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INTERNATIONAL SOCIAL SECURITY ASSOCIATION

# Executive summary

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## Megatrends and social security Demographic changes

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This fourth ISSA report on selected megatrends focuses on key future demographic changes and their likely impacts on social security systems. The aim of this report – like all reports in this series – is to highlight and analyse unexpected, emerging and uncertain trends ahead and to identify possible discontinuities from previous trends. The report is not exhaustive; instead, it focuses on trends likely to have the greatest impact on social security systems and which will be the most challenging to address. This report follows on from other ISSA work on demographic changes including that carried out in the triennium 2008–2010 that culminated in a series of reports presented at the World Social Security Forum in 2010.

Although the aim is to identify global and regional trends, there are often significant variations across and even within countries. The report therefore does not attempt to accurately predict and project future trends everywhere, but its objective is rather to highlight those possible and probable developments that are likely to affect significantly social security systems.

A key aspect of the report is to ask how social security systems can respond to demographic changes in ways that are effective and efficient. In this regard, institutions and policy-makers should be able to anticipate and assess how trends are likely to develop and what their impacts will be. This report seeks to assist social security administrations and policy-makers in doing this.

The report consists of three chapters. The first chapter identifies key future trends affecting mortality and morbidity outcomes. Initially, it provides a global demographic snapshot with a summary of recent trends and offers the identification of key selected future trends and the factors underlying these. It then discusses regional variations in trends. Finally, the discussion considers the importance of predicting these trends – and the mechanisms employed to do so – so that institutions can better appreciate their impacts. An appreciation of the factors behind demographic trends and their evolution is vital if social security institutions are to effectively anticipate and mitigate these. The second chapter seeks to identify how such future changes can be estimated, anticipated and projected in the most appropriate and realistic way. This is essential, as it is not only the mid-range projections that are important, but also the variation of outcomes, sensitivity and the experience in the “tails” of future mortality and morbidity distributions. Producing projections that are as accurate as possible clearly assists

administrations to better plan and anticipate the future demands on social security systems and how responses to these can best be delivered. However, such projections need to be straightforward to interpret and understand, and an explanation given regarding the sensitivity of outcomes to changes in the underlying factors. The report therefore sets out the importance of properly defining the variables to be assessed, the management of data to be used in the process, the role of actuaries, demographers, health experts and statisticians in the process and, finally, how to take into account regional and socio-economic variations. It is underscored that social security administrations need to manage such a process effectively to ensure that future changes are anticipated and managed. The third chapter highlights the challenges and responses of social security systems to these trends. It explores, for example, how systems can adapt to those population groups whose mortality and morbidity rates are not improving, while, at the same, ensuring that retirement and medical systems are sustainable given overall life expectancy improvements.

## Key findings

A major global demographic trend is population ageing. As the WHO notes, “[f]or the first time in history, most people can expect to live into their 60s and beyond. The consequences for health, health systems, their workforce and budgets are profound”.<sup>1</sup> The global population continues to age. Nevertheless, the extent and nature of ageing is uneven. Moreover, the extra years of life gained are not all lived in good health. At the same time, the nature of the health challenges facing social security systems is changing. The achievement of social security systems’ objectives may be at risk if these challenges are not correctly anticipated and appropriate measures taken; therefore, benefit and service design and delivery must be appropriate in this new environment. Arguably, the biggest challenge is in countries with relatively under-developed social security systems but which are already ageing quickly; here the focus will be on covering the population without any or with limited social protection.

Social security institutions should play an ever-increasing role in mitigating the negative impacts of the changes that lie ahead and a number of examples demonstrate that this is already happening. However, ageing in itself is not a negative development – a more mature population is not per se a “burden” on society given that many people are able and willing to work for longer than was the case for previous cohorts, or to contribute in other ways to society. Therefore, while improved longevity directly affects retirement system costs, the effect of ageing on health system expenses is more complex as it can be influenced proactively by effective preventive measures. In addition, given that the older population plays active roles in both the formal and informal economy (e.g. providing care), the challenge for social security systems is to reflect this reality in the broader context of enabling older cohorts to participate actively in society. This can be done by putting in place effective active ageing policies, for example, which supports other measures improving the financial sustainability of social security schemes. However, while improved health and safety measures can support later retirement ages, as the

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<sup>1</sup> WHO. 2015. *World report on ageing and health*. Geneva, World Health Organization.

OECD reports, “even with the best of efforts, working longer is not an option for everybody; some people will need to retire early due to job strain and declining health no matter how high the pension age is set”.<sup>2</sup> This requires, when justified, a differentiation in the approaches to different groups of the population.

People are in general living longer and, for many, in overall better health than was the case for previous generations. However, in reality this global picture hides an increasing variation of experiences. Inequality of outcomes and unhealthy life expectancy are the two key “hidden” elements of this broader picture. The trend of increasing inequality in mortality – which sees the wealthier living longer and in better health while those in lower socio-economic groups see a stagnation or fall in life expectancy – is likely to continue unless more effective strategies on how to remove the causes of such inequality are developed. As the World Health Organization reports, “strategies must look not to just improve conditions for the best-off or average older person”.<sup>3</sup> While increasing longevity has been the focus of numerous discussions on intergenerational equity, the intra-generational equity aspects of such changes have not always been addressed. In particular, it means that measures taken – for example, higher retirement ages – have sometimes addressed the former, but have not necessarily always assessed the impact on the latter. As the OECD state, “[p]olicies encouraging people to work longer following the average increases in life expectancy may disproportionately put individuals in lower socio-economic groups who would be working longer, but not necessarily living longer, at a disadvantage”.<sup>4</sup>

An analysis of underlying trends suggests that the future outcomes of improvements in mortality may not be as great as in the past or, at least, that future improvements will not be as rapid as previously experienced. One of the reasons is a significant shift in the causes of death over recent decades, with a growing number due to non-communicable diseases such as diabetes and mental health issues; these in turn have significant financing implications for long-term care and health care systems. Such a shift indicates that the previous levels of improvements in mortality may not be repeated in the future, because comparable reductions in deaths from the new emerging causes may not be achieved easily. Healthy life expectancy is not increasing at the same rate as life expectancy. Thus, there should be more focus on the morbidity implications of this new reality.

The report considers in detail future changes in health and the impact on social security systems. The relative shift in disability cases from those assessed with a physical condition to a mental condition will continue, with the increasing number of cases assessed at a younger age and among women requiring more tailored approaches. The increased incidence of non-communicable diseases – particularly costly for society because of direct (e.g. treatment) and

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<sup>2</sup> OECD. 2016. *Pensions at a Glance 2015: OECD and G20 indicators*. Paris, Organisation for Economic Co-operation and Development.

<sup>3</sup> See footnote 1.

<sup>4</sup> OECD. 2016. *OECD Business and Finance Outlook 2016*. Paris, Organisation for Economic Co-operation and Development.

indirect (e.g. loss productivity, informal carer opportunity) costs – and multi-morbidity (a simultaneous occurrence of different health conditions) raise new challenges for society in general and social security systems in particular. Non-communicable diseases mostly affecting elderly populations and mental disorders mostly affecting younger populations both represent large burdens on health care and the economy that are projected to increase in the future. Addressing these will be essential in mitigating social security risks and needs worldwide. These future developments will have significant financial and organizational implications for social security systems given that a main driver of total medical and disability costs tends to be the 20 per cent of population with the worst health status.

The other reason for an ageing population – the fall in birth rates – has financing implications but will also impact directly social security policy and benefits (family allowances, maternity benefits, etc.) as well as influencing wages, education and migration policy responses. Though falling birth rates and increasing old-age dependency ratios clearly raise financing issues, high birth rates and expanding populations are also challenging to manage (for example, education needs in the short term and resource sustainability issues in the long term) as well as increasing the overall dependency ratio in the short run.

The report considers the cases of a number of countries seeking to manage a transitory “demographic dividend” followed by a relatively rapid ageing of their populations and highlights the inherent challenges.

This report touches on the issue of internal and international migration because population size and profile depend heavily on the size and characteristics of such flows. Responses to migration are not covered explicitly in this report as the ISSA has covered these in its [\*Handbook on the extension of social security to migrant workers\*](#) (2014). Importantly however, facilitating migrant flows may help some countries respond to population ageing in the short and medium term, but the effect is likely to be marginal and in the long-run have less clear cut impacts on financing.

Social security administrations and policy-makers can use a number of measures to mitigate and adapt to the more challenging impacts of demographic changes that also support the more positive outcomes of such changes. Examples featured in the report are of earlier interventions and an economic analysis of the costs and benefits of such ex ante measures. In addition, the report highlights the need to work with other stakeholders such as employers to develop and reinforce measures to support older workers in employment. While much of the debate about appropriate responses focuses around parametric reforms, it is likely that we will also witness structural reforms to systems involving changes to their design, financing and delivery and an evolution of the roles of different stakeholders. Concepts of individual and societal well-being will evolve and provide the framework for revised objectives and the policy and delivery choices required to meet them.

One of the challenges in analysing potential responses to meet future demographic changes is that the past is arguably not a particularly good guide to the future – both in the trends observed

and in the measures taken. Changes and reforms made in the past may have been relatively more straightforward to put in place than will be the case in the future. Moving from a dependency ratio of 8 to 4 may make the financing burden for social security systems more challenging, but it is still deemed as “reasonable”; the challenges presented by the ratio moving from 4 to 2 are significantly greater. It is particularly challenging when longer life expectancy brings with it increasing health care costs. It is for that reason that this report seeks to “look forward” rather than analysing past trends and reforms, although these should also be considered to judge what might work going forward. In addition, inequalities in outcomes have increased. Therefore, though people may be healthier on average, health inequalities are likely to mean that total costs will increase given the concentration of health care costs in treating a small proportion of the population. In addition, these changes are taking place in the context of changes in other external factors – including changes in family structures, increasing precarization of labour markets and the impact of climate change and natural resources scarcity on economic growth. These are trends highlighted in two ISSA reports: *Labour market megatrends* (2013) and *Climate change and natural resource scarcity* (2014). Current pressures on public finance – for example, health spending in the European Union reduced by 0.6 per cent per annum from 2009 to 2012 (and remained flat in 2013) compared to an average increase of 4.7 per cent per annum between 2000 and 2009 – is an important constraint.<sup>5</sup> Financial realities mean that approaches will need to focus more on preventive measures, which reduce life-cycle risks as well as changing the nature of benefits and services, developing appropriate administration and communication measures, and adopting a holistic approach that considers all benefit provision.

Responding to the increasing challenges and global burden of non-communicable diseases requires a multi-sector response, involving policy and system adaptation, incorporating preventive and curative treatment components, and including mental health. Proactive efforts are likely to have incrementally greater impact because these diseases and their risk factors are highly amenable to early intervention, before complications (and even symptoms) manifest. This is especially important in low resource settings, given that prevention is often cheaper and simpler than the management of protracted and complicated chronic diseases.

Within this context, a substantial rethink of the structure of social security – from the design, financing and delivery to the management and administration – may involve greater coordination between different branches of social security with an overview of the system, rather than the scheme, benefits, costs and delivery (i.e. across disability, unemployment, health and retirement systems). A focus on the “how” as well as on the “what” will be necessary – to increase service capacity and transform benefits will require the inputs of trained and qualified staff. Without an appropriately trained health workforce of sufficient size, for example,

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<sup>5</sup> OECD. 2014. *Health at a glance: Europe 2014*. Paris, Organisation for Economic Co-operation and Development. OECD. 2015. *Focus on health spending* (OECD health statistics 2015). Paris, Organisation for Economic Co-operation and Development.

countries will be unable to realize accessible, affordable and quality universal health care, thus jeopardizing wider social development goals.

## Source

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The International Social Security Association (ISSA) is the world's leading international organization for social security institutions, government departments and agencies. The ISSA promotes excellence in social security administration through professional guidelines, expert knowledge, services and support to enable its members to develop dynamic social security systems and policy throughout the world.

The ISSA was founded in 1927 under the auspices of the International Labour Organization.