

# Financial Stability And Ageing In Europe And The US: The Connection To Health And Retirement Systems

Mary Helen McSweeney-Feld, Iona College, USA

## ABSTRACT

*An ageing population and expected future increases in the demand for long-term care services are important policy concerns in many European countries. According to the 2010 Eurobarometer survey 73, Europe faces major structural changes – globalization, climate change and an ageing population (European Commission, 2010). Many Europeans also feel that families have to provide too much support for their older, dependent persons. Similar concerns have been expressed by individuals and policymakers in the US (Kinsella and He, 2009). These concerns are further exacerbated by the recent global economic downturn and the European and US financial bailout packages, which are only a short-term remedy to the complex issue of ageing in these geographic areas. This paper looks at the health and welfare systems of Europe and the United States, the scope of graying demographics in these areas, and the impact that these factors have on future financial stability in light of our attempts to recover from the current economic downturn. It also examines a number of potential solutions for economic recovery in an ageing society.*

**Keywords:** Ageing; long-term care; economic downturn; health care; pension; retirement

## INTRODUCTION

An ageing population and expected future increases in the demand for long-term care services are important policy concerns in many European countries. According to the 2010 Eurobarometer survey 73, Europe faces major structural changes – globalization, climate change and an ageing population (European Commission, 2010). Many Europeans also feel that families have to provide too much support for their older, dependent persons. Similar concerns have been expressed by individuals and policymakers in the US (Kinsella and He, 2009). These concerns are further exacerbated by the recent global economic downturn and the European and US financial bailout packages, which are only a short-term remedy to the complex issue of ageing in these geographic areas.

This paper looks at the health and welfare systems of Europe and the United States, the scope of graying demographics in these areas, and the impact that these factors have on future financial stability in light of our attempts to recover from the current economic downturn. It also examines a number of potential solutions for economic recovery in an ageing society, and the need to re-examine how we approach the relationship between work, retirement and the consumption of health and long-term care services.

## POPULATION TRENDS, HEALTH CARE AND RETIREMENT SPENDING

For decades, Europe has built a health and welfare system designed around providing support to its citizens at what in an earlier time might have been the very first signs of senior citizenship. Greek citizens are eligible for government pensions at age 53, and the French reach full retirement at age 60. Over the next 40 years, a third of Europeans will be older than 60. Age-related public expenditures in the EU are expected to cost the EU27 4.7 percent more of GDP by 2060 (European Economy News, 2009). In the United States, the number of citizens older

than age 65 will double during the next 20 years.(Butler and Hodin, 2010). There is a record number of retirements in some EU countries (Rampell and Saltmarsh, 2009) and there will continue to be large numbers of individuals collecting pension benefits as the Boomer segment of these populations choose to retire in record numbers during the 21<sup>st</sup> century.

Living longer does not necessarily mean living healthier, especially in countries such as Latvia, Lithuania, Bulgaria and Romania. Chronic illnesses such as Alzheimers and dementia will see fast growth in Europe, from 7.7 million in 2001 to 16 million by 2030 (Ferri et al., 2005). While some studies predict declining disability trends for global populations, increasing obesity, and diabetes prevalence may change this outlook and increased longevity may be increased dependence on costly medicine and technology for support. Some European countries have taken action in this area, for example, Sweden has allowed private, for-profit providers to compete for service delivery and imposed cost-containing measures in long-term care benefits (Huber et al., 2009)

### **AGEING, RETIREMENT AND THE EU STABILITY AND GROWTH PACT**

The link between ageing, healthcare and retirement spending and global economic recovery becomes more important for the Eurozone countries (i.e., those who use the Euro) as they participate in the Stability and Growth Pact of the EU. This pact attempts to keep deficit spending in the 16 EU countries that use the Euro as their currency within limits, and to encourage countries to start to think about long-term economic stability. Under the SGP, there is a 3 percent deficit to GDP and a 60 percent debt to GDP limit, and failure to meet this requirement could lead to a series of fines. Unfortunately, the history of previous recessions in the EU from the 1960s to the 1990s has shown that only countries entering recessions with a balanced budget are likely to avoid breaching the excessive deficit condition (Buti et al, 1998). As a result, in March 2005, the Council of the European Union agreed to a modified SGP version, allowing for exceptions such as spending on education, defense, research, aid and other areas. However, this modification does not address the important issue of longevity on health and retirement savings plans as bulging populations need to stretch benefits for longer periods of time (Butler and Hodin, 2010).

### **PUBLIC SPENDING PATTERNS IN THE EU AND THE US**

Estimates of the impact of ageing and public spending across EU member states from 2007 to 2060 show three groups of countries with different amounts of predicted spending for health and welfare systems and benefits. High impact countries, those with spending above 7 percent of GDP, are Luxembourg, Greece, Slovenia, Cyprus, Malta, the Netherlands, Romania, Spain and Ireland. Medium impact countries with spending between 4 and 7 percent of GDP are Belgium, the Czech Republic, Lithuania, Slovakia, the United Kingdom, Germany and Hungary. Low impact countries with predicted spending of 4 percent or less of GDP are Bulgaria, Sweden, Portugal, Austria, France, Denmark, Italy, Latvia, Estonia and Portugal, mostly due to pension reforms in these countries. Consequently, there is no “one size fits all” model or solution to predict EU member country levels of public expenditures (Huber et al., 2009).

Despite the fact that most recipients of health and long-term care services are taken care of at home, more money goes to institutional based health care services vs. home and community-based services in both Europe and the United States (Huber et al., 2009 and Kaye et al., 2010). There has been some growth in public insurance-based long-term care reimbursement systems in Austria, Germany, France and the Czech Republic, and the passage of the CLASS Act in the United States under the recent Patient Protection and Affordable Care Act will permit the extension of long-term care insurance benefits to individuals who may not be good candidates for private long-term care insurance plans. Consequently, a redistribution of spending across care settings to more home and community-based setting may produce substantial savings to governments struggling with significant levels of public spending, or at the minimum, permit service expansions to a growing number of eligible retirees.

### **POTENTIAL SOLUTIONS**

There is solid evidence that aging can be treated as an unprecedented opportunity for investment in economic growth. Economists have found that nations that have a five-year advantage in life expectancy have a 0.5 percent faster economic rate (Bloom and Canning, 2009). In the EU countries, there is a window of opportunity of

about 10 years, during which labor forces will increase, and changes can be made in public health and welfare programs (European Commission, 2009). Structural changes will have to take place at that time, and business and government leaders can seize this opportunity to make a case for a new system of retirement planning, a workplace that values employment of older workers and new ways for treatment of long-term care needs.

Government and private pension plans continue to operate on the assumption that people cease working in their mid-60s and die shortly afterwards. In the 21<sup>st</sup> century, all G-20 countries need to develop new policies based on incentives for retirement planning, financial literacy, employment policies that acknowledge the presence and continued employment of older workers. Increases in the normal retirement age for public and private pensions, encouraging individuals who have retired to return to the workplace and a new corporate culture that acknowledges the fact that there are 5 generations of workers in the labor force can allow individuals in middle age to become an engine of productivity versus dependence.

Payment for health and age-related conditions and their treatment will also require shifts in thinking and policy. A common model of socialized medicine in EU countries is financed through tax revenues, with few opportunities for cost sharing or co-pays for participants. Policies should be developed that incent individuals to opt out and pay for services out of pocket, or take private insurance. Germany has this type of social insurance model, and the United Kingdom has issued a Green Paper to solicit public opinion on other reimbursement options, especially ones that favor the use of non-institutional services and supports with co-pays or with utilization of private insurance. Collaboration on treatment of major chronic diseases such as cancer, diabetes and Alzheimers can also effectively utilize public funding commitments. As government leaders meet on issues of the global debt crisis and financial recovery, attention should also be paid to thinking about work, retirement planning, funding for long-term care and age-related chronic diseases, as a lack of attention to these areas could prove to be a major barrier to long-term economic recovery and growth.

## **CONCLUSIONS AND IMPLICATIONS FOR FUTURE RESEARCH**

Continued research needs to be pursued on the connection between global financial recovery and growth, global ageing trends and funding for health and welfare systems. Currently, research segments the two areas, and EU member states need to acknowledge the link to achieve sound budgetary positions and address their levels of debt. The premise of the Stability and Growth Pact for EU countries on the Euro was to promote fiscal responsibility under the EU agreement, and there is no better time to engage in problem-solving policies and societal change, despite the questioning and objections of members of the population.

Implications for future research include the need for further testing of the relationship between economic cycles, ageing of the population and funding for public health and welfare programs. Leadership from the private pension sector that encourages employment of older workers and increases in the retirement age under private sector plans may promote changes in public sector coverage. Demonstration programs that encourage creative and innovative policy solutions should be established and evaluated as models for all countries affected by global ageing and problems in funding their health and retirement plans.

## **AUTHOR INFORMATION**

**Mary Helen McSweeney-Feld**, Ph.D. is Associate Professor and Program Director of the MBA in Health Care Administration at the Hagan School of Business, Iona College, New Rochelle, New York. She is the author of numerous monographs, book chapters and peer-reviewed journal articles on long-term care administration, long-term care insurance and employee benefits. She is a member of ACHCA's Academy of Long-Term Care Leadership and Development for 2010-2012, the Health Leaders of New York/ACHE Regent's Advisory Council, and the Regional Advisory Council for the Greater Pennsylvania Chapter of the Alzheimer's Association.

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