



VALTIONEUVOSTON KANSLIA  
STATSRÅDETS KANSLI



# Preparing for an ageing society: the case of Finland

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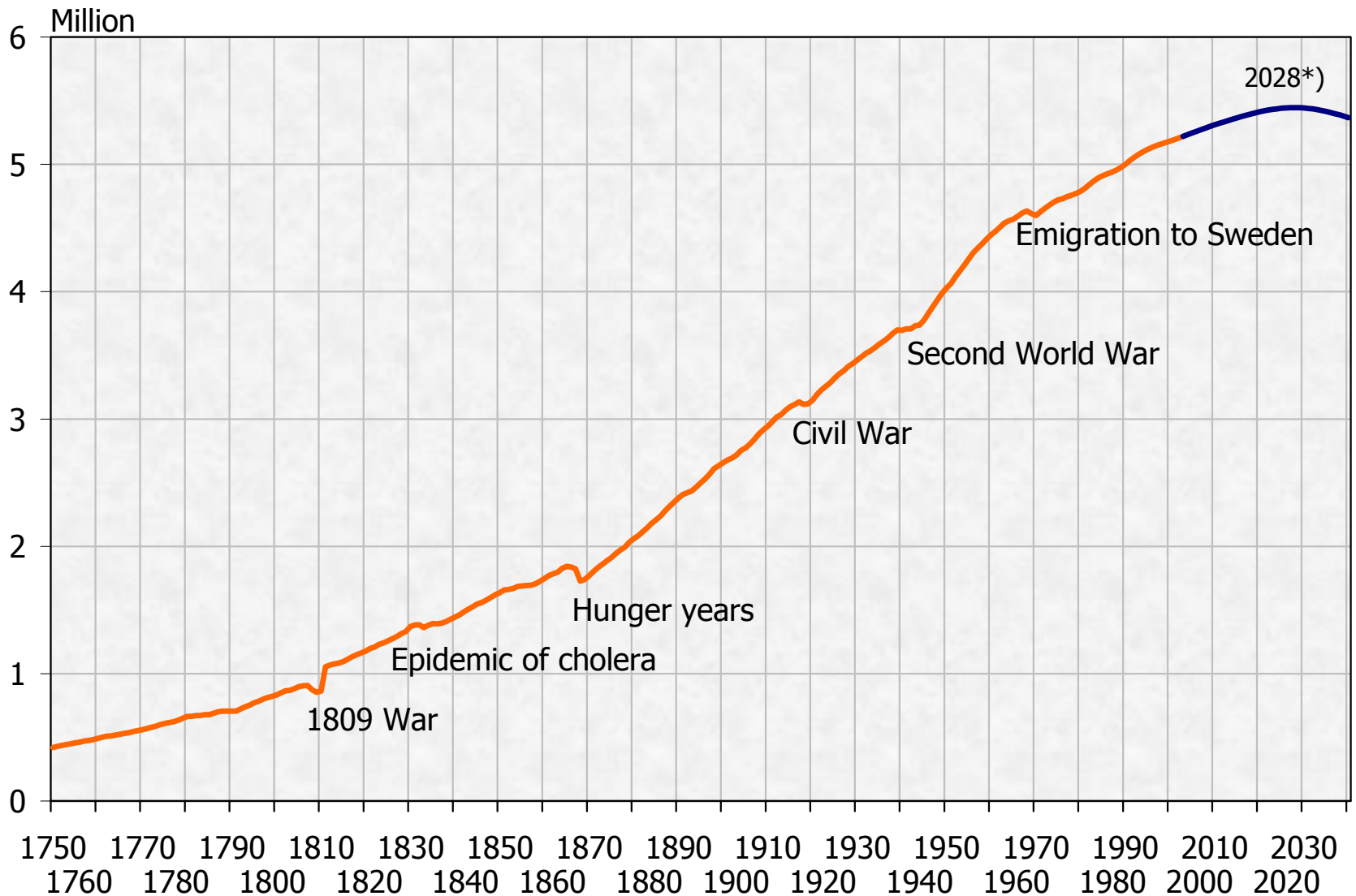


# Structure

- The demographic change
- Policy approach
- Achievements
- Remaining challenges



# An unprecedented change in sight: population of Finland starts to decline by 2030



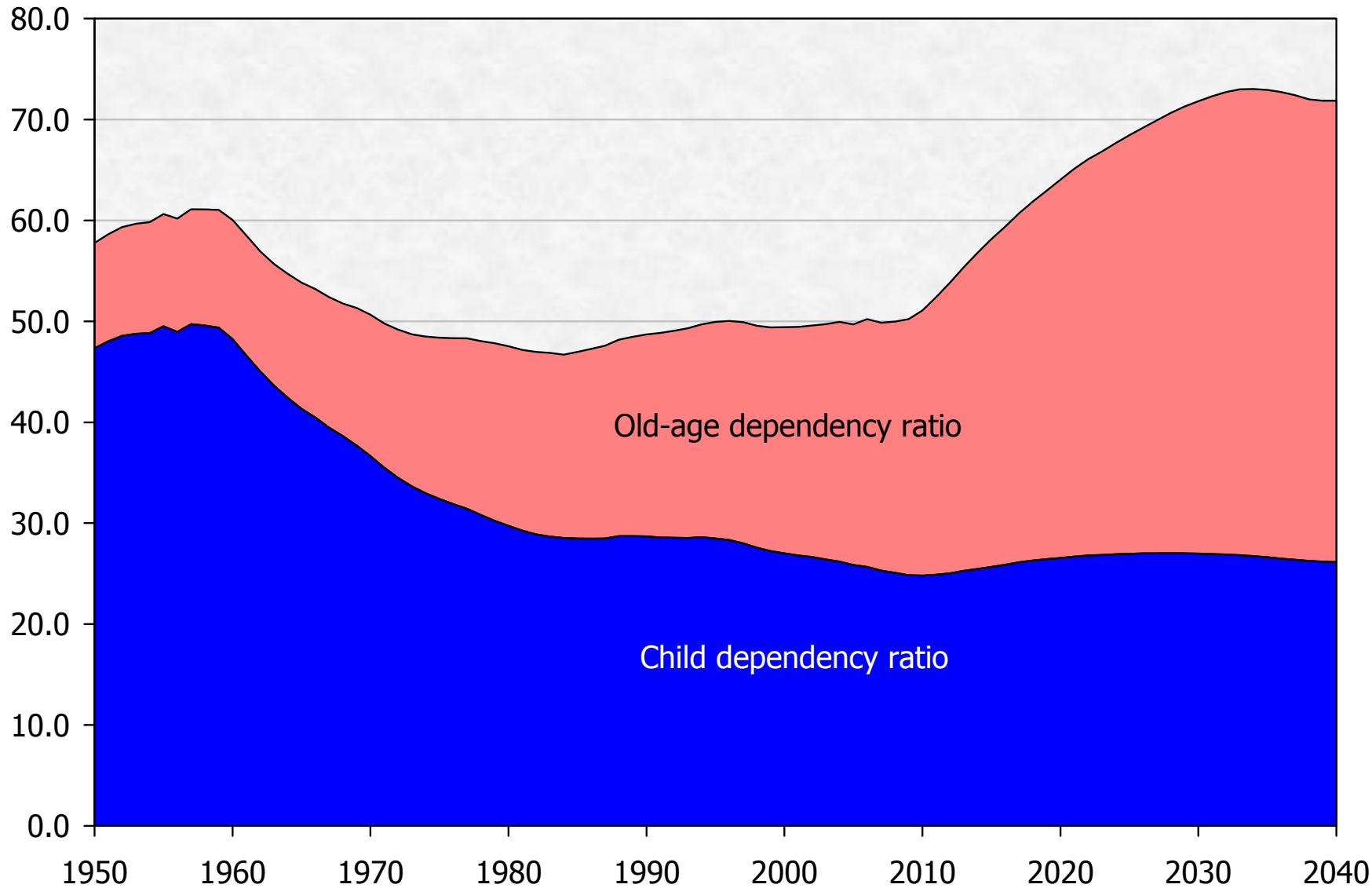
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Source: Statistics Finland

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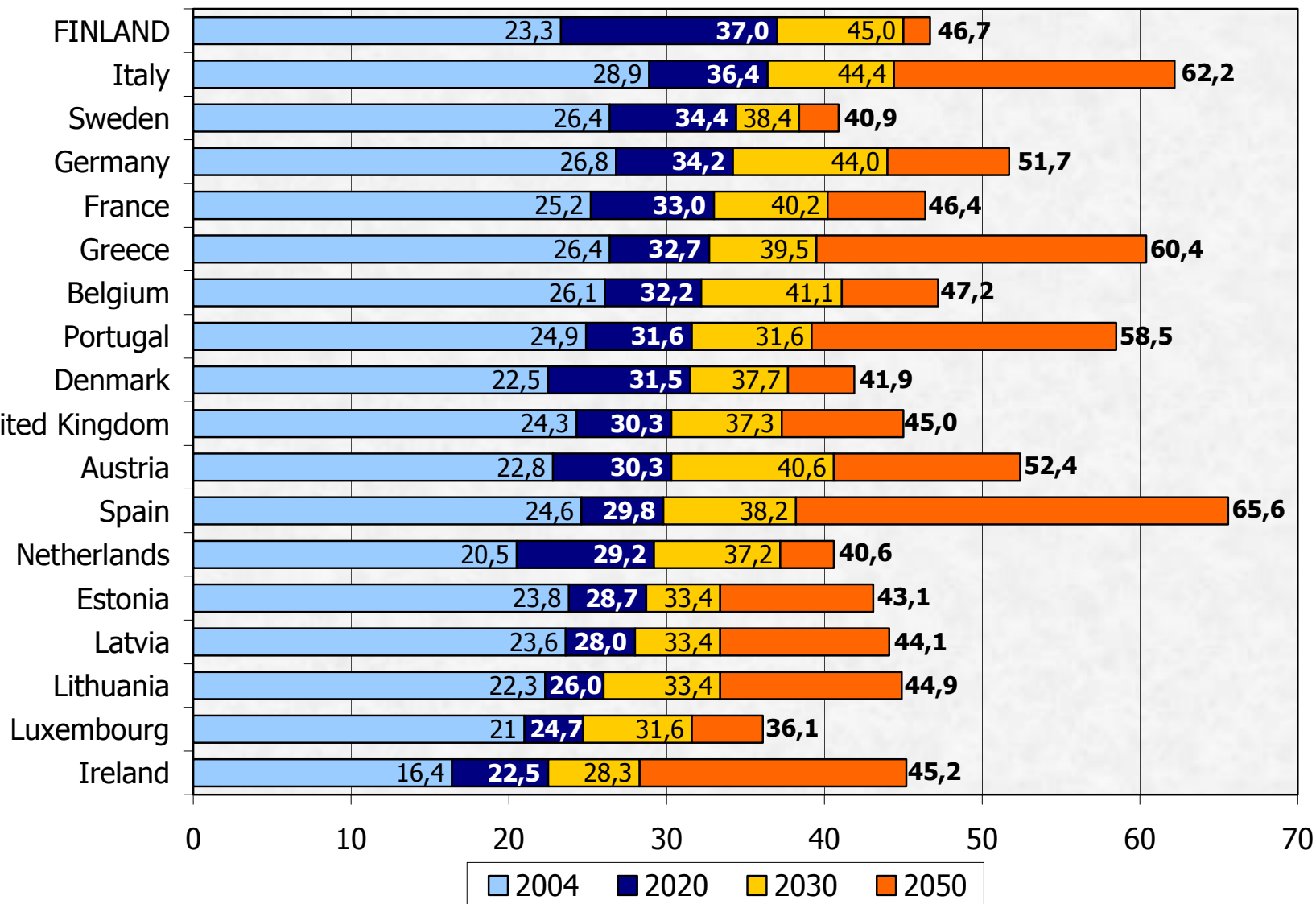


# A significant change in the dependency ratio very near



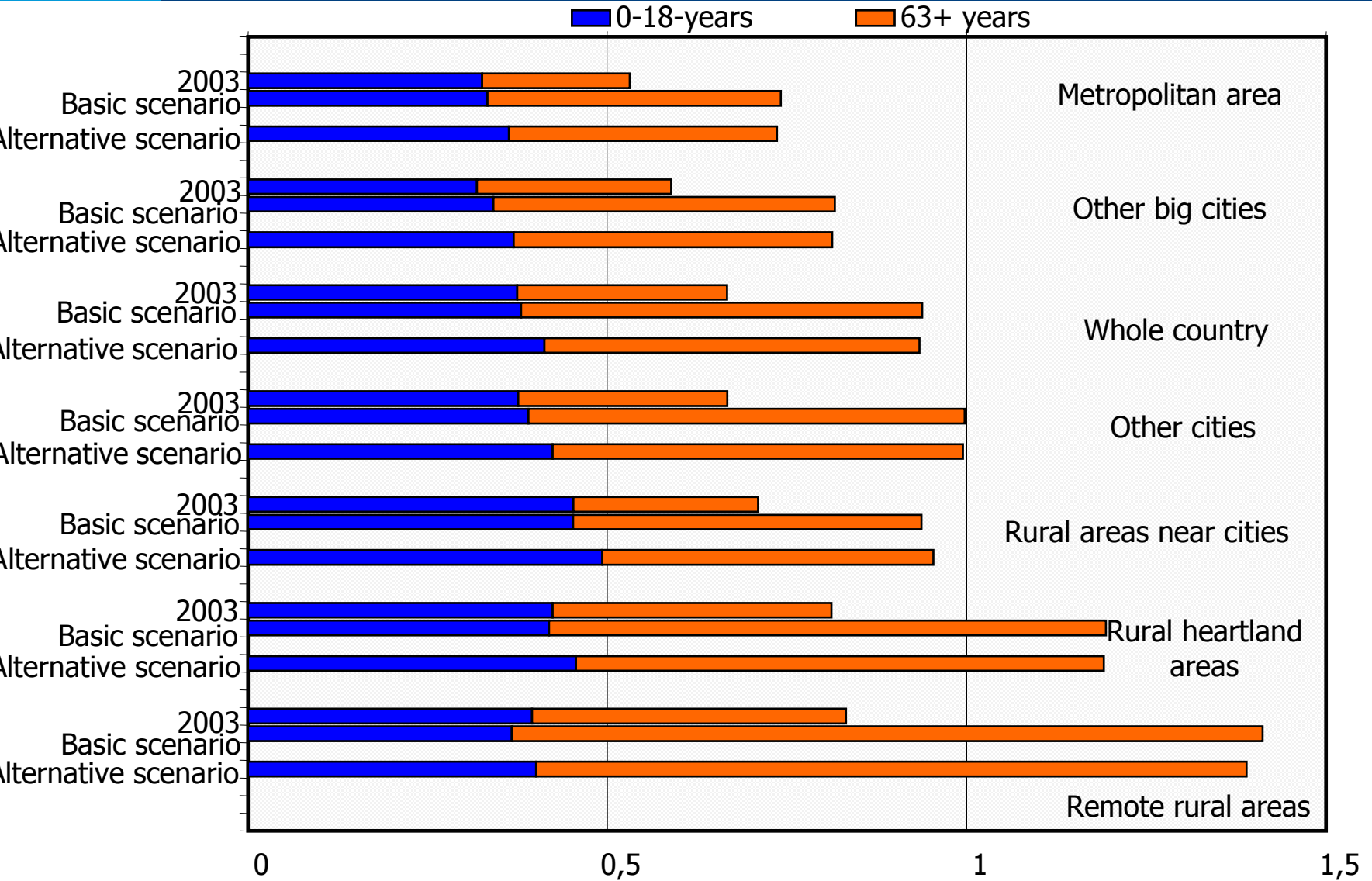


# Finland is one of the fastest ageing societies in EU: the old-age dependency ratio





# Regional differences in dependency ratios increase substantially between 2003 and 2030





# The economic consequences of ageing pervasive

- Decline of labour supply
- Negative effect on labour productivity
- => GDP growth rate (even per capita) will decline
- Pension expenditure up
- Health and care expenditure up
  
- As a consequence, strong pressures on the sustainability of public finances
  
- A special problem in the provision and financing of public services in the regions with the weakest age structures



# Basic conclusion: a broad approach needed

Not a new conclusion but systemized in the future report on ageing by the government to the parliament in 2004:

Needed:

- Population policy
  - Improving preconditions for higher birth rates
  - Increasing immigration
- Promoting health and functional ability
- Taking care of children and the young
- Strengthening the potential for economic growth
- Reforming benefit schemes (including the pension reform of 2005 on which the decision was taken a few years earlier)
- Safeguarding regional development and welfare services
- Supporting and utilising the resources of the older people



# The pension reform of 2005

- The basic objectives
  - Make the system more sustainable
  - Increase labour market participation
  - Make the system more equitable
- The main elements of the reform
  - Linking benefits to life-expectancy
  - Increase of pre-funding
  - Introduction of a flexible retirement age (63-68)
  - A sharply increasing accrual rate after 63 years of age
  - Restriction of access to early retirement schemes
  - Basing of the benefits on all life-time earnings
  - Change of indexation rules
  - Redefinition of accrual for certain non-working periods
  - Transition rules => a "new entrants reform"



# Other measures to lengthen working life and to increase employment of the elderly

- Reforms in the unemployment benefit system in the recent years
- Activation of labour market policies 2006->
- Several measures to help people remain fit and competent to stay in the labour market
  - National programme for ageing workers 1998-2002
  - Veto: continues the above programme: health, work safety
  - Tykes: development of working communities
  - Noste: re-education of the least educated (over 30 years of age)
- Reduction of employer contributions for low wage jobs 2006->



# General policies to promote employment and productivity -

- A long-standing emphasis on accumulating human capital
  - Rapid expansion of university and vocational training systems from the late 1960s
  - Creation of comprehensive basic school as of early 1970
  - Gradual reorientation of industrial policy towards emphasising R&D and general preconditions for innovation
- Social policies to support labour market participation since 1960s
  - Occupational pension system
  - Public day care facilities
- In the midst and aftermath of the economic crisis of the early 1990s
  - Restoration of price competitiveness
  - Cuts in spending on social benefits and welfare services, tax increases
  - Substantial increase in public spending on R&D
  - EU and EMU membership
- Later on
  - Reduction of labour taxation
  - Continued emphasis on promoting innovation



# Measures to increase public sector efficiency

- Central government spending limits for the whole Government period
  - Introduced in 1999-2003
  - More rigorous 2003-2007; strictly adhered to
  - Adopted again in April 2007 for 2007-2011
- Central government productivity action programme
  - Reduction of state personnel by 8 % by 2011.
  - Co-ordination and co-operation in finance, human resources administration and IT-operations, increase in electronic services.
- Municipal and service structure reform
  - Key issue, as the municipalities have the responsibility of providing most welfare services
  - The main lines decided in 2006, assessment in 2009
  - Cooperation of municipalities in services provision, mergers of municipalities when necessary
  - Reorganisation is helped by a demographic “window of opportunity”, as baby boomers retire in large numbers



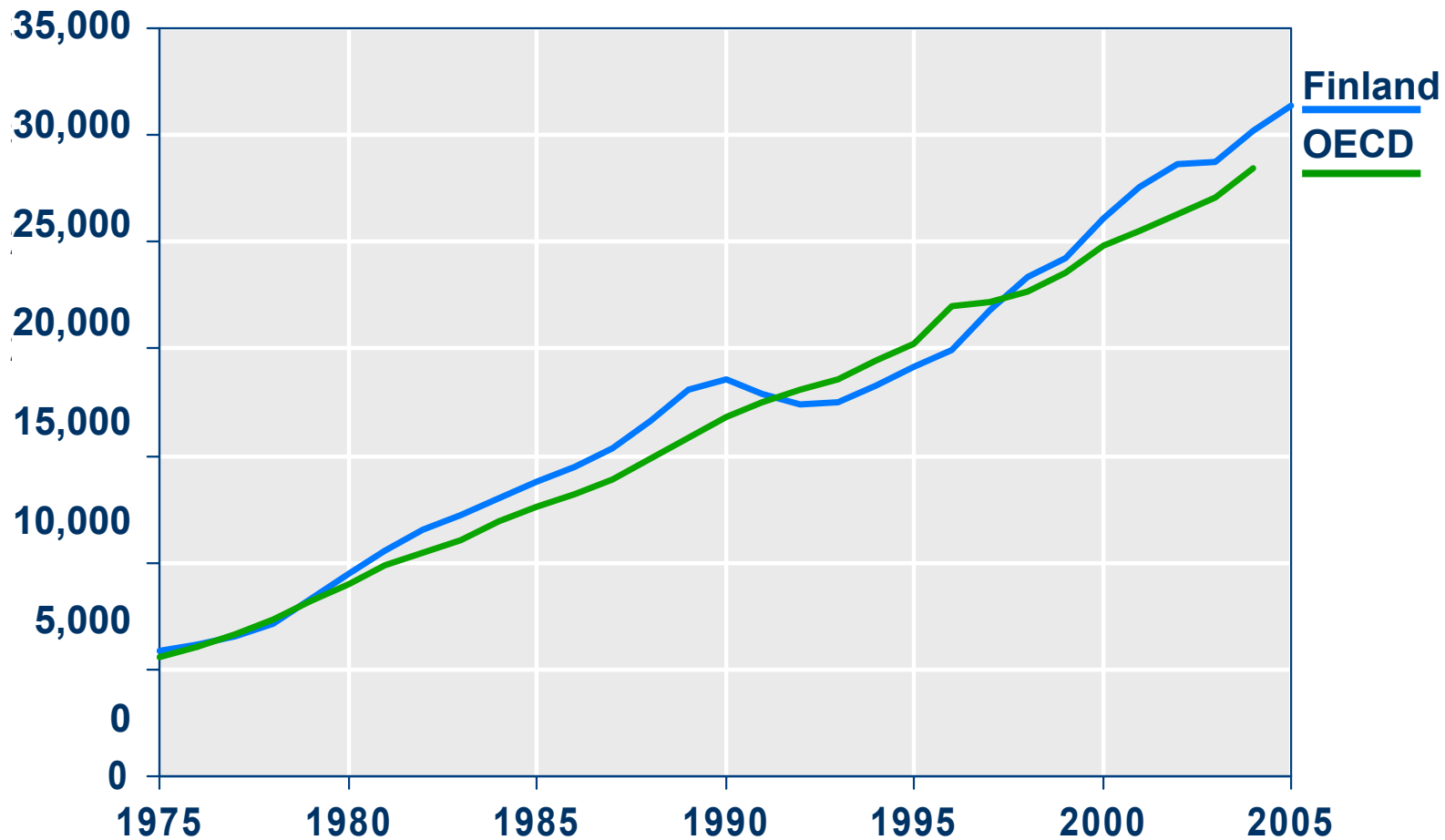
# Many achievements,...

- Relatively good GDP/capita performance achieved while avoiding excessive income equality
- Finland at or very close to the top in many competitiveness comparisons
  - WEF, IMD, PISA, ...
- Public sector efficiency good by international standards
- Labour market situation much improved
  - ER 60 % -> 69 %, UNR: 17 -> 7,8 %
  - New jobs disproportionately skilled ones
  - Recently especially labour market participation and employment of elderly workers up



Finland's GDP/capita has also grown much faster than in the developed countries on average since mid-1990s

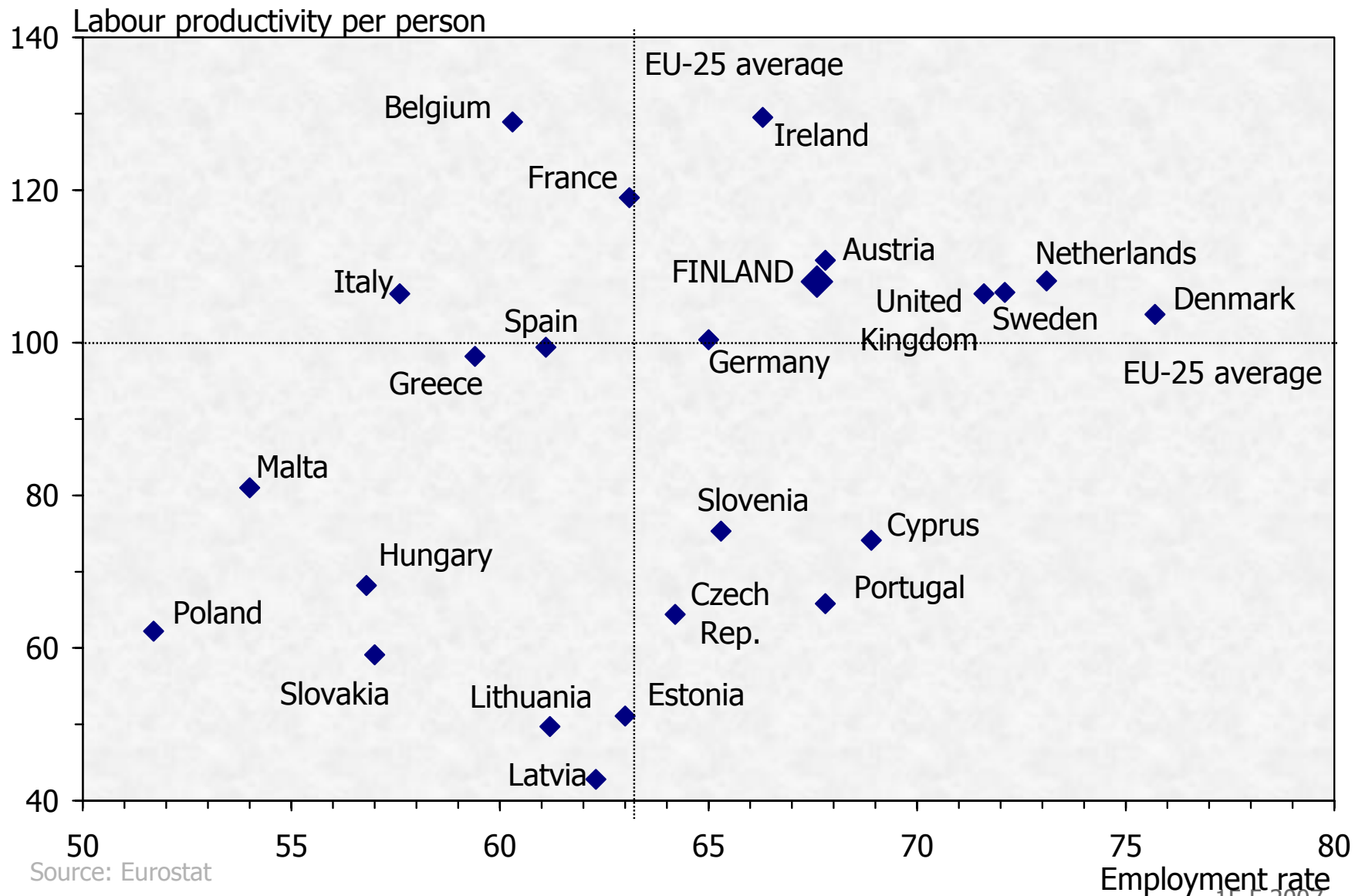
### USD in current prices and PPPs



Figures for Finland according to new calculations from Statistics Finland.

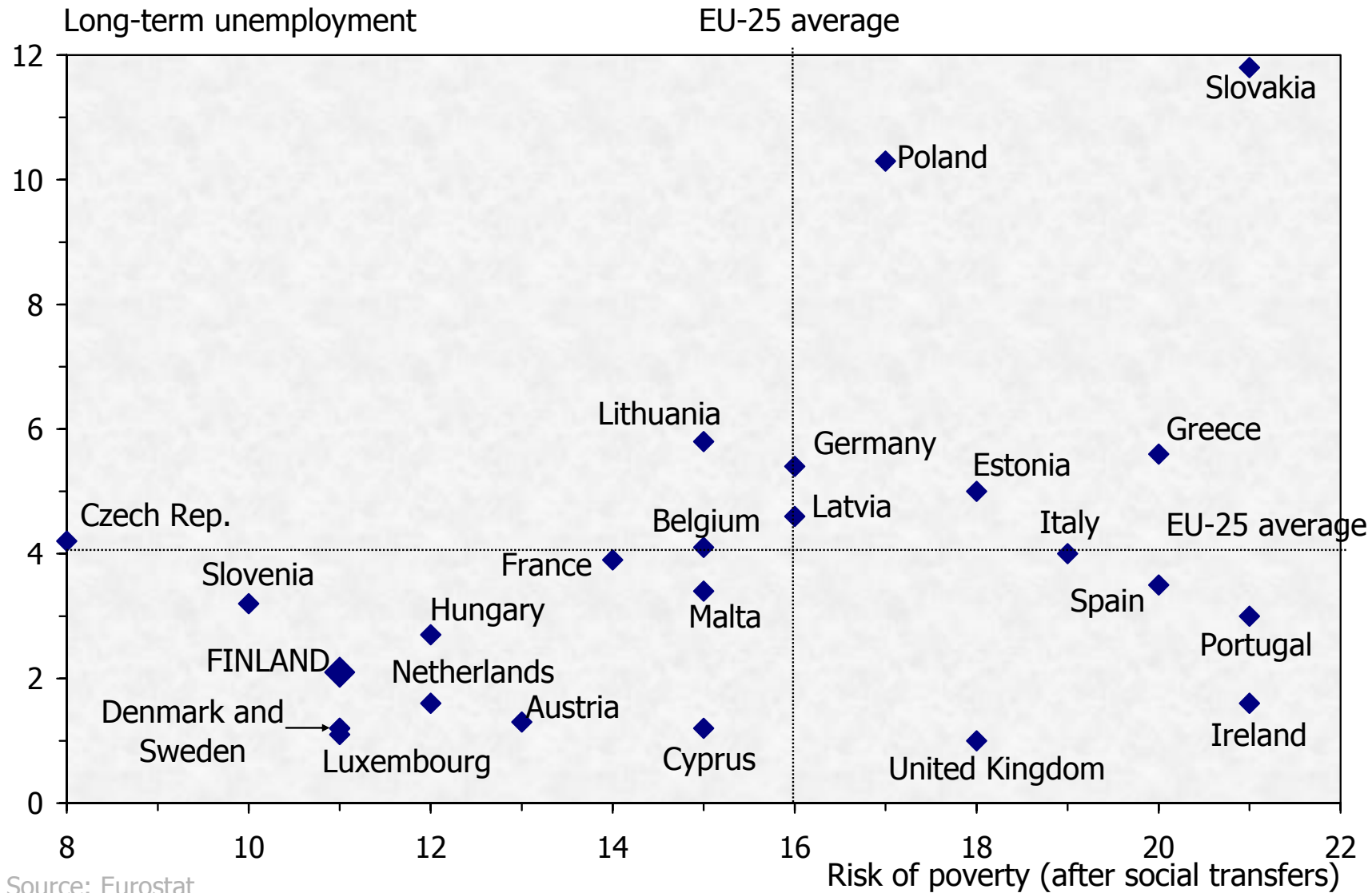


# In Europe, Finland relatively good in both productivity and employment in 2004





# Also in terms of social equality Finland among the best in 2004

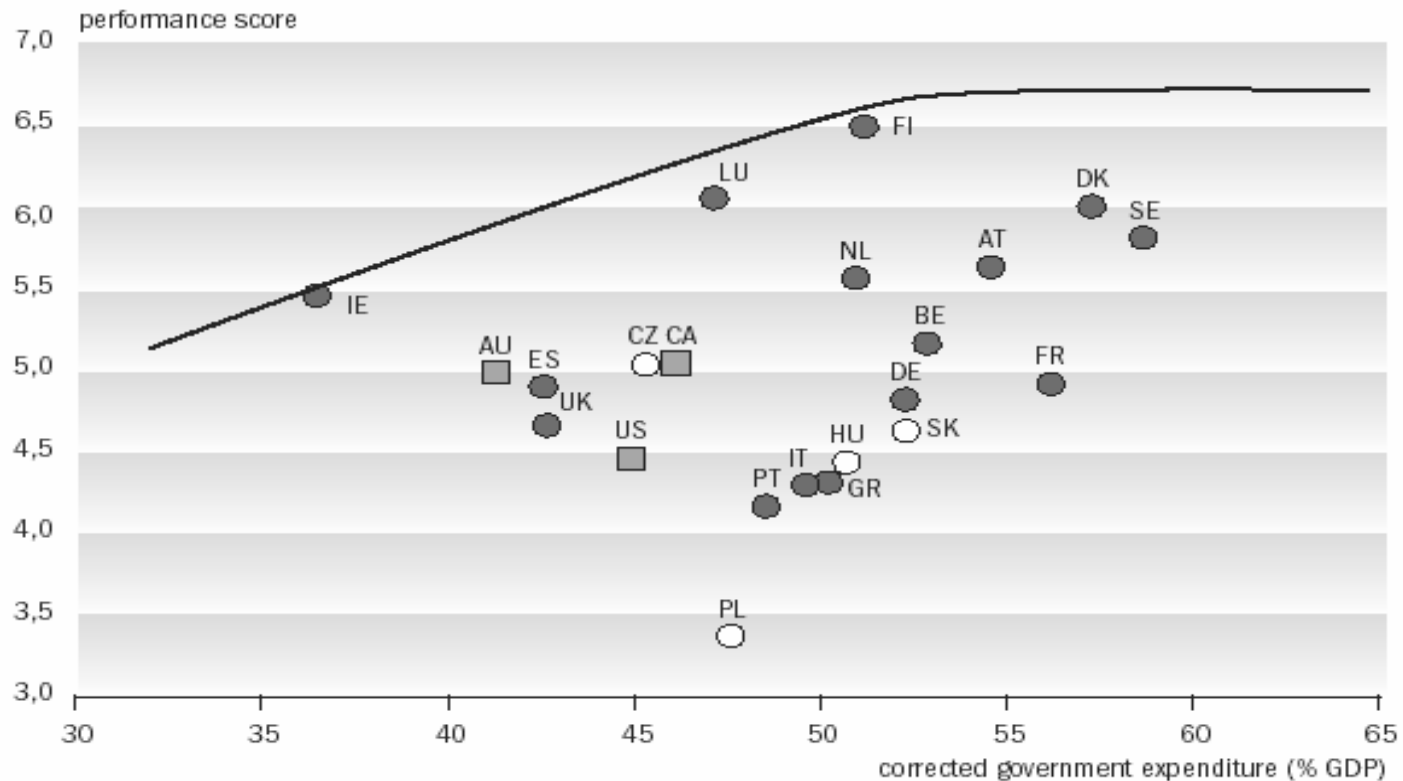


Source: Eurostat



# Public sector efficiency at the top according to one international comparison

Figure 7.10 Overall performance of countries and corrected government expenditure



● EU-15   ○ new member states   ■ non-EU Anglo-Saxon

Source: SCP



# Employment ratios

	1990	1995	2000	2006
15-64	74,1	61,1	66,9	68,9
55-59	60,1	48,9	59,3	67,3
60-64	25,0	18,5	23,4	37,2
65-74	5,7	3,5	3,9	6,0



# Participation ratios

	1990	1995	2000	2006
15-64	76,5	72,3	74,2	74,7
55-59	62,1	63,4	66,2	73,0
60-64	25,3	20,4	24,7	38,9
65-74	5,7	3,5	3,9	6,0



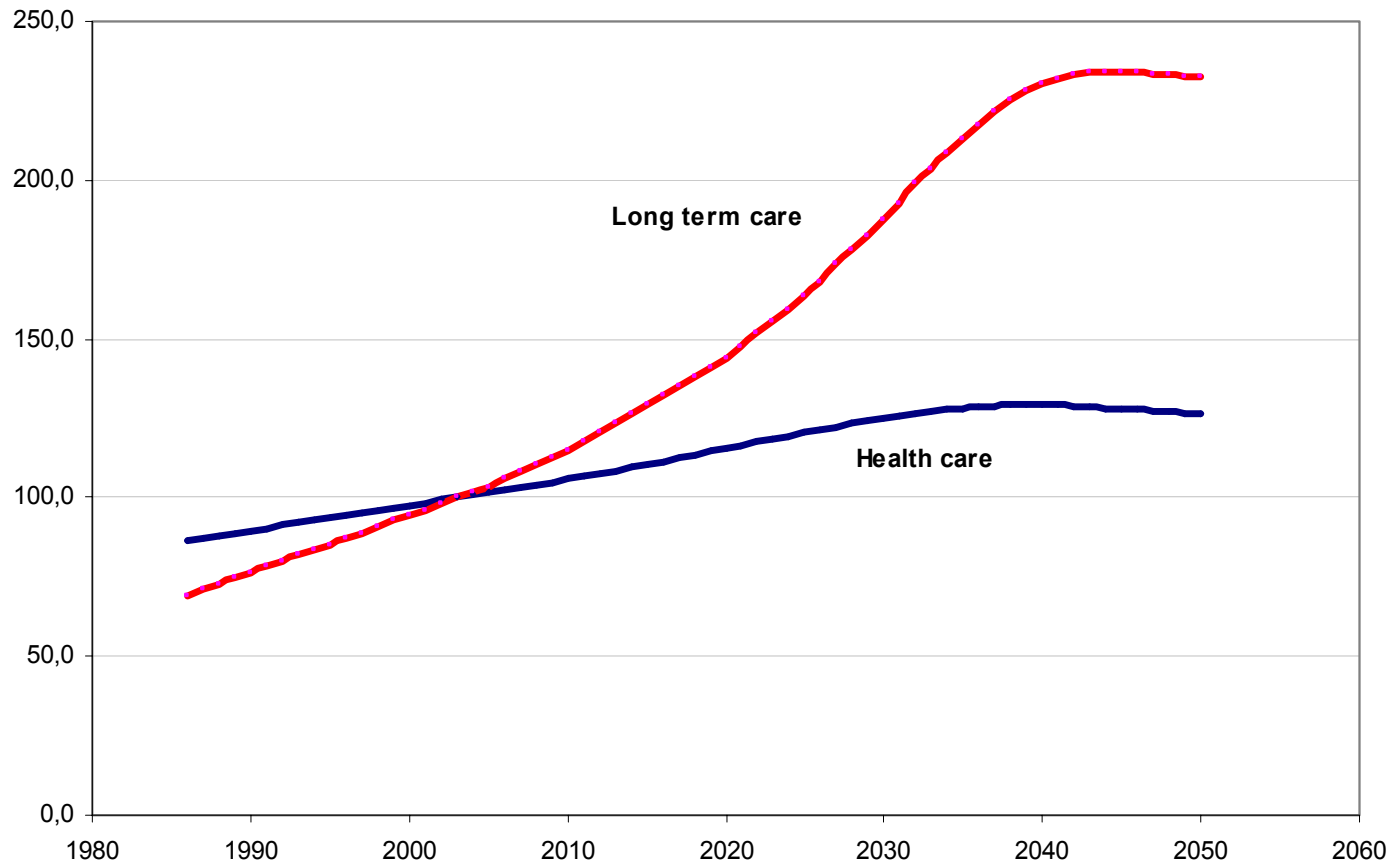
# Nevertheless, many challenges remain

- Employment / unemployment situation still unsatisfactory
- Cost of long-term care and health care still projected to increase substantially
- Despite the pension reform, pension expenditure still projected to increase substantially as a share of GDP
- Improvement of productivity in the provision of public services slow
- Regional differences remain large in general and in the capacity to provide services to the elderly
- Aged workers often still discriminated against
- Obesity and consumption of alcohol threats to public health



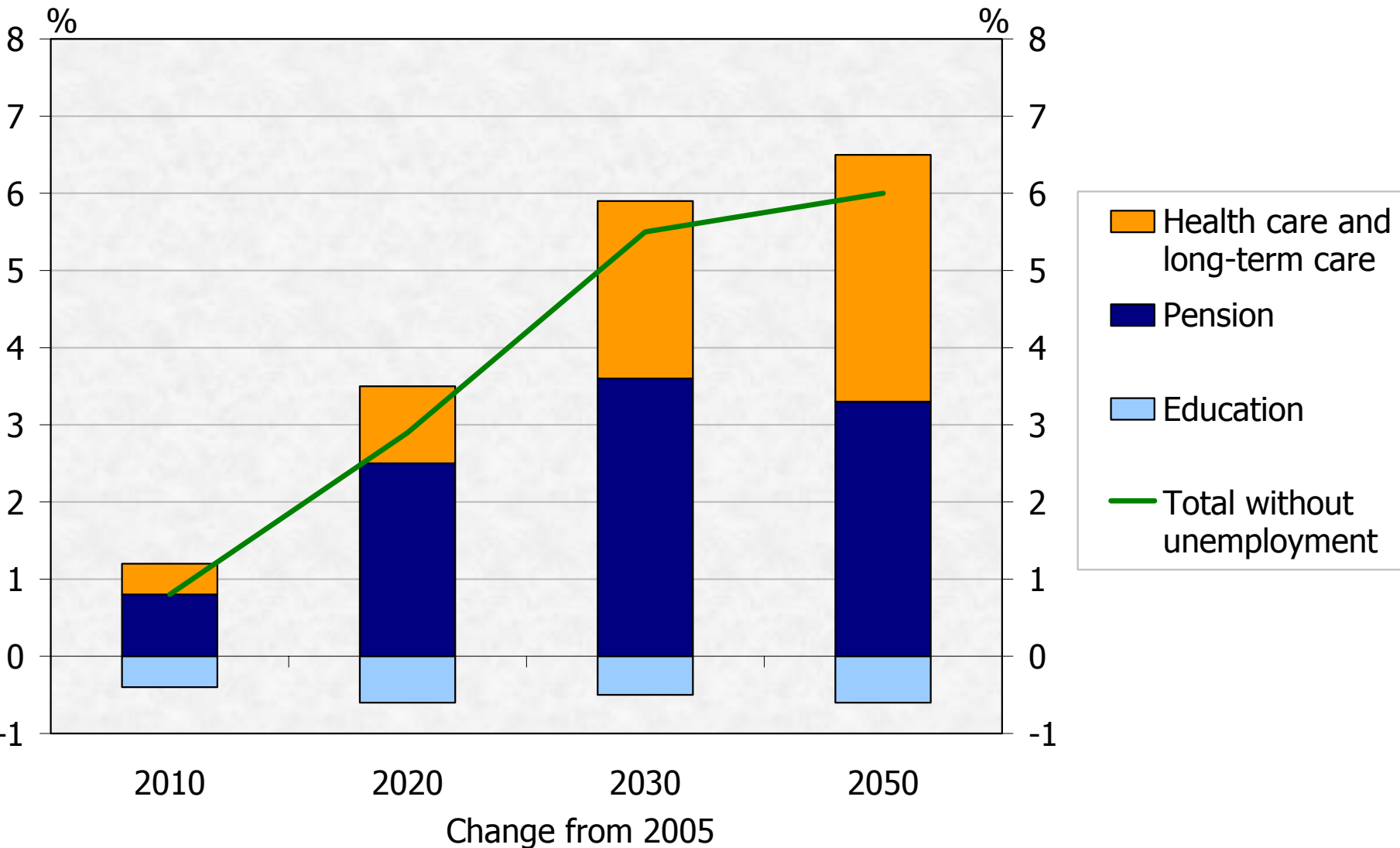
# Substantial increases projected in health care and particularly long-term care expenditures

**Projected costs of health and long term care 2003 = 100**





# The increase in age-dependent expenditure, percent of GDP





# The programme of the new government (15/4/07) seeks to address these challenges

- Again an ambitious employment objective (ER: 69 % -> 72 % in 4 years)
- Continuation of the existing policies to increase employment in the older age groups in particular
- Implementation of the municipal and service structure programme
- A comprehensive reform basic income support systems to improve employment incentives and at the same time reduce poverty
- A horizontal policy programme on health promotion
- A horizontal policy programme on the well-being of children, youth and families
- An overall assessment to be made on the sufficiency ageing policies early enough to allow new measures to be taken during the government period