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Ageing and the Public Sector: Challenges for Financial and Human Resources

by
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An ageing public service increases fiscal burdens while decreasing immediate capacities to deliver services. In the long run, however, it also offers an opportunity to downsize the public sector workforce if necessary and to change employment conditions and the management of government employees where this is deemed reasonable. This article reviews the experience of nine OECD countries in this field and presents some possible strategies for facing the wider ageing challenge.

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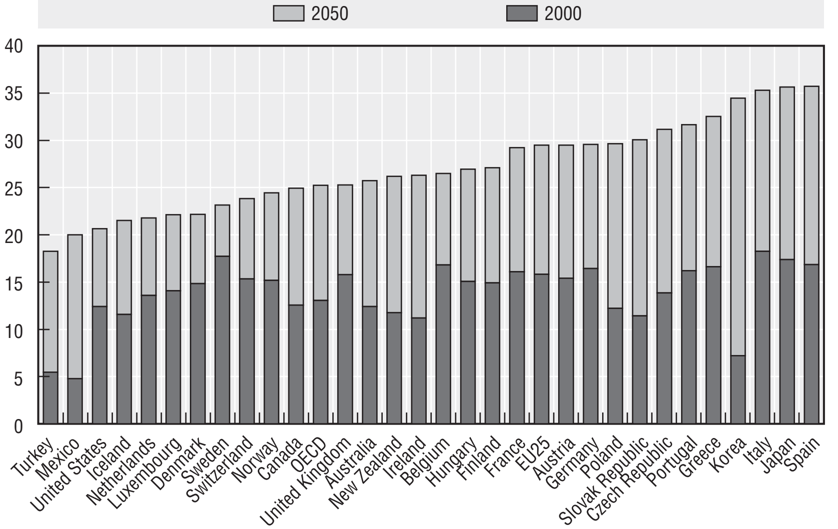
1. The ageing challenge

1.1. Ageing public sector workforces in the context of ageing populations

1.1.1. Ageing populations and workforces

The dimensions of population ageing are now well documented. All OECD member countries are experiencing population ageing, with some changes occurring at a faster pace in some countries compared to others (see Figure 1). The countries studied in this review vary – with the Netherlands having to face relatively more minor challenges and Italy and Portugal affected more significantly.

Figure 1. **Population ageing in OECD member countries (% of population aged 65 and over)**



Source: OECD (2006), *Ageing and Employment Policies, Live Longer, Work Longer*, OECD, Paris.

Figure 1 shows two phenomena – the proportion of the population that is older and the speed with which that proportion is changing. Presently, Turkey, Mexico and Korea have a relatively low older population (with Korea ageing at a remarkably fast pace). The United States, Denmark and Sweden will have a slower rate of ageing (with Sweden already having a distinctively high proportion of older people in the population).

Without changes in work, retirement and productivity patterns, the ratio of older economically inactive persons per worker will increase from 1:3 in the OECD area in 2000 to just over 2:3 in 2050 (to almost 1:1 in Europe). Associated labour force changes are predicted to lead to 30% lower economic growth in the next three decades than might otherwise have been predicted.[1]

At the more microeconomic level, the large number of workers who are retiring could result in important adjustment costs for employers and labour shortages in specific areas, especially in the health and long-term care sectors.[2]

How difficult it will be to meet these varying challenges will depend on a number of factors, including possible productivity gains and immigration in the short term and, in the longer term, the implications of changes in fertility rates. It will also depend on the room for manoeuvre that countries have for increasing the participation rates of older workers in the labour market. As Table 1 indicates, Japan has good reason but little opportunity to bring more workers into the labour market, while Greece and Spain have an equally strong need to do so and much more room for manoeuvre to make the necessary changes.

Table 1. **Changes in old-age dependency ratio and participation rates of older workers**[1]

Participation rate of 50-64 year olds, 2004	Projected change in the old-age dependency ratio, 2000-50[2]		
	Moderate	Large	Very large
High	Denmark, Iceland, Norway, Sweden, Switzerland, United States	Canada, New Zealand	Japan
Average	Netherlands, United Kingdom	Australia, Finland, France, Germany, Ireland, Mexico	Czech Republic, Korea, Portugal
Low	Belgium, Luxembourg, Turkey	Austria, Hungary	Greece, Italy, Poland, Slovak Republic, Spain

1. Countries have been ranked into the three categories for each variable according to whether they are more than one half of a standard deviation away from the mean for all countries.
2. Ratio of the population aged 65 and over to the population aged 20-64.

Source: OECD estimates based on data on participation rates from OECD Labour Force Statistics and old-age dependency ratios from the OECD Demographic and Labour Force Projections Database. In *Ageing and Employment Policies*, *Live Longer, Work Longer*, OECD, 2006.

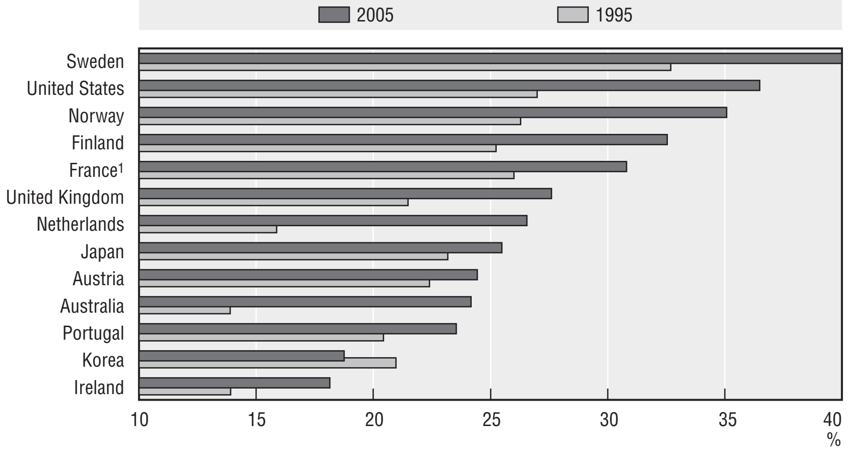
1.1.2. Ageing public services

In many OECD member countries, public sector workforces are ageing even more rapidly than the rest of society and the wider labour market.

The case studies offer some dramatic headlines:

- Australia: The average age of public servants is increasing by one year every three years.
- France: The average age is increasing by one year every two and half years.
- Ireland: The average age of public servants is increasing by one year every 15 months.

Figure 2. **Proportion of workers above 50, at national/federal government level, in 1995 and in 2005**

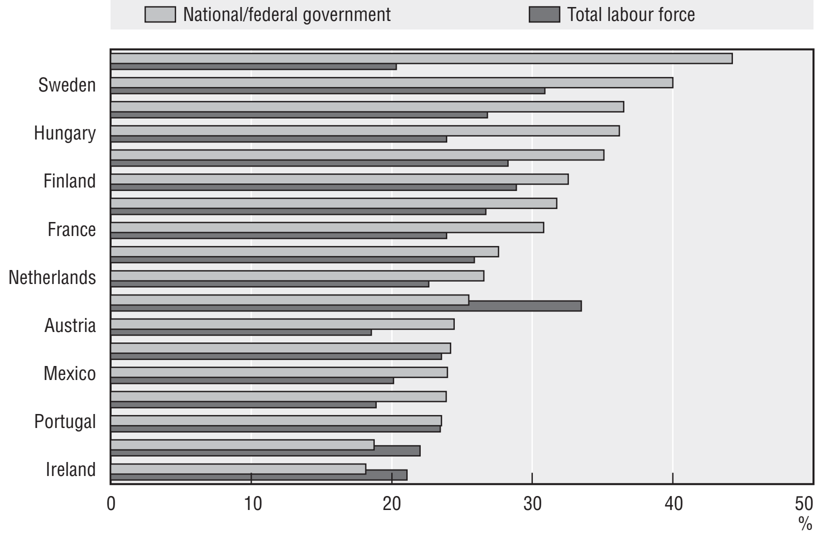


Note: See Box 1 for details on data coverage.
Source: OECD/GOV forecasts.

Relatively speaking, the demographic situation of the public services of the countries studied in this report show less variation than the demographic situation of the corresponding wider labour market. Looked at by age group, the largest cohorts in the public services tend to be around 40-49 years old, with an important proportion of employees in the age band 50-54 and 55-59 depending on the retirement age. In sum, the proportion of young employees is far smaller in the public sector than in the private sector.

The roots of this demographic profile lie in the rapid expansion of public services from the 1970s until the mid-80s and the massive hiring that took place at this time. In the 1980s and 1990s, the workforce numbers were stabilised and hiring freezes occurred in many countries. Reinforcing this trend, it seems that the age at entry into the public service has increased. For example, Australia mentions that there is more recruitment at mid-career now than there used to be, and a general trend exists towards higher ages at entry into the federal public service. Today, more than 40% of new recruits in the Australian Public

Figure 3. **Proportion of workers above 50 at the national/federal government level and proportion of persons above 50 in the total labour force, 2005**



Note: See Box 1 for details on data coverage.
Source: OECD/GOV forecasts.

Figure 4. **Proportion of workers above 50 in sub-national levels of government, in 1995 and in 2005**

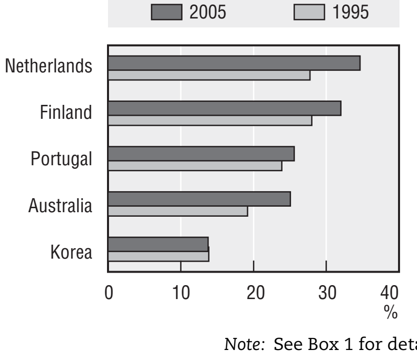
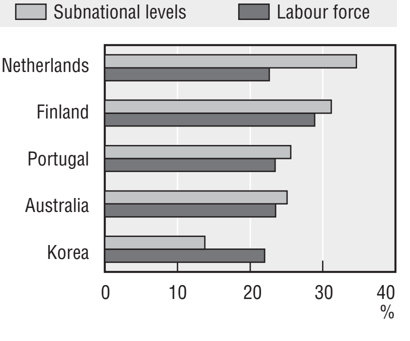


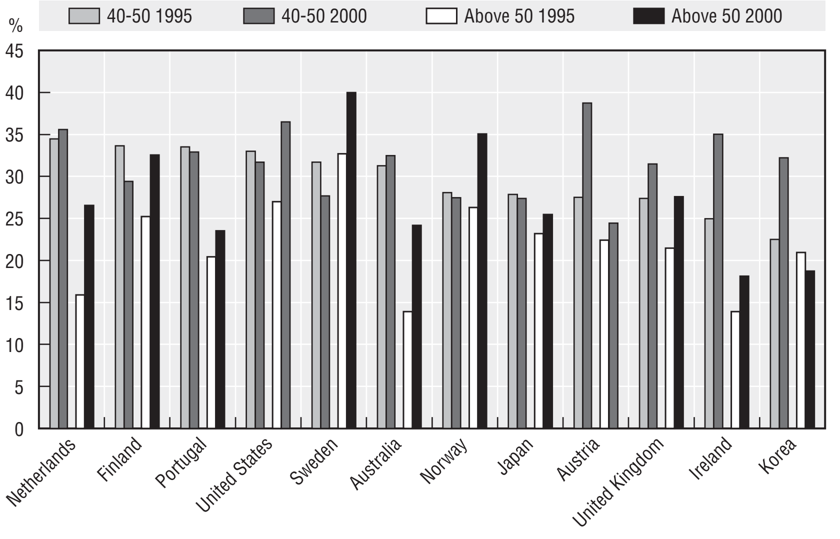
Figure 5. **Proportion of workers above 50 in sub-national levels of government and in the total labour force, 2005**



Note: See Box 1 for details on data coverage.
Source: OECD/GOV forecasts.

Service are 35 or over, compared to less than 20% two decades ago. Similarly, the average age at entry in the Irish civil service has increased from the 20s to the 30s in the last decade.

Figure 6. **Proportion of workers at the national/federal level between 40 and 50 and above 50 years old**



Note: See Box 1 for details on data coverage.
Source: OECD/GOV forecasts.

In addition, employees leave the workforce at a younger age in the public sector than in the general labour market, due to pension incentives and early retirement arrangements in many public services. A number of civil servants tend to retire earlier due to such legal reasons or to tradition, for example in Australia. In France, the legal retirement age is 60 but the actual average retirement age is 57. Denmark is a significant exception.

As with the general labour market, it is important to look at trends as well as current age proportions in the public service. Some countries are facing immediate challenges with increased departures (particularly Denmark, Finland, France, Germany and Portugal). However, the largest waves of retirement in those countries will start between 2009 and 2015 and will continue until 2020 (see Figure 8).

1.2. Challenges and opportunities of ageing for the management of public services

Ageing populations and general labour market constraints exacerbate the capacity problem caused by ageing public service workforces in the relatively short run. Ageing populations create new demands on the public service and may cause lower economic growth (and thus less fiscal room for manoeuvre); the ageing public service increases the fiscal burden while decreasing the immediate capacity to respond to the new ageing challenges.

Box 1. **Notes for Figures 2, 3, 4, 5 and 6**

Workers at national/federal government levels include:

Australia: Ongoing employees only – around 123 000 persons in 2005.

Austria: Federal administration.

Belgium: Around 85 000 persons in the core federal civil service.

Finland: Central government sector.

France: State civil service.

Hungary: National and sub-national levels.

Ireland: Around 30 000 employees in the core civil service.

Korea: Core ministries, *i.e.* ministries, agencies, administrations which are part of the central administrative organisations (the Executive).

Norway: The 117 000 employees at the federal level (in 2005).

Switzerland: Federal administration (departments, offices).

United States: 1.8 million employees at the federal level.

Workers at the sub-national levels of government include:

Australia: State, territory and local (all employees).

Finland: Total public sector.

Hungary: National and sub-national levels.

Netherlands: Figures contain the subsectors for which labour conditions are not determined at national government level. These subsectors are: municipalities and their bodies of cooperation, provinces, waterboards, professional education, adult education and scientific education agencies.

Portugal: Local administration, excluding the regional administrations of Madeira and Azores.

Exceptions regarding the years taken into account:

Australia: 2000 and not 2005 at the sub-national level.

Finland: 2000 and not 2005 at sub-national level, and 1997 and not 1995 for the national level.

France: Data are for 1997-2002 for the national level.

Ireland: 2000 and not 2005 for the national civil service.

Japan: Data for total labour force are for 2002.

Korea: 2004 and not 2005 for the labour force.

Portugal: 2000 and not 2005 for the civil service at the national and at the sub-national levels.

Sweden: 2000 and not 2005 for the civil service at the national level.

United States: 2004 and not 2005 for the civil service at the federal level and for the total labour force.

Figure 7. **Illustrative scheme of ages in public and private sector labour forces**

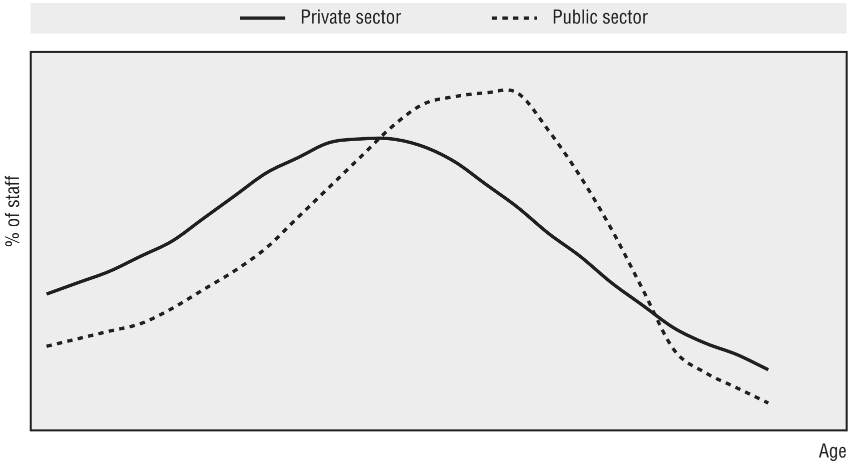
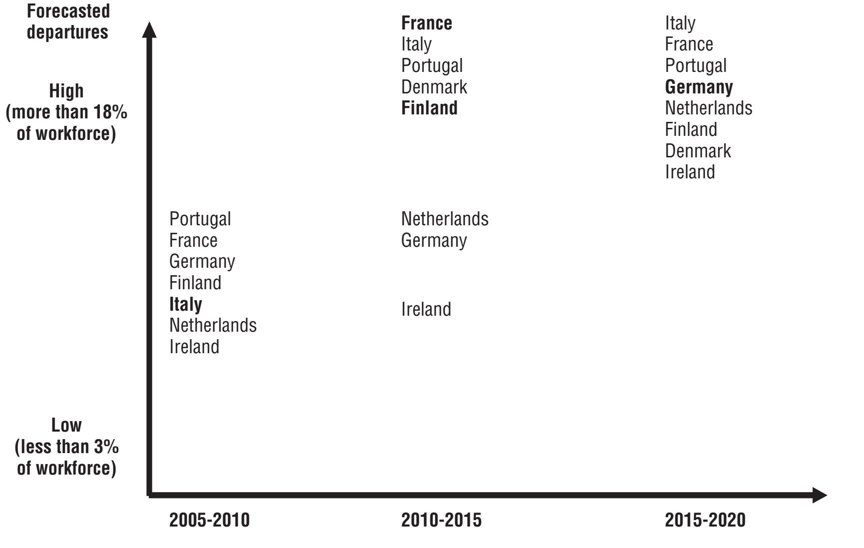


Figure 8. **Forecasted departures due to ageing at central government level**



Note: Percentages are percentages of current workforce cumulative over the entire five-year periods. Countries are in bold when they start to face significant decreases in the proportion of economically active workers in the general labour force.

Source: OECD/GOV forecasts.

However, in the longer run, the ageing public service may also present an opportunity for governments to better organise the public service to face the consequences of an ageing society.

1.2.1. Direct financial and fiscal challenges

On the financial and fiscal sides, governments will have to face a considerable increase in the sums allocated to covering pensions for both society as a whole and the public service in particular, as well as increased health costs. Age-related spending will increase substantially, from 21% of GDP in 2000 to 27% of GDP by 2050.[3] Spending on old-age pensions and spending on health and long-term care are each projected to increase on average by more than 3 percentage points of GDP (reduced spending on child benefits and education may provide a small offset) between 2000 and 2050.[4]

An ageing civil service is all the more of a problem as public service pension schemes have traditionally been more generous and not as well funded as private sector schemes.[5] In addition, an ageing public service tends to be more costly as it includes more senior staff on average. In principle increased cumulative experience could help increase labour productivity in the public service, but there is no hard evidence for this.

In the longer run, however, an ageing public service represents a strategic opportunity: to downsize the public sector workforce where needed and adapt it to the changed needs of an older population; to hire younger (and thus cheaper) employees; and also to make structural changes to the conditions of employment of these new employees under different – *i.e.* more flexible and maybe cheaper – conditions of employment where this is considered reasonable. Table 2 indicates that the room for manoeuvre is largest where labour costs and the rates of departure are both high. In this sense, France and Portugal benefit from a particularly advantageous situation.

Table 2. **Compensation costs and size of departures from government service**

Compensation costs as a % of GDP (in 2005) Relative size of departures due to ageing until 2020	Relatively low < 8% of GDP	Medium 8%-13% of GDP	Relatively high > 13% of GDP
Relatively low		Ireland	
Medium	Germany	Netherlands	Denmark Finland
Relatively high		Italy	Portugal France

Wider room for manoeuvre implied by departures due to ageing

Source: National accounts, GOV forecasts.

1.2.2. Challenge of contributing to flexibility in the wider labour market

As noted above, with an increasing number of retirees, the labour market as a whole will be affected by ageing, leading to slower economic growth. In countries with high unemployment levels (France, Germany, Portugal in this study), the resulting tighter labour market might provide some relief to this problem and ultimately have even more positive consequences if the skills of the unemployed match the available vacancies. However, given the large share of public employment in many OECD member countries (including those covered in this report), the high replacement needs in the public sector could risk pre-empting the private sector's access to new labour market entrants, which in the past have been a source of flexibility.[6] In addition, it is possible that in some countries, a tighter labour market will lead to increased costs in attracting and retaining younger employees, decreased attractiveness of public sector employment, and the need to hire staff who are less qualified than those whom public services attract today.

A recent OECD study concludes that depending on the replacement scenario, the consequences of an increased number of government employees retiring will be either a significantly increased share of government hiring of new entrants into the labour market – and thus major competition between the public and private sectors in the wider labour market – or the need for an increase in government productivity by 0.5-0.75% per year between 2005 and 2030 (over and above current average productivity increases).[7]

Other labour market measures which might mitigate these problems, including supply-side changes ranging from educational reforms to skills-based immigration policies are not covered in this report.

1.2.3. New demands on the public service and consequential need for reorganisation

The ageing of society as a whole will put new pressures on the public service. It will have to make major readjustments to face the increased demand for social and long-term care services for the elderly. For the 19 countries where this information is available, the OECD projects an average increase in health and long-term care spending of around 3-3.5 percentage points of GDP over the period from 2000-50.[8]

Again, departures of staff retiring from the public service provide a unique opportunity to reallocate staff numbers across sectors. Governments will be in a position to hire new staff in sectors other than those which are losing them rather than having to engage in the somewhat more costly option of re-training staff before reallocating them to different sectors. With health services being at least partially provided in many countries at sub-national government levels, it is likely that the reallocation of staff numbers will have to be accompanied by reforms aimed at reallocating resources across levels of government. This reallocation of resources represents a major challenge for OECD member countries.

In addition, these changes are also an opportunity to rethink the organisation of the provision of public services in many sectors, and especially in the health and long-term care sectors. With many staff retiring and major institutional and reallocation changes ahead, it will be easier for governments to reform the way public services are provided, including devolving responsibilities to lower levels of government or a regionalisation of services. In addition, and after careful reviews of costs and benefits, governments should be in a relatively good position to privatise some functions, contract out some services or, in some cases, create new public-private partnerships.

1.2.4. Short- and long-term capacity of the public service

With a very large proportion of the public service retiring over a relatively short period of time, maintaining the capacity of the public service to deliver the same level and quality of public services for all citizens is a complex management task – and all the more so since this must be achieved in tandem with service delivery changes to meet the new demands from an ageing society. In addition, the costs of maintaining capacity are in conflict with the

Table 3. **Ageing in and departures of staff from management levels and executive functions**

Australia	As underlined by the *State of the Service Report 2004-05*, the ageing of more senior employees is particularly pronounced: since 1996, the proportion of Senior Executive Service employees aged less than 45 has fallen from 32.8 to 28.1%, while the proportion aged over 50 has risen from 34.9 to 43.9%. As the 55 and over age group shows a similar pattern, 44% of current managers and 28% of executives are expected to leave their posts by 2010.
Denmark	The central government has a relatively high number of older managers.
Finland	The occupational group with the highest natural attrition rate is senior management. The average age of the central government's senior management is 12 years higher, and for middle management eight years higher, than that of central government personnel as a whole. It is estimated that by the year 2020, 90% of current senior management in the central government will have left due to retirement or for employment in other sectors. The corresponding figure for middle management and senior officials is 69%.
France	According to surveys and data that focus specifically on the senior civil service, a drastic skills reduction is anticipated, beginning in 2006, as many employees in leadership positions retire.
Germany	The majority of current executives are in the 55-60 age group at all three levels of government. The proportion of executives in the younger age groups is very low. As a result of this, large-scale departures of managers are forecast between 2010 and 2015.
Portugal	As in all other OECD member countries studied, senior officers are one of the functions most affected by the ageing process. The only exception affects top management positions. In recent years, younger top managers have been appointed, making this group less affected by ageing.
The Netherlands	As in the majority of OECD member countries taking part in the project, management functions will be the most affected by the ageing process. A large proportion of managers will leave the workforce over a short period of time, and will need to be replaced.

Source: Country case studies.

pressure to decrease staff costs so as to be able to meet the costs of essential new recruitment, to pay for retaining older and hence more expensive workers in the workforce, and to increase resources devoted to training. It is also important to limit public/private sector competition for new workers within the general labour market when undertaking new hiring.

These challenges must be faced however, as in all countries measures will have to be taken to address the looming capacity crisis. The crisis seems to be particularly acute at management levels in all OECD countries. Management employees tend to have a much higher average age than public servants as a whole and are thus nearer to retirement. In addition, countries have also noted that because of the baby boom bulge within the public service workforce, managerial positions have been dominated by this age group with little prospect for younger staff to be prepared to assume these positions.

Table 4. **Ageing and departure challenges in the health and education sectors: France, Ireland and the Netherlands**

France	The evolution of the age structure in the hospital civil service shows a considerable ageing process over the past decade: the proportion of workers 50 years old and over was 13.1% in 1992, rose to 16.6% in 1997, and reached 23.9% in 2002. Teachers at the primary and secondary levels benefit from early retirement schemes (average retirement age is around 55). Against this background, large-scale departures have already started and will continue to increase in this sector from 2008 to 2010, while one civil servant in four may have retired between 2005 and 2010. By 2020, more than 60% of current employees in the education sector will have retired.
Ireland	The health care sector is expected to be one of the sectors of the public service in Ireland most affected by ageing issues.[1] 2006 data on the health sector (excluding staff from voluntary hospitals[2]) show that around 27% of staff are over 50, and thus expected to leave mainly between 2015 and 2020. National projections for the health care sector conclude that if the demand for medical practitioners rises in line with population growth between 2004 and 2015, the gap between the demand and the domestic supply would be very high (around 20% will be needed than will be available[3]); however, if supply from immigration is maintained, then the gap will be quite low. The position in relation to nurses, the most important professional occupation in the health sector, is of most concern. The health care survey predicts that current education provision cannot supply the number of nurses needed: if demand for general nurses rises as it has done in the past, 48 000 nurses will be needed in 2015. However, the continued immigration of nurses will alleviate nursing shortages in the short term.[4]
The Netherlands	The education sector is projected to be one of those most affected by ageing.[5] Half of all education employees are aged over 45: 28% in primary education and 39.6% in secondary education are older workers, who will be retiring in large numbers between 2010 and 2015. The most affected function within the education sector is teaching. As for the health sector, the workforce is younger than in the public service as a whole but still has a significant proportion of older workers (22.6%).

1. The government, the Minister for Health and Children and the Department of Health and Children are responsible for health service provision in Ireland. On 1 January 2005, the Health Services Executive took responsibility for the delivery of all health and personal social services nationally.
2. The total health public sector has 101 000 public employees, among which roughly 23 000 are employed by voluntary hospitals.
3. The number of medical practitioners required in 2015 is forecast to be 10 555. The gap between the demand and the supply will be 2 330 ("Healthcare Skills Monitoring Report", August 2005, *op. cit.*).
4. *Op. cit.*
5. Responsibility for the management of the education sector belongs to the local government level, even if more than 80% of the wage bill is centrally determined and then redistributed to local units (corresponding to primary and secondary education). Local governments are responsible for public school management through school boards that are established by individual municipalities.

Source: Country case studies.

In most countries also, it seems that in absolute terms, the social sectors are most affected by the capacity crisis. This is not surprising since these represent the sectors which grew most strongly during the largest wave of hiring in the public service. Although eventually the education sector will face reduced demand due to a decrease in the young population, in some countries the projected departures far outweigh the numbers involved in the decreased demand for this service.

The most significant capacity problems take place at different levels of government depending on the country. Among the countries studied, national governments will be the most affected by an ageing civil service in France, while sub-national governments will be the most affected in Denmark, Germany and the Netherlands.

2. Country actions

This part gives a snapshot of the government human resource management policies which the study has identified in the nine countries examined, as they begin to face the ageing challenge.

2.1. How are countries addressing cost containment and the need for productivity increases in the public service?

2.1.1. A strong focus on the financial sustainability of pension systems and on downsizing

2.1.1.1. Pension reform.[9] The financial sustainability of pension schemes has been the main preoccupation for pension reform in OECD member countries.

Pension reform has focused on aligning the rights and benefits of public servants with those of private sector employees. Whilst not all governments have subscribed to all these aims, in general the reforms undertaken have targeted: *i)* reducing benefits; *ii)* keeping older workers in the labour force for longer; and *iii)* moving to funded defined contribution schemes through the following revisions to the pension systems:

- extending contribution or qualifying periods for benefits;
- reducing the reference salary and cutting annuity rates, thus reducing the replacement rate; new schemes that offer lump sum benefits only (*e.g.* Australia's Public Service Superannuation accumulation plan, PSSap);
- raising the retirement age and removing a maximum retirement age;
- reducing compensatory entitlements for women;
- changing entitlements for sick and disability benefits in order to limit early retirement;
- financial disincentives for early retirement, for example via investment return on employer contributions;

- financial incentives for deferred retirement, for example by way of increased contributions (due to a longer period in employment) to the fund;
- moving from defined benefits to defined contribution schemes;
- development of funded occupational schemes and contributions by civil servants to the financing of their pension schemes.

Overall, the OECD paper "Public Sector Pensions and the Challenge of an Ageing Public Service" concludes that there is little linkage between pension reform and other public sector management reform strategies.

In most countries, the linkages between pension reform strictly speaking and other ageing strategies are unclear. While one of the goals of pension reform is to retain older workers, it is also one of the goals of ageing strategies in order to maintain capacity. In some countries, pension reform is almost the only really significant reform involved in the ageing strategy. In other countries, its strategic link to any overall ageing strategy and in particular to workforce planning issues, is tenuous. The key message of the OECD/GOV pensions report is that, in addition to fiscal reasons for reform, public service pension reforms could be designed to assist in the task of **attracting and retaining capacity** within the public service as large numbers of experienced public servants retire. In principle higher pensions can contribute to making the public service a more attractive employer, but increasing the attractiveness of public sector employment through enhancing pensions for all public servants is a distinctly expensive and untargeted approach. The primary contribution of pension reform to meeting the ageing challenge is through the incentives and opportunities that it creates for skilled staff to join, or remain within, the public sector as part of a flexible working career that embraces the public and private sectors. Pension reform has seemingly taken some steps towards encouraging skilled older staff to remain at work for longer, through pension supplements and some tentative moves towards raising retirement ages. However, hurdles to mobility are to be found for staff wishing to pursue a career that encompasses both the public and private sectors and, of most concern in the context of the capacity problems raised by ageing, this very probably includes highly skilled managers and technical staff. Pension reforms have also not, as yet, fully addressed the challenges faced by those workers who would join the public sector if they could work flexibly. In sum, there seems to be a distinctly long way to go before pension reforms serve as an active management tool to assist in retaining capacity within the public service.

Analysis of the case studies and survey data shows that, although retaining older workers has an important financial impact on pensions, it only delays the looming capacity crisis in the public services of OECD member countries by a few years. Retaining older workers at work will thus only have a minor impact on capacity.

Box 2. **Overview of pension reform in selected OECD member countries**

Australia The Australian government introduced the Public Service Superannuation accumulation plan (PSSap) as a fully funded accumulation scheme for most new government employees from 1 July 2005. The Public Sector Superannuation Scheme (PSS), which was an unfunded defined benefit scheme established in 1990, was closed to new members from 30 June 2005. Since 1 July 2005, most new Australian government employees have been able to choose to have employer contributions paid to PSSap or another complying superannuation fund or retirement savings account.

Denmark The current scheme came into effect in 1919. The reforms undertaken have not changed the formula for computing pensions. However, eligibility rules have been amended. For example, the normal retirement age has been lowered from 67 to 65 years. Buy-back of certain periods of absence is allowed in defined-benefit schemes. Legislation in the pipeline also provides for retirement prior to this reduced statutory age, but it will include a provision which will make it easier to retain certain categories of employees beyond the normal retirement age. To encourage people to stay in the job despite the reduced retirement age, arrangements have been introduced for gradual retirement. These reforms seek to ensure the financial viability of the schemes and to introduce more flexibility, along with equality between workers. Certain segments of the public sector have in fact been privatised. Since 1 January 2001, appointments of public sector employees have been limited to a series of occupational categories specified in a circular of 11 December 2001. Staff not listed in the circular are considered to be in the private sector.

Finland Alignment between the private and public sectors has been ongoing since 1967. For instance, in 1989, partial pensions were introduced in both sectors. Beginning in 1993, a fundamental reform of public and private sector schemes was carried out with a view to correcting financial imbalances stemming from population ageing and early retirement. Because of the reform, the benefits for workers in the two sectors have become more similar. The reform, which had been intended to apply only to new entrants to the public sector, was eventually extended in 1995 to all persons under 55. The 1995 measures led to an increase in the normal retirement age (from 63 to 65) and in the contribution period (from 30 to 40 years). The annuity rate was cut to 1.5% per year instead of 2.2%.

In order to retain workers after 55, the annuity rate was increased to 2.5% per year. As from 2005, the rate was changed again and set at 1.9% for people aged 53 to 62 and at 4.5% for those aged 63 to 68. Employees can also receive pension increases. The rules for the basic scheme were also changed in 2005 but the benefits are the same for all. Periods of illness and parental leave now confer pension entitlement. The reference period for computing pensions has gradually been lengthened: the last four years in 1987, the last 10 in 1996, and the average salary over a person's entire working life in 2005.

Box 2. **Overview of pension reform in selected OECD member countries** *(cont.)*

This pension reform was accompanied by changes in government employment, which was reflected in the privatisation of state-owned enterprises. This shift led to a reduction in the categories of staff covered by the pension system. The number of state employees decreased by nearly 70 000 people between 1988 and 2003 – 90% because of privatisation and 10% because of staff cutbacks. Teachers and other public sector employees will receive slightly less favourable pensions as a result of the changes in 1995.

Survivors' pensions are based strictly on the pension of the deceased worker.

France The civilian and military pension scheme has existed in its current form since 1924. It was reformed in 1947, in 1964 and more recently on 21 August 2003. For its part, the scheme applicable to civil servants working for sub-national authorities and public hospitals has been in existence since 1947. The 2003 reform applies to that scheme as well. This latest reform changed the pension calculation rules by gradually extending the mandatory contribution period for a full pension, over a number of years until 2020. It instituted a system of increases and decreases of the reference period to encourage civil servants to work longer. Nevertheless, a public sector employee may not continue to work more than 10 quarters beyond the normal retirement age without incurring a penalty. The rules for drawing a pension and earning income at the same time were relaxed. Non-permanent employees who become civil servants are able to count the time they served as non-permanent employees towards their pension entitlement. In addition, public sector employees may opt to purchase years spent in higher education, although this entitlement is limited.

French legislation had to become compliant with European law in respect of pension benefits by virtue of the principle of equality between men and women. Provisions were adopted in favour of part-time workers, who are now eligible for the same benefits as those working full time, as long as they pay the additional contributions. Progress was also made with respect to surviving spouse pensions, with the abolition of restrictions on widowers' pensions or those of divorced husbands (provided they had not remarried) of female civil servants.

Netherlands The current pension system dates back to 1922. In 1995, the legislation was amended. In 1996, the Netherlands' largest supplemental pension scheme (ABP) was privatised. The current rules took effect on 1 January 2006.

Box 2. **Overview of pension reform in selected OECD member countries** *(cont.)*

The formula for calculating old-age pensions was changed from that date. The contribution period was increased, as was the normal retirement age (from 62 to 65). Since 2004, pensions are based on average earnings. Early retirement is still an option, although flexible pensions have been abolished. The "*levensloopregeling*" was introduced, replacing early retirement while keeping some elements of free choice over when to retire. In 2006, the minimum retirement age for public sector employees was raised from 55 to 60.

The scheme applicable to atypical workers was amended so that the entitlements conferred are similar to those of typical workers. Survivors' pension entitlements were halved.

Source: "Public Sector Pensions and the Challenge of an Ageing Public Service", OECD, 2007.

The real overall financial impact of delaying retirement is also unclear as older workers tend to earn more than more junior workers. Only a few countries seem to have rethought their pay systems following the increased wage bill due to an ageing workforce (Denmark, Germany and Italy foresee such reform in the future).

2.1.1.2. Downsizing. Some countries have recently been focusing on downsizing their public employment. This is the case in Denmark which has decreased public employment through normalisation[10] and privatisation of activities, and other countries which have imposed hiring freezes (Italy, the Netherlands and Portugal).

Other countries are using, or planning to use, natural attrition to decrease their public employment, through replacing departures at the rate of less than one for one: Finland and Portugal have decided on a 70% and 50% replacement rate respectively. Other countries have less ambitious goals such as France which has determined it will replace 90% of its civil servants leaving on retirement. But overall, very few are actively using the opportunity of large-scale departures to proactively manage the size of their workforce.

In most countries, the health (because of increased demand in the future) and education (because it is very much affected by ageing and departures) sectors are exempted from the downsizing efforts.

Australia is a special case in that it does not seem to face the need to further downsize the workforce. The federal government thus concentrates on maintaining and improving capacity. There is no mandatory retirement age for the federal public service. Its policy aimed at retaining older workers is much more based on improving recruitment and career paths (to be ready for hiring less qualified candidates in a tighter labour market, to increase the opportunities for lateral entry into the public service at management levels and to develop talent pools ready to move to the executive levels) than other OECD member countries.

2.1.2. Wider public sector management reforms for productivity increases

In many countries, ageing strategies emphasise cost containment and downsizing which lead to static productivity increases. Most countries, however, have also embarked on wider public sector management reforms that, it is anticipated, will produce dynamic productivity improvements.[11] These include e-government, improved training, knowledge management, performance management. Except in Finland, there is little evidence that countries are linking these wider public sector management reforms to the need to improve productivity due to ageing, apart maybe from training.

Reforms are usually introduced, it seems, more as a way to maintain or improve capacity than to increase productivity.

In addition, the opportunities presented by an ageing workforce are rarely taken advantage of in order to modernise public services so as to improve productivity. An exception for instance is Portugal which mentions an ongoing human resource management reform which provides managerial flexibility in hiring but only as long as staff are on contracts and do not have civil service status.

Finally, apart from the Netherlands, the countries studied in this review are not placing an emphasis on alternative service delivery as a way to respond more efficiently to the ageing challenge. At the whole-of-government level, no country seems to be considering reviewing government functions and roles in the delivery of services that will be the most affected by the new demands made of public services.

2.2. How are countries addressing the need to maintain capacity?

Unless productivity increases are very significant, governments will have to address the issue of capacity maintenance throughout government by both hiring and reallocating staff in large numbers. This is particularly the case in the sectors most affected by departures (for example, education in many countries and health) and by increased demands due to population ageing (health and long-term care). In addition, it is clear that specific measures will have to be taken to address capacity needs at managerial levels.

Some countries have proactive recruitment strategies to face future critical skills shortages. In general, the most ambitious proactive strategies concern keeping older workers at work by delaying retirement age and providing incentives for staying at work longer. This is not necessarily a cheap option

Box 3. **Finland: The Productivity Programme and the Decision on Central Government Spending Limits**

Both the Productivity Programme and the Decision on Central Government Spending Limits emphasise the importance of strategic planning and human resources development and management. Otherwise, the intended goals of increased productivity and efficiency cannot be reached in a sustainable way.

The Productivity Programme for the Public Sector 2005-15

The Ministry of Finance is currently responsible for leading the Productivity Programme for the Public Sector 2005-15. Each administrative domain and individual government agency and institution is responsible for carrying out the ministry's policies. The main objectives are:

- increasing the productivity and efficiency of the public administration and services through structural and functional reforms;
- systematic use of productivity advantages;
- encouraging an increase in productivity, economic efficiency and structural and functional reforms through the finance and guidance systems and government subsidy system;
- using IT and data communications to increase productivity;
- introducing adequate reforms to increase labour force competitiveness and know-how;
- making adequate research and development work about public sector productivity available.

Public services should be produced as productively, economically and effectively as possible using the available personnel. The focus is on leadership and management, operational processes, utilising IT technology and, first and foremost, on developing the know-how, motivation and well-being at work of the personnel.

Decision on Central Government Spending Limits in 2007-11, productivity actions decided by the government

The government has implemented action packages to improve the productivity of government, with service structure reform, improvement of structures and operating methods in central government operations and improvement of the use of IT.

With increased productivity, the number of personnel can be adjusted in a controlled manner. The aim is to reduce the number of central government personnel by a total of 9 600 person-work years by 2011, *i.e.* 7.9% of the total central government person-work years. The reduction in the number of personnel covers only a third of the estimated natural attrition.

All targets and measures are based on the productivity programmes drawn up by the ministries in the administrative branch in 2004 and 2005 and then further joint preparations are made by the ministries and the Ministry of Finance together.

Source: Finland case study and *Decision on Central Government Spending Limits in 2007-2011*, Ministry of Finance.

Box 4. **Attractiveness Programme in Denmark**

The State Employers' Authority of the Danish Ministry of Finance has made a high priority of working on improving the competitiveness of the public sector in order to attract new employees to the different state institutions.

This includes marketing activities which target, for instance, recently educated academics (participating in career and education fairs, etc.). It also includes a change in relation to the pay system (making it more attractive for younger persons to enter the state sector) and a modern and active personnel policy (being a front runner in HRM in relation to the private sector).

Source: Ageing and the Public Service in Denmark.

compared to hiring younger staff. Moreover, at best, these measures will only delay the critical phase of massive departures by one to three years on average. An additional factor, in countries with lower levels of unemployment, is maintaining the competitiveness of the public employer; this will be a critical issue for the public sector.

Workforce planning across sectors remains a rather weak point in most ageing strategies. Of the countries studied, apart from France where workforce planning is at the core of the ageing strategy for all levels of government, and Australia (at least at the federal government level), countries are putting little emphasis on the need for changes to the workforce in the different sectors or at the different levels of government. In the case of countries such as the Netherlands, which has a decentralised approach to competence needs planning, it is difficult to see how a cross-sectoral approach could be taken.

However, all countries are putting some emphasis on improved training and knowledge management, as well as mobility, with a special emphasis on leadership and management in many countries.

Compared to other countries, Finland and Denmark, which forecast difficulties in recruitment, seem to have the most proactive recruitment strategies: while not replacing all staff leaving for retirement, they have adopted measures to keep older staff at work, and have planned increased hiring in some sectors (although this is only mentioned and not clearly planned in detail yet).

- Finland, which will be one of the countries the most heavily and soonest affected by an ageing civil service, has delayed the mandatory retirement age for civil servants and decreased pension rates in the case of early retirement, and improved working conditions for older workers. However, these measures can at best delay the peak of massive departures by two to three years. Nevertheless, as Finland has a clear policy of downsizing at central government level, this might provide room for manoeuvre for hiring staff in the health sector – although how such a trade-off would work remains unclear. Finally, Finland places an emphasis on lifelong training, improved training for managers, and labour market-wide measures to improve the attractiveness of public sector employment and its capacity.

- Denmark is the only country that has decreased the pension age, from 67 to 65 years in 2004. However, special pension and work-life balance incentives for people to stay in the public service beyond 60 have been established. Presently, the Danish State Personnel and Management Policy is working on a broader recruitment strategy that will target older workers for recruitment and improve the image of the public employer with young graduates. In addition, Denmark forecasts increases in hiring in the health sector, but no specific plans have been made yet. Denmark is also putting some emphasis on increased mobility, especially vertical mobility for senior managers, and special training, knowledge management and performance management for older workers.

France and Ireland, which do not forecast major attractiveness difficulties when they have to scale up their hiring significantly, seem to have already adjusted their recruitment strategies for the coming years.

- France has adopted a number of structural measures to remove incentives for people to take early retirement, and has increased the number of years of obligatory pension contributions in order to receive full pension benefits. As noted below, as part of the GPEEC, many ministries are in the process of identifying their recruitment needs (see Box 5). Other recent measures such as abolishing age limits for entering the civil service, or improving mobility across sectors, while they were not necessarily aimed at addressing ageing challenges, will have a positive effect on recruitment. Finally, the government has increased recruitment in the health sector and increased the possibilities for lateral entry into the senior management group.
- Ireland has removed its compulsory retirement age (previously set at 65), increased the pension age of most new-entrant public servants to 65 (this will not impact the peak of departures), and increased financial disincentives for early retirement. The government has launched a new recruitment strategy that is not specifically linked to the ageing challenge and that aims at hiring relatively younger people and other people with specialist and technical skills in areas where there are skills shortages. In addition, the government has decided to increase open and lateral entry into management but this initiative has had a limited implementation so far. Despite current downsizing efforts for the whole civil service, the new hiring policy might be extended in the future when the government faces new capacity challenges. However, Ireland plans to rethink its human resource policy in order to manage the impact of ageing, especially in terms of meeting skills shortages at managerial level.

Box 5. **Forward-looking management of employment and competencies (GPEEC) in France**

Introduced in the early 1990s, the GPEEC is a core element of ageing policy over the medium term in the public service. It is an ambitious government-wide strategy which plans how to adapt staffing needs to public policy objectives and which takes into account the ageing of the population and of public servants. However, the GPEEC is not only a unified policy for managing ageing issues; it also aims to improve the efficiency of the public service.

Assessment of the GPEEC in the state civil service

The goals are to:

- design improved policies for recruitment into the public service and for HRM, taking into account the demographic context, in order to increase the possibility of successful competition with the private sector in the labour market;
- allow the state to be more accountable to citizens concerning changes in the number of staff in the civil service;
- nurture social dialogue by opening a debate with the unions. The framework and pace of this dialogue is decided by each minister.

In the state civil service, each minister is responsible for creating a GPEEC plan. These plans are diverse and reflect the distinctive characteristics not only of the public policies addressed but also of the administrative organisations concerned. Ministers can decide, depending on their objectives and constraints, to draw up a more or less complex GPEEC plan. Apart from this necessary diversity, all GPEEC plans use the same methodology, thus assuring consistency.

Concerning the state civil service, the GPEEC has become one of the levers for modernising HRM and one of the ministerial reform strategies. Even if, therefore, the responsibility for drawing up GPEEC plans remains above all a ministerial one, they are also part of a more global strategy for modernising the state.

Analysis of GPEEC plans shows that all ministries have made progress aligning staff with the objectives, tasks and duties of ministries. They all have also integrated, more or less successfully, HRM strategies in their GPEEC plans.

GPEEC in the other civil services (hospital civil service and territorial civil service)

GPEEC in the hospital civil service has also developed over the last few years. The census of professionals by specialisation and by profession will be supplemented by an analysis of care practices taking into account co-operation between professions.

Finally, in the territorial civil service (regional and local civil service), GPEEC mechanisms have also developed. Even if there cannot be a “standard model”, given the very large number of territorial employers (more than 55 000), which are different in size as well as in their structures and functions, GPEEC planning is currently being implemented at the regional level, by means of regional conferences which assemble all the actors in the field so as to draw up territorial employment and training plans.

Source: Ageing and the Public Service in France.

Other countries seem to be focusing only on cost savings in their human resource management strategies:

- In Italy, pension reform has also focused on retaining older workers at work by changing the pension and legal retirement age and increasing the contribution period. In terms of capacity and workforce planning, public expenditure containment remains the overarching goal. Hiring freezes have been ongoing for several years in the health and education sectors, and will continue until at least 2007. No new recruitments are planned to offset massive staff departures.
- In Germany, through pension reform, the government has adopted measures to retain older workers as well as to restrict early retirement schemes and increase mandatory contributions for pension entitlements. Federal authorities have decreased employment by 32% since 1998, and only a limited amount of new hiring is taking place.
- In the Netherlands, the government's policy for retaining older workers has mainly focused on restricting early retirement and increasing the contribution period. Apart from priority hiring in the health sector, little emphasis has been put on the need to hire new people.
- Portugal intends to continue its policy of downsizing with the replacement of two employees leaving by one new entrant, and adhere to hiring freezes at the central government level. In addition, Portugal has implemented a pension reform that has increased mandatory contributions and restricted the possibilities of taking early pensions.

2.3. How are countries addressing the need to reallocate resources according to new priorities?

The issue of reallocation of resources according to new priorities is a complex matter. Reallocating resources requires first having a clear vision of policy priorities, a clear assessment of sectoral needs, and a clear multi-year resource allocation system. Second, it requires some financial and staffing flexibility – which, theoretically, all countries now have thanks to a large number of staff departures.

But most importantly, the reallocation of resources due to ageing is made significantly more difficult by the allocation of responsibilities across levels of government. Most countries recognise the need to save resources at the central government level, and reallocate resources to sub-national levels that are in charge of health and long-term care.

As developed in the previous section, many countries are planning to increase staffing in the health and long-term care sectors while implementing a decrease of the workforce in other sectors. However, few countries seem to publicise the consequences of such changes in hiring practices (the link between general hiring freezes or a low replacement rate of staff retiring and increased hiring in the health and long-term care sectors is rarely made), and on the consequent need to reallocate resources across levels of government.

Countries that mention the need to reallocate resources across levels of government include Denmark, Finland, France, Italy, and Portugal. Denmark and Finland even contemplate institutional change with changes in the division of responsibilities across sectors in order to better address the ageing challenges.

No country mentions numbers in terms of changes in resource allocation. In all likelihood, this is due to the fact that this type of reform is institutionally and politically complicated and will probably be implemented on an incremental and *ad hoc* basis rather than following a long-term planning exercise.

2.4. How are countries managing their public service so that departures do not lead to future hiring that tightens the wider labour market?

Preventing a tightening of the wider labour market following the waves of departures in the public service is not a goal in most countries studied. While high unemployment can justify this policy deficit in some countries such as France, Germany and Portugal, other countries with tighter labour markets (low unemployment and high older worker participation rates) such as Denmark, will be in a more difficult situation. In most countries the consequences of the waves of departures for the wider labour market and thus for the wider economy have not been taken into account in the public service ageing strategy. There is also no indication that countries are working with the macroeconomic calculations that would allow them to devise policies aimed at maintaining labour market flexibility in the context of large departures from the public service.

All countries have policies aimed at keeping older workers at work. These policies, however, will only delay staff departures by a few years, and thus their impact on the labour market will be limited. Other more specific policies include the following:

- In Finland, the public sector ageing strategy aims at increasing the productivity of the whole economy, hoping that it will decrease the pressures on the labour market.
- In the Netherlands, static increases in productivity should limit the impact of departures for retirement in the public service on the wider labour market.

Finally, as the hiring and retention of older workers becomes a labour market-wide priority, together with the necessary implementation of age-friendly employment policies and practices,[12] the public employer could set an example and establish state of the art practices in this field. It does not seem, however, that this has been developed as a priority in the reviewed countries.

3. Review of country strategies

3.1. Policy tools

The public sector management responses identified in the previous section can be summarised as shown in Table 5.

As mentioned earlier in the report, the use of a tool to reach one policy goal can have a negative consequence for realising another policy goal. For example, while retaining older workers can have a positive effect on capacity

Table 5. **Management responses**

I. Capacity maintenance	
Ensure staffing needs through adequate planning	Workforce planning
Retaining older workers	Remove legal obstacles to continued working
	Legal restraints on age-related discrimination in recruitment and promotion
	Provide financial incentives to older workers to remain in work
	Encourage flexible working arrangements
	Encourage dual careers (post-retirement re-employment in the public sector)
	Deter early retirement
	Delay retirement age
Targeted recruitment	Special recruitment incentives for key skill gaps
	Increased opportunities for lateral entry in key areas
	Modernise HRM to attract young graduates
	Increase recruitment in some key areas
Career management	Fast track promotion to cover key gaps
	Other management tools to improve career management
	Focused training/skill development schemes
Mobility	Improve employment structure
II. Cost containment/productivity increase	
Pension reform	Shifts towards defined contributions
	Calculation of benefits
	Actuarial adjustments
	Increase retirement age and contribution period
Efficiency savings	Downsizing/computerisation
	Pay reform
	Organisational and management changes
Functional review	Privatisation of major functions
	Contracting out
III. Adaptation of public service to wider ageing challenges	
Reallocation (budget and staff) according to new public service priorities	
Institutional reform	
IV. Contribution to maintaining flexibility in the wider labour market	
Pension reform	
Incentives to delay retirement	

Table 6. **The effects of policy tools on the different policy goals**

Policy focus \ Policy goals	Cost containment	Capacity maintenance	Adapting the structure of the public service to wider ageing challenges	Contribution to maintaining flexibility in the wider labour market
Workforce planning	Positive, minor	Positive, major	None but can help promote wider changes	Positive, major
Retaining older workers				
Pension reform	Positive, major	Some positive in the long run	None	Positive
Other incentives	At best none, but overall can have a negative effect	Positive	None	Positive
Targeted recruitment	Negative	Positive	None	Negative
Career management	Positive, minor	Positive	None	Positive, minor
Mobility	Negative, minor	Positive	None	Positive, minor
Other pension reform	Positive, major	None	None	None
Efficiency savings				
Downsizing	Positive	Negative unless very well planned across sectors	Negative unless very well planned across sectors	Positive
Pay reform	Positive	Negative, minor	None	Negative, minor
Organisational and management reforms	Positive	Positive	Positive	None
Functional review and reorganisation of public service delivery	Positive if well managed	Positive if well managed	Positive if well managed	None
Reallocation of staff and resources	None	Positive	Positive	None
Maintain flexibility of the wider labour market	None-but can help better plan and avoid crisis	Positive	None	None-but can help better plan and avoid crisis

Source: OECD/GOV conclusions from case studies.

maintenance, its effect on cost containment varies depending on whether retaining older workers is more expensive than having them retire. Similarly, downsizing has positive effects on cost containment but can have dramatic effects on capacity maintenance at times when large cohorts of employees will be leaving the public service. The effects of the use of the different policy tools on the different policy goals are summarised in Table 6.

As a number of policy goals have to be achieved and as the effects of some policy tools on different policy goals is contradictory, it is very important that public service ageing policy should be comprehensive and well thought through. In addition, because the levels of government or the bodies that deliver social services and the bodies where ageing will provide some room for manoeuvre in terms of staffing are not necessarily the same, it is important that ageing policy be co-ordinated across government organisations and across the different levels of government.

3.2. Country-specific enabling conditions and constraints

From one country to another, the use of the various policy tools and their outcomes varies according to country-specific constraints that have to be taken into account when analysing the situation in different countries. Some classic reform-enabling factors have to be taken into account such as political support for reform, sense of crisis, leadership. But more specifically in terms of the management of the public service and in addition (obviously) to the demographics, the following conditions influence the room for manoeuvre that countries have for choosing which reforms to undertake, as well as their capacity to make the necessary adjustments:

3.2.1. Economic context

Fiscal balance and debt. Some countries are in a relatively better position regarding present and future fiscal balance and debt. This situation can be due to general macroeconomic factors, to good management practices, to past reforms that have had a positive effect or that will have a positive effect such as pension reform and downsizing efforts, as well as to the demographic situation. Countries in this position are in a better position to address their capacity difficulties than countries which have to focus primarily on cost containment.

The situation in the wider labour market. In terms of the structure of the labour market, both the actual participation rate of older workers and public servants in the labour market (and participation rates of public servants can be higher or lower than in the rest of the country depending on the country) and the unemployment levels are very important background conditions to take into account. The higher the unemployment rate, the less important the effect of increased public sector hiring on the labour market will be. Lower participation rates of older workers in the labour market provide a possible source of additional skills if incentives can be created to increase their participation.

Productivity increases in the economy as a whole. The higher the productivity increases, the easier the transition will be. Some ageing policies address the need to increase productivity in order to decrease the number of staff but to still provide the same level of service, through an emphasis on e-government, training and knowledge management, for example. However, a large part of productivity increases depends on productivity increases in the wider economy, and productivity gains are difficult to measure. In any case, as noted in a preliminary OECD report mentioned earlier, an increase in government productivity by 0.5-0.75% per year between 2005 and 2030 (in addition to current average productivity increases that can be assumed to be between 0 and 1.5% per year) will be necessary to maintain current service levels.[13]

3.2.2. Public sector structure

Policy co-ordination between different government levels particularly in federal systems and very devolved governance systems. The co-ordination of ageing policies is probably made significantly more difficult in most countries that have highly devolved (for centralised countries) or completely autonomous (for federal countries), human resource management systems at the different government levels. Depending on the level of policy co-ordination in the social sectors and the capacity to co-ordinate human resource practices, the ageing policy for the public service can be made more or less coherent.

Rigidities in public sector HRM. Flexibility in human resource management varies significantly across countries depending on cultural factors, the scope of past reforms, political support for reforms, and systemic features (position-based systems are inherently more flexible in the management of individuals).[14]

Budgeting. Budget reforms such as the use of multi-year budgeting and accrual accounting should enable improved planning to occur for reallocation and for devising better structures for implementing ageing reforms.

3.3. Do countries have holistic proactive ageing strategies?

An ageing population and an ageing public service require holistic strategies that encompass improved service delivery planning and workforce planning across sectors and levels of government, reallocation of resources, and productivity increases. These strategies also have to be proactive to limit the adjustment costs and to take advantage of the unique opportunity provided by large-scale departures in the public service that will take place before large-scale departures in the wider labour market (in most cases).

In the countries studied in this review, most governments seem to be well aware of the ageing challenges and of the need at least to maintain public service capacity in the face of large-scale staff departures. Many have whole-of-government strategies co-ordinated by a central ministry, even when they have highly devolved public services with most social services being delivered at sub-national government level.

Australia, Denmark, Finland and Germany have relatively more holistic public sector strategies that are linked to whole-of-government policy reforms.

- In Australia, the Australian Public Service Commission takes an active role in sharing experiences across government agencies with workforce planning and other ageing-related issues. Ageing policies, very much focused on maintaining capacity, are broad but concerns remain as to the co-ordination of such policies across the different levels of government and thus the ability to manage the reallocation of staff and resources.

- In Denmark, the State Personnel Authority is in charge of the ageing policy that is governed by the new political programme entitled "New Goals – Government Platform" which was launched in February 2005. The ageing policy addresses both workforce adjustments and reallocation of resources as well as a more global policy to retain older workers and a productivity policy. In terms of implementation, however, workforce planning and the balance between downsizing and maintaining capacity are of concern, as well as the actual steps taken to improve productivity.
- Finland is starting to implement its first ageing programme, "Productivity for the Public Sector 2005-15", focused on increasing productivity in the public service. This programme is part of an economy-wide government ageing strategy which has been approved by the government.[15] This proposed strategy seeks to increase the coherence of the government's ageing policies by reforming unemployment policy, tax policy, increasing productivity and improving competitiveness.
- In Germany, the public service ageing policy is tied to the strategy endorsed by the federal government that combines a sustainable family policy (financial assistance and expansion of childcare) with a policy of active ageing (promoting the use of experience-based knowledge). Within this framework, the federal government has developed a whole-of-government strategy for the civil service that focuses on pensions and on developing the potential of older people. While the public sector ageing strategy fits in with a wider ageing strategy for the whole economy, its focus remains particularly limited and concerns remain regarding workforce planning and resource reallocation, the co-ordination of ageing policies across the different levels of government, the retention of older workers and the sustainability of the pension system.

The Netherlands and France do not have explicit economy-wide ageing strategies but their public service ageing strategies are focused on some structural issues:

- In the Netherlands, the cornerstone of the project called "Different Government" is to redefine the relationships with the private sector in service delivery and maintain wider labour market flexibility. Discussions mainly focus on the health and education sectors. While cost containment and capacity in the health sector seem well addressed, concerns remain as to the lack of focus on maintaining public sector capacity.
- In France, the focus is on further developing an existing programme called *Gestion Prévisionnelle des Effectifs, des Emplois et des Compétences* (GPEEC) (see Box 5) that helps ministries forecast their future employment and competency needs, the number of staff leaving on retirement, etc., and translating these forecasts into budget estimates for future employment needs. While the government seems to have put a lot of emphasis on workforce planning and maintaining capacity, concerns remain as to the overall financial sustainability of the system, and the pressures in the wider labour market.

The Italian government recognises that until very recently, "demographic decline has not been a real priority in the political agenda of past governments".[16] While the government has launched a key political programme on welfare and new social demands focusing on care for the elderly, the government does not have a specific public service ageing strategy. While some pension reform measures have aimed at containing costs, the rest of the ageing policy remains limited.

The Irish government, which will meet ageing difficulties in the much longer term than the rest of the countries studied, does not have a whole of public service ageing policy. Apart from some elements of pension reform, much of the strategy remains to be developed.

The Portuguese government does not have a specific ageing policy for public service employment. The government is presently implementing a combination of hiring freezes, pension reforms, and a reform postponing the retirement age. Concerns remain as to the government's ability to improve workforce planning, the sustainability of the pension scheme, the coherence of the public service ageing strategy for dealing with the new challenges presented by an ageing society, as well as the maintenance of capacity.

Overall, only Denmark, Finland, and Germany have ageing policies that are part of a wider labour market strategy to address the ageing challenges for society as a whole. Some policies are relatively more holistic (Denmark, Finland), while others are more tightly focused on some aspects (cost containment in most countries, with workforce planning and reallocation in France, and productivity and maintenance of wider labour market flexibility in the Netherlands).

With some exceptions, these whole-of-government strategies for the public service, however, seem to be relatively more focused on reducing costs and on making better use of managerial tools to increase productivity than on other objectives. Their implicit aim is retaining the *status quo* in terms of capacity. Little in the strategies appears designed to seize the opportunity to change structures, rethink public service delivery, and reallocate resources across public service delivery sectors in order to provide a different range of services to the ageing population.

The policy linkages between an ageing labour market and an ageing civil service, or even more importantly, between the new demands placed on the public service by an ageing society and the public service ageing strategy, are rarely made.

Overall, apart from Ireland and the Netherlands, which face limited demographic challenges in the short run, there seems to be little linkage between the ageing situation and the resultant constraining factors on the one side, and the nature of the ageing policy on the other side.

Table 7. **Comparison of public service ageing policies**

	Ageing challenge and timing	Stated country priorities	Actions/implementation	Areas of concern
Australia (federal government only)	High Imminent	Proactive Limited scope – Mainly capacity maintenance (costs seem to be under control)	• Emphasis on enhancing attractiveness and retention of workers through management tools and staff development • Cost containment through the move towards fully funded defined contribution superannuation plan	• Co-ordination of ageing policies across levels of government • Reallocation across sectors and governments • Few incentives for older workers to remain in the public service • Focus on increased productivity limited • Labour market-wide considerations limited • Workforce planning limited
Denmark	Moderate Imminent	Proactive Encompassing many aspects Well balanced – Capacity maintenance Cost containment Institutional changes and reallocation	• Mix of positive incentives and disincentives that aim at keeping older workers at work • Emphasis on enhancing attractiveness of public employer • Mobility, staff development and knowledge management at the core of ageing strategy • Cost containment but little linkage with ageing • Major institutional change and reallocation of resources across levels of government in process	• Financial sustainability of pension system • Balance between downsizing and capacity maintenance unclear • Little focus on increased productivity • Labour market-wide considerations limited • Workforce planning limited
Finland	Very high Immediate	Proactive Ambitious Labour market-wide – Strong focus on increased productivity The only country with a public sector programme that is fully part of a wider labour market programme aimed at improving capacity and productivity	• Cost containment through emphasis on pension reform and downsizing • Improved productivity through efficiency measures • Labour market-wide measures to improve productivity and capacity of older workers to work • Strong focus on institutional devolution and reorganisation of some service delivery as well as on reallocation of resources	• Sustainability of pension system
France	Major Immediate	Reactive Limited scope – Cost containment Maintaining capacity	• Strong emphasis on workforce planning • Cost containment through pension reform • Capacity: emphasis on ICT, training, mobility	• Cost containment: pension and replacement rate • Lack of room for manoeuvre in workforce planning due to high replacement rate • Retention of older workers • Pressure on the wider labour market might be considerable • Wider changes to increase productivity

Table 7. **Comparison of public service ageing policies** *(cont.)*

	Ageing challenge and timing	Stated country priorities	Actions/implementation	Areas of concern
Germany (federal government only)	Major Immediate	Reactive Limited scope – Reactive on cost containment Proactive on older worker management	• Cost containment mainly through pension reform • Training of older workers	• Co-ordination of ageing policies across levels of government • Staff reallocation and workforce planning • Further pension reform needed • Retention of older workers
Ireland	Major Longer term (2020+) Civil service comparatively less affected than in other countries	Proactive Limited scope – Cost containment (pension reform) Current thinking about effect of development of more proactive ageing strategy on capacity maintenance and resource reallocation	• Pension reform	• Most of the ageing policy remains to be developed
Italy	Major Imminent	Reactive Very limited scope – Cost containment	• Pension reform and some downsizing • Other major managerial changes but with little linkage with ageing	• Coherence of tools for the retention of older workers • Coherence of downsizing with overall ageing strategy, and planning regarding capacity issues still to be developed
Netherlands	Moderate Imminent	Reactive Limited scope – Cost containment Maintain wider labour market flexibility Maintain capacity in the health and education sectors	• In-depth pension reform and downsizing • Capacity in health sector	• Workforce planning • Sustainability of pension scheme • Capacity maintenance and renewal • Productivity strategy • Coherence of ageing policy with other management changes
Portugal	Major Imminent	Reactive Very limited scope – Some cost containment Some capacity maintenance	• Pension reform • Some training and knowledge improvement • Passive downsizing	

Source: Country case studies.

4. Towards sustainable ageing strategies and actions for government

The review of the ageing policies in the nine OECD member countries covered in this report suggests the following checklist for countries seeking to develop a sustainable ageing strategy for the public sector:

1. Review the potential consequences of ageing public sector workforces in the wider financial and labour market contexts:
   - Assess the degree to which the public service at all levels of government is aging and in particular in sectors that will be affected by increased demand such as the health and long-term care sectors and by decreased demand such as the education sector.
   - Assess the numbers of planned departures from the public service, their timing, and the future skills needed, taking into account changes in the demand for public services and how services are produced.
   - Assess the room for manoeuvre in terms of:
     - ❖ the financial consequences of ageing and the wider financial situation;
     - ❖ the state of the labour market and forecasts regarding its flexibility, as well as the timing of increased departures on retirement both in the private and the public sector;
     - ❖ the required capacity to deliver the expected level of public services in the future especially the delivery of services affected by ageing – education, health and long-term care sectors.
2. Decide on the most appropriate ways of increasing productivity in the delivery of public services and of decreasing overall costs, while taking advantage of the unique opportunity provided by the increased numbers of public servants retiring:
   - Review all cost savings possibilities, especially regarding staff costs (downsizing, pay reform in the context of an older public service) and pensions (move from defined benefits to defined contribution schemes and move to funded occupational schemes and contributions by civil servants, extend contribution periods, reduce the reference salary and cut annuity rates, increase the retirement age, reduce compensatory entitlements for women, create financial incentives for delayed retirement and financial disincentives for early retirement).
   - Decide on the most appropriate organisational form for service delivery – delivery by core departments, government agencies, arm's-length bodies, contracted-out organisations, or public-private partnership – especially in sectors that will be the most affected by increased demand. This will require a functional review of government, with a cost-benefit long-term analysis of the new forms of public service delivery.

- Promote all initiatives that aim at increasing productivity, and in particular e-government.
- Take advantage of large-scale departures from the public service to promote management changes in public organisations.
- Put innovation at the core of public management modernisation policies especially in sectors that are the most affected by ageing.
- Promote the use of management tools that will help plan resource distribution across the years and across management fields (financial and staffing essentially), such as multi-year budgeting and accrual accounting.

3. Focus on maintaining capacity in some sectors and increasing capacity in other sectors:
   - Promote a forward looking capacity maintenance strategy to avoid too many tensions in the labour market at certain periods. In particular, this means smoothing out the hiring waves over the long term in countries with tighter labour markets.
   - Plan medium and long-term reallocation of staff numbers across sectors.
   - Capacity maintenance strategy should focus on:
     - ❖ planning new hiring by sector and improving the attractiveness of the public employer;
     - ❖ entry training and mentoring for the numerous public servants who will be hired during the same period;
     - ❖ favouring mobility in careers as a crucial career enhancement and promotion device;
     - ❖ the senior civil service: fast track promotions, training and skills development for promising middle management;
     - ❖ retaining older workers (as long as the costs of keeping them on the payroll is not higher than pension savings) through the removal of all legal restraints to continued working, pension reform, special HR policies (flexible working arrangements, special training) and the revision of older workers' tasks and competencies towards mentoring and transferring knowledge and experience. The retention of older workers should also establish "best practice" examples for the wider labour market.
4. Promote institutional changes that aim to adapt multi-level governance to the ageing challenge:
   - Review the institutional changes required to increase the efficiency of services in an ageing society and in particular in the health and education sectors.

- Develop a strategy that aims at the improved co-ordination of the delivery of those services across levels of government.
- Make the necessary institutional changes required to deliver services efficiently within the framework of changing demand.
- Reallocate financial and staff resources in favour of the levels of government that will be the most under pressure from new demands.

Table 8. **Lessons from the case studies: Policy emphasis, preconditions, risks and possible best outcome**

Policy goal	Main policy focus	Best context and preconditions	Risks	Possible best outcome
Capacity maintenance	Workforce planning	Good co-ordination mechanisms across government sectors and levels Good analysis of the competitiveness of the public employer	Over-centralisation of staff management and rigidities in the capacity to adapt quickly to changing needs on the ground	Efficient and effective staff allocation across sectors and levels of government
	Retention of older workers	Poorly funded pension schemes in the public service Tight labour market Good management of older workers and attractive work environment for older workers Low participation rates of older workers in the labour market	Expensive pay bill Ageing public service that is difficult to manage Distracts from structural reform that should aim at maintaining capacity	Decreased pension costs > increased pay bill Delayed peaks of departures and thus avoiding too much tension in the wider labour market Increased time for training future workers especially at management levels More time for government to adjust to the ageing challenge Possible better mentoring of younger staff
	Targeted recruitment	Good workforce planning and skills needs analysis Not too tight labour market Attractive public employer	Tightening labour market Long term expensive liabilities	Avoid skills gaps in key areas
	Career management/ training	Identification of skills needs and competence needs	Distracts from structural issues	Improved image of the public employer Mitigate capacity gaps at management levels Some improvement in productivity
	Mobility		Distracts from structural issues	Mitigate capacity gaps Help implementation of workforce planning

Table 8. **Lessons from the case studies: Policy emphasis, preconditions, risks and possible best outcome** *(cont.)*

Policy goal	Main policy focus	Best context and preconditions	Risks	Possible best outcome
Cost containment	Pension reform	Pension costs not under control Large and overstaffed public service	Increased pay bill (older workers on payroll rather than on pension) May distract from other proactive measures	Major cost savings in the long run
	Efficiency savings	Large and overstaffed public service Good workforce planning Other policy emphasis on capacity Limited ageing/capacity problem	Undermine public sector capacity Increased pay bill May distract from more dynamic productivity increases and cost containment strategies	Cost containment Increased financial room for manoeuvre
	Functional review/ privatisation and contracting out	Large and oversized public service Large ageing/capacity problem Excellent cost/benefit analysis of contracting out and privatisation Excellent capacity of public sector as contractor/regulator	May distract from more far-reaching reforms and improved management of the public sector	Some cost containment Some capacity maintenance
Reallocation	Reallocation	Good co-ordination of workforce planning and HRM policies across sectors and across government levels, linked to the financial analysis of needs assessment	Time consuming and politically difficult	Significant cost saving and capacity maintenance in the long run
Prevent tightening of wider labour market	Contributing to maintaining wider labour market flexibility	Good analysis of wider labour market developments Tight labour market and major ageing in the public service	Distracts from capacity maintenance and cost containment goals	Significant influence on long-term economic outcomes

Notes

1. See *Ageing and Employment Policies*, *Live Longer, Work Longer*, OECD, 2006.
2. See *Ageing and Employment Policies*, *Live Longer, Work Longer*, OECD, 2006, p. 24.
3. Not including the impact of some reforms. "Policies for an Ageing Society: Recent Measures and Areas for Further Reform", *Economics Department Working Papers*, No. 369, OECD, 2003.
4. Not including the impact of some reforms. "Policies for an Ageing Society: Recent Measures and Areas for Further Reform", *Economics Department Working Papers*, No. 369, OECD, 2003.
5. "Public Sector Pensions and the Challenge of an Ageing Public Service", OECD, 2007.

6. See "The Labour Market Impact of Rapid Ageing of Government Employees: Some Illustrative Scenarios", *Economics Department Working Papers*, No. 441, OECD, 2005.
7. "The Labour Market Impact of Rapid Ageing of Government Employees: Some Illustrative Scenarios", *Economics Department Working Papers*, No. 441, OECD, 2005.
8. "Projecting OECD Health and Long-Term Care Expenditures: What are the Main Drivers?", *Economic Department Working Paper*, No. 477, OECD, 2006.
9. This part is based mainly on "Public Sector Pensions and the Challenge of an Ageing Public Service", OECD, 2007.
10. "Normalisation" means the move from civil service employment conditions towards employment based on collective bargaining agreements similar to those in the private sector.
11. Improvements to productivity in terms of efficiency as a consequence of improved work practices are referred to as "dynamic productivity gains". Improvements that result from reductions in inputs are referred to as static gains.
12. See *Ageing and Employment Policies, Live Longer, Work Longer*, OECD, 2006.
13. See "The Labour Market Impact of Rapid Ageing of Government Employees: Some Illustrative Scenarios", *Economics Department Working Papers*, No. 441, OECD, 2005.
14. See "The OECD Human Resources Management Working Party: A Summary Retrospective and an Agenda for Action", OECD, 2005, GOV/PGC/HRM(2005)3.
15. "Finland for People of All Ages: Government Report on the Future: Demographic Trends, Population Policy and Preparations for Changes in the Age Structure".
16. "White Paper on the Welfare State. Proposals for a Dynamic and Solidary Society", Italian Ministry of Labour and Social Affairs, February 2003. Mentioned in "Ageing and the Public Service in Italy".

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