

# The economic and fiscal consequences of ageing, with special focus on health and long term care

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**European Commission, DG ECFIN**

**Ageing and Haemophilia - EHC Roundtable of Stakeholders**

Brussels, 23 February 2010

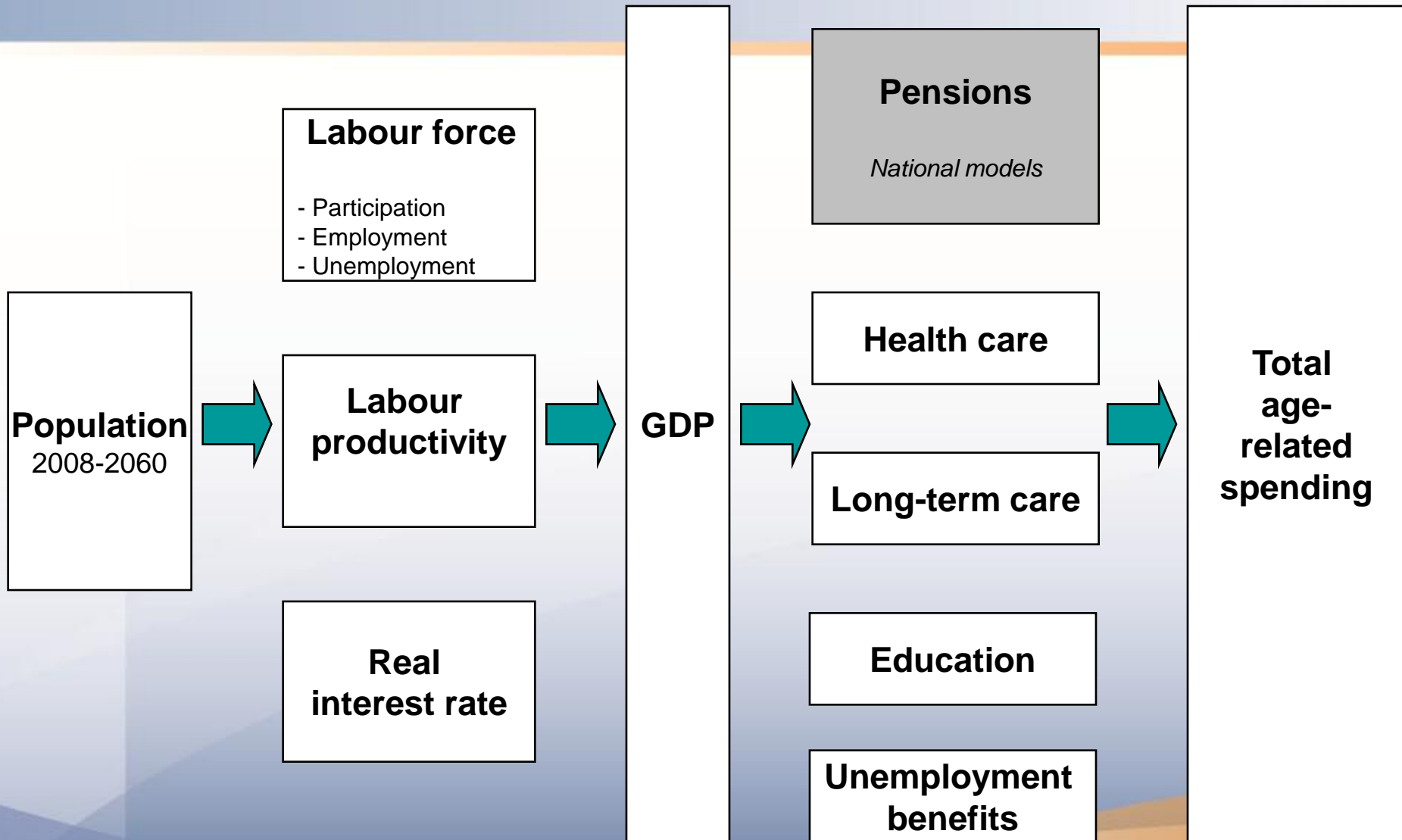


# Long-term budgetary projections

joint project of European Commission  
and Economic Policy Committee



# Overview of 2009 projection exercise



# Main demographic indicators

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## (EUROPOP2008)

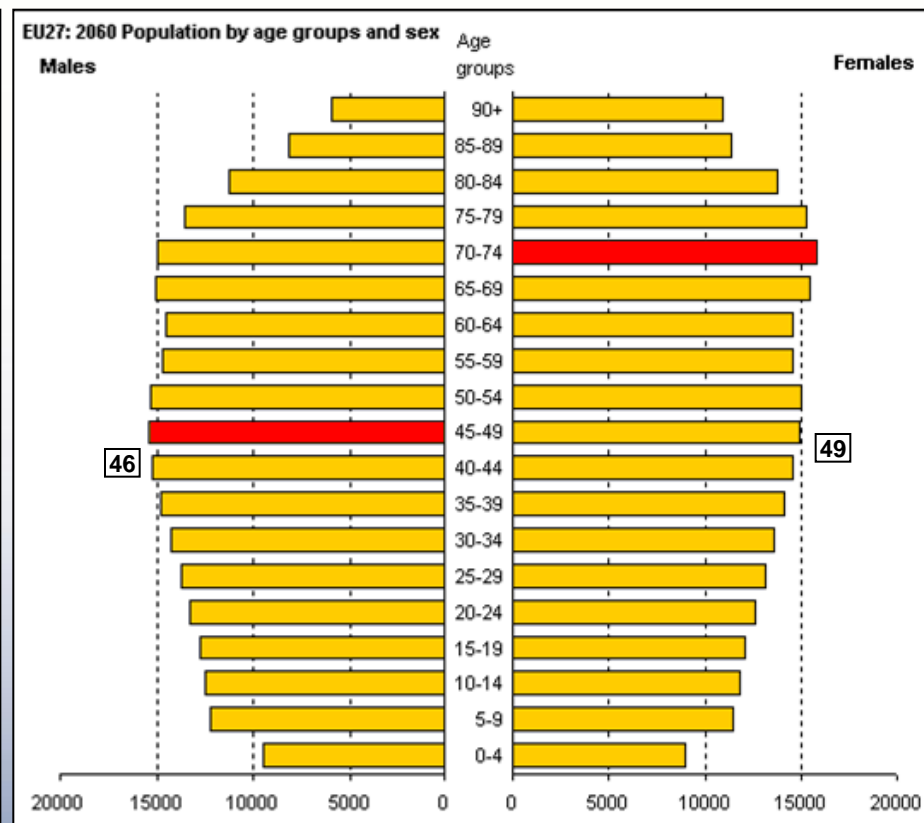
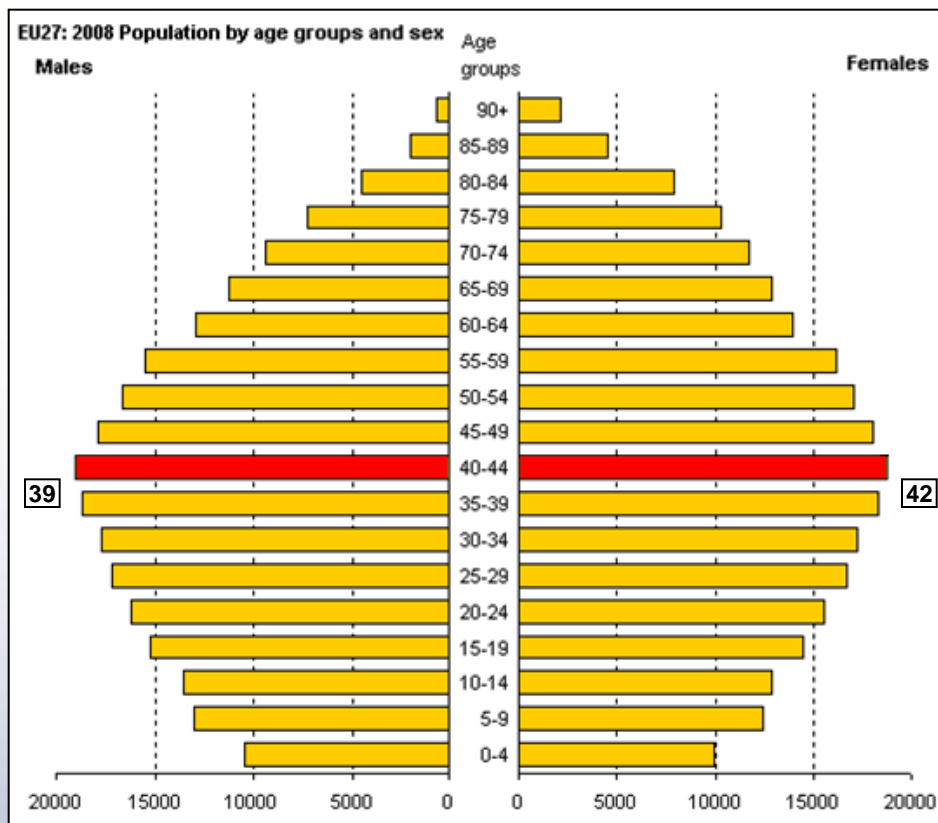
	EU15		EU12		EU27	
	2008	2060	2008	2060	2008	2060
<b>Fertility rate</b>	1,6	1,7	1,4	1,5	1,5	1,6
<b>Life expectancy at birth - men</b>	77,2	84,8	71,2	82,3	76,0	84,5
<b>Life expectancy at birth - women</b>	82,6	89,1	79,0	87,6	82,1	89,0
<b>Net migration flows (thousands)</b>	1647	750	37	54	1684	804
<b>Net migration flows</b> <i>(cumulated 2008-2060 as % of population in 2008)</i>		14		4		12
<b>Total population (millions)</b>	390	421	103	85	493	506
<b>Old-age dependency ratio (65+/15-64)</b>	27	51	21	65	25	53



# Population projections: EUROPOP2008

## 2008

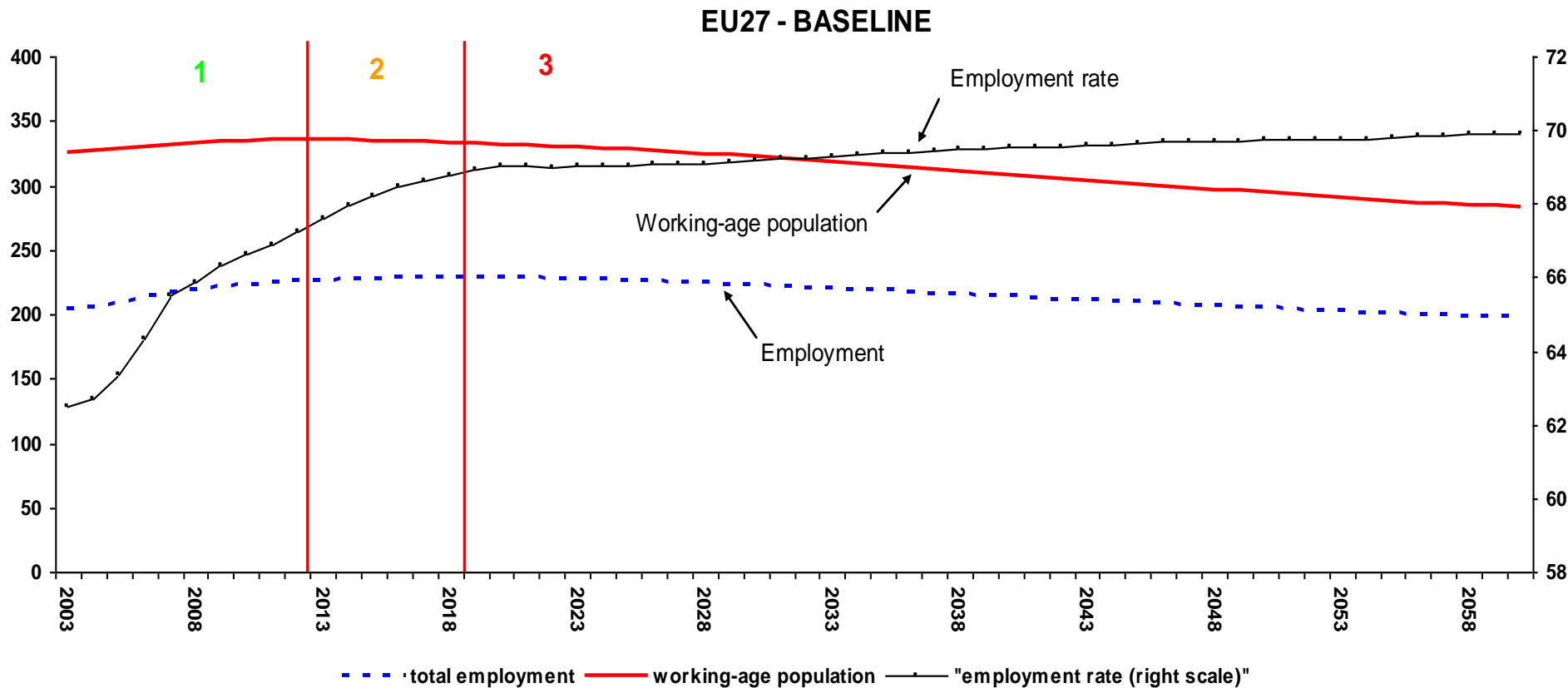
## 2060



x Median age

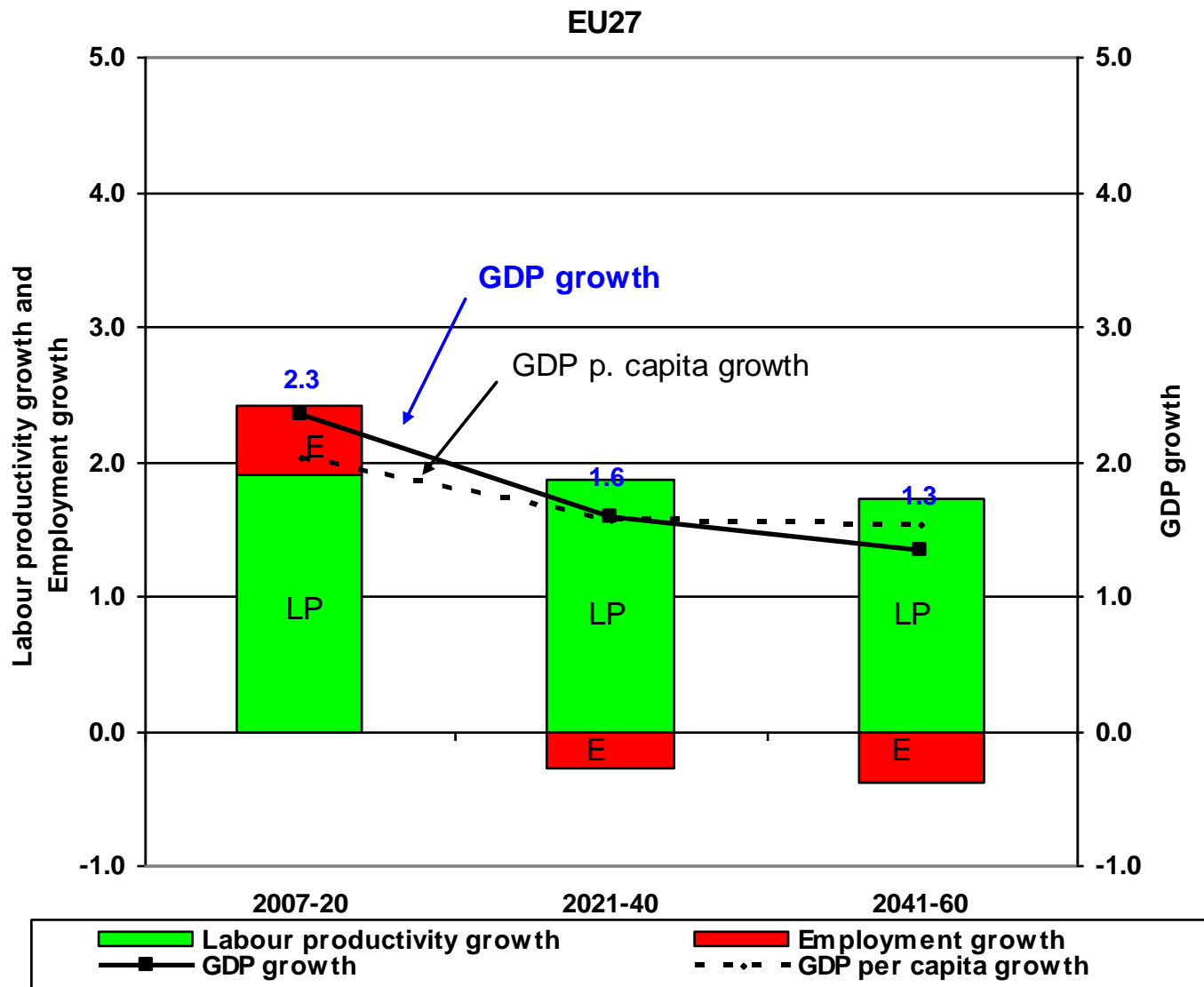


# The consequences of ageing populations on employment



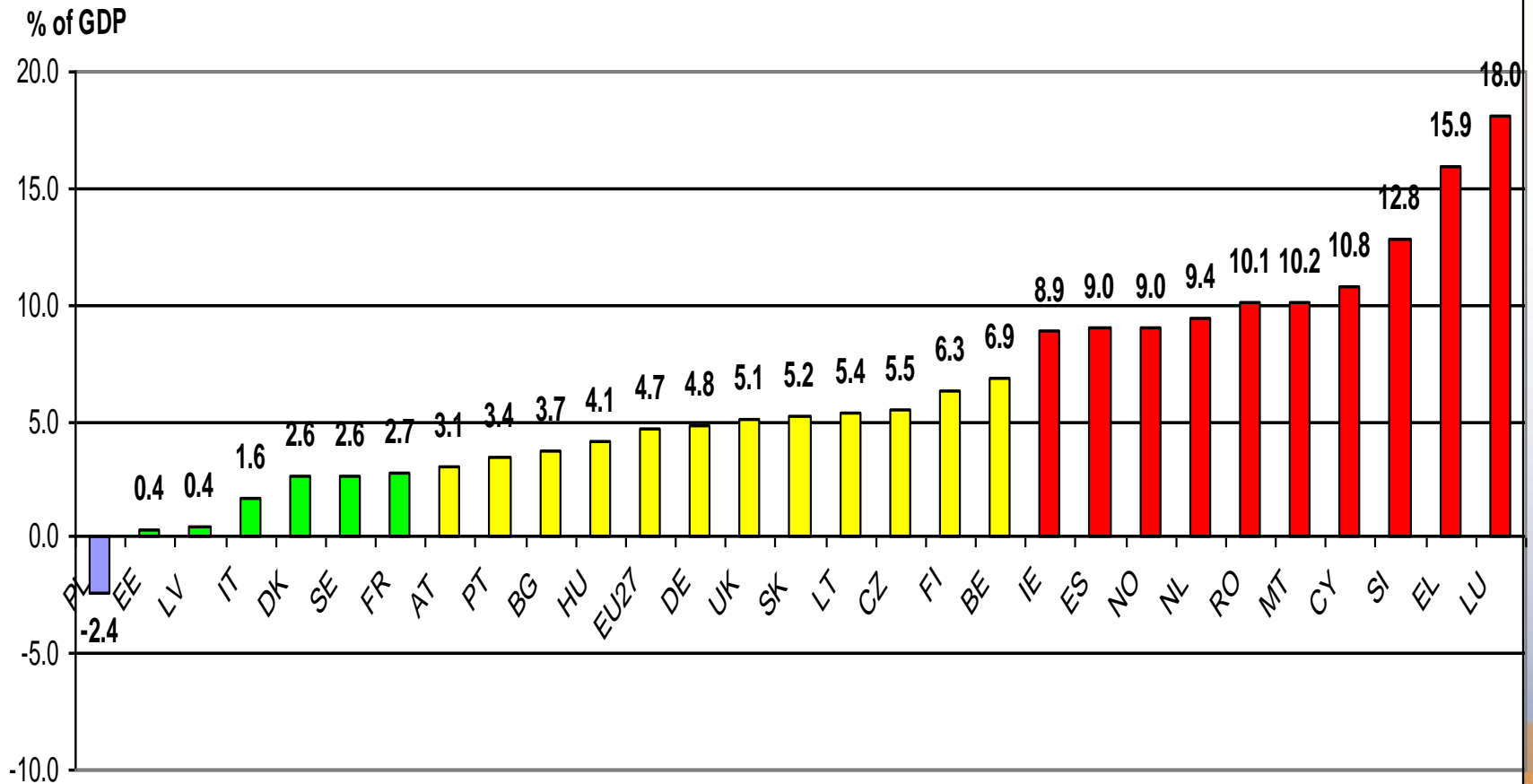
# Potential growth rates decline

due to shrinking working age populations  
productivity becomes the dominant source of growth



# Substantial increase in public spending (pensions + HC + LTC + unempl. benefits + education)

## Total Cost of Ageing, 2007-60

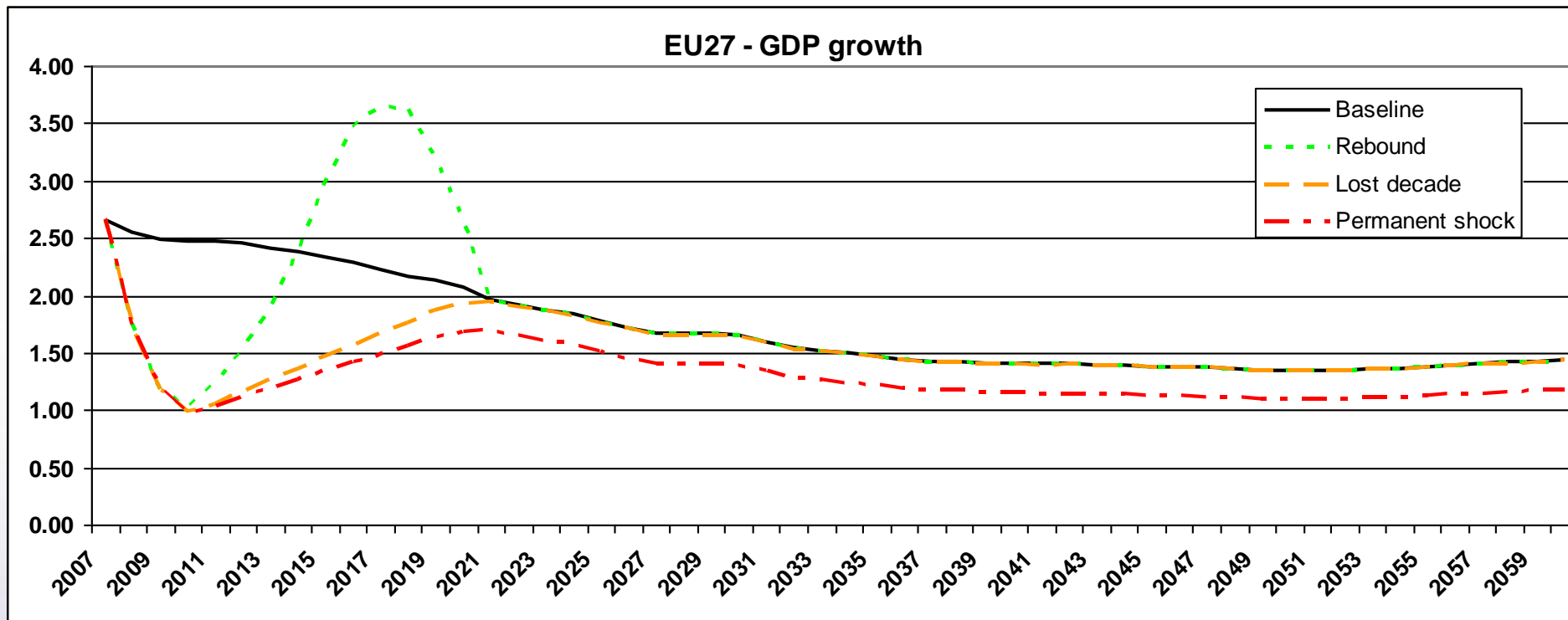




# Crisis scenarios (1)

## potential GDP growth under different shocks

(European Commission Spring 2009 forecast)



EU27, GDP per capita, diff. from baseline (in %)					
	2010	2015	2020	2040	2060
Rebound	-4	-6	0	0	0
Lost decade	-4	-9	-11	-11	-11
Permanent shock	-4	-9	-12	-16	-20

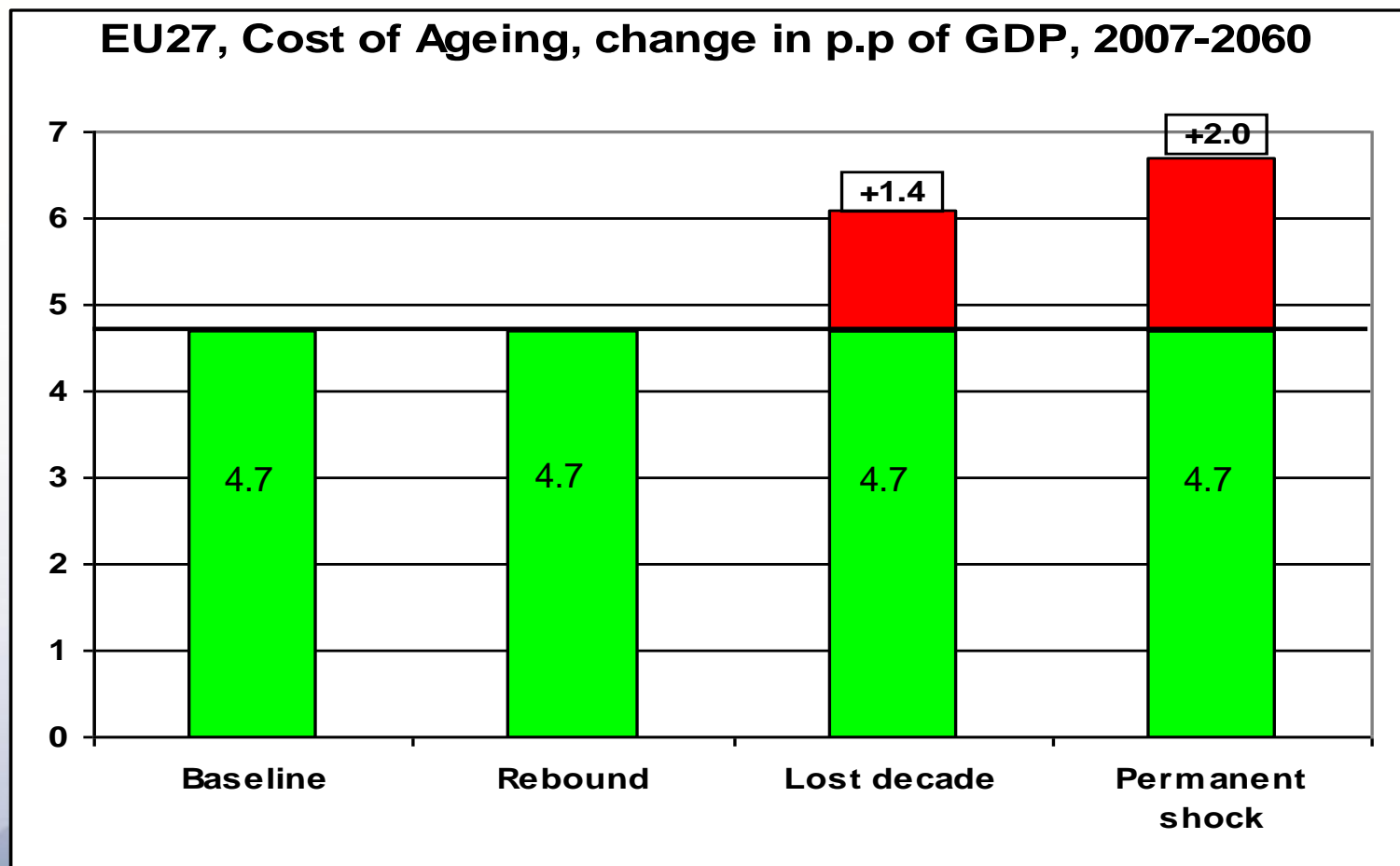


# Crisis scenarios (2)

potential budgetary impact of the crisis under different shocks

(European Commission Spring 2009 forecast)

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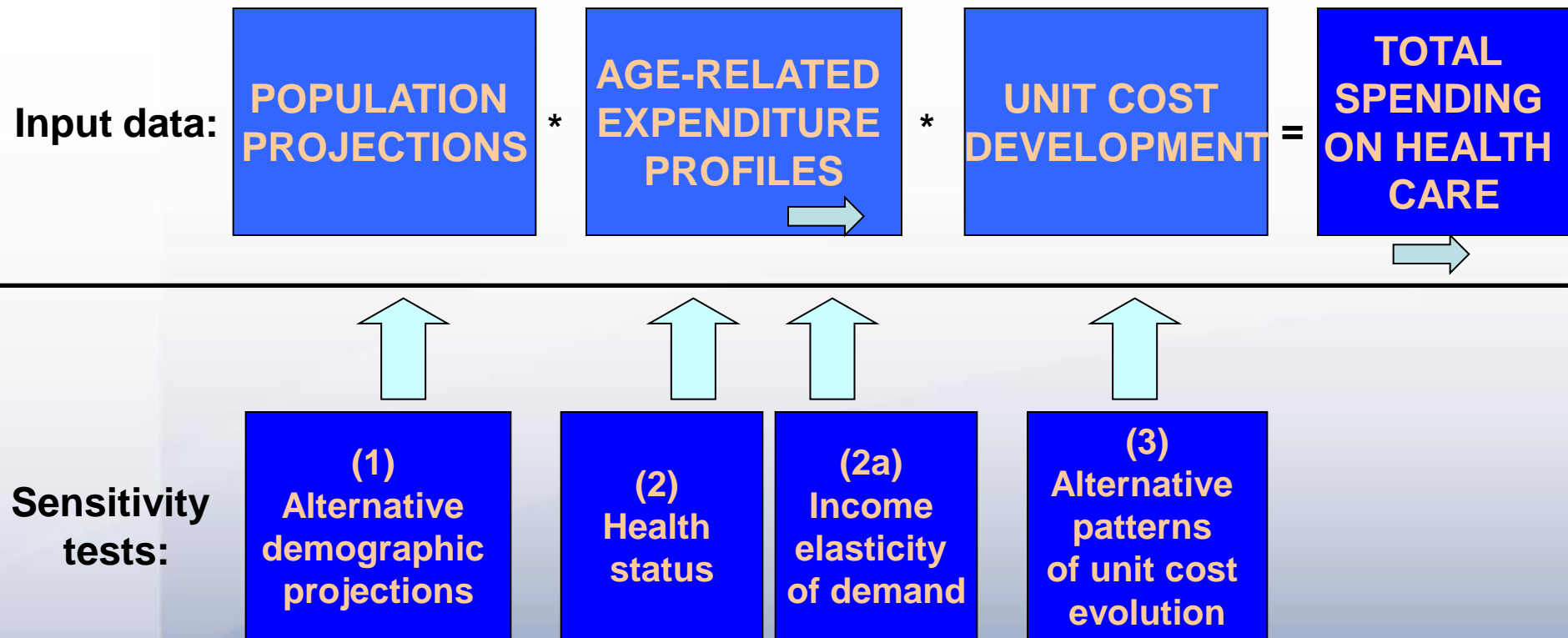


# Health care and long-term care projections

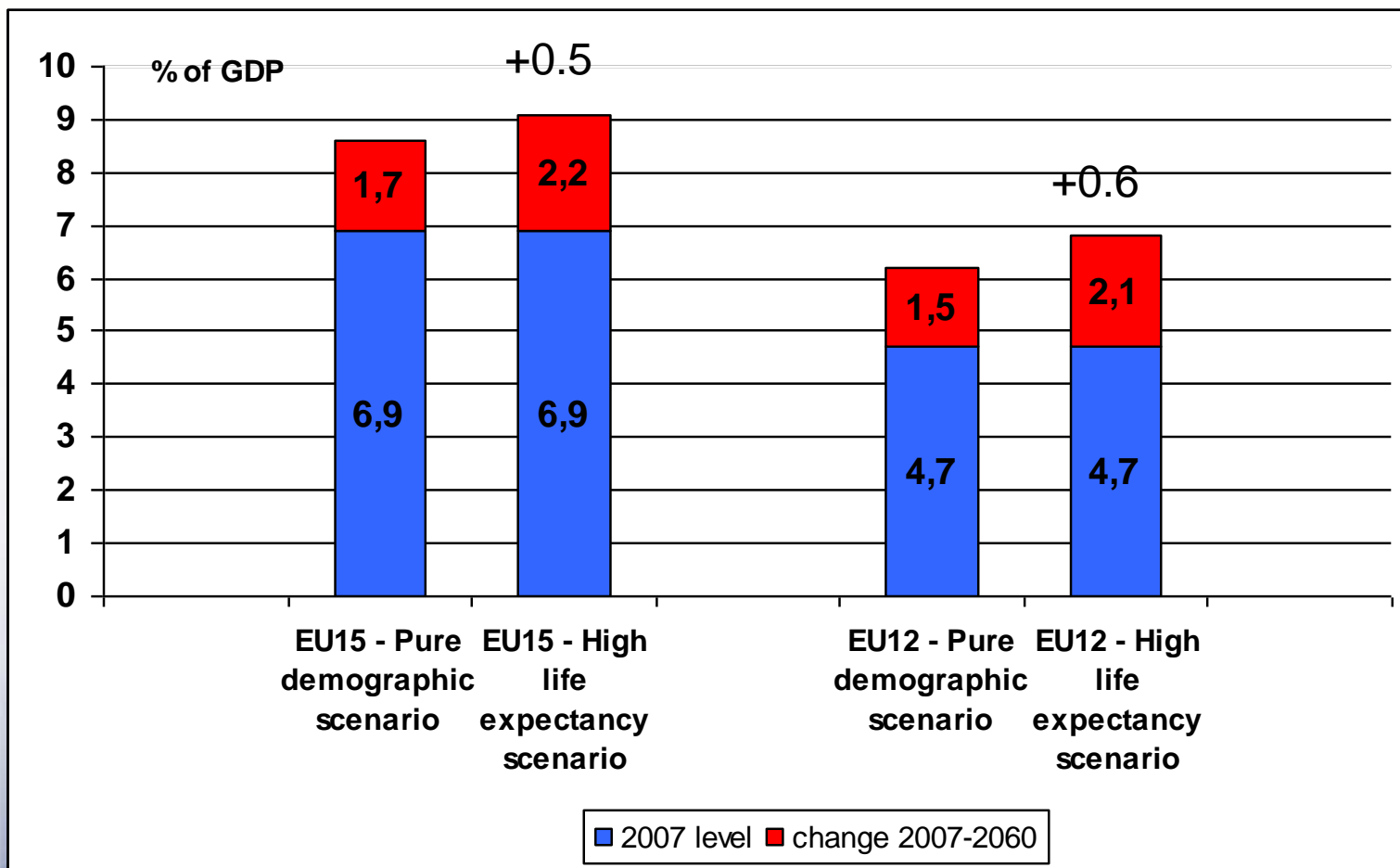


# Simple basic methodology but several sensitivity tests possible

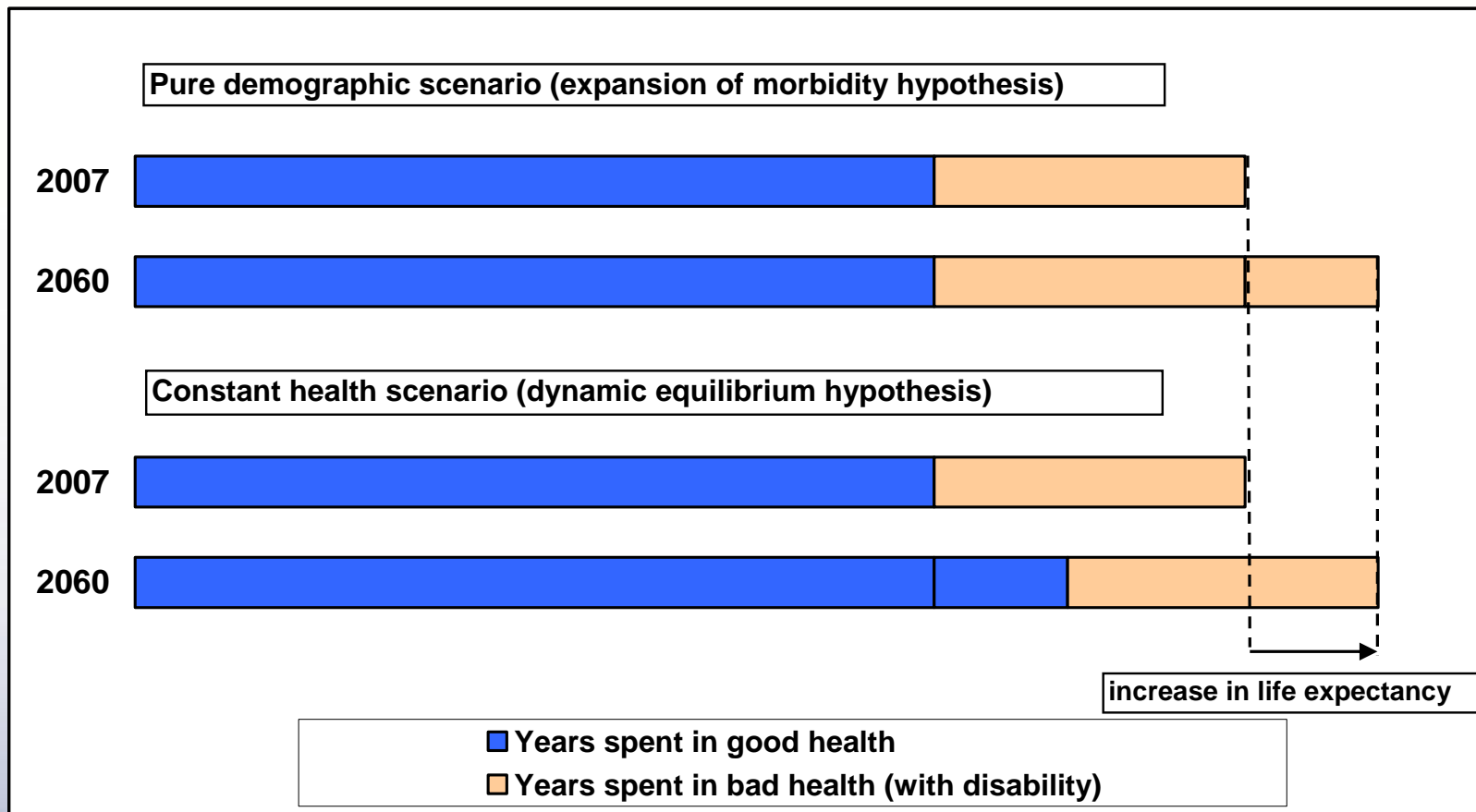
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# 1- Higher life expectancy (1 extra year)



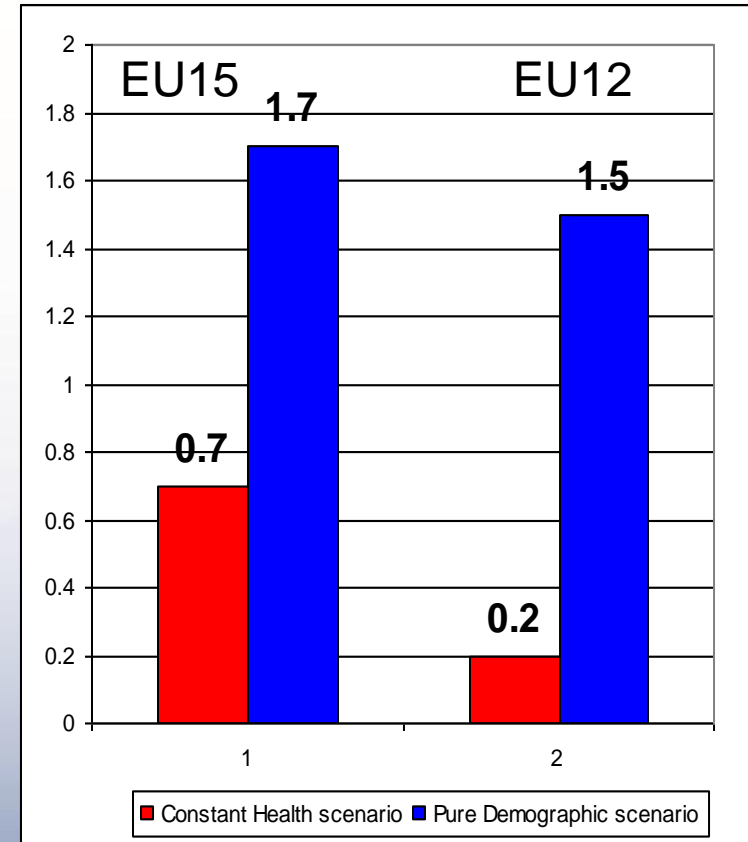
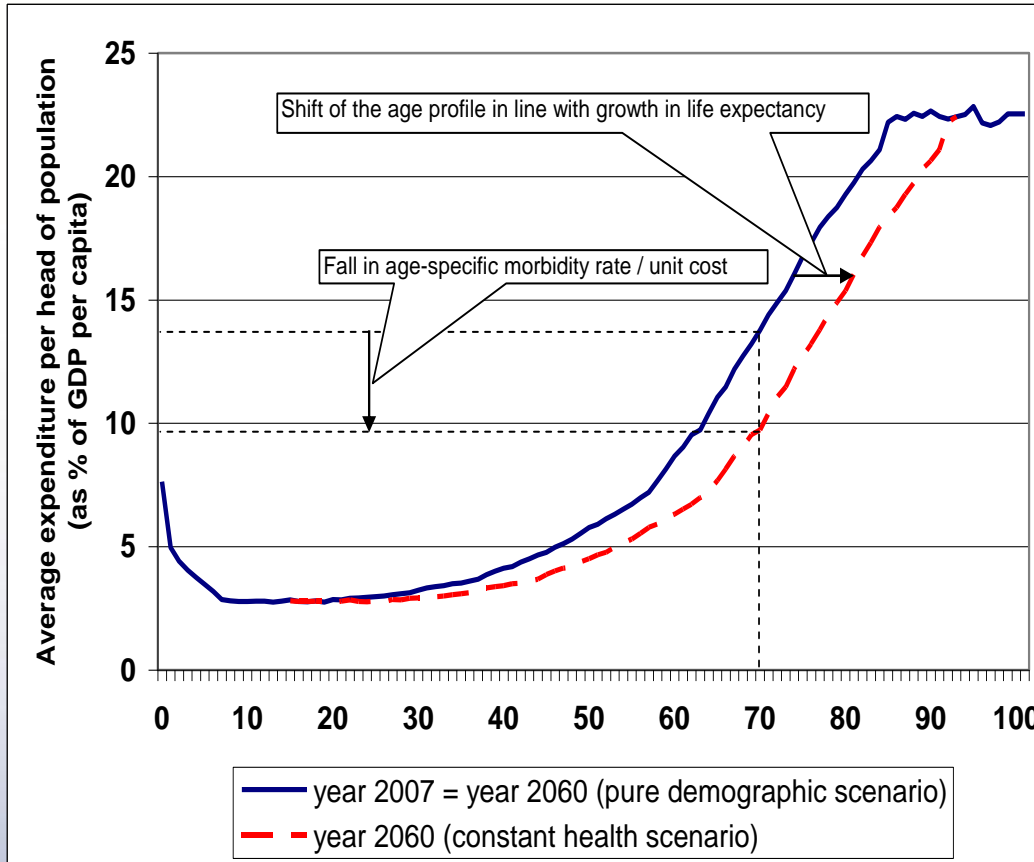
# 2- Future evolution of health status



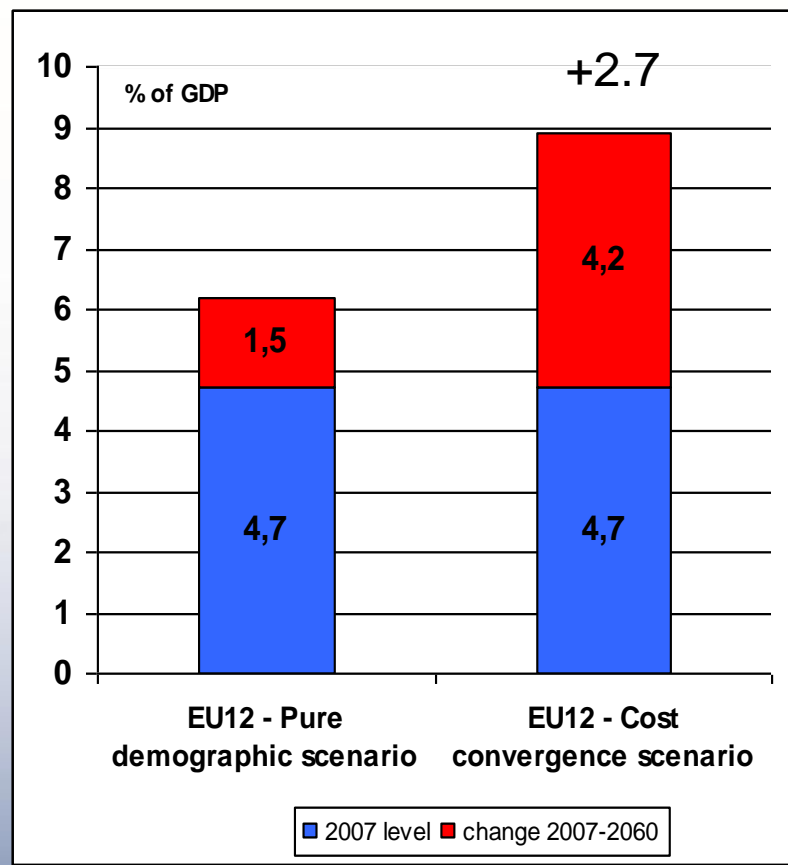
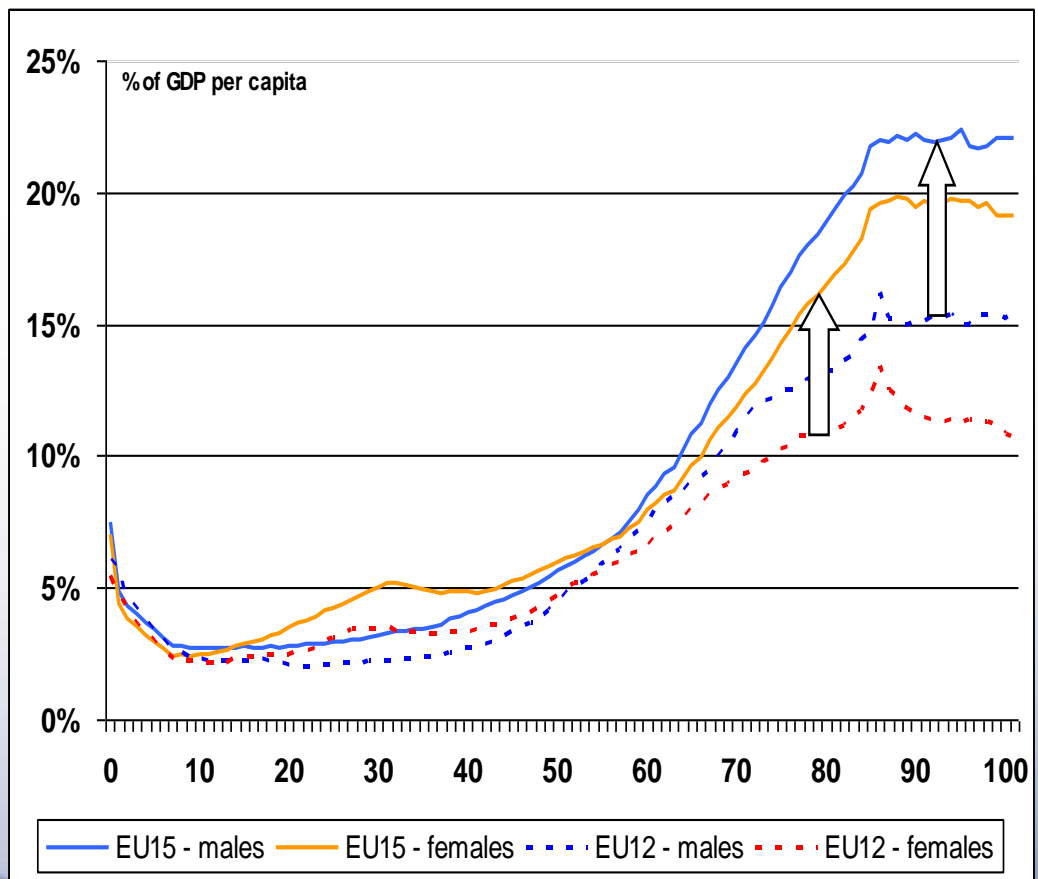
# Modelling health improvements

## What savings are possible?

(Constant health scenario – results)



# 3- What if it costs the same all over Europe? (Cost-convergence scenario)

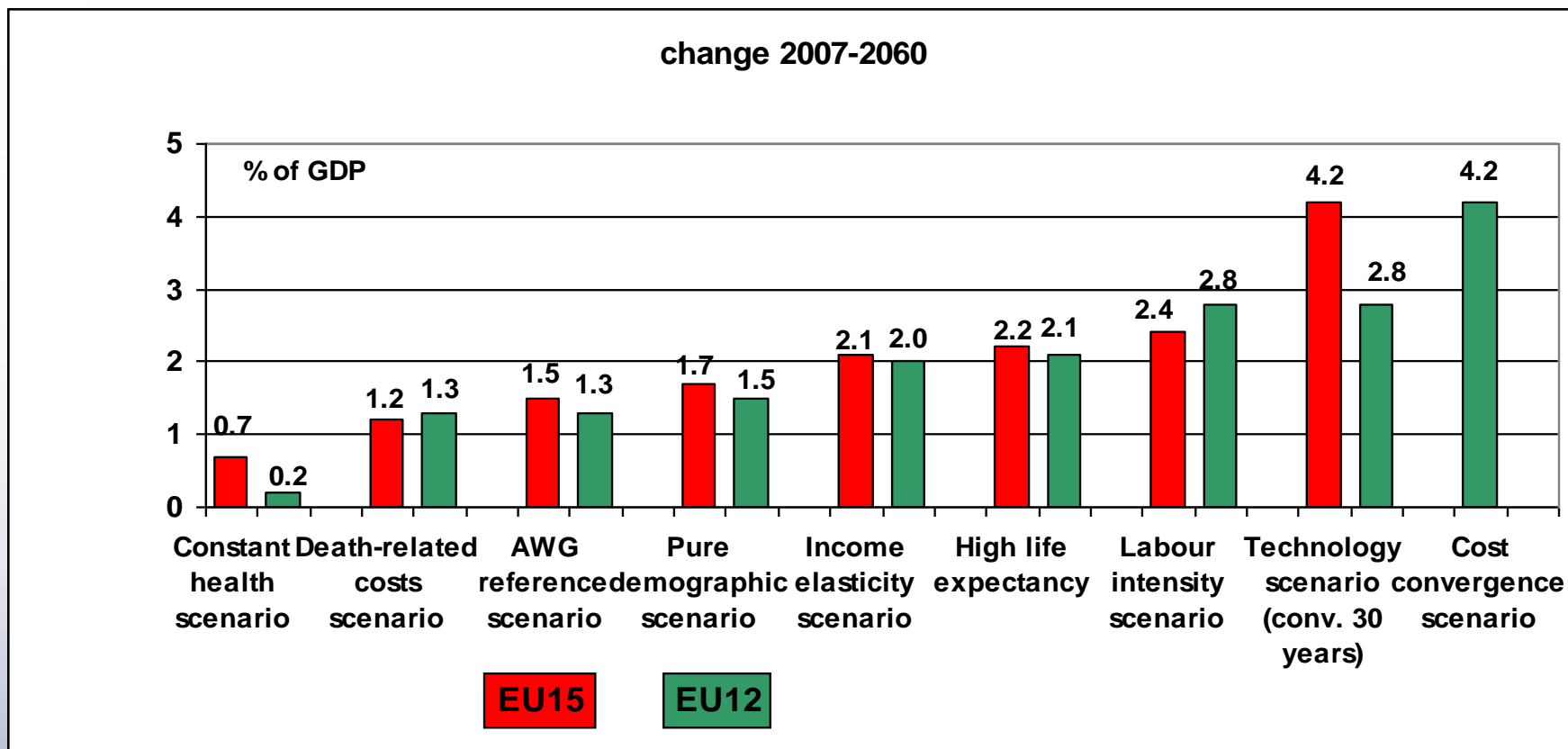




# Projected increase in health care expenditure – EU15 and EU12

EU15: from 0.7 to 2.4 (even 4.2% if technology is incorporated)

EU12: from 0.2 to 2.8 (even 4.2% if convergence is incorporated)



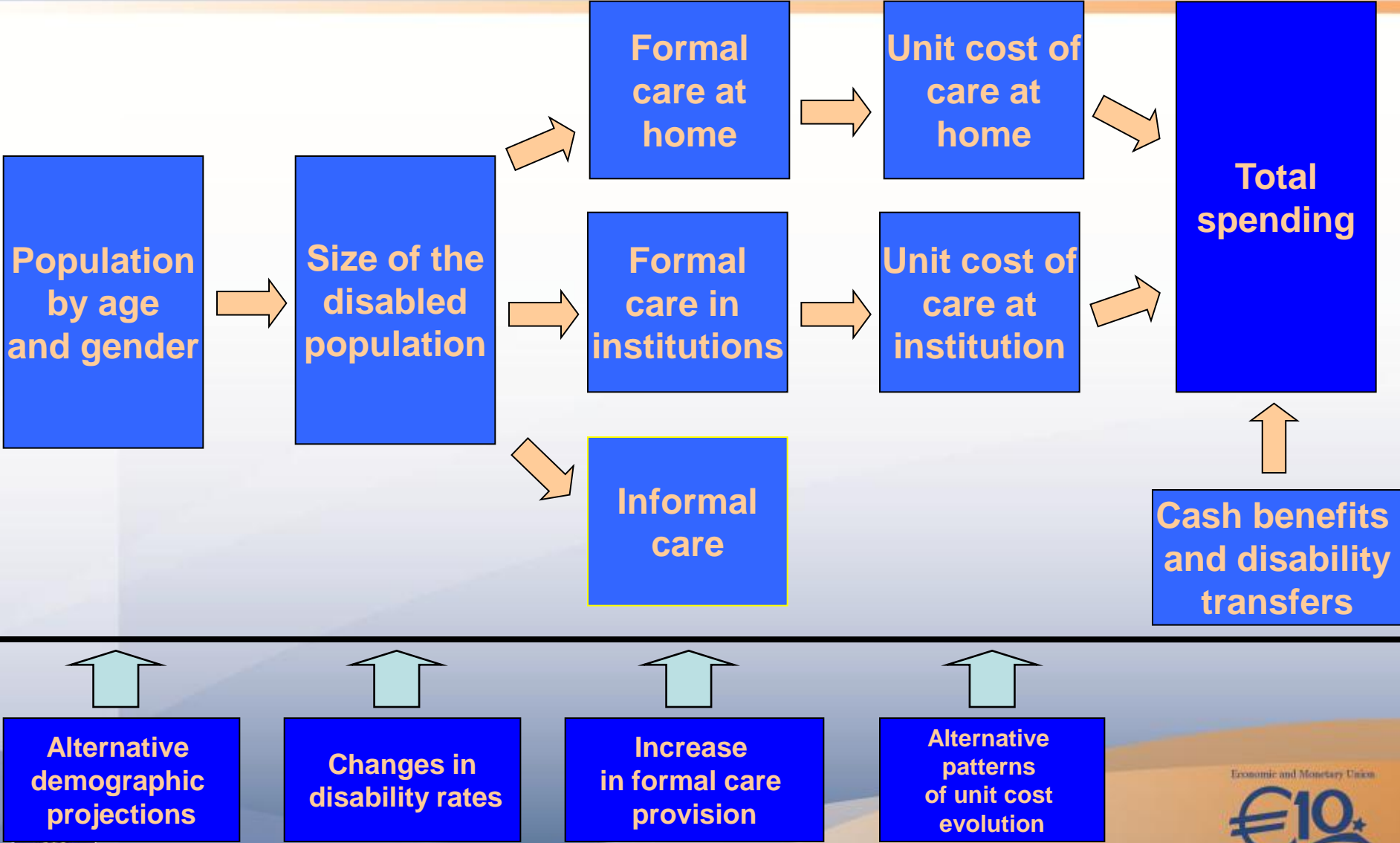
# Main conclusions

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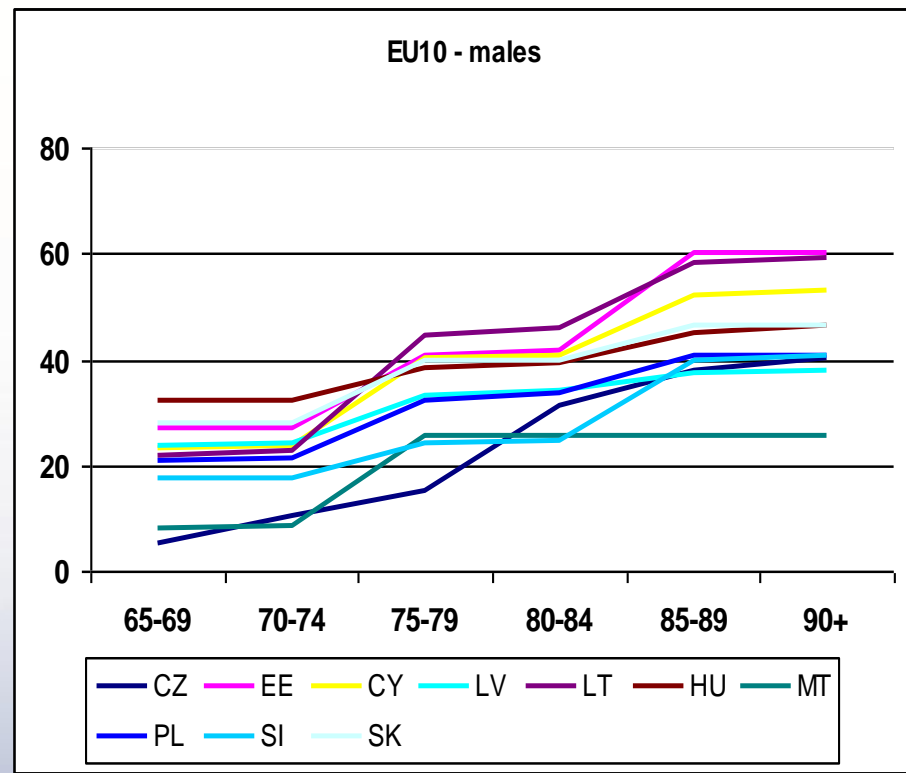
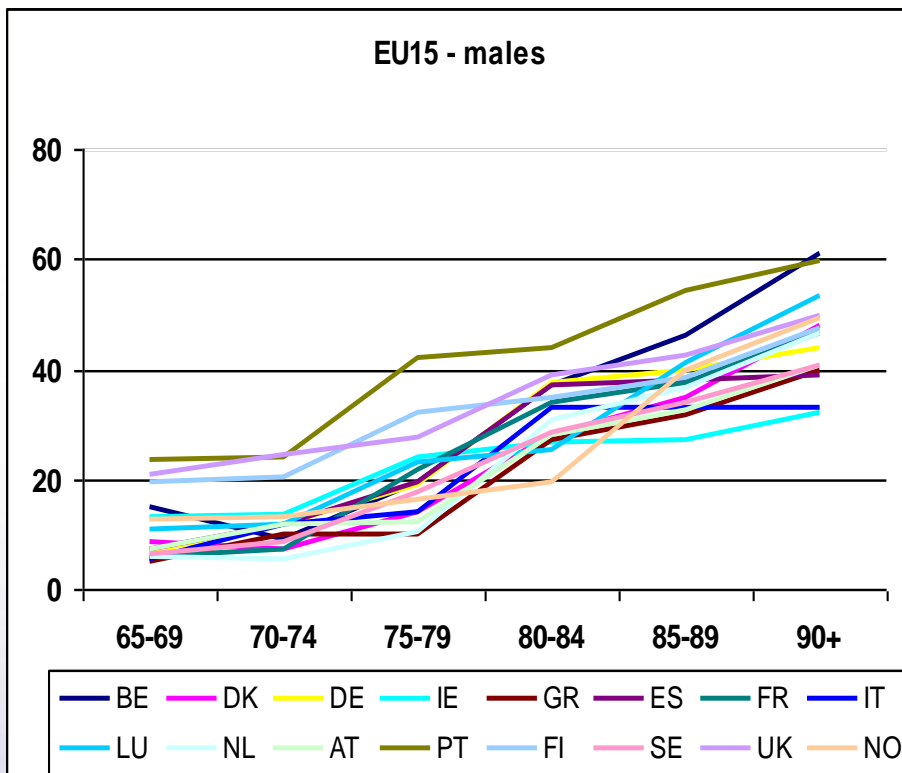
- **Europeans living longer than ever before, and hopefully in good health, is an enormous achievement and should not be seen as a threat**
- **Ageing leads to strong increase in spending**
- **Health status drives demand for care. Therefore, prevention and improvement in health status would substantially offset ageing effects, limiting future spending**
- **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.**
- **Supply side factors (technology, prices in health care sector, institutional setting) are expected to push up spending (but difficult to model)**
- **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.**



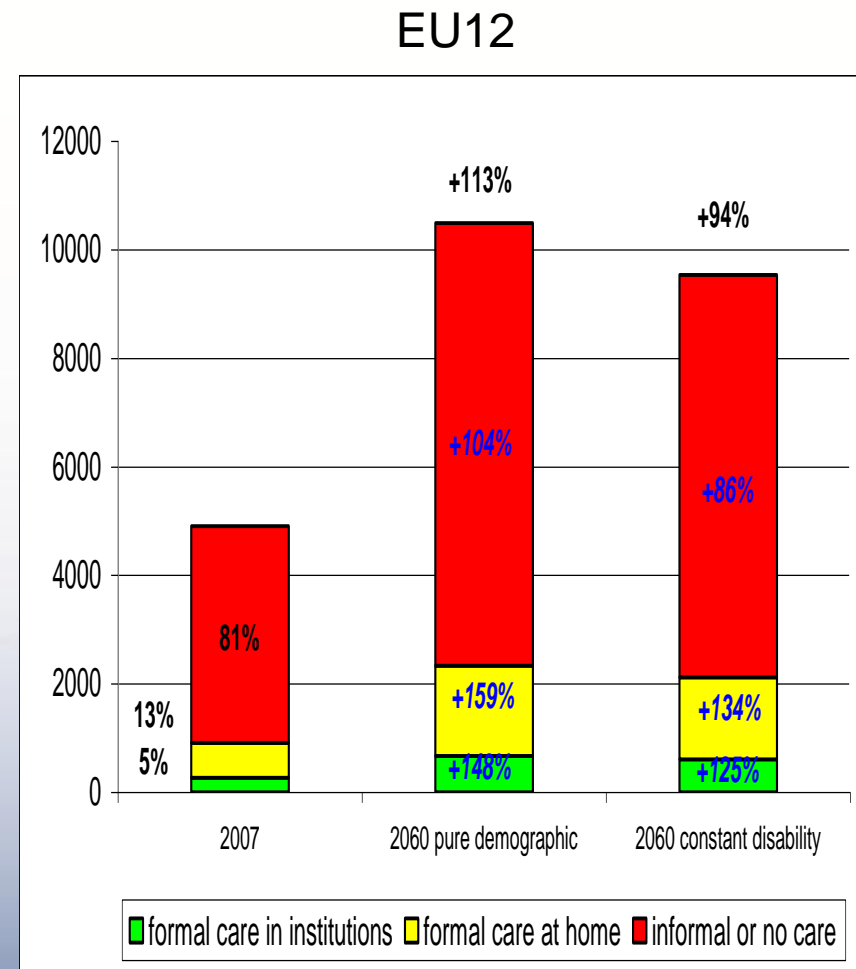
# Model structure for long-term care



# Dependency rate (% of elderly male population with a limitation in at least 1 Activity of Daily Living)

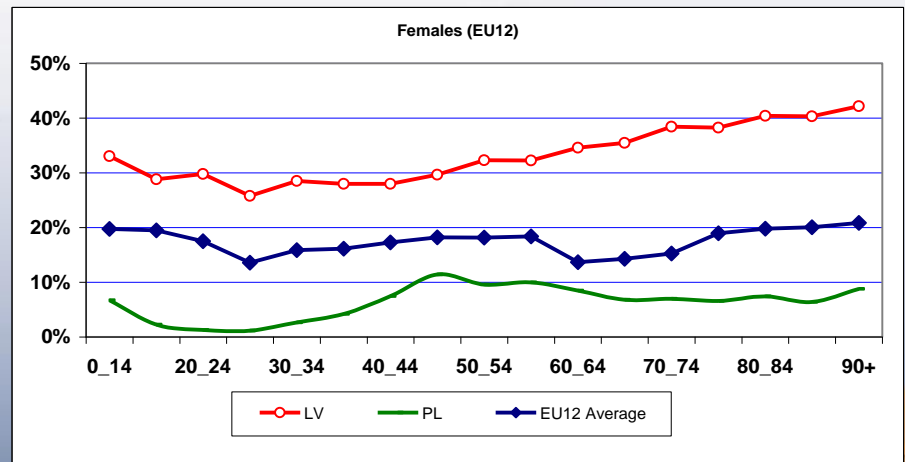
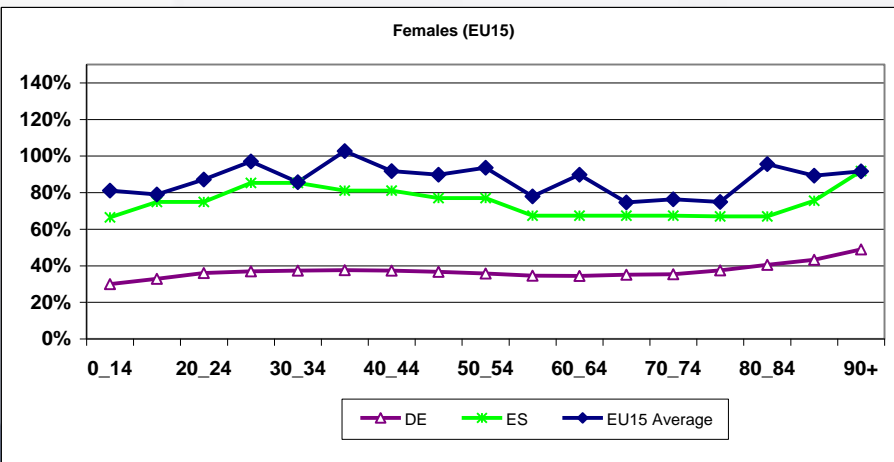
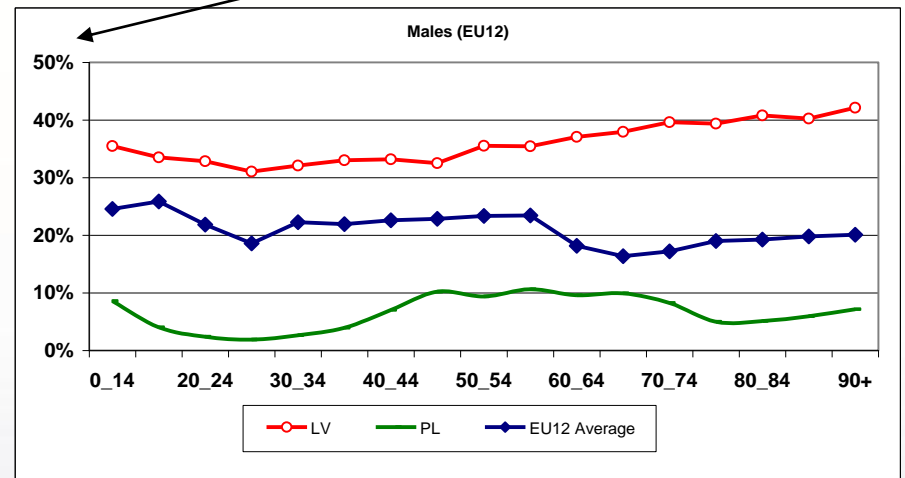
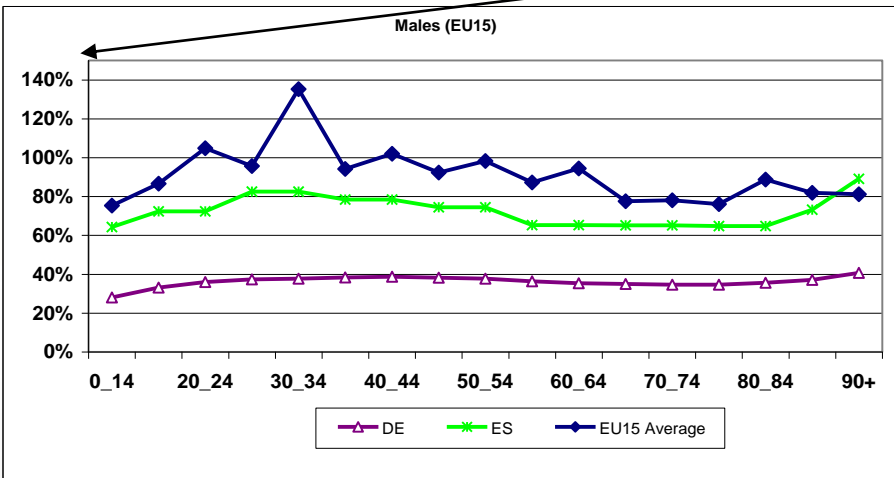


# Projection of dependent population

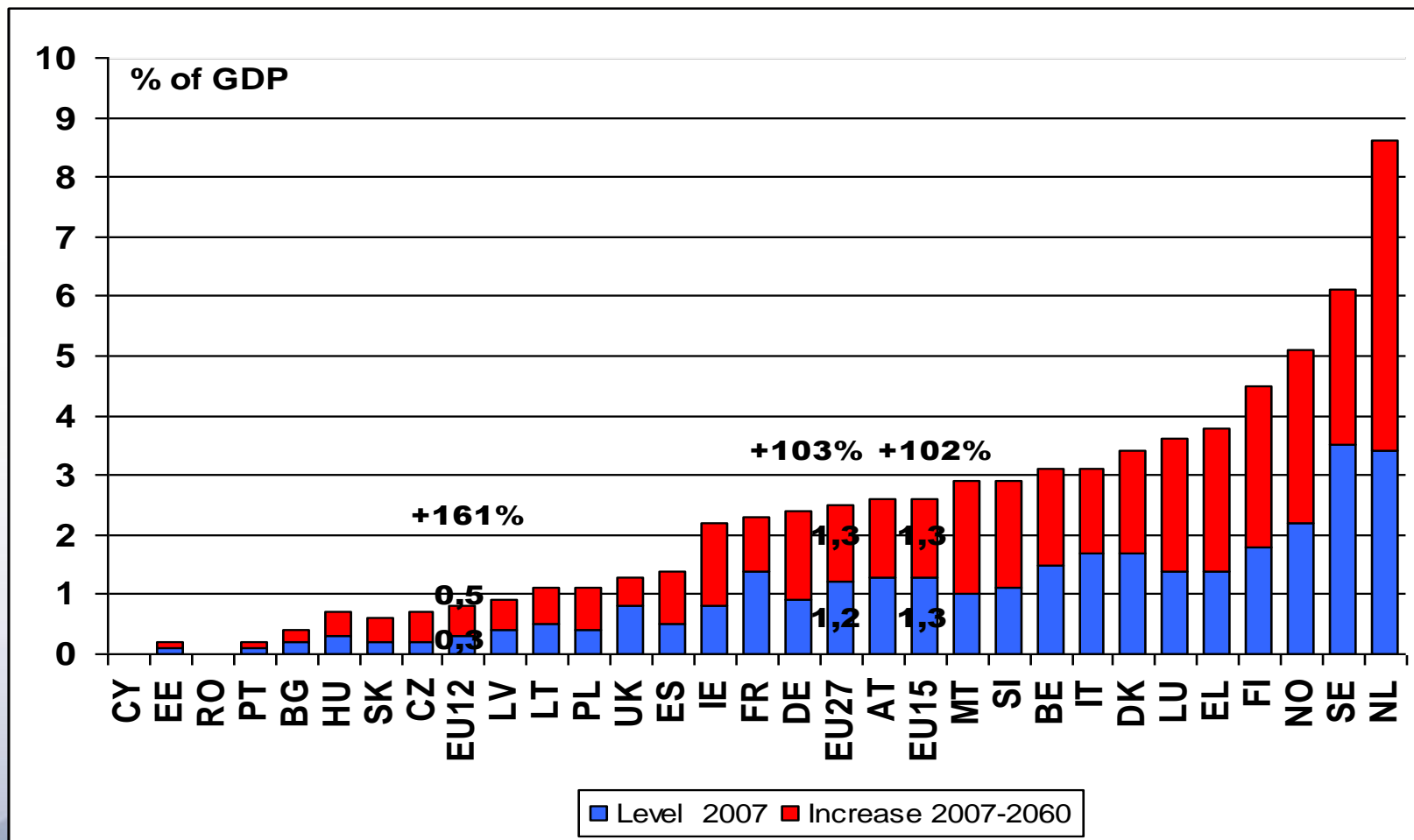


# Long-term care

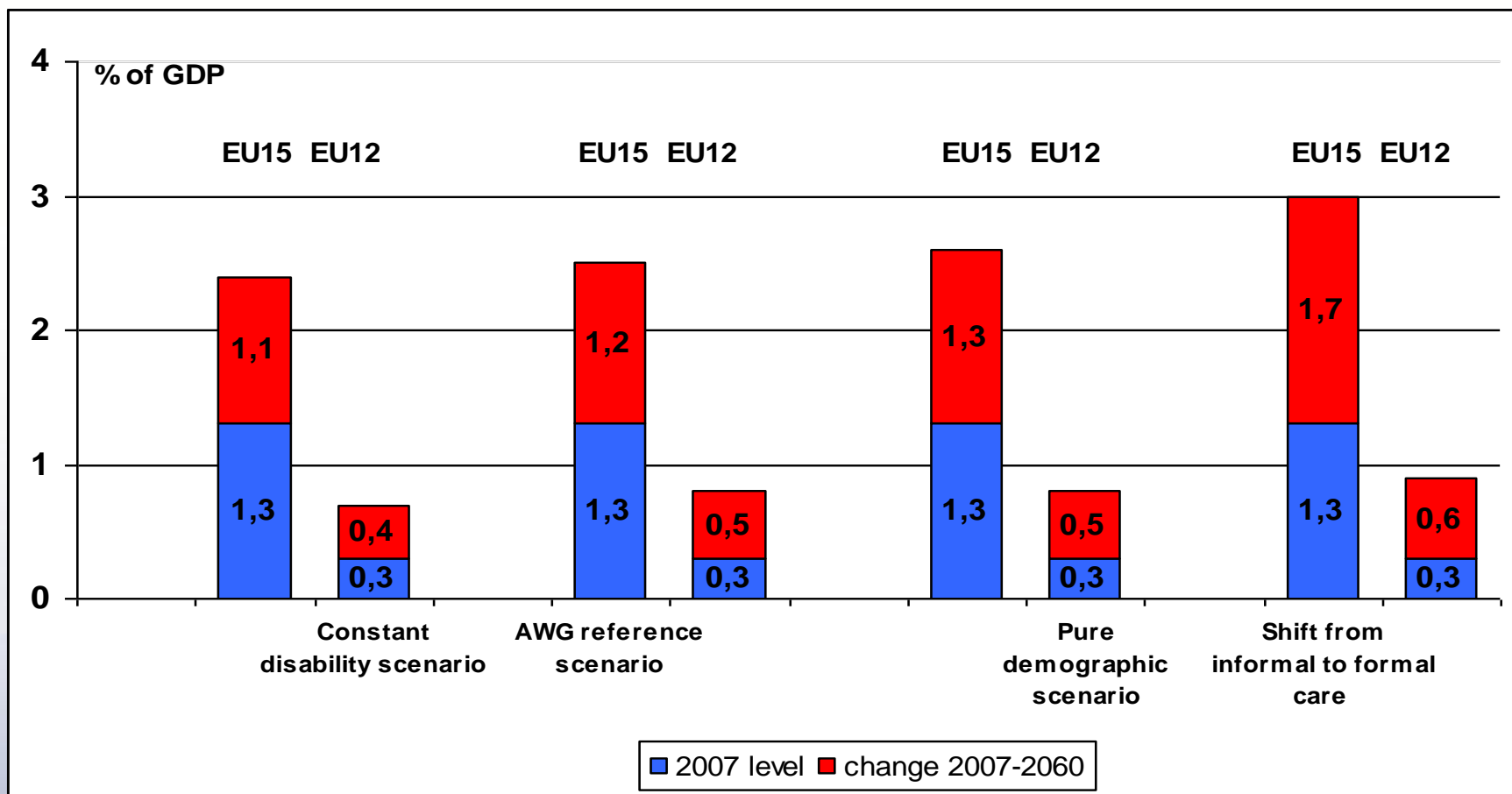
## Cost per user : significant gap between EU15 and EU12



# Pure effect of demographic changes



# Alternative scenarios





# Main conclusions

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- Strong impact of ageing populations on long-term care expenditure.
- Public expenditure is very sensitive to trends in prevalence of disability among the elderly.
- Growing gap between the number of elderly in need for care and the actual supply of formal care services (possible alleviating effect: narrowing gap in life expectancy between women and men)
- Relation between formal care provision and labour market situation (higher labour participation, higher effective retirement  $\Leftrightarrow$  more formal care needed)
- Need to reconcile two opposite trends: increasing need for formal LTC provision and/or growing pressure on public finances



# The full report can be found at DG ECFIN's website:

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- [http://ec.europa.eu/economy\\_finance/publications/publication\\_summary14911\\_en.htm](http://ec.europa.eu/economy_finance/publications/publication_summary14911_en.htm)
- [http://ec.europa.eu/economy\\_finance/publications/publication\\_summary13784\\_en.htm](http://ec.europa.eu/economy_finance/publications/publication_summary13784_en.htm)

***Thank you for your attention***

