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**Demography Report 2008:**  
*Meeting Social Needs in an Ageing Society*

**Executive Summary**



## SUMMARY

*Member States can tackle the challenges of demographic change by acting in five key areas.*

In October 2006, the Commission presented its views on the demographic challenges the EU faces and on opportunities for tackling them in the communication “*The demographic future of Europe —from challenge to opportunity*”<sup>1</sup>. The communication expressed confidence in Europe’s ability to adapt to demographic change and notably population ageing, but also stressed the need to act in five key areas:

- Better support for families;
- Promoting employment;
- Reforms to raise productivity and economic performance;
- Immigration and integration of migrants;
- Sustainable public finances.

The Communication also announced that every two years, the Commission would hold a European Forum on Demography. The first Forum took place on 30-31 October 2006, the second on 24-25 November 2008. The fora are an occasion for taking stock of the latest demographic developments and reviewing how policies are responding to demographic change.

*Member States face different sets of opportunities. This report presents comparative data to national policy makers.*

The purpose of this second report is to provide the latest facts and figures that are needed for an informed debate with the stakeholders taking part in the Forum and with the group of government experts on demography, which was involved in the conception of the present report.

As far as possible, data are provided for each Member State, allowing policy makers and stakeholders to compare their own country's situation with that of others, to understand the specificity of their country and, possibly, to identify countries that provide interesting experiences from which others can draw lessons. In so doing, the report responds to the request from Member States who want to learn from the variety of national experience across the European Union. The report focuses in particular on two issues that have received much attention following the adoption of the communication on Europe's demographic future: the modernisation of family policies<sup>2</sup> and opportunities for enhancing the contribution of older people to the economy and society<sup>3</sup>.

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<sup>1</sup> COM(2006) 571, adopted on 12 October 2006.

<sup>2</sup> See the Communication from the Commission *Promoting solidarity between the generations*, COM(2007) 244.

<sup>3</sup> See Council Resolution of February 2007, DOC 6216/1/07.

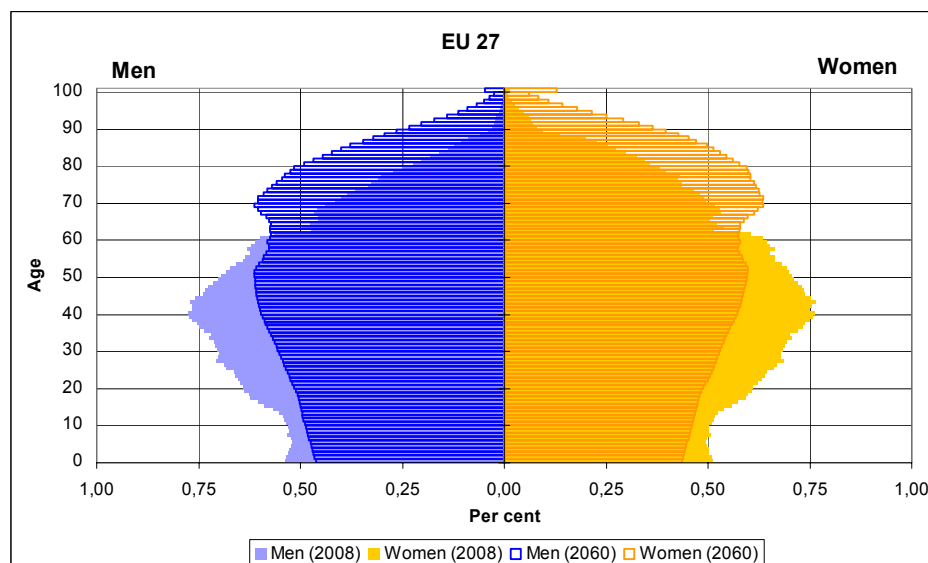
*Population pyramids' show how births, deaths and migration shape the structure of a population...*

**Chapter 1 looks at the latest data on the determinants of Europe's demographics, namely, births, deaths and migration, and presents the latest population projections from Eurostat.** These three factors shape what are known as 'population pyramids', which show the structure of a population by sex and by age. Describing such a chart as a 'pyramid' is quite inappropriate, as far as the EU or other developed countries or regions are concerned. The pyramid shape is characteristic of countries with high birth rates, and thus rapid and unsustainable population growth, or countries with a high mortality at all ages, or a combination of both. Europe has been very successful in tackling both of these demographic challenges.

*... but in advanced societies with stable populations the pyramid turns into a pillar.*

A desirable shape for the 'population pyramid' chart is more like a pillar, which would result from a steady renewal of a stable population, with almost all new-born children surviving into old age. The EU is coming close to such a shape, except for the bulge of the baby-boom that started in the 1950s and reached its peak 20 years later. Since then, the number of births per woman has declined significantly: women born in 1935 had on average (EU-25) 2.37 children, those born in 1945 2.11 and those born in 1955 1.94. Women born in 1965 have had 1.77 children, but their total cohort fertility rate can only be established once they reach the end of their reproductive period.

### Population structure in 2008 and 2060



Source: Eurostat, EUROPOP2008 convergence scenario.

*he EU fertility rate is today estimated at 1.5 children...*

The fertility rates of younger cohorts can only be estimated. This is done using the total period fertility rate indicator, which is based on childbearing probabilities currently observed for women of different ages, and derives from them the average final number of children women would have if they realised these probabilities during their lives. This indicator now stands at just over 1.5 children per woman, showing a slight progression between 2000-2004.

*...but postponement of births could result in current fertility being underestimated.*

The problem with the total period fertility indicator is that it is affected by changes in the timing of births. The mean age of women at the birth of their first child rose from 24.4 years in 1960, to 24.6 years in 1980 and 27.5 years in 2003 (EU-25). As a result, the probabilities of having a child are reduced at younger ages, which are captured by total period fertility during the shift towards a higher age. By contrast, the increase in the probability of giving birth at an older age will only materialise later, once the postponement process stops and a shift to a higher average age is completed. The total period fertility rate indicator will, as a result, underestimate the number of children women will have. Demographers have tried to correct this bias, and one such correction lead to the conclusion that actual fertility rates, adjusted for this 'tempo effect', could be almost 0.2 children per women higher than the unadjusted total period fertility rate. This is still below the replacement rate of 2.1, but would make a major difference for Europe's long-term development in terms of age structure and population size.

*Europeans gained 2.5 extra life years per decade over the past 40 years; future gains will have to result from reduced mortality in old age.*

The second factor that determines the size of Europe's population is the number of deaths. This depends, on the one hand, on the size of cohorts reaching the end of their life span and, on the other, on mortality rates, which, in turn are used to estimate life expectancy. In 2004, the EU-27 life expectancy was 81.5 years for women and 75.2 years for men. During each of the preceding four decades, around 2.5 extra life years were gained by reducing mortality, due to progress in fighting respiratory diseases and cancer in the 1970s, and cardio-vascular diseases in more recent years. Today, there is little scope for further gains in life expectancy by reducing premature mortality (up to the age of 60) in most Member States. The vast majority of new-born children can expect to live to this age. Any further improvements in life expectancy will have to come from better health in old age.

*Life expectancy is still low for men in many Central and Eastern European countries – and throughout the EU, people of lower socio-economic status die younger.*

As far as life expectancy is concerned, there is, however, still a significant East-West divide in the EU, a divide that particularly concerns men, who can expect to live only to around 65-70 years in eight of the Central and East European Member States, compared to an EU-15 average of more than 76 years. In these countries, mortality among middle-aged men remains high, and this is the main factor behind the large East-West gap in life expectancy. Another important divide regarding life expectancy is found within each society: a higher socio-economic status in a society is associated with significantly lower mortality and hence higher life expectancy. These health inequalities have been identified as a major challenge to be pursued in the follow-up of the Renewed Social Agenda<sup>4</sup>.

<sup>4</sup>

The Communication from the Commission of 2 July 2008 "Renewed social agenda: Opportunities, access and solidarity in 21st century Europe" (COM(2008) 412) announced that the Commission will issue a communication on health inequalities during 2009, building on work under the Open Method of Coordination on social protection and social inclusion.

*Since 2002, net migration has been historically high at 1.6 – 2 million people per year.*

The third determinant of population structure is migration. EU-27 has attracted year on year around half a million migrants more than it lost over the previous 20 years. Since 2002, however, net migration into the EU has roughly tripled to between 1.6 and 2 million people per year. Only three countries, Spain, Italy and the UK, have received around three quarters of net migration into the EU over the six years up to 2007. As a result of this immigration, around 4% of EU residents were non-EU citizens at the beginning of 2007, whereas 2.1% of EU citizens were living in a country other than their country of origin. The number of foreign residents depends, however, not only on migration, but also on the rate at which migrants acquire the citizenship of their host country. In 2006, 670 000 third-country nationals became citizens of an EU Member States, about the same number as in the US.

*The latest Eurostat population projections expect continued population growth up to 2060...*

Assumptions about future fertility, mortality and migration are at the basis of projections of the future size and structure of the population developments. The report presents the results of the latest round of Eurostat population projections, and compares them to the previous round in 2004. Whereas the previous projection round concluded that the population of EU-27 was likely to decline by 16 million people by the year 2050, the latest projections expect an increase by 10 million people by the year 2060. Thus, the population of EU-27 would rise from 495 to almost 506 million people. The difference is mainly due to the higher migration assumption, but more optimistic fertility and life expectancy assumptions for the latest projection also contribute to the large difference between the two rounds. There are also striking differences in the results of the two projection rounds for individual countries.

*...contrary to projections made four years ago. However, rapid population ageing occurs under both projections.*

These differences between the two rounds of projections underline the importance of interpreting such results with caution. Nevertheless, one development is certain, namely the imminent retirement of the baby boom cohorts which will shift the balance between people of working age and retirees. Both projection rounds also yield very similar results as far as the long-term evolution of the demographic old-age dependency ratio (people aged 65+ in relation to people aged 15-64) is concerned: in 2004, a ratio of 0.53 was expected for 2050 (EU-25), and the latest projection expects a ratio of 0.50 in 2050, rising to 0.53 by 2060 (EU-27). This is to be compared to today's old-age dependency ratio, which stands at 0.25, meaning that, for every person aged 65 or over, there are four people of working age (15-64). In 2050, there will be only two people of working age for every person aged 65+. Europe is not alone in experiencing such ageing: it is a common trend across the globe and could occur at an even faster rate in emerging economies.

*The reality of family life has been transformed: fewer and later marriages, more divorces, unmarried cohabitation and single parent households.*

**Chapter 2 describes the changing family and household patterns in the EU that need to be taken into account in the modernisation of social and, in particular, family policies.** The social reality of family life has changed profoundly over recent decades. People are less likely to enter into a first marriage, and, in 2003, did so about two years later than in 1990: the average age at first marriage rose from 24.8 years to 27.4 years for women and from 27.5 to 29.8 years for men. A significant number of marriages are between partners of different nationalities: between 12% and 15% in Germany and France, around 20% in Belgium and Austria, between 25% and 30% in Estonia, Luxembourg and Cyprus. Divorce rates increased since the 1970s, more than doubling in some countries. About 20% of all marriages involve divorced persons entering into a second marriage. Unmarried cohabitation has become common place, and a large proportion of children are born outside marriage: in most Member States between 25% and 50% of all children. In spite of this 'de-institutionalisation' of family life, most children still live in couple households, married or cohabiting, which represented over 80% of households with children in 2001. Single-parent households, most of them headed by mothers, accounted for 14% of households with children.

*Women are much more integrated into the labour market, but continue to shoulder most of the family responsibilities.*

Another major trend affecting family life in the EU is increased female labour force participation. The gap in employment rates between men and women aged 25-49 halved between 1990 and 2005 from 32 percentage points to 16. However, this labour market integration of women often takes the form of part-time employment. Marital status, childbearing and childrearing are no longer seen as an insurmountable obstacle for female employment. Indeed, countries with high levels of female employment also have higher fertility rates, suggesting that achieving a satisfactory work-life balance for women may be a key to both higher female employment and a relatively high fertility rates.

*Average household size decreased from 3.3 in 1960 to 2.4 today, notably as a result of the rising number of single-person households.*

There have also been significant changes affecting the composition of households. The average household size in EU-25 declined from 3.3 persons in 1960 to 2.4 in 2003, implying a much faster growth in the number of households than in the population size. In 2005, 27.7% of all households were single-person households, almost the same proportion as family households (two or more adults with dependent children). A large number of single person households belong to people over the age of 80. Nearly 15 million people over 80 live in a private household (as opposed to an institution), and about half of them live alone.

*The increasing number of older people will further increase the number single-person households.*

Due to population ageing, the number of one- and two-person households can be expected to increase considerably. As the large cohorts of the baby-boom reach retirement age, more and more people belonging to these cohorts will be living in smaller households. In most European countries the number of these small households is therefore likely to increase by at least 50%, and in several countries the number

could even double between 2001 and 2050.

*Policies need to adapt to the changing reality of family life; in particular, single-parent families are at a high risk of poverty.*

These changing family and household patterns need to be taken into account in the modernisation of social, and in particular, family policies. The need for action is exemplified by the high risk of poverty to which single-parent families are exposed: about one third of people living in single-parent families are at risk of poverty, compared to 16% of the entire population. Large families (two-adult households with three or more children), which can be considered as a more traditional target group of family policies, also face higher poverty risks at 24%, but less so than single-parent families. A quarter of women living in single-person households are also at risk of poverty.

*Cash benefits dominate social protection spending for families and children, but childcare services could play a major role in protecting families against poverty, allowing them to have a second income.*

A key question is how best to support families. The financial situation of families – and the risk of poverty they are exposed to – depends on the combination of incomes that parents can earn and the benefits they receive. Benefits may go a long way towards covering the costs of children, but would have to be very high to replace a second income in a two-adult household. Indeed, only about 7% of households with dependent children were at risk of poverty in 2005 when both adult household members were in employment, compared to 16% of people at risk of poverty in the population as a whole. The availability of affordable childcare can therefore have a major impact on the financial situation of families. Social protection spending on families and children – 2.1% of EU-27 GDP in 2005 – remains, however, strongly geared towards cash benefits: three quarters of this amount is used for cash benefits such as child allowances and one quarter for services. There are major differences between countries in the split between benefits and services in kind, and also in the use of formal childcare, particularly for children below the age of three.

*Countries with high levels of female labour force participation and good childcare provision also tend to have higher fertility rates.*

The effectiveness of family policies can be assessed by looking at poverty risks for different family types or by looking at fertility rates which could be seen as an indicator of whether people feel able to realise their desire to have children. Fertility rates appear not to be correlated to the generosity of cash benefits, but they are positively correlated to the availability of childcare for the youngest children and to female employment rate: countries with a high level of childcare provision and high levels of female labour force participation also tend to have higher fertility rates. A reorientation of family support towards measures that facilitate the reconciliation of work and family life thus seems to be desirable both from the point of view of reducing poverty risks and raising fertility rates. In addition, it boosts employment and enhances the EU's ability to cope with the needs of an ageing population. The EU promotes better policies in the Member States by implementing the roadmap for gender equality, through the open method of coordination in the area of social protection and social inclusion and through the establishment of a European Alliance for Families.



*The baby-boom started 60 years ago; today, these cohorts start retiring in large numbers.*

**Chapter 3 looks at opportunities and needs in an ageing society, focussing in particular on the ageing baby-boomers and their potential for contributing to the economy and society.** The importance of such an analysis was highlighted in the Commission's Renewed Social Agenda of July 2008. The EU population pyramid clearly shows an increase in cohort sizes just after the end of World War II, marking the start of the baby boom. This was 60 years ago – and the first of these large cohorts born over a period of 20-30 years are now beginning to retire. This marks a turning point in the demographic development of the European Union, and ageing is no longer something that will happen at some point in the distant future. Over the past decade, both the population of working age (20-59 years) and the population aged 60 years and above had been growing by 1 to 1.5 million people per year on average. From now on, the population aged 60 years and above will be growing by 2 million people every year for the next 25 years. The growth of the working-age population is slowing down fast and will stop altogether in about 6 years; from then on, this segment of the population will be shrinking by 1 to 1.5 million people each year.

*Employment rates at 60 are ten percentage points higher than in 2000, but there is still much room for improvement.*

In 2007, around 50% of men and 40% of women were still in employment at the age of 60. These rates are low, indicating that the ageing baby-boomers constitute a major potential for increasing Europe's labour force. Nevertheless, this represents an increase by 10 percentage points compared to the year 2000 and shows that the trend towards earlier retirement has been reversed. It is also one of the clearest indications that the Lisbon strategy, which aims among other things at promoting employment of older persons, is working. Employment after the age of 65, the typical statutory retirement age in many Member States, is very rare: only about 13% of men aged 65-69 years and 7% of women are still in employment. Part-time working could be a good way of achieving a gradual transition from work to retirement, but only about 11% of men aged 55-64 work part time and 38% of women. Thus, for men, the typical transition still seems to be from full-time employment to full-time retirement, whereas for many women in this age class part-time working may have been a way back into the labour market when their children required less time. By contrast, after the age of 65, part-time work is a very common form of employment for the few women and men who are still on the labour market: 47% of employed men and 61% of women aged 65+ worked part-time in 2007.

*Future cohorts of older workers will be better educated and have better ICT skills, thus raising their chances of staying in employment...*

Education and skills, and in particular digital literacy, remain an obstacle to increased labour force participation of people in their fifties and sixties. However, the situation can be expected to improve as future cohorts entering this age class are characterised by a higher level of educational attainment and much greater familiarity with computers and the internet. In 2007, 57% of people aged 55-64 had never used the

internet; in the age group 45-54, the proportion was 39% and for people aged 35-44 it was 28%. A much smaller proportion of people have also reached a lower level of educational attainment in the younger cohorts than in the older ones. The increase in the level of educational attainment is particularly strong for women: 34% of women aged 25-29 have tertiary education, more than twice the proportion for women aged 55-59 (16%); for men, the progression is much less pronounced: from 21% in the age group 55-59 to 25% in the age group 25-29.

*...but caring obligations and poor incentives in tax-benefit systems could remain obstacles to the employment of older workers.*

While higher levels of educational attainment can be expected to allow more workers to stay longer on the labour market, further analysis is required on the health status of older workers and to ascertain whether enough is being done to update skills of ageing workers in accordance with current needs in the labour market. Moreover, caring obligations towards grandchildren or dependent adults could represent an obstacle to increased employment, particularly of women in their fifties and sixties: at this age, they may be expected to care for grandchildren and their ageing parents. Finally, tax and benefit systems will have to provide incentives for staying longer on the labour market. All these issues will be given further attention, notably within the framework of the Lisbon Strategy and the Open Method of Coordination on social protection and social inclusion.

*Even after retirement, older people can make a major contribution to society...*

The ageing baby-boomers not only have the potential of making a major contribution to the economy through their participation in the labour force, but older people also engage in a wide range of social activities, organised by religious, political, trade union, charitable or recreational organisations, or informally by helping relatives and other people in the community. According to a special module on participation in the European Survey on Income and Living Conditions (EU-SILC), people over the age of 65 tend to be more active in church and religious activities than people under the age of 65, and less active in political, trade union and recreational organisations. However, the proportion of older people participating in such activities is not very high: around one quarter in church and religious activities, 3% in political parties and trade unions and around 20% in recreational groups and organisations.

*...by looking after grandchildren or other relatives in need or as volunteers in their communities.*

The Survey on Health and Retirement in Europe (SHARE) covers fewer countries, but provides a more detailed picture of social participation of people over the age of 50. About two in five grandparents in the countries covered by SHARE provide care to their grandchildren, one in five grandfathers and almost one in four grandmothers almost weekly or more often. There are huge differences across countries as far as activities such as volunteering, informal helping, caring for other adults and other social activities in clubs, political or community organisations are concerned. Older people are most likely to be involved in these activities in the Netherlands, Sweden and Denmark, whereas participation levels are lowest in the Southern and Central European countries taking part in the Survey.

*There are major differences in the social activities of older workers across countries – more so than across socioeconomic groups in a given country.*

These cultural differences across Member States appear more important than personal characteristics which, however, are also strong determinants of social involvement of the over fifties. Men tend to be slightly more involved than women in most activities apart from caring; the highly educated are much more involved than those with a low level of education; and participation generally declines with age, although, in some countries with a high level of volunteering, people aged 65-74 are more active than people aged 50-64. The fact that there such large cross-country differences suggests that, in countries with low levels of participation, any policy attempts to promote a greater active involvement of older people in society may need to foster first of all a strong culture of social participation.

*Rapid ageing requires adequate policy responses: opportunities to stay active on the labour market and in society; access to goods and services that preserve older people's autonomy; solidarity with the dependent and protection of their dignity.*

The ageing of the baby-boomers has a number of policy implications. The need to promote the employment of older workers has already been recognised within the Lisbon Strategy. In various Member States, policy makers are also trying to promote voluntary work by older people. Apart from creating opportunities for the active participation of older people, policy makers will have to develop policies aimed at preserving the autonomy of older people. This comprises financial autonomy as well as physical autonomy thanks to adapted housing, transport and access to services that allow older people to stay in their own homes for as long as possible. For those older people who have become highly dependent on the help of others, a coordinated offer of health and long-term care services must be developed.

*Member States can prepare for demographic change by acting in five key areas.*

**The fourth chapter presents information on the preparedness of the EU and its Member States for demographic change.** This is done using some key indicators relating to each of the five policy areas in which Member States can take action to tackle the challenges of demographic change. These indicators are also presented in country sheets which show at a glance where a given Member State stands with regard to demographic challenges and policy responses, comparing it to the EU average and the best performing countries.

*They can create better conditions for families and mothers in particular, thus contributing to higher fertility rates while at the same time offering better opportunities to women.*

With a view to identifying the conditions needed for Europe's demographic renewal, the chapter illustrates the diversity of Member States with regard to their spending on family benefits (also discussed in chapter 3). It also shows that, in 2006, a majority of Member States still fell short of the targets set by the European Council in Barcelona, namely to ensure access to formal childcare for one third of children under the age of three and for 90% of children aged 3-6. Among the countries with the lowest levels of childcare provision are most Central and Eastern European countries. Almost 90% of men with children under the age of six are in employment, compared to less than 60% of women. Moreover, a significant proportion – nearly one third – of all women, are working part-time. Women's disproportionate career sacri-

fices (relative to men's) for the needs of their families also show up in the large gender pay gap: women earn 15% less per hour worked than men.

*Member States can raise labour force participation, thus creating a better balance between the active and the retired.*

A society's ability to cope with an ageing population does not depend directly on the old-age dependency ratio, i.e. the number of people over 65 in relation to people aged 15-64 ('working-age population'). The key question is how many inactive people and people with expensive health and long-term care needs have to be supported by the active population, which is much smaller than the total population aged 15-64. Just under two-thirds (65.4% in 2007) of the working-age population are actually in employment, several percentage points below the target set within the Lisbon Strategy for the year 2010. Progress towards this target has been slow: just over three percentage points since the target was set in 2000, meaning that, so far, less than half of the gap between the starting position and the target has been bridged.

*In about ten years, the potential for further employment growth will be exhausted; productivity will become the main engine of growth...*

While there is still good potential for increasing employment through increased labour force participation, notably of women and older workers, it can be expected that within about one decade, the decline of the working-age population will be such – notably due to the retirement of the baby-boomers – that rising employment rates will no longer be sufficient to compensate for this decline. From then on, the source of economic growth will have to be increases in productivity, which need to be achieved through investment in human and physical capital and in innovation. The chapter provides some indications on how well Europe's human potential is used. Labour productivity per hour worked is a key indicator in this regard. Between 2003 and 2007, it grew by between 1 and 1.7% annually. The fastest progress took place in the new Member States, which are catching up with the EU average, albeit from a very low level.

*...but this requires more investment in human capital...*

Productivity growth depends notably on the level of educational attainment. 13% of women aged 18-24 and 17% of men have only attained lower secondary education or less and are defined as early school leavers. This represents a modest improvement compared to the beginning of this decade, but remains far off the target set for 2010, namely to bring this proportion down to 10% at most. Southern European countries are facing particularly strong challenges in this regard, whereas the Central and Eastern European countries tend to be among the best performers, which is also reflected in a high proportion of young people completing at least upper secondary education. However, these results are not clearly correlated to public spending on education.

*...and innovation. In both areas, there is considerable scope for improvement.*

Finally, future productivity growth also depends on technological progress which depends on universities educating graduates capable of engaging in research and on devoting money to research and development. The number of university graduates relative to the population in their age class differs widely across Member States. It is about two-and-a-half times higher in the UK, Denmark and the

Netherlands than in Germany and Austria. The new Member States are spread out across the country ranking. With regard to the proportion of GDP devoted to research and development, the new Member States are trailing far behind. Most of them spend less than 1% on R&D, compared to the EU-27 level of 1.84% in 2006. This is far below the target set for 2010 of 3% of GDP. Moreover, the level of R&D spending has not risen since the beginning of the decade.

***Immigration can alleviate labour market shortages, but Member States differ in their capacity to integrate immigrants in their labour markets.***

Immigration can help alleviate labour market shortages due to a declining working-age population. The EU has been receiving an unprecedented number of migrants over recent years. Over the past 13 years (1995-2007), the population of EU-27 increased by nearly 15.5 million people due to net migration, 4.5 million during the first seven years and 11 million during the last six years of this period. The countries that attracted the largest numbers of migrants were Spain, Italy, Germany and the UK. Several new Member States experienced net emigration during that period, but this flow appears to have come to a halt in more recent years. Thus, immigration plays a very different role in national population dynamics across the Member States. Considerable differences also exist with regard to the integration of immigrants into the labour market. The employment rate of male non-EU-27 nationals is 2.5 percentage points lower than that of nationals; for women, the gap is more than ten percentage points. However, there are considerable differences across Member States, and in a number of them the gap is actually in favour of non-nationals.

***Member States can also consolidate their public finances and thus reduce the need to allocate public spending to interest payments.***

The fifth area in which Member States can respond to the challenges of demographic change are public finances, which was addressed in the Communication on *The long-term sustainability of public finances in the EU*<sup>5</sup>. Moreover, ensuring progress towards sustainable public finances was a key element in the 2005 reform of the EU fiscal framework and the Stability and Growth Pact. This Communication provided an assessment of the scale and scope of the fiscal sustainability challenge each Member State is facing in view of an ageing population. The increase in the number of older people will create additional public expenditure demands for pensions, health and long-term care<sup>6</sup>. Reforms of social protection systems, making them more efficient and encouraging older workers to stay longer on the labour market, can curb the increase in expenditure to some extent. Governments can prepare for these needs of an ageing society by reducing their public debt and hence the amount of tax revenue they need to allocate for interest payments. In 2007, government debt amounted to 60% of annual GDP in EU-27, the lowest level for the past twelve years. The total amount of budget deficits of the Member States represented 1% of GDP for EU-27, down from 3% 5 years earlier. The situation varies, however, considerably

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<sup>5</sup> COM(2006) 574 adopted on 12 October 2006. A new assessment of public finance sustainability is to be released in the autumn of 2009.

<sup>6</sup> See Economic Policy Committee and European Commission (2006), *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)*, European Economy, Special report, No.1/2006

across Member States and ranges from a budget surplus of over 5% of GDP to as large a deficit. The amount of government debt ranges from more than 100% of GDP to less than 10%, and this is also reflected in interest payments: in 2007, Italy had to use more than 10% of its public spending on debt interest.