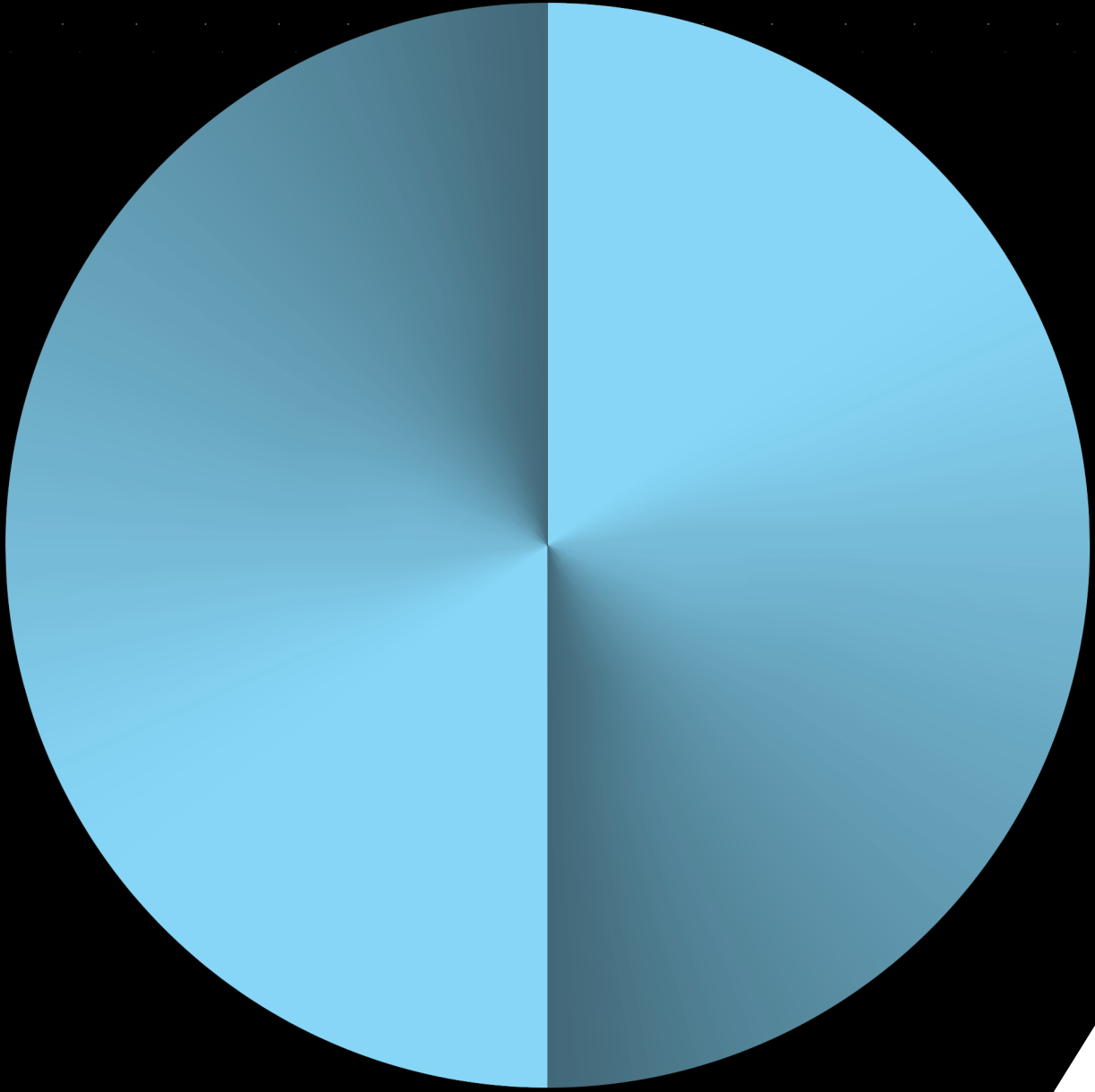


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PREVENTING AGEING UNEQUALLY - ACTION PLAN

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1. Preventing Ageing Unequally¹ – why policy makers should care

1. In a context of sluggish growth and widening inequalities – in the distribution of income and social outcomes that matter for people’s well-being – policy makers in advanced and emerging economies are seeking to design comprehensive, coherent and effective policy packages to foster inclusive growth. Ageing unequally bears a cost on future economic growth, particularly where inequality of opportunity locks in privilege and exclusion, undermining intergenerational social mobility and jeopardising social cohesion.

2. Inequalities are now at the centre of the international policy agenda. Recent OECD work (OECD (2016a, 2015a, 2011a) documented the increase in earnings inequality, the rising share of non-standard work, labour market difficulties encountered by youth, and high unemployment in some countries over past decades. The *Preventing Ageing Unequally* Project is part of a broader policy agenda of the OECD to put people’s wellbeing at the centre stage of policy making. In 2011, The OECD *Better Life Initiative* has led to a better understanding of what drives well-being of people and nations. With the *All on Board for Inclusive Growth* initiative launched in 2012, the OECD has developed a comprehensive framework to help countries design and implement comprehensive, multisectoral policies that can deliver stronger growth and greater inclusiveness.

3. Inequalities of outcomes and opportunities have a clear generational dimension. Younger generations are living in a very different world from the one previous generations experienced. Baby boomers, i.e. those born after World War II and until the early 1960s, benefited from a period of sustained economic growth, major health and social improvements and growing employment rates. But income gains seen over past generations have slowed down or even stalled in many countries. Members of ‘Generation X’, the people now aged 35-50, can no longer assume to be richer in old age than their parents. The ‘Millennial Generation’, which reached adulthood after 2000, has been particularly hard hit by the Great Recession and its aftermath, dimming their prospects for more stable careers (OECD, 2016b). Furthermore, digitalisation and automation – while potentially at the origin of substantial improvements in standards of living, including among the elderly thanks e.g. to technological progress in the health sector - are profoundly transforming the world of work, challenging the job prospect of many workers and requiring them to adapt to a rapidly changing environment. For many, a “job for life” or even a “career for life” are no longer realistic scenarios. While life expectancy continues to rise, new health risks have also emerged, such as the threat posed by rising obesity, modifying the way populations age.

¹ This Action Plan draws on work developed in the Horizontal Project *Generation Next: How to Prevent Ageing Unequally* (PAU), which builds on work on demographic ageing, employment and health carried out by the Employment, Labour and Social Affairs Committee (ELSAC) and the Health Committee since the mid-90s. It responds to ELSAC’s interest in further analysing the effects of and policy strategies to cope with population ageing and to the mandate given to the OECD by Social Policy Ministers at their meeting in 2011.

4. The future elderly population will thus experience old age in much more varied ways: most will live longer but some will have accumulated periods of inactivity and low pay while others will have experienced stable and rewarding careers. Some will be in relatively good health until old age while others will still experience health problems at an early age with risks for their employment and earnings. These growing disparities in labour market conditions will likely result in higher pensioner poverty in the future. Moreover, the fiscal pressure exerted in part by population ageing has already motivated reforms reducing pension promises. Financing retirement and caring for elderly people might become more difficult, aggravating the burden for the most disadvantaged elderly. Therefore, the sustained and broadly shared improvement in the living standards of elderly people seen over past decades may not continue in the future.

5. Preventing ageing unequally requires a comprehensive policy approach to help individuals overcome disadvantages that could cumulate over their life course and result in low income and poverty at old age (see Section 2 and Box 1 for a summary). Policies to prevent inequalities from rising over the life course will need to take account of the new realities people are facing today in their families, in their workplace, in their careers and in their health and disability risks. As OECD analysis shows, education, health and employment experiences interact and compound inequality. This also means that inequality-reducing policies in one area will spill-over into other areas and thus generate greater total returns in terms of welfare than when the impacts are only considered in the area of the policy intervention.

Box 1. Key elements of the Action Plan to Prevent Ageing Unequally

Prevent inequality before it cumulates over time

- **Place early-life interventions at the top of the policy agenda:** start social protection measures at early ages, especially for children from disadvantaged background; ensure a good quality of childcare services and early childhood education; reduce school failure; improve low performing disadvantaged schools; fight early school leaving; and combat gender stereotyping early at school.
- **Promote a good start in working life:** ensure a smooth school-to-work transition by providing sufficient orientation, especially to youth who cannot draw on social support networks and strengthening vocational education; and, design effective labour market policies to connect the NEETs (youth not in employment, education or training) with jobs.
- **Break the links between socioeconomic disadvantages and health status:** develop a multipronged strategy that addresses the wide range of social determinants of health inequalities; and, expand health spending allocated to prevention targeted at key risk factors and population groups.

Mitigate entrenched inequalities

- **Promote healthy ageing by developing multisectoral active ageing strategy and through equal access to health care:** remove financial obstacles; better coordinate health care across various disciplines towards a patient-centred approach; further develop physician specialisation in geriatric care; and improve health literacy.
- **Limit the impact of job losses and combat long-term unemployment:** strengthen policies to assist displaced workers; make counselling, skills audits and job-search assistance ready early on after job losses or even during notice periods; and, include a retraining offer to fill specific skills gaps.
- **Provide equal opportunities for workers to upgrade their skills:** improve access to lifelong learning, especially for the low skilled and including older workers; and better recognise skills acquired throughout working lives.
- **Enhance job quality for older workers:** improve regulations on working-time and safety at work; promote

healthy working conditions; implement well-designed sickness schemes; and improve the role of labour inspection bodies and occupational health care services.

- **Remove barriers to retain and hire older workers:** ensure a better match between the labour cost and the productivity of older workers; and, eliminate special employment protection and unemployment benefit rules for older workers.

Cope with inequality at older ages

- **Consider socioeconomic differences in life expectancy in the design of pension systems.** These differences are often ignored but can have a large impact on how pension systems redistribute income between different groups; such inequalities can be addressed through first-tier pensions, benefit and/or contribution rules.
- **Target adequate levels of retirement income through a combination of old-age safety nets, mandatory pensions, annuities in private schemes and pension credits.**
- **Increase pension coverage,** especially for the self-employed and those with non-standard employment, and more generally in emerging economies, including through improved financial literacy.
- **Design survivors pensions carefully** to protect widow(er)s effectively while limiting inefficient forms of redistribution and work disincentives.
- **Move towards a unified pension framework for all workers.**
- **Reduce inequalities in long-term care by making home care affordable for all.**
- **Reduce inequalities in caring through better support to informal carers.**

6. The key results from the analytical part of the report are the following.

Faster population ageing and large socioeconomic inequalities in health at older ages

7. Population ageing will accelerate sharply in the next three decades, including in some emerging economies such as Brazil and China. But there are large differences both within and across countries. Health has improved over time, but health inequalities across socioeconomic groups are striking, fuelling unequal ageing.

- Living a very long life will become the norm. The probability of surviving to age 85 will increase from 50% today to 75% by 2100 for males (born today), and from 64% to 83% for females.
- At age 65, men with high education can expect to live about 3½ years longer than low-educated men; for women, the gap is 2½ years on average in OECD countries.
- Lower educated individuals are more likely to have a disability, due to lower incomes, worse working and living conditions, behavioural risk factors and less access to appropriate health care.
- Large inequalities are also observed in access to services, in particular health care, with strong regional variations within countries. Access to social protection is significantly more difficult in rural areas than in urban areas in most emerging economies.

- Health care is still limited in scope and effectiveness in most emerging economies, premature deaths are more common, reported disability is higher and a lack of insurance and financial constraints result in worse health, especially among older people.

Increasing inequality from one generation to the next

8. Inequalities start early and build up from childhood to old age at key moments of the life. Disadvantages reinforce each other in different dimensions, such as education, health, employment and earnings, and compound over the life course. Across generations, labour market conditions have changed, medical research has advanced, and social policies have been reformed.

- Income inequality among people aged 65+ today, as measured by the Gini index, varies from about 0.20 in the Slovak Republic, the Czech Republic, Denmark and Norway to more than 0.40 in Israel, the United States, Korea, Chile and Mexico.
- In most countries, people's average incomes are still higher than those of previous generations at the same age. But those born in the 1960s, who are aged 50-54 today, do not have higher real incomes than those born 10 years earlier.
- Employment at the same ages increased sharply between cohorts born in the 1930s and in the 1950s, especially for the 55+ age group. But it has fallen slightly for those born after 1960, and at a faster pace for those born in the 1980s.
- Since the mid-1980s, the real income of the 60-64 age group has grown by a cumulative 13% more than the income of people aged 30-34, on average across countries.
- Poverty risks have shifted from older to younger groups in most OECD countries. However, those older than 75 remain the most vulnerable to poverty risks on average.
- Income inequality has been rising from one generation to the next at the same age in two-thirds of countries. The increase has been particularly large for younger groups among whom inequality is now already much higher than among today's elderly.

Compounding inequality across various dimensions

9. Inequalities in health affect inequalities in labour market outcomes and interact with education.
- Early-life health and socioeconomic conditions have long-lasting effects.
 - An education-gradient is apparent for all forms of disabilities and for both men and women.
 - At all ages, men and women in bad health work less and earn less when they work, with the health-wage gap widening with age.
 - Over the whole career, bad health reduces lifetime earnings by 33% and 17% for men with low and high levels of education, respectively, with smaller effects for women. This is largely due to higher risk of job loss for people in bad health.
 - Low-educated people are more likely to retire when they reach the retirement age. Poor health is an important factor pushing older workers into early retirement but it cannot fully explain the sharp decline of employment rates from age 55.

Transmission of inequalities to old-age pensions

10. Inequality in old age is closely related to the structure of pension systems. Low first-tier pension benefits and pension entitlements which replicate inequalities in lifetime earnings play an important role for old-age inequality, adding to the effects of socio-economic differences in life expectancy.

- Entering the labour market late and being unemployed during long periods substantially reduces pensions in several countries; younger generations, in particular those exposed to the economic crisis, will thus find it harder to earn sufficient pension entitlements in the countries concerned.
- On average across countries, on top of any income from private savings accumulated during the working life, about two-thirds of lifetime earnings inequality is transmitted (changes in Gini) to old-age pensions. The extent of the transmission varies from less than 25% for many Anglo-Saxon countries to more than 85% in about one-third of OECD countries.
- Differences in life expectancy mean that lower-educated retirees receive total pension payments which are 12% lower than those of high educated pensioners, on average across countries, due to their shorter retirement period.
- As low-income workers tend to have a shorter life expectancy, raising the retirement age affects them proportionally more than higher-income workers, but the impact is quantitatively small.
- Adjusting the initial level of first-tier pensions to prices, which is the practice in most countries, increases the risk of old-age poverty.
- Many emerging economies suffer from low pension coverage rates.

Impact of dependency in old age felt more acutely by low socioeconomic groups

11. Long-term care needs and differences in access to care services risk exacerbating inequalities that start earlier in life among the elderly.

- People with lower socioeconomic status are more likely to develop disabilities and need long-term care and are also less able to afford its costs.
- Although social protection systems provide more support to people with lower levels of income, formal home care services remain unaffordable for low-income people in several countries.
- High “out-of-pocket” costs may create an incentive for low-income people to go into institutional care. With severe needs, even those with low incomes generally access institutional care.
- In countries with higher levels of social protection for long-term care services, rates of informal care are lower, and gender inequality in caring is smaller.

Remaining large inequalities across genders

12. The social and economic roles and behaviour of men and women have changed enormously across generations. However, there remain significant legal impediments to women’s economic opportunities in most countries in the world (World Bank, 2016). While gender gaps have been narrowing on many counts, inequalities remain substantial.

- The gender employment gap has fallen, initially through a sharp increase in female employment among generations born between the 1930s and the 1960s, and then through a decline in male employment for the cohorts born from the 1950s.
- Women bear most of the costs of providing childcare and informal long-term care.
- Old-age poverty is much higher among women than among men, especially among people aged 75 and over.
- The share of people living alone after age 80 has increased in most countries, due to better health, improved financial conditions, and less co-residence of generations. Women above 80 are at least twice as likely to live alone as men. Living alone is associated with higher poverty risks.

2. Policy implications: preventing, mitigating, coping

2.1. Preventing inequality before it cumulates over time

Early-life interventions should be at the top of the policy agenda

13. Childhood circumstances affect education and later life health, as well as future labour market experiences and career progression. For example, effects from adverse health events early in life on health at older ages can be indirect, e.g. channelled through lower educational achievement and restricted life opportunities, or remain latent for a long period. Education heavily influences labour market outcomes, and fighting against academic failure requires spending more at early ages, especially for disadvantaged children. In contrast, corrective measures at later stages have to overcome what may be more deeply entrenched problems (Heckman and Carneiro, 2003) and can produce benefits only over a shorter remaining period of life. Likewise, pension arrangements can correct some but not all of the inequality among the retirees that results from employment and earnings inequalities. Thus, substantial savings of public expenditure could be made if income, wealth, education and health inequalities were picked up earlier and addressed at younger ages.

14. Policies to support children's educational, health and material well-being must start in early childhood and be sustained throughout childhood (OECD, 2009 and 2011b). The pay-offs from investing early in children are enormous: United States research suggests that each dollar invested in high quality programs before the age of 5 years yields an annual return of 13% at age 65 (Garcia et al., 2016), and that these benefits are especially large for children from a disadvantaged background. The OECD Programme for International Student Assessment (PISA) data show that 15-year old students who attended pre-primary education for at least one year are likely to have higher maths scores than those who did not, the gap being equivalent to almost one year of formal schooling after accounting for students' socio-economic status (OECD, 2013a).

15. Preventing child income poverty and material deprivation is a priority. Beyond their obvious negative impact on children's well-being, they generate malnutrition and bad health, which in turn affect later life outcomes. Health effects can be large but may remain latent for a long period, and deprivation during childhood has long-term consequences for health during adulthood. Constraints on poor people and their children should be alleviated through safety nets, in particular by using child benefits targeted at low-income households.

16. Quality childcare services and early childhood education are crucial for all children, but particularly important for children from disadvantaged socioeconomic backgrounds (OECD, 2013b). In school age, a range of policies can help reduce school failure and prevent social circumstances from

standing in the way of achieving educational potential (OECD, 2012a): eliminating grade repetition (by addressing learning gaps during the school year and through automatic promotion but with targeted support); avoiding early tracking and defer student selection to upper secondary; managing school choice to avoid segregation; making funding strategies responsive to students' and schools' needs; and designing equivalent upper-secondary education pathways to ensure completion.

17. Disadvantage is also related to children's learning environment. Policy priorities to improve low performing disadvantaged schools include (OECD, 2012a): strengthening and supporting school leadership; stimulating a supportive school climate and environment for learning; attracting, supporting and retaining high quality teachers; ensuring effective classroom learning strategies; and linking schools with parents and communities. In emerging economies, conditional cash transfers have also been successful in promoting school attendance of children from disadvantaged groups (OECD, 2015a).

18. Fighting early school leaving is key to prevent youth from dropping out of the system and causing long-term difficulties in the labour market. Policy measures to address this challenge include: systematic monitoring of school attendance; comprehensive support for at-risk students and their families; after-school programmes; and flexible schooling environments (OECD, 2016b). For not academically-minded – or school-tired – youth, practical training pathways may be more suitable, because back-to-the-classroom strategies often prove ineffective for this group.

19. Mental health and substance abuse are often root causes of school dropout. A significant proportion of young people in OECD countries report feeling stressed on a regular basis (OECD, 2013b), and conditions like eating disorders, anxieties or depression are on the rise, especially among young women (OECD, 2012b). These youth need expert help and OECD countries should address this problem through education and health care systems.

20. Significant gender disparities and biases remain in the OECD in educational and occupational choices, feeding into gender gaps in employment (OECD, 2017). Outside the OECD, educational opportunities for girls and young women frequently remain constrained by attitudes, social institutions, and the absence of infrastructure supporting girls. OECD (2017) emphasises the urgency to change gender stereotypical patterns in education as otherwise these will continue to affect life choices of future generations for years to come.

Ensuring a smooth school-to-work transition

21. Moving from education to the labour market is a crucial turning point in people's life-cycles. Without sufficient orientation, youth, especially students who cannot draw on their parents and social support networks for advice, can get lost in the system. Measures to help students in choosing their field of study and later with their school-to-work transition are therefore key to increase the likelihood of stable employment and earnings progression (OECD (2010a); OECD (2016b).

22. Young people often start their working lives in non-standard work arrangements. The education system should equip young people with the skills the labour market needs. More broadly, policies should aim to ensure that short-term entry jobs serve as stepping stones to more stable jobs. Apprenticeships combining on-the-job training and classroom learning can help (OECD, 2010a): the involvement of social partners contributes to ensuring that training meets employers' needs, while apprentices gain initial work experience and form relationships with employers. Apprenticeship and other high-quality vocational education and training programmes are proven to facilitate successful school-to-work transitions. (OECD, 2010a).

23. Early intervention to youth unemployed and NEET more broadly is crucial. Non-employed young people are often not in contact with Public Employment Services (PES) because without a sufficient contribution period they are often not entitled to out-of-work benefits. As a result, they are often excluded from training or job-search support programmes, which puts them at risk of becoming long-term inactive. NEET rates are often particularly high among young women because of care-giving responsibilities for children. Being able to access affordable childcare and child-friendly employment arrangements are therefore crucial for greater labour market participation among young mothers (OECD, 2016b).

Breaking the links between socioeconomic disadvantage and health status

24. Health policies play a particularly important role in preventing ageing unequally. Gaps in health and life expectancy between different socioeconomic groups is perhaps the most shocking and, for many, the most unacceptable manifestation of disadvantage. As this report shows, health problems influence employment experiences and therefore can exacerbate inequalities. Improving the health of the most disadvantaged over the life course should thus be a priority.

25. Many factors affect health inequalities, including a broad range of social determinants of health (such as living and working conditions) and some related to access to good-quality health care. Early childhood development, education, employment conditions, income, stress related to socio-economic status and lifestyle (e.g. smoking, drug use, alcohol abuse, physical inactivity, poor diet, obesity), all contribute to disparities in health status. In addition, health literacy is often lower among poorer and less-educated groups: people may not understand that they have a health problem, may not use prevention offers, such as screening campaigns, and may not fully benefit from therapy due to lower adherence to medications or poorer self-management in early stages of chronic diseases. Reducing health inequalities therefore requires a multipronged strategy that addresses the wide range of social determinants, including those falling outside the responsibilities of health ministries and those ensuring equitable access to care for poor people and other disadvantaged groups.

26. As in other policy areas, it is important to start early to prevent lasting and growing health disadvantage. Direct early-childhood health interventions to improve physical and cognitive developments can help sever the transmission from low socioeconomic status (SES) parents to poor health as a child to low SES as an adult (Canning and Bowser, 2010). Deaton (2013) also focuses on early-childhood health nutrition and disease prevention, and on moderating the effects of parental deprivation on child outcomes.

27. Recent OECD work has shown that well-designed prevention policies are generally effective to improve health, even though some measures may take time to produce their effects and become cost-effective (OECD, 2015b). The share of health spending allocated to prevention is only around 3% on average in OECD countries and should be expanded by targeting key risk factors and population groups (Devaux and Sassi, 2015). The best prevention policies are multi-intervention strategies that include a mix of public awareness campaigns, regulations (e.g. regulations of advertisements and sales of unhealthy products), taxation and counselling by general practitioners.

28. Prevention can reduce health inequalities. People in lower socioeconomic groups are more likely to smoke, to be heavy alcohol drinkers (particularly men) and to be obese, all important risk factors for many diseases and causes of death. They could therefore benefit more from prevention policy aiming to tackle harmful alcohol consumption (OECD, 2015b) and obesity (Sassi et al., 2009). These prevention policies might not only improve the health of vulnerable population groups, but also reduce sick leave and disability benefit claims, and help people remain in the labour market (Devaux et Sassi, 2015).

29. Broad health promotion campaigns, however, often fail to reach the most disadvantaged socio-economic groups. Inequalities exist even when screening services are provided free of charge: people with

low level of education or income are less likely to take part in screening programmes for cancers and other health problems. This means that there are other non-financial barriers such as lack of awareness of potential benefits, waiting time and distance to travel that also need to be addressed to promote a more equal use of preventive and early diagnosis services (Devaux and de Looper, 2012).

30. By contrast, fiscal measures, such as taxes on certain products or substances which are identified as being unhealthy, have been found to be the only intervention producing consistently larger health gains among poorer groups than other groups due to a greater response to price changes (OECD, 2010b). Fiscal policies to curb behaviours related to smoking or alcohol consumption could be thought as stand-alone as the objective is simply to induce people to quit unhealthy behaviours. However, measures promoting a healthier diet aim at replacing unhealthy by healthier, often more expensive, products; they could therefore be regressive, and should be accompanied by targeted transfers to compensate this negative effect.

2.2. *Mitigating entrenched inequalities*

31. While disadvantage often starts early and thus prevention policies can go a long way to reduce inequalities and halt their progression, not all inequalities can be picked up in time and not all prevention measures will be successful. Moreover, some inequalities develop at working ages and, in particular, towards the end of people's careers. Despite the evidence that by age 50 lifetime income inequality is deeply entrenched, a lot can still be done for this group by mitigating disadvantage. A range of policies is needed, such as continued promotion of healthy lifestyles, ensuring equal access to quality health care and adopting inclusive labour market policies for older workers, facilitating a smooth transition to retirement.

Promoting healthy ageing through equal access to health care

32. All OECD countries, despite the common endorsed principle of adequate access to health care for all people, have disparities in access to health services, and many people report not being able to meet health care needs, largely among low income groups. The main reason provided by survey respondents is that care is too expensive (OECD/EU, 2016; Commonwealth Fund, 2016). In addition, innovations in healthcare that have led to overall health improvements and longer life expectancy are likely to have benefited groups with higher levels of education and income more (Glied and Lleras-Muney, 2008), at least temporarily, due to better access to cutting edge care and service providers or to the ability to spend more money on expensive treatments. Cost-effective prevention, primary care and screening services should be provided for low or no cost to prevent diseases (e.g. vaccination against influenza among elderly people) and encourage early detection of cancer and other diseases. Moreover, many OECD countries have introduced mechanisms to facilitate health care access for low-income patients through co-payment reductions or exemptions (Paris et al., 2016).

33. As discussed above, access to health services in rural areas, where many older and poorer people live, can be more constrained than in urban areas. Mobile facilities and telehealth services, such as mobile diabetes counselling (CHRODIS, 2016; see also EC, 2013), can help. However, telehealth should not be seen as a replacement for more traditional face-to-face consultations, particularly among older populations who may be less able to use new mobile health (mHealth) applications.

34. Health systems also need to be adapted to better manage the growing number of people living with one or more chronic conditions who often are over 65 and come from lower socioeconomic groups. In particular, health care should be better integrated across various disciplines towards a patient-centred approach; physician specialisation in geriatric care should also be further developed.

35. Finally, policy measures can improve health literacy and self-management with emphasis on education, improving patient skills, and empowerment (Brainard et al., 2016). Increasing health literacy,

particularly among lower educated and disadvantaged groups, should be a high priority to improve or at least prevent a worsening of health conditions. Most interventions on self-management provide patient education through group sessions delivered by health professionals (Berzins et al., 2009).

Limiting the impact of job losses and combating long-term unemployment

36. Many workers in OECD countries are displaced every year due to economic change. Older and long-tenure displaced workers are at greatest risk of long-term unemployment or finding only jobs that are ill-matched to their skills and less well paid than their previous jobs. Retirement income security can be compromised as long-term job seekers will have lower contributions and thus earn lower pension entitlements and be less likely to save. Job displacement also has significant adverse effects on health, including higher mortality (Sullivan and von Wachter, 2009). Policies that assist displaced workers to reintegrate into suitable jobs can thus help to mitigate inequalities, in particular at older ages.

37. The OECD has identified a range of policies to assist displaced workers (OECD, 2016b). Such measures need to address the particular difficulties faced by older and long-tenure workers who have not searched for a job in many years and thus need well-targeted assistance. Counselling, skills audits and job search assistance are needed early on, preferably during the notice period before workers become unemployed. When appropriate, counselling should include an offer of training to fill specific skills gaps. In addition, to avoid becoming demoralised after a long period of unemployment, the Public Employment Service (PES) may need to supplement job search assistance with retraining or hiring subsidies. Since these measures are expensive, it is important that their effectiveness is constantly evaluated.

Providing equal opportunities for workers to upgrade their skills

38. Promoting the employability of workers throughout their working lives is a particularly important requirement for preventing societies from ageing unequally. In the past, workers could expect to have only a few job changes during their career. Now, all workers are likely to switch jobs more frequently or at least adapt to frequently changing tasks.

39. Digitalisation can generate large welfare gains (including for example by expanding employment opportunities of workers suffering from some disability through telework), but raises anxieties about potential job losses and technological unemployment which are particularly threatening for older generations (OECD, 2016c). Many older people are less familiar with the use of digital technologies than their children and grandchildren, both at home and in the workplace. For example, on average, only 27% of older workers (aged 55-64) use email or the Internet at work daily against 49% of prime age workers (aged 35-44). Moreover, the age gap in the use of digital technologies increases with their complexity; digitalisation is thus likely to accelerate obsolescence of older workers' skills. Upgrading and adapting skills will therefore be crucial for employment and earnings prospects. Yet, workforce groups at greater risk of labour market disadvantage – including the low skilled and older workers – receive less training, thereby compounding their disadvantage. This needs to change urgently as the failure to respond to these new challenges will risk creating an army of unemployable older workers.

40. Some countries have targeted measures at workers in their mid to late careers to improve access to lifelong learning and vocational education training, including programmes for upskilling specific groups, providing financial support, defining employees' rights to training and introducing training leave schemes. To promote higher participation of older workers in non-routine jobs, lifelong learning programmes should be designed to strengthen skills for the completion of non-routine and non-manual tasks.

41. Skills acquired throughout working lives should also be better recognised and made visible. Reliable procedures are needed to assess and validate people's skills and competencies, to make skills transparent to employers, and to establish a baseline for further learning. In case of job loss, this can help workers find a matching job. This is especially important for mid-career and older workers, whose initial qualifications may be outdated. Many of them have acquired new skills and competencies in various work experiences, but most often lack certificates to prove it.

Enhancing job quality for workers at all ages

42. Working environments have a profound impact on workers' physical and mental health, and workers with low socioeconomic status typically suffer from worse work conditions. Job quality influences people's sense of engagement and well-being at work and beyond. Therefore, a broad-based strategy to enhance job quality could pay a triple dividend: better, healthier and longer working lives for individuals; more productive workers for firms; and a lower financial burden on social protection systems.

43. While many aspects of working conditions and organisation primarily concern businesses, policies and institutions have a clear role to play to improve them. These include regulations on working-time and safety at work, well-designed sickness schemes, and implementation bodies (e.g. labour inspection bodies and occupational health care services) that give employers guidelines, run information campaigns and preventive actions (OECD, 2016a).

44. In some countries, the social partners include age management in collective bargaining. Flexible working time arrangements to combine work and care-giving are also becoming more frequent. These measures can help fight inequalities among older workers, in particular women, triggered by long-term care needs of family members and often resulting in employment, earnings and pension losses for the carers.

Removing barriers to retain and hire older workers

45. Several factors discourage employers from hiring and retaining older workers, especially the most vulnerable among them. First, there needs to be a better match between the costs of employing older workers and their productivity, even though seniority wage-setting has diminished in many countries. Second, the desire to protect jobs of older workers has to be balanced with the need to enhance labour mobility, both in terms of hiring of older jobseekers and of job-to-job moves for older workers. Special employment protection and unemployment benefit rules for older workers can be counterproductive. For example, policies that penalise firms for laying-off older workers can reduce hiring rates of older workers. Firms may also seek to avoid these penalties through various early retirement arrangements and schemes. Ultimately, older workers are best served by efforts to improve their employability and more generally increase the range of job opportunities.

46. Gradual withdrawal from the labour market through phased or partial retirement – possibly with changing responsibilities within the same company – facilitates prolonging working life. Changes in responsibilities might include greater focus on training younger workers. Phased retirement also makes it possible to better cope with caring responsibilities for older family members and grandchildren. While the impact on income inequality is not straightforward, it should also support older individuals with low retirement income by enhancing pension entitlements.

47. Policies could promote phased retirement in two ways. First, employers might be encouraged to design more flexible work arrangements to their employees. Second, pension systems should allow or at least not penalise combining pensions and working longer at reduced hours in terms of retirement benefits. Inflexible arrangements of pension systems sometimes result in coming back to part-time work after

having claimed the full pension. Supporting gradual withdrawal from the labour market without incentivising too early switch to partial employment remains a challenge.

2.3. *Coping with inequality at older ages*

48. The third set of policies to prevent ageing unequally focuses on reduction of inequalities in old-age pensions and long-term care. Its main objectives are to avoid old-age poverty, limit retirement income inequality and inequality in living standards and well-being of the elderly by: providing adequate old-age pensions and social assistance in a financially sustainable way; providing affordable good-quality long-term care: and strengthening support for informal carers, who are often themselves aged.

49. Over past decades, most OECD countries have been reforming their pension systems (see OECD 2015c), mainly to improve their financial sustainability in light of demographic changes. As a result, replacement rates have been reduced and pension benefits more closely aligned to earnings history, e.g. through the development of defined contribution (DC) or notional defined contribution (NDC) schemes, with less pooling and lower redistribution to low-income contributors (OECD, 2015c; Quesnel-Vallee et al., 2015). Closer contribution-benefit links tend to increase the transmission of wage inequality to retirement income inequality as the capacity of individuals to contribute will be reflected in the pensions they receive. More recently, concerns about retirement income adequacy and prevention of poverty among retirees have been gaining traction in public policy debates.

Effects of higher retirement ages on inequalities

50. Many OECD countries have mechanisms in place to increase the retirement age in line with life-expectancy gains in order meet the twin goal of pension adequacy and financial sustainability of pension systems (OECD, 2015c; OECD, 2016d). These reforms raise three main issues with respect to their impact on inequalities.

51. The first issue is about the healthy or unhealthy years added to the life-span and what this means for people's capacities to work until higher retirement ages. If growing life expectancy were mostly adding unhealthy years, higher retirement ages would indeed mean that workers would be forced to retire earlier, generally with reduced benefits. The data, however, show that the share of healthy years in the steadily growing life duration expected at birth- say at age 50, or at age 65- has been relatively stable over time, suggesting that rising longevity also increases people's work capacity at a given age.

52. The second issue is whether inequalities are exacerbated by pension rules given that poorer groups die younger than their richer peers on average. It is often argued that increasing the retirement age is regressive. This is indeed the case: as low-income workers tend to have shorter lives, a one-year increase in the retirement age represents a larger proportional cut in their total pension benefits paid during retirement than it does for higher-income people. As shown in the report though, this effect is quantitatively small: if retirement ages were increased by 3 years between 2015 and 2060 – life expectancy at 65 years is projected to increase by 4.2 years on average - the total pension benefits of low educated retirees relative to those of the highly educated groups would be reduced by about 2%.

53. The third and main reason why a higher retirement age might be regressive is grounded in fewer employment opportunities for older, more disadvantaged workers. This is a major challenge for policy makers, but it does not mean that a higher retirement age is an inadequate policy. Instead, it underlines the crucial importance of improving the situation and opportunities of older workers through inclusive labour market policies for older ages (see above).

54. Most pension arrangements do not take differences in life expectancy across socioeconomic groups into account. The rules of pension schemes, both defined-benefit (DB) and defined-contribution

(DC), typically disregard inequalities in life expectancy. Most use a uniform benefit accrual rate in DB schemes and common mortality tables when converting assets from DC schemes into pension annuities, despite the fact that people's remaining life years are different². This means that a pure DC scheme, for example, which is a priori regarded as distribution-neutral, is in fact regressive. People with shorter life expectancies receive lower benefits for shorter periods than their individual situation would warrant, thus subsidising those who get paid higher pensions for a longer period.

55. Pension policy measures to take account of socioeconomic differences in life expectancy could target the benefit formula, the level of contribution rates or through a higher wage ceiling for contributions than for pension entitlements. In DC schemes, the annuity factors for conversion of assets into a pension benefit could be set in ways that increase pensions for people with low pensionable income (who die earlier on average) while people with high pensionable income (who die later on average) would receive lower benefits. OECD (2016e) calls for more accurate mortality data by socio-economic groups so that higher benefits could be offered to people with higher health risks.

Voluntary pensions are typically subsidised, which tends to be regressive

56. Contributions to public pension systems are exempt from taxation while pension benefits are taxed upon receipt. This mechanism generates tax advantages as marginal taxes on earnings are typically higher than those applying to pension benefits. Beyond the specificities of the tax structure, the amount of these tax advantages is larger, the larger the contributions, and therefore the larger the earnings. Private pensions also generally are tax-advantaged and, depending on the specific schemes, this can benefit high-income more than low-income earners (OECD, 2016d).

57. Voluntary pensions are savings that are earmarked for retirement. The positive side is that they rely on individual choices, which could improve welfare. This advantage has to be tempered by income adequacy risks for those who "choose" not to be covered, especially given the social gradient of that "choice". Due to higher savings capacity and financial literacy among advantaged socio-economic groups, voluntary pension coverage is heavily biased in favour of workers with high earnings. Voluntary pensions might therefore magnify the tax exemptions benefiting the better-off, and as a result tend to increase old-age inequality.

58. Where replacement rates from mandatory pension schemes are low, increasing the mandatory component would be preferable to subsidising voluntary private schemes. Overall, these subsidies should be limited. Voluntary pensions should instead be subject to the standard taxation of savings instruments, with well-designed auto-enrolment schemes (OECD, 2014). When coverage is low, providing incentives, through targeted matching contributions or a flat introductory bonus contribution, should encourage participation of low-income earners.

Redistribution in pension systems to protect retirees at risk

59. In most countries, retirement income adequacy risks and prevention of old-age poverty are addressed through first-tier safety-net pensions. OECD (2015c) identifies significant scope for benefit

² The exception to common mortality tables is the use of gender-specific tables in Chile, Indonesia and Mexico. Gender-specific mortality tables will lead to lower pensions for women with the same pension contributions, as men and women live longer on average; life expectancy is thus "fairer" but, at the same time, women are disadvantaged during their working lives through persistent wage and employment gender gaps; while addressing life expectancy inequality gender-specific tables will therefore exacerbate the economic vulnerability of older women.

improvement in several countries with high old-age poverty rates and low safety-net benefits, even in relatively less affluent countries, but also in some high-income countries. Moreover, many countries increase first-tier pensions in line with prices, meaning that retirees will increasingly lag behind workers' living standards, especially the very old, who are often women.

60. Most pension systems include redistribution mechanisms to compensate for some of the pension impact of time spent in unemployment and taking care of children. OECD (2015c) concludes that such pension credits are effective instruments to offset the effects of career interruptions. At the same time, such mechanisms should avoid encouraging workers to stay out of work. Policy makers need to strike the right balance between protecting the period of leave from work and setting benefit entitlements to ensure that people return to work. In contrast, credits for periods of higher education are generally regressive as they tend to reward people with higher lifetime earnings. Most OECD countries which had credits for periods of higher education have abolished them or are phasing them out.

Increasing pension coverage to ensure adequate pensions

61. Insufficient coverage through earning-related pension systems not only results in inadequate old age incomes but also increases old-age inequality because low coverage disproportionately affects low earners. Mandatory pension systems in most OECD countries have very high levels of coverage as informal sectors are relatively small, but there are some exceptions. Promoting formal labour market participation is the most efficient way of increasing coverage. However, many emerging economies have struggled to close the coverage gap this way, ending up expanding social pensions instead to address adequacy concerns with the added side effect of straining government finances (OECD/IDB/The World Bank, 2014). Expanding mandatory pensions to cover self-employed workers is another important measure to increase coverage, especially in countries with a large informal sector. This challenge, however, goes beyond pension policies. Reducing the size of the informal sector requires a range of labour market, tax and structural policies.

Ensuring a sufficient level of conversion of private pensions into annuity payments

62. One important objective of pension systems is to pool longevity risks and prevent those lucky enough to live a long life from falling into poverty. Annuities are the instruments that ensure that individuals, possibly including widow(er)s, do not outlive accumulated assets. This is especially relevant for retirees who have saved less during working age and have accumulated low pension assets. Individuals covered by public pensions are typically immune from that risk as pension benefits are in that case provided in the form of monthly instalments until they die. However, shortfalls in annuitisation in private schemes raise concerns. Within private pensions, automatic annuitisation is prevalent for DB. However, DC plans allow easier access to lump-sum distributions. There is ample evidence of economic myopia: individuals tend to underestimate financial needs and life duration, and find lump-sums attractive. This is worrying in terms of inequality as insufficient financial literacy is closely related to other socioeconomic disadvantages. Myopia is indeed one key reason why pension systems enhance welfare, especially for those with low financial wealth. It is therefore critical to ensure a high enough replacement rate from annuities by discouraging early lump-sum withdrawals on at least part of the pension assets, up to a threshold.

Carefully designing survivors pensions

63. Older women are the most exposed to old-age poverty risks. Survivor benefits play an important role to avoid the poverty of widow(er)s, although less than in the past thanks to improvements in women's labour force participation. They should, however, be carefully designed to avoid inefficient forms of redistribution and work disincentives. Some countries have indeed decided to phase survivors' benefits out

as women are earning their own pension entitlements through labour market participation. However, as gender gaps in employment and earnings are still substantial in many countries, care needs to be taken not to leave women who worked part-time and had low earnings with insufficient resources in old age, in particular after the death of the spouse which can dramatically reduce household income.

Toward a unified pension framework

64. Inequalities in the pension treatment of different categories of pensioners can be substantial and give way to suspicion and distrust towards those who are perceived, rightly or wrongly, to be getting a better deal. A unified framework covering all workers in an identical and financially sustainable way would contribute to limiting inequality, enhance transparency and labour mobility, and reduce costs. To address the situation of workers in arduous professions, assistance such as retraining and offers of alternative job opportunities would need to be provided throughout the career to ensure that workers do not get sick and disabled on the job. Rather than introducing separate early retirement schemes, training programmes should be targeted to employees who are deemed unfit to continue in their previous occupation (OECD, 2016d).

Developing age-friendly environments

65. Developing age-friendly environments to foster older people's autonomy is an integral component of a strategy to promote healthy ageing (WHO, 2016). It has the potential to limit socioeconomic inequalities in old age as poor older people in particular might need supportive environments to lead a life of dignity when faced with declines in capacity. Enabling greater functional ability - including to meet basic needs, be mobile, continue to learn, build and maintain relationships – can help older people live in a place that is right for them (WHO, 2016). Creating more age-friendly environments requires promoting multisectoral action beyond the health sector, for example in such areas as transport, housing and urban planning.

Reducing inequalities in long-term care: making home care affordable for all

66. Many older people with long-term care (LTC) needs prefer to stay in their home for as long as possible. As a result, most OECD countries have aimed to reduce the use of institutional care and promote community care. However, while all countries for which data are available cover the cost of institutional care for those who cannot afford it (even if some expect people to put nearly all of their income towards the cost), there are gaps in the coverage of home care needs. Some older people may therefore have incentives to go into a care institution where their care needs will be met and their food and board provided, even if home care might in some cases meet their needs more effectively and give them a better quality of life.

67. Comprehensive social protection systems ensure access to affordable LTC for all, irrespective of income. However, this requires high public spending. Adequate support for low-income people is provided at a lower cost in countries with targeted systems, although richer people are required to make large contributions that may reduce their living standards or deplete their assets. Where social protection is neither comprehensive nor well-targeted, home care is often unaffordable to people with low incomes.

Reducing inequalities in caring through better support to informal carers

68. Although many people want to provide informal care to friends and family, doing so has costs. There is an opportunity cost to the time spent providing unpaid care; and caring can conflict with work responsibilities or increase the risk of mental health problems. These costs are borne disproportionately by women, and in particular those with low socioeconomic status.

69. More flexible working arrangements of employees with a dependent elderly will be needed. To meet those needs, many countries provide employees with a right to either flexible working time or to family-caregiver leave, but often without financial compensation. It is also important that such leave can be granted within a short notice period given that LTC needs are largely unpredictable.

70. Strengthening social protection for LTC can help to reduce these disparities: in countries with comprehensive LTC coverage inequalities along socioeconomic lines in the provision of informal care are less pronounced. Countries must also strengthen support for informal carers – such as cash benefits, respite care, training and counselling – and ensure that these benefits reach those who need them most, in particular women with low socioeconomic status.

Redesigning policies in a life course perspective

71. The best policies to Prevent Ageing Unequally are those that start early and that work together in a comprehensive package across the various dimensions of inequality, picking up on disadvantage as soon as it arises. To do so requires rethinking the way policy is made and moving out of policy silos. The evidence on how inequalities compound over the life course calls for joint action by family, education, employment, social and territorial development ministries and agencies. Integrating policies and social services, in particular for more vulnerable groups, has the potential to address the multiple underlying reasons of vulnerability simultaneously. It can also facilitate information and knowledge sharing between administrations and agencies and reduce the cost burden of delivering support, both in the short term but even more so in the longer term by preventing inequalities from widening. Countries will differ in the way such knowledge sharing and joint policy action is best set up, but all will need strong leadership in identifying needs, acting upon them with appropriate policies and coordinating policy responses between the different actors.

3. Next steps

72. Taking a life-course approach to prevent ageing unequally means covering a wide range of policy areas. The OECD will support policy action towards the implementation of the cross-cutting policy principles set out in the *Preventing Ageing Unequally Action Plan* through a series of forthcoming analyses and meetings. Some aspects of the *Action Plan* are also part of the forthcoming new *Jobs Strategy*, for example. The government of Slovenia is calling a High-Level meeting on *Preventing Ageing Unequally* in early 2018. Regular OECD work published in reports such as *Education at a Glance*, *Health at a Glance*, *Pensions at a Glance* and *Society at a Glance*, among others, will also support the implementation of the *Action Plan*.

73. After the 2017 Ministerial Council Meeting, the OECD will be working with countries to implement the *Action Plan* at the national level and provide peer-learning opportunities for countries to share their implementation plans. A progress report on the implementation of the *Action Plan* in the national context will be presented to Ministers in 2022. Rather than monitoring individual reform measures in each of the areas, the report will take stock of reform packages to prevent ageing unequally introduced at national level along the lines of the *Action Plan*. To that end, a questionnaire will be sent to Members and Partners. The OECD also stands ready to work with countries in promoting policy dialogue on the multi-sectoral approach to prevent unequal ageing.

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