

NEW



Allianz Demographic Pulse



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2010 – Demographic turning point on the European Union labor market

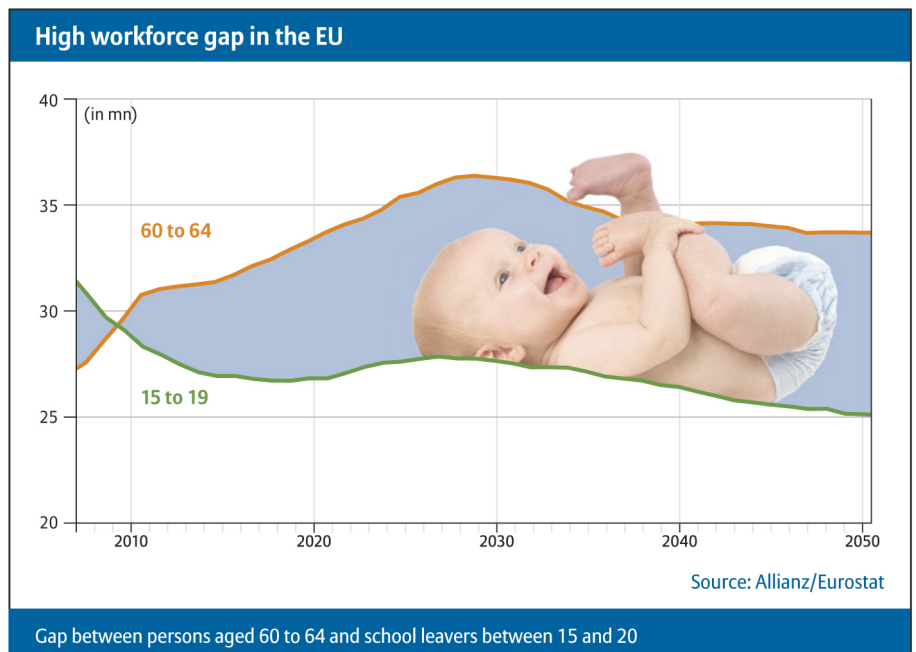
It's down to **the "oldies"** now

The decreasing birth rates over the past few decades indicate that in 2010 there will be for the first time fewer new entrants on the European labor market than retiring workers.

According to Eurostat, the European Union is currently home to around 28.6 million young people aged between 15 and 20. Based on past experience, around two-thirds of them will be looking for a job or training position after finishing school, and become available to the labor market.¹ 28.8 million EU residents are aged between 60 and 65. This means that, in purely arithmetical terms, the number of people approaching or entering re-

tirement will be around 220,000 higher than the number of school-leavers looking for work this year. As the baby boomer generation makes its transition into retirement, this "gap" is set to steadily widen over the next few years, rising to 8.3 million by 2030.

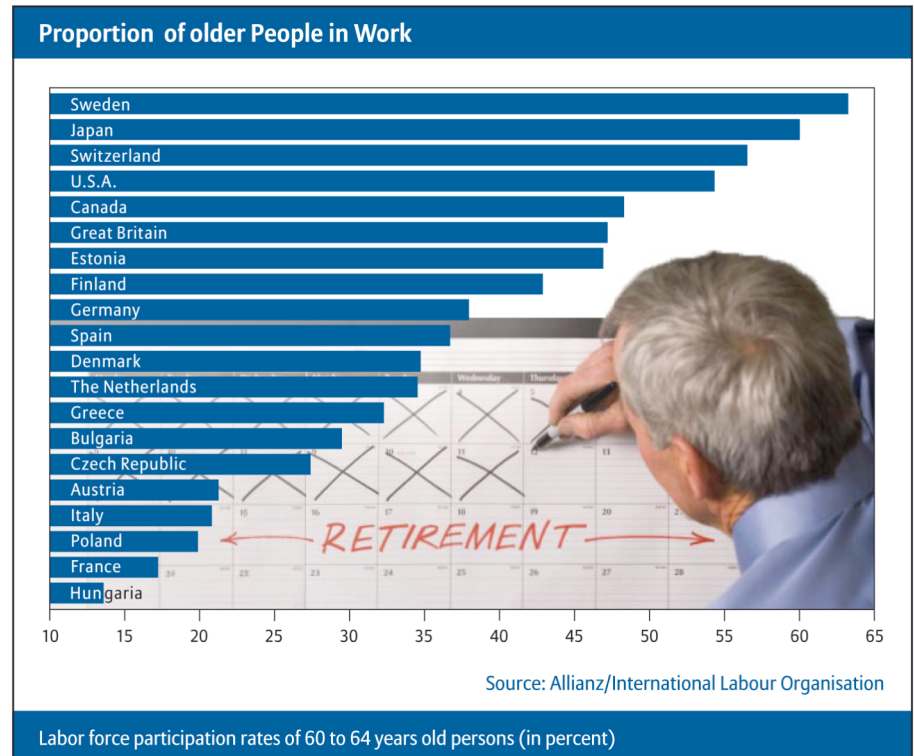
The only other G-20 state currently faced with the same problem is Japan, where around 6 million young people aged



between 15 and 20 are available to replace 10 million 60- to 64-year-olds. By the end of the decade, however, the number of school-leavers in Russia, Canada, South Korea and China will also fall short of the number of employees nearing retirement.² This is associated, both in these countries and in the European Union, with a drop, in absolute terms, in the potential economically active population, i.e. the segment of the population that is of working age, or aged between 15 and 64.

In the U.S., on the other hand, the number of people of working age is still on the rise, due for one to the country's attractiveness as an immigration destination and for another to the rise in the birth rate from 1.8 to 2.1 children per woman since 1980.³ Assuming that birth rates and immigration levels will remain constant in the long term, the number of people of working age in the US will have risen to 18 million by 2030, whereas it is expected to have fallen by at least 13 million in the European Union.⁴

So are the Europeans the lucky ones? Does this mean that our current labor market problems will more or less resolve themselves? No! It would be naïve to hope that unemployment will become a thing of the past simply because of the shrinking working population. Even today, unemployment is largely a structural issue, i.e. the educational and training background of many job-seekers is not compatible with the requirements of the labor market. This is evident from the incessant complaints about the lack of specialist employees, and the efforts made by many EU states to make their countries more attractive to highly-qualified young employees from abroad. Immigration, however, is not a cure-all solution: the number of immigrants required to close the workforce gap cre-



ated by the demographic changes would likely be too much for many countries' integration programs to handle. The laborious approach to tackling unemployment by improving further education and training is the only alternative.

So does Europe have an impoverished future ahead of it? Will the demographic change automatically gnaw away at economic momentum, marginalizing Europe compared with "Chinamerica"? Not necessarily. The way to solve the problem is by adjusting working terms and conditions to suit the needs of an aging population.

By way of example, only around one third of all people aged between 60 and 64 in the EU are still out working at present. In this respect, however, there are considerable differences between the individual countries: according to statistics published by the ILO, Hungary is lingering at

the bottom of the scale at 13.3 percent, while Sweden leads the field with 63 percent of this age group still in work. If the rest of Europe were able to catch up with Sweden, more than 8 million additional employees would be available by 2030, closing the gap between those entering the job market and retirees.

Consequently, aiming to increase the proportion of older people in work is *the* challenge facing labor market policy over the next few years. Key milestones have already been achieved in pursuit of this objective in recent years, with moves to reduce the number of early retirement incentives being introduced as part of pension system reforms in many EU countries. The task now at hand is to create the right environment on the labor market. If the European Union manages to do this, it can serve as a role model in the face of an aging population worldwide – and take some of the strain off its social security systems at the same time.

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1 Source: OECD.

2 Source: UN Population Database, World Population

Prospects: The 2008 Revision. This will apply in Russia as of 2012, in Canada as of 2013, in South Korea as of 2017 and in China as of 2019. NB: In China's case, the calculation is based on the 55 to 59 age group, because the statutory retirement age currently stands at 55 for women and 60 for men.

3 Source: U.S. Census Bureau.

4 Sources: UN Population Database, World Population

Prospects: The 2008 Revision und Eurostat.

Why does Allianz care about demography?

As a global financial service provider, Allianz believes demographic change to be of crucial importance. Identified as one of the major megatrends, demographic change will hold the key to many upcoming social challenges, whether with regard to health, old-age provision, education, consumption or capital markets.

What are the benefits of Allianz Demographic Pulse?

Allianz Demographic Pulse is based on the latest research into various aspects of demographic change. Conducted and written by Allianz experts, it highlights current and globally relevant demographic data and provides an insight into their impact on worldwide economies and societies. To ensure up-to-date coverage of major developments in this field, Allianz Demographic Pulse is published on a regular basis, thus providing ongoing and detailed information about a major trend that is shaping the world we live in.

Why does it matter to journalists and the public?

Demographic change is challenging today's societies in many ways: People are getting older, and this raises the issue e.g. of long-term care and dementia. Furthermore in the future there will be a significant decline in the workforce in all of the world's markets, triggering for example a challenge in pension funding. Only information, awareness and discussion on the topic will help to change attitudes, behavior and situations, so hopefully solve urgent needs and come up with innovative solutions.

Do you have any comments, suggestions or questions? We look forward to your feedback!

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