhancing Europe's growth potential.

Clearly, therefore, the first priority must be to implement the EERP so as to ensure that the financial crisis and recession will not put the EU permanently on a lower growth path in terms of employment and labour productivity, which would also affect its capacity to cope with the consequences of population ageing.

Once out of the crisis, the long-term prospects will also depend on the degree of determination for a swift return to sound public finances, as recommended in the EERP, and the pursuit of reforms required by demographic change which will now be all the more important to build confidence as part of the exit strategy from the crisis. Equally importantly, the structural reform agenda aimed at tackling the demographic challenge needs to be strengthened. This means raising employment rates substantially and, in particular, helping and encouraging the ageing baby-boomers to stay in the labour market rather than retire early, as previous generations have tended to do. Europe's best chance of ensuring that ageing will not be perceived as a threat, but as a historic achievement, lies in not wasting the potential of these baby-boom generations.

The three-pronged strategy to cope with the economic and budgetary challenges posed by ageing populations decided by the Stockholm European Council in 2001, i.e.: (i) reducing debt at a fast pace; (ii) raising employment rates and productivity; and (iii) reforming pension, healthcare and long-term care systems, and the five policy goals identified in October 2006 in the Commission's communication on the demographic future of Europe remain a valid long-term policy strategy⁹.

These goals were to:

- promote demographic renewal in Europe by creating better conditions for families;
 - promote employment in Europe with more jobs and longer working lives of better quality;
 - make Europe more productive and dynamic;
 - receive and integrate migrants in Europe;
 - secure sustainable public finances in Europe, thus guaranteeing adequate social security and equity between the generations.
- **Creating better conditions for families and demographic renewal**

Demographic renewal requires action to develop an overall societal climate receptive of the needs of families, a shift towards a children-friendly society and creating conditions allowing a better work-life balance. In countries where it is difficult to reconcile work and private life, employment rates of women tend to be low, as mothers often drop out of the labour market, and birth rates are low because many people feel that they cannot afford to have children. Policies to promote reconciliation and gender equality, entailing in particular better conditions for parental leave and incentives for fathers to take such leave, and increased provision of high-quality childcare, should remain a priority. Reducing taxes on second earners could also be considered, as they are found to be more responsive to tax reductions as concerns labour market participation. Such policies produce long-term benefits by ensuring that women in particular can remain connected to the labour market.

⁹ COM (2006) 571 final.

However, most Member States still fall short of the targets to ensure access to formal childcare set by the European Council in Barcelona and fail to realise the benefits of early childhood education for the future development of children and for enhancing the opportunities of those from disadvantaged backgrounds. Investing in high-quality childcare and the employability of parents who take career breaks represent investments with huge potential returns. This also provides an incentive to the development of new services and hence the creation of new jobs.

- **More jobs and longer working lives**

Increasing participation and employability. The challenge of ageing for public finances arises from the need to support an increasing number of older people with a shrinking population in employment. There is much room for improvement. Just under two thirds (65.4% in 2007) of the working-age population are actually in employment, several percentage points below the target (70%) set within the Lisbon Strategy for the year 2010. There has been considerable progress to increase participation in the labour market, especially among older workers and women. However, the current recession could particularly hit young people and older workers. The policy priority must be to ensure that young people who fail to enter the labour market will not embark on a life of permanent benefit dependency and that dismissed older workers will be able to return to employment once the labour market situation improves.

Reforms in tax and benefit systems have been undertaken over recent years, largely aimed at improving the labour utilisation. A central part of many recent reform strategies has been to reduce benefit dependency by making work an economically attractive and rewarding option compared with welfare and by encouraging beneficiaries to actively seek work. The reduction of disincentives to work and to hire, especially for the low-skilled, embedded in tax and benefit systems and a greater link with targeted activation policies are all factors that have contributed to the structural improvement in the functioning of labour markets. Yet, despite these improvements, in view of the ageing of the population and rapid technological change, more progress is needed to further increase and maintain high levels of employment and participation rates, especially among female and older workers, and to reduce structural unemployment.

Raising the employment rates of older workers. Reforming disability and early retirement schemes and increasing effective retirement ages remain a priority in order to increase the labour supply of older persons and to contribute to sustainable economic growth in the face of adverse demographic developments. This also helps ensure that retirement behaviour takes due account of future increases in life expectancy. The baby-boom generation (now in their 50s and early 60s) represents a major share of Europe's labour force. Encouraging them to remain active requires removal of employment obstacles, such as mandatory retirement ages, and introduction of flexible retirement mechanisms allowing them to choose when to retire and to earn additional pension entitlements. Part-time employment opportunities can be a good way of achieving adequate incomes for older people and increasing the labour supply.

Beyond incentives embedded in pension, tax and benefit systems¹⁰, the reform strategies must include changing attitudes to older workers and developing their skills and employability through effective lifelong learning. Suitable working conditions are needed, including more

¹⁰ See COM(2007) 733 final and 'Employment in Europe 2007'.

flexible working-time and work-organisation, together with employment opportunities for an ageing workforce. Such measures should help raise both the employment rate and the quality of life of older people.

A healthier elderly population. A population in better health will be able to work longer as it grows older, allowing higher productivity and labour participation, and will need less healthcare, ultimately resulting in decreased pressure on public finances. Increasing the healthy life expectancy will be a crucial factor in achieving the Lisbon strategy objective of attracting more people into employment and retaining them on the labour market. At the same time, ageing societies represent an opportunity for rapid job creation in health and social services and will require activation and training measures.

- **A more productive and dynamic Europe**

Within a decade from now, labour productivity, which depends largely on high levels of educational attainment, will become the main determinant of future economic growth. However, 13% of women and 17% of men aged 18-24 attain only a lower secondary education qualification or less and are defined as early school-leavers. This represents a modest improvement compared to the beginning of this decade, but remains far off the target set for 2010, namely to bring this proportion down to 10% at most. A high level of educational attainment is associated with higher labour force participation and is a precondition for lifelong learning and hence the ability of older workers to remain on the labour market. Future productivity growth also depends on technological progress, which in turn depend both on universities producing graduates capable of engaging in research and on investing in research and development. It also depends on a swift adoption of new technologies by firms and policies to improve Europe's R&D and innovation systems.

Societies in which people live longer offer opportunities for developing new products and services. The growth possibilities in these future markets are large and, as living longer is not a phenomenon confined to Europe, the solutions, products and services developed can be exported to third countries, opening new markets there.¹¹ In addition, research and development needs to be geared towards developing more cost-effective medical treatment and prevention strategies. It should be combined with stronger incentives for a rational use of resources that can significantly reduce spending.

Europe's changing demographic composition can also present an opportunity for the development of products and services geared to the needs of older people. New technologies can be developed to allow older people to stay autonomous and live longer in their own homes, to transform the delivery of care, *inter alia* personalizing services in response to patients' unique needs and preferences.¹² Investment in education, research and development will yield potentially large returns in the future and should not be reduced during the crisis. Investment in modernising transport infrastructure, which can help sustain demand during the crisis, will also be required to facilitate access for all, while strengthening passenger rights with reduced mobility.

¹¹ Regional initiatives, such as the Silver Economy Network of European Regions (with 11 European regions) already work together to promote the development and marketing of innovative products and services aimed at older consumers. See Sen@er webpage http://www.silvereconomy-europe.org/network/about_en.htm

¹² COM (2007) 332 final and COM(2007) 329 final.

- **Receiving and integrating migrants**

Immigration from third countries has boosted growth in several Member States. Even though the crisis will shrink labour opportunities and attenuate labour and skills shortages in the short-term, a well organised legal immigration policy will have a role to play in filling labour shortages in a longer-term perspective. However, integration remains a major challenge and also requires dealing with issues of social cohesion. Migrants and their descendants have often lower levels of educational attainment or face difficulties in making full use of their skills. They are thus more likely to be unemployed and more exposed to the risk of poverty. Although European labour markets are being placed under strain as a result of the crisis, worsening social conditions in their countries of origin could still result in the continued inflow of migrants into the EU, who may face more difficulties in finding a job. In this context, integration of migrants and their descendants could become an even greater challenge to be addressed also at EU level¹³

- **Ensuring sustainable public finances**

According to the latest projections, the increase in public expenditure is likely to be very significant for several Member States (although in some cases it will be from a fairly low level of public spending). For those Member States in which the impact on public finances is the highest, there will be a need to carry out reforms of social systems, notably in the field of pensions but also in other programmes, mainly health care, to curb the long-term spending trend.

There is considerable scope for making healthcare and long-term care systems more efficient. Better value for money in health care and reduced health inequalities can be achieved by strengthening primary care, prevention and health promotion and through better coordination and rational use of resources. However, in some countries, the health sector remains under-resourced¹⁴

The recession must, therefore, not lead to an interruption of the reforms of pension, healthcare and long-term care systems or for reducing essential investment in education and research. In fact, decisions on reforms are now more urgent than ever. These measures are crucial to Europe's future economic strength.

4. DEALING WITH THE CHALLENGES

Action is required across a number of policy areas. Coordination at European level can facilitate the exchange of best practices, develop synergies and reduce negative spillovers. Moreover, the public finance dimension is addressed through the rules-based framework of the Stability and Growth Pact. The challenges of ageing should be tackled by building on the policy frameworks put in place over the last few years, in particular the Lisbon strategy, which provides the overall framework for action.

The European Commission's contribution to tackling the challenges would encompass the following:

¹³ The recently created European Forum for Integration and the associated dedicated website (<http://www.integration.eu>) will provide useful tools in this respect.

¹⁴ COM (2009) 58 final.

- *Deepening and broadening surveillance beyond fiscal policy in order to help better integrate structural reform in overall policy co-ordination.*¹⁵ At the current juncture, this includes the monitoring and assessment of the implementation of national recovery plans in the context of the Stability and Growth Pact. Particular attention will also be paid to enhancing the quality of public finances. Reforms of social expenditure programmes that offer better income protection while strengthening incentives to work – the flexicurity approach – would also greatly help enhance the sustainability and quality of public finances while ensuring that budgets support macroeconomic stability.
- In the fields of *pensions, health care and long-term care*, the Commission will continue to support Member States in their effort to improve the efficiency and effectiveness of social spending, and will continue monitoring the social, economic and budgetary consequences of an ageing population within the context of the Lisbon strategy and the EU's fiscal framework under the Stability and Growth Pact and the open method of coordination (OMC) on Social Protection and Social Inclusion. In the field of *funded pensions*, the Commission intends to work with the Council and the Member States to identify lessons for scheme design, regulatory frameworks regarding insolvency protection, and target beneficiaries in order to secure adequate and sustainable private pension provision in Member States. In order to limit the expected increase in public expenditure, policy measures which can either reduce disability, limit the need for formal care amongst elderly citizens with disabilities, favour formal care provision at home rather than in institutions or, more generally, improve the cost-effectiveness of long-term care provision, e.g. through introduction of eHealth and telecare, must be developed.
- In the fields of *financial services and taxation*, the Commission will swiftly introduce the measures outlined in its Communication to the European Council¹⁶. Restoring the proper functioning of financial markets is key not only to ensure they effectively play their role in supporting growth and jobs, but also in protecting financial assets of today and tomorrow, including supplementary pensions schemes and supplementary health insurance.
- In the fields of *education, training and R&D*, the Commission will continue to work with Member States on enhancing the assessment of future skill needs and skill matching at EU level and assessing the efficiency of higher education. It will promote the development of efficient and equitable education and training systems, with a view to boosting productivity in the context of the renewed Lisbon strategy.

To conclude, governments currently grappling with a severe economic and financial crisis will also continue to face an expensive demographic transition. Success in tackling Europe's demographic challenge continues to depend on a thriving, dynamic economy with rising productivity and efficiently functioning markets. The way forward in the current difficult economic situation therefore consists first of all in taking all the necessary steps to ensure a speedy recovery from the recession as outlined in the EERP and in implementing a credible exit strategy when the recovery starts. In addition, it is crucial for Member States to invest in boosting their longer-term growth potential, as outlined in the Lisbon strategy, for tackling the consequences of demographic change.

¹⁵ COM 2008) 238 final.

¹⁶ COM(2009) 114 final.

There is therefore a strong need to put in place all necessary policies to make sure that the EU will emerge from the financial and economic crisis with a solid growth potential and ability to make full use of its human resources. For this to happen, it will be essential to implement a comprehensive exit strategy built on structural reforms. Notably this will involve prolonging working life and increasing participation of youth, women and older workers, reforming tax and benefit systems to make work pay along the flexicurity principle, reforming pension systems and making health and long-term care systems more efficient, alongside the necessary investment in education and research, as well as in child care. The effective integration of migrants and their descendants is also important in this context, as is the further development of a properly managed policy of legal immigration to meet future labour needs. A strong emphasis on these policies at the present juncture will help Europe to both emerge more resiliently from the current recession and to address the challenges of an ageing society.

By pursuing vigorously the reform agenda, by investing massively in the quality of human resources and by removing barriers to the full use of its labour force, the EU can emerge stronger from the current economic crisis. This should therefore be seen as a time for social innovation inspired by the successful experiences and reform processes already in evidence across the Member States. Arguing strongly for reform is not just an economic agenda. It is an agenda that will promote good health, good education and good quality of life for current and future generations. It is an agenda that will allow Europe to look to the future with confidence.

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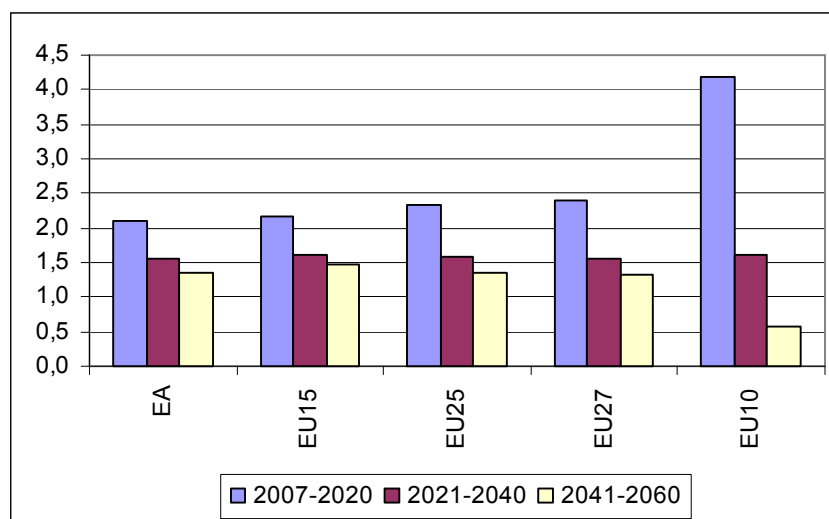
Statistical annex

Table 1: Long-term labour market developments

	Employment rate (15-64)				Employment rate (55-64)				Participation rate (15-64)				Participation rate (55-64)				Unemployment rate (15-64)			
	2007	2020	2060	p.p. change 07-60	2007	2020	2060	p.p. change 07-60	2007	2020	2060	p.p. change 07-60	2007	2020	2060	p.p. change 07-60	2007	2020	2060	p.p. change 07-60
EU27	65.5	69.0	69.9	4.4	44.9	54.5	60.0	15.1	70.6	73.2	74.1	3.5	47.5	56.9	62.5	15.1	7.2	5.7	5.7	-1.5
EA	65.5	69.5	70.1	4.6	42.6	54.8	60.3	17.7	70.8	73.8	74.4	3.6	45.3	57.5	63.0	17.7	7.6	5.9	5.8	-1.7

Source: '2009 Ageing Report: economic and budgetary projections for the EU-27 Member States (2008-2060)', European Economy, (forthcoming).

Graph 1: Projected potential growth rates (annual average growth rates), EU aggregates



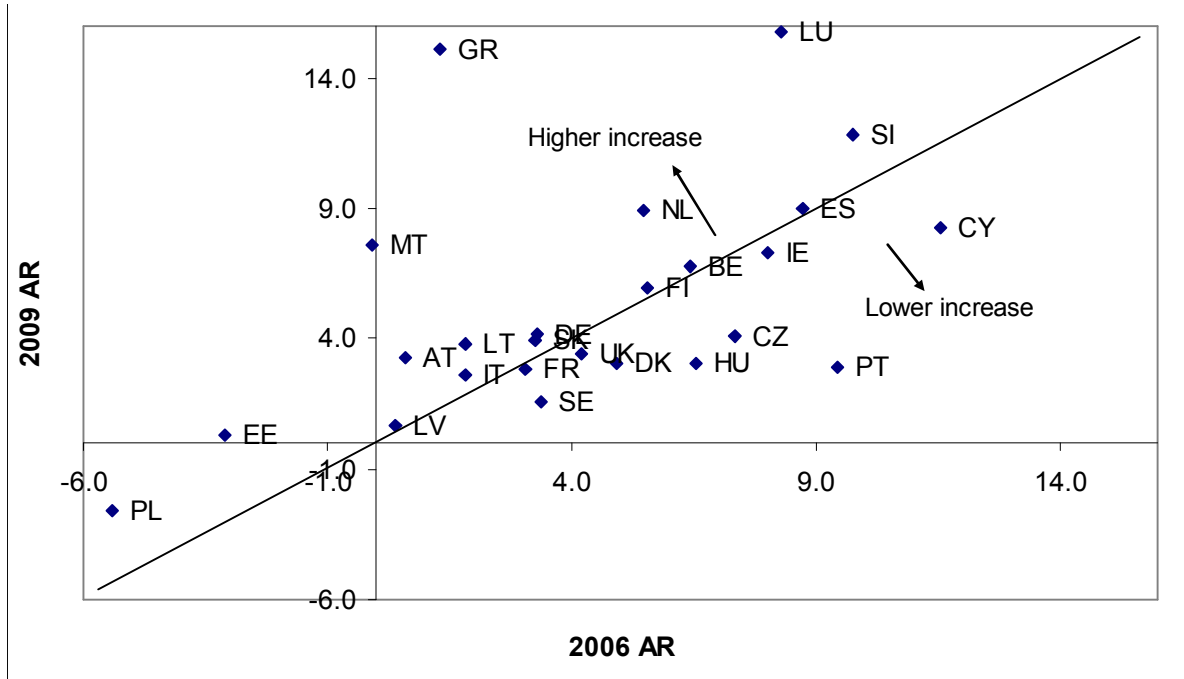
Source: '2009 Ageing Report: economic and budgetary projections for the EU-27 Member States (2008-2060)', European Economy, (forthcoming).

Table 2 - Age-related government expenditure, 2007-2060, percentage point change of GDP

	Pensions		Health care		Long-term care		Unemployment benefits		Education		Total		
	Level	Change	Level	Change	Level	Change	Level	Change	Level	Change	Level	Change	
	2007	2060	2007	2060	2007	2060	2007	2060	2007	2060	2007	2060	
BE	10.0	4.8	7.6	1.2	1.5	1.4	1.9	-0.4	5.5	0.0	26.5	6.9	BE
BG	8.3	3.0	4.7	0.7	0.2	0.2	0.1	0.0	3.3	-0.2	16.6	3.7	BG
CZ	7.8	3.3	6.2	2.2	0.2	0.4	0.1	0.0	3.5	-0.3	17.9	5.5	CZ
DK	9.1	0.1	5.9	1.0	1.7	1.5	1.0	-0.2	7.1	0.2	24.8	2.6	DK
DE	10.4	2.3	7.4	1.8	0.9	1.4	0.9	-0.3	3.9	-0.4	23.6	4.8	DE
EE	5.6	-0.7	4.9	1.2	0.1	0.1	0.1	0.0	3.7	-0.2	14.3	0.4	EE
IE	5.2	6.1	5.8	1.8	0.8	1.3	0.8	0.1	4.5	-0.3	17.2	8.9	IE
GR	11.7	12.4	5.0	1.4	1.4	2.2	0.3	-0.1	3.7	0.0	22.1	15.9	GR
ES	8.4	6.7	5.5	1.6	0.5	0.9	1.3	-0.4	3.5	0.1	19.3	9.0	ES
FR	13.0	1.0	8.1	1.2	1.4	0.8	1.2	-0.3	4.7	0.0	28.4	2.7	FR
IT	14.0	-0.4	5.9	1.1	1.7	1.3	0.4	0.0	4.1	-0.3	26.0	1.6	IT
CY	6.3	11.4	2.7	0.6	0.0	0.0	0.3	-0.1	6.1	-1.2	15.4	10.8	CY
LV	5.4	-0.4	3.5	0.6	0.4	0.5	0.2	0.0	3.7	-0.3	13.2	0.4	LV
LT	6.8	4.6	4.5	1.1	0.5	0.6	0.1	0.0	4.0	-0.9	15.8	5.4	LT
LU	8.7	15.2	5.8	1.2	1.4	2.0	0.4	0.0	3.8	-0.5	20.0	18.0	LU
HU	10.9	3.0	5.8	1.3	0.3	0.4	0.3	-0.1	4.4	-0.4	21.6	4.1	HU
MT	7.2	6.2	4.7	3.3	1.0	1.6	0.4	0.0	5.0	-1.0	18.2	10.2	MT
NL	6.6	4.0	4.8	1.0	3.4	4.7	1.1	-0.1	4.6	-0.2	20.5	9.4	NL
AT	12.8	0.9	6.5	1.5	1.3	1.2	0.7	0.0	4.8	-0.5	26.0	3.1	AT
PL	11.6	-2.8	4.0	1.0	0.4	0.7	0.1	-0.1	4.4	-1.2	20.5	-2.4	PL
PT	11.4	2.1	7.2	1.9	0.1	0.1	1.2	-0.4	4.6	-0.3	24.5	3.4	PT
RO	6.6	9.2	3.5	1.4	0.0	0.0	0.2	0.0	2.8	-0.5	13.1	10.1	RO
SI	9.9	8.8	6.6	1.9	1.1	1.8	0.2	0.0	5.1	0.4	22.9	12.8	SI
SK	6.8	3.4	5.0	2.3	0.2	0.4	0.1	-0.1	3.1	-0.8	15.2	5.2	SK
FI	10.0	3.3	5.5	1.0	1.8	2.6	1.2	-0.2	5.7	-0.3	24.2	6.3	FI
SE	9.5	-0.1	7.2	0.8	3.5	2.3	0.9	-0.1	6.0	-0.3	27.2	2.6	SE
UK	6.6	2.7	7.5	1.9	0.8	0.5	0.2	0.0	3.8	-0.1	18.9	5.1	UK
EA	11.1	2.8	6.7	1.4	1.3	1.4	1.0	-0.2	4.2	-0.2	24.3	5.2	EA
EU27	10.2	2.4	6.7	1.5	1.2	1.1	0.8	-0.2	4.3	-0.2	23.1	4.7	EU27
EU15	10.2	2.4	6.9	1.5	1.3	1.2	0.8	-0.2	4.3	-0.1	23.5	4.8	EU15
EU10	9.7	1.0	4.9	1.4	0.4	0.6	0.2	0.0	4.2	-0.8	19.2	2.1	EU10
EU25	10.2	2.3	6.8	1.5	1.2	1.2	0.8	-0.2	4.3	-0.2	23.3	4.7	EU25

Source: '2009 Ageing Report: economic and budgetary projections for the EU-27 Member States (2008-2060)', European Economy, (forthcoming).

Graph 2 - The Cost of Ageing in '09 and '06 compared, p.p. of GDP, 2007-50



Source: '2009 Ageing Report: economic and budgetary projections for the EU-27 Member States (2008-2060)', European Economy, (forthcoming).