



UNITED NATIONS  
UNIVERSITY  
CRIS

Institute on Comparative Regional Integration Studies



## Future Trends Series - GR:REEN Project

### Title of the report

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**The impact of ageing on public expenditure: projections for the EU25 Member States on pensions, health care, long-term care, education and unemployment transfers (2004-2050)**

### Area

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Demography

### Reporter

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Economic Policy Committee and the European Commission

### Type of the Reporter

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International Organisation

### Periodically updated?

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Yes

### First issued year

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2001

### Latest update

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2006

### Official website

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[http://ec.europa.eu/economy\\_finance/publications/index\\_en.htm](http://ec.europa.eu/economy_finance/publications/index_en.htm)

### Language available

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English

### Short summary

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This report aims to provide a detailed description of age-related public expenditure projections for all 25 Member States covering pensions, health care, long-term care, education and unemployment transfers.

### Key trends

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#### Demographic Trends

- Europe's population will be slightly smaller, and significantly older, in 2050. Fertility rates in all countries are projected to remain well below the natural replacement rate. Life expectancy at birth, having risen by some 8 years since 1960, is projected to rise by a further 6 years in the next five decades. Inward migration flows will only partially offset these trends.
- The total population of the EU25 will register a small fall from 457 to 454 million between 2004 and 2050. Of greater economic significance are the dramatic changes in the age structure of the population.
- Starting already from 2010, the working age population (15 to 64) is projected to fall by 48 million (or 16 per cent) by 2050. In contrast, the elderly population aged 65+ will rise sharply, by 58 million (or 77 per cent) by 2050. The old-age dependency ratio, that is the number of people aged 65 years and above relative to those between 15 and 64, is projected to double, reaching 51 per cent in 2050.
- Europe will go from having four people of working age for every elderly citizen currently to a ratio of

two to one by 2050.

### **Labour Market Trends**

- The overall employment rate is projected to rise from 63% in 2003 to 67% in 2010 and to reach the 70% Lisbon employment rate target in 2020.
- The projected increase is mainly due to higher female employment rates, which will rise from 55 per cent in 2004 to almost 65 per cent by 2025 as older women with low employment rates retire and are gradually replaced by younger women: the 60 per cent Lisbon employment rate target for females will be reached in 2010.
- Even sharper is the projected increase in the employment rate of older workers, by 19 percentage points from 40 per cent in 2004 to 59 per cent in 2025. This is well in excess of the 50 per cent Lisbon employment target, which would be reached by 2013.
- The total number of persons employed is projected to increase up to 2017, but after 2017, the demographic effects of an ageing population outweigh this effect. After increasing by some 20 million between 2004 and 2017, employment will contract by almost 30 million by 2050.

### **Pension Trends**

- The rise in the old-age dependency ratio is the dominant factor pushing up public spending in the coming decades. However, other factors such as employment rate, eligibility rate and relative benefit level will offset part of the demographic pressure.

### **Health Care Spending Trends**

- In particular, the projections show that changes in the health care status of elderly citizens would have a large effect on health spending.
- Scenarios indicate that the projected increase in public spending on health care is very sensitive to the assumption on the income elasticity of demand and on the evolution of unit costs. Spending on health as a share of GDP could increase at a fast pace if unit costs grow faster than their equivalents in the economy as a whole, on account of public policies to improve access to health or improve quality, or if rising per capita income levels and the impact of technology lead to increased demand for health care services.

### **Long-Term Care Trends**

- An ageing population will create a strong upward impact on public spending for long term care. This is because frailty and disability rises sharply at older ages, especially amongst the very old (aged 80+) which will be the fastest growing segment of the population in the decades to come.
- According to the "AWG reference scenario" based on current policy settings, public spending on long-term care is projected to increase by between 0.1 percentage points and 1.8 percentage points of GDP between 2004 and 2050.
- The projections show that with an ageing population, a growing gap may occur between the number of elderly citizens with disability who are in need of care (which will more than double by 2050) and the actual supply of formal care services.

### **Public Spending on Education Trends**

- The ratio of children and young people to the working-age population is expected to fall over the coming decades, pointing to fewer students relative to the working population.

### **Spending on Unemployment Transfers Trends**

- Unemployment benefit spending in the EU25 is projected to fall from about 1 per cent of GDP in 2002-2003 to 0.6 per cent in 2025-2050. This primarily reflects the assumed lower proportions of unemployed people over the projection period.

## **Suggestions**

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## **Methodology**

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Research from primary and secondary sources and modelling

## **Reference to other trends reports? If yes, which reports?**

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