IBM

Living longer, living better

Addressing the challenge
of an aging workforce

theLisboncouncil
making Europe fit for the future

Foreword

In 1881, Otto von Bismarck surveyed the political landscape in Prussia and came to a novel conclusion – partly to steal a march on his political opponents, he vowed to erect a retirement and social safety net for Germany's workers, one that would offer aid and assistance to the disabled or ill, one that would guarantee every blue-collar worker a secure retirement.

Nearly 130 years have gone by, and the world has changed profoundly. First and foremost, the visionary policies of yesterday have become the social norm of today. No one could imagine Europe without adequate health insurance and a secure pension system – and indeed no one would want to. But therein may lie the dilemma we face. For whilst we have struggled for years to write our social policy in stone – often holding up today's practice as something so sacrosanct that changing any aspect of it would be to risk losing our European identity

– the social challenges which these polices were created to address have been evolving, and evolving fast. Most notably, families are shrinking, people are living longer, and the developing world is staking its rightful claim to a full-fledged seat at the global economic table. Taken together, these changes are putting enormous strain on our European social system, calling into question the ability of that system to deliver equitable outcomes and even to bestow the very security the system was set up to provide.

What we need to do is to turn what can be characterized as a Perfect Storm into a Virtuous Circle of well-being. We need an approach where the principles that lay behind our social system – the notion that each and every European is entitled to protection, help and security when he or she needs it – is shored up and strengthened not through intransigence and inflexibility, but through an honest, open and well-thought-out approach to the social and economic problems we face. We need to use our knowledge of today's changing social realities to make our systems sustainable over time. But getting there will require courage and imagination, as the report you now hold in your hands shows. I congratulate my friends at IBM on this outstanding work; I look forward to working with all of you to turn these challenges into opportunities, much as our visionary forefathers did before us. Let's make it the best world that we can.

Paul Hofheinz
President, The Lisbon Council

The world is currently experiencing massive economic and demographic shifts. As countries such as China, India, Brazil and the former Eastern Bloc rapidly modernise, revolutionary advances in technology are enabling a new global trading platform and re-balancing the playing field. Due to lower costs of transportation and communication, capital, talent and work are migrating ever faster around the globe. Accelerated cycles of innovation and commoditisation are having profound impacts on the way we live and work. These rapid changes are all elements of globalisation, and, whilst there are many benefits, there is profound variation in the impacts on individual communities. What is constant, however, is increasing competition from all quarters of the globe. And then, add to this mix the well-known phenomenon of aging populations, and it is clear there is a challenge if Europe is to remain at the forefront of 21st century economic and social developments.

Social security has been one of the few relatively stable elements of society in this sea of rapid change. But how long can this situation stay the same? How much longer can the social security models of the late 19th and early 20th centuries stay relevant for a modern world that is ever changing? What level of reform is needed to modernise social security so it remains relevant in a globalising economic environment at the same time as remaining relevant to local, regional and national social and economic interests?

*These questions have led IBM to conduct its own research into contemporary business issues in the social sector. On this occasion, IBM is delighted to contribute to the Lisbon Council's ongoing campaign to engage political leaders and the public at large in a constructive exchange about Europe's economic and social future. The IBM Global Social Segment (**ibm.com**/government/social), formed in 1999, leads our social sector research programme. Our aim is to take findings from the research programme to develop solutions that help governments transform and modernise their social sector programme delivery.*

At IBM we believe that collaboration is the way forward as the world adapts to 21st century challenges. The business community, of which IBM is a part in over 170 countries, has a substantial role to play in facilitating new forms of co-operation with government to address these challenges. Policy makers and administrators are seeking new ideas to initiate significant change – that's innovation. This study highlights examples of innovation from around the world that European governments can reference as they develop their own roadmaps for the future. Most importantly, this report highlights the change-management considerations key to making the policy directions that can address the issues of aging a reality.

Hans Ulrich Maerki
Chairman of the Board, IBM EMEA

Table of Contents

Executive summary

Doing the garden,
*   digging the weeds,*
*   who could ask for more?*
Will you still need me,
*   will you still feed me,*
*   when I'm sixty-four?*

Paul McCartney,
"When I'm 64,"
Sergeant Pepper's Lonely Hearts Club Band, 1967
©Copyright Northern Songs, Music Sales Group Ltd.

When Paul McCartney wrote his landmark hit in 1966 at the age of 24, he could have hardly imagined how dramatically the process of aging would change in coming decades. Steady increases in life expectancy, coupled with declining fertility rates, will bring about unprecedented demographic changes in Europe – demographic changes of a magnitude not seen since the Black Death ravaged the European continent in the Middle Ages.

Between now and 2030, the European Union will lose about 20.8 million people, or 6.8% in total, of working age. There will be 18 million fewer children and young people than today. As a result, by 2030, roughly two people of working age (15-65) will have to support one inactive person of 65 or older – compared to an old age dependency ratio of 4:1 today.

In addition to re-making society as we know it, this development will bring with it two formidable challenges. Firstly, it will have a significant impact on potential economic growth rates, which are projected to be reduced from about 2.5% in the period up to 2010 to some 1% on average over the period 2031-2050. Secondly, public finances will come under severe strain. If no measures are taken, government debt across the EU 25 is projected to increase to an unsustainable level of 180% of gross domestic product (GDP) by 2050 and, in some cases, much higher.[1] In more than a third of current EU member states, the long-term budgetary impact of aging is staggering, with a projected increase in public spending of some 5% points of GDP or more.

1 European Commission, The Long-Term Sustainability of Public Finances in the European Union, European Economy No. 4 (Brussels: European Commission, 2006).

To be sure, an aging population is not only an economic challenge, but a societal phenomenon that will change all aspects of our lives. It will influence how we live and work, how companies are organised, how cities and regions function, apartments and shopping centres are designed, voting behaviour is formed, and so on. Change − lots of change − is on the horizon, and solutions and best practices are urgently needed in order to pro-actively prepare for coming challenges, and raise awareness in society at large about what's in store.

This is particularly true with regards to the aging workforce, which will need particular attention from policy makers and businesses alike. Between 2005 and 2030, the number of people in the EU that are 65 or older will rise by 52.3%, or 40 million in total. With increasing retirement ages, and an impending skills and worker shortage due to a declining workforce, the needs and requirements of mature workers must take centre stage, not only in political discourse, but also in public awareness, in private sector priorities and in individual understanding of what it means to be "old."

In 1970, four years after Paul McCartney wrote "When I'm 64," the average man in OECD countries drew a pension for 11 years, and the average woman for 14 years. By 2004, that number had increased to 18 and 23 years respectively; a stunning increase which was until recently seldom translated into a corresponding adjustment in actual retirement age.

To the contrary, the practice of early retirement allowed millions of workers to leave the workforce prematurely, leading Europe's employment rates in the age group 56-65 to be among the lowest in the world. In 2005, for instance, only 31.4% of older people were employed in Italy, 31.8% in Belgium and Austria, 37.9% in France, and 45.4% in Germany. With a Lisbon Agenda target of a 50% employment rate among older people, there is still a long way to go.

For people to live longer is clearly a good thing. We should rejoice in the improved conditions and medical advances that have led to this. However, we should also be aware of the implications. We foresee two scenarios as shown in Figure 1. The first we characterise as a "Perfect Storm" where the easily predictable challenges that have been mentioned are allowed to materialise since we take insufficient action to mitigate them − resulting in serious fiscal challenges with flow-on consequences throughout our societies, affecting both older and younger people. The alternative scenario is a "Virtuous Circle," where an integrated and multi-programme set of policies and plans are enacted that set in train a sustaining upward trend of positive fiscal and social benefits for citizens, businesses and society as a whole.

To date, many countries have taken some action, and there have been some important and impressive results. But, across the board, progress remains piecemeal. Why is it so difficult for some countries to make progress on this issue despite the evident challenges which changing
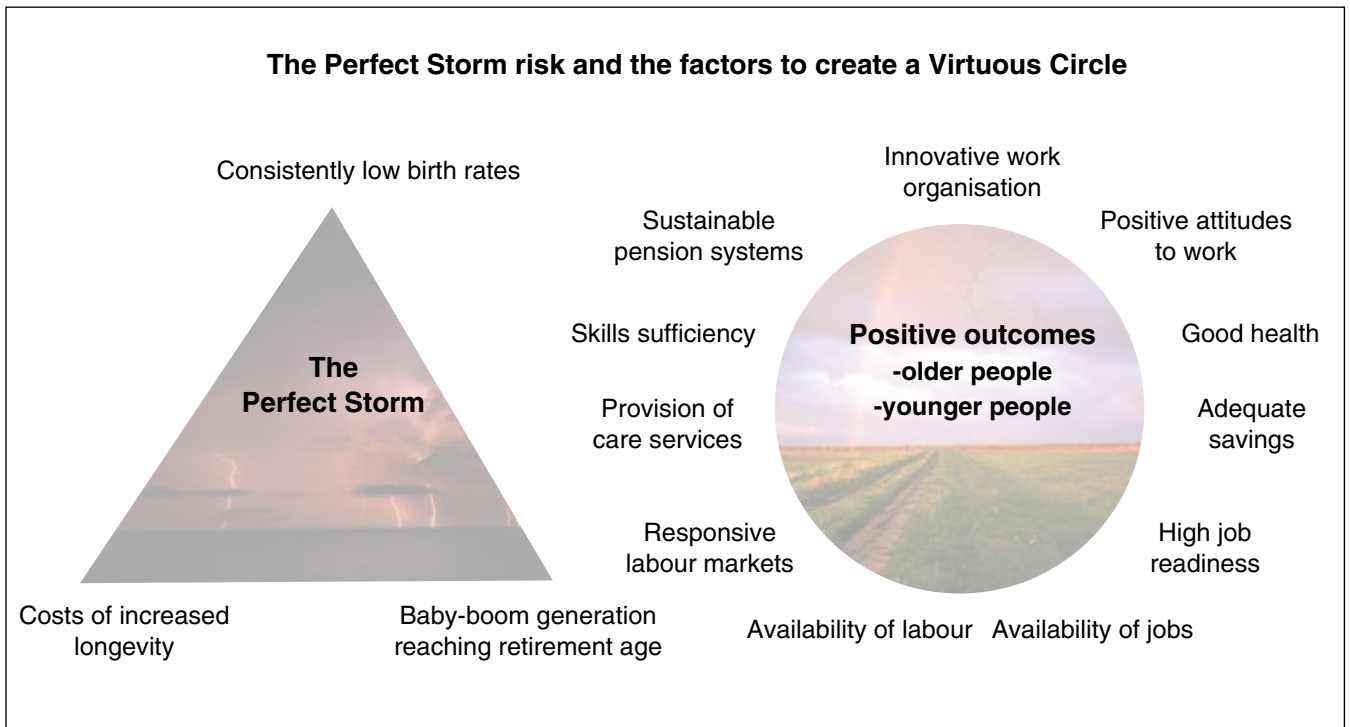
The Perfect Storm risk and the factors to create a Virtuous Circle

Consistently low birth rates

The Perfect Storm

Costs of increased longevity

Baby-boom generation reaching retirement age

Sustainable pension systems

Skills sufficiency

Provision of care services

Responsive labour markets

Innovative work organisation

Positive attitudes to work

Positive outcomes -older people -younger people

Good health

Adequate savings

High job readiness

Availability of labour   Availability of jobs

Figure 1: The Perfect Storm risk and the factors to create a Virtuous Circle.

demography poses? Put simply, it is because the implications are so far reaching – hence much action is needed and on a broad array of fronts. Creating the Virtuous Circle requires government leadership and an integrated, multi-factor set of programmes.

But it also needs to involve the business community as partners and will require action by individual citizens themselves (Figure 2).
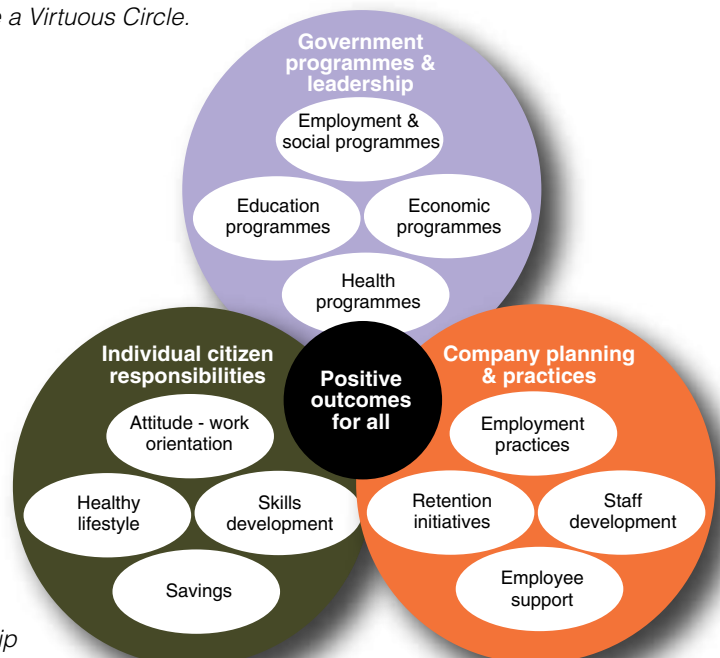

Figure 2: Achieving positive outcomes requires leadership and all players engaging across a variety of themes.

The challenges arising from this complexity are indeed great but we already know that, with action, they can be overcome. Many governments have provided leadership and taken difficult policy decisions. Also, there are cases where companies have been innovative and taken actions to anticipate problems that might otherwise cause them crippling operational difficulty and increased costs. In truth, though, action on the part of the business community has often been patchy at best. More of the business community needs to take a longer term view and adopt practices that support employment opportunity; today's cost is, in fact, tomorrow's competitive advantage. But not only are parts of the business community failing to secure their own interests. The business community has much latent capacity through its skills, motivation and resources which, properly engaged and harnessed, can greatly enhance the overall capability of society. The notion of capability is crucial. We need to build capability so that we are resourceful and adaptable; this is how we will secure our long-term interests – a narrow focus on fixing the problem is not the answer. We should be in the business of securing better outcomes for our society by building long-term capability and managing that capability better.

Managing from the Perfect Storm to the Virtuous Circle

The Perfect Storm

1) Leadership and governance
2) Communication and persuasion
3) Transparency and clarity
4) Building momentum
5) Segmentation and intergenerational fairness

Virtuous Circle

Figure 3: Managing the Perfect Storm to Virtuous Circle – Five key management-of-change strategies.

If we can define what we need to achieve (the Virtuous Circle), and understand the implications of achieving it (an integrated and co-ordinated programme of change), then we can turn our attention to the third requirement: Strategies to manage the complex change required. There is no single universal blueprint for a programme of change. Each society needs its own roadmap based on its starting point and prevailing conditions. However, whatever the individual roadmap, creating one is vital in order to affirm future direction and enable the building of consensus for individual changes as part of an overall plan that is coherent and socially manageable. Indeed, developing a positive prospectus for change is the key to successful reform (e.g., creating win - win situations and providing

incentives). In this study, as illustrated in Figure 3, we identify and discuss five key change-management strategies.

The demand for change is clear and the need to act is now. Inasmuch as the problems have arisen over decades, the solutions will also require a long time for the effects to be completed. Whilst we acknowledge that governments need to analyse their own circumstances and that the detail of the policies they develop may vary, we expect that each roadmap will include elements in three areas (pension reform, labour market reform and enabling workforce participation) as shown in Figure 4, together with specific examples of likely attributes in each.
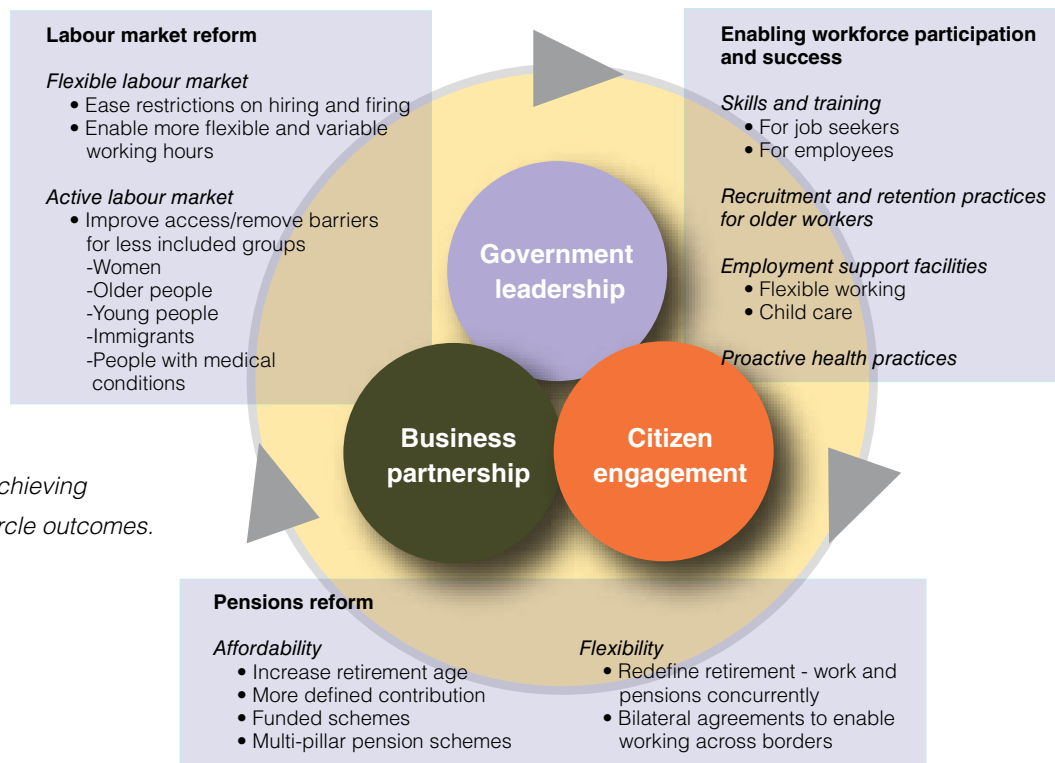
Three key themes in achieving Virtuous Circle outcomes

Labour market reform

Flexible labour market
- Ease restrictions on hiring and firing
- Enable more flexible and variable working hours

Active labour market
- Improve access/remove barriers for less included groups
  - Women
  - Older people
  - Young people
  - Immigrants
  - People with medical conditions

Enabling workforce participation and success

Skills and training
- For job seekers
- For employees

Recruitment and retention practices for older workers

Employment support facilities
- Flexible working
- Child care

Proactive health practices

Government leadership

Business partnership

Citizen engagement

Figure 4: Achieving Virtuous Circle outcomes.

Pensions reform

Affordability
- Increase retirement age
- More defined contribution
- Funded schemes
- Multi-pillar pension schemes

Flexibility
- Redefine retirement - work and pensions concurrently
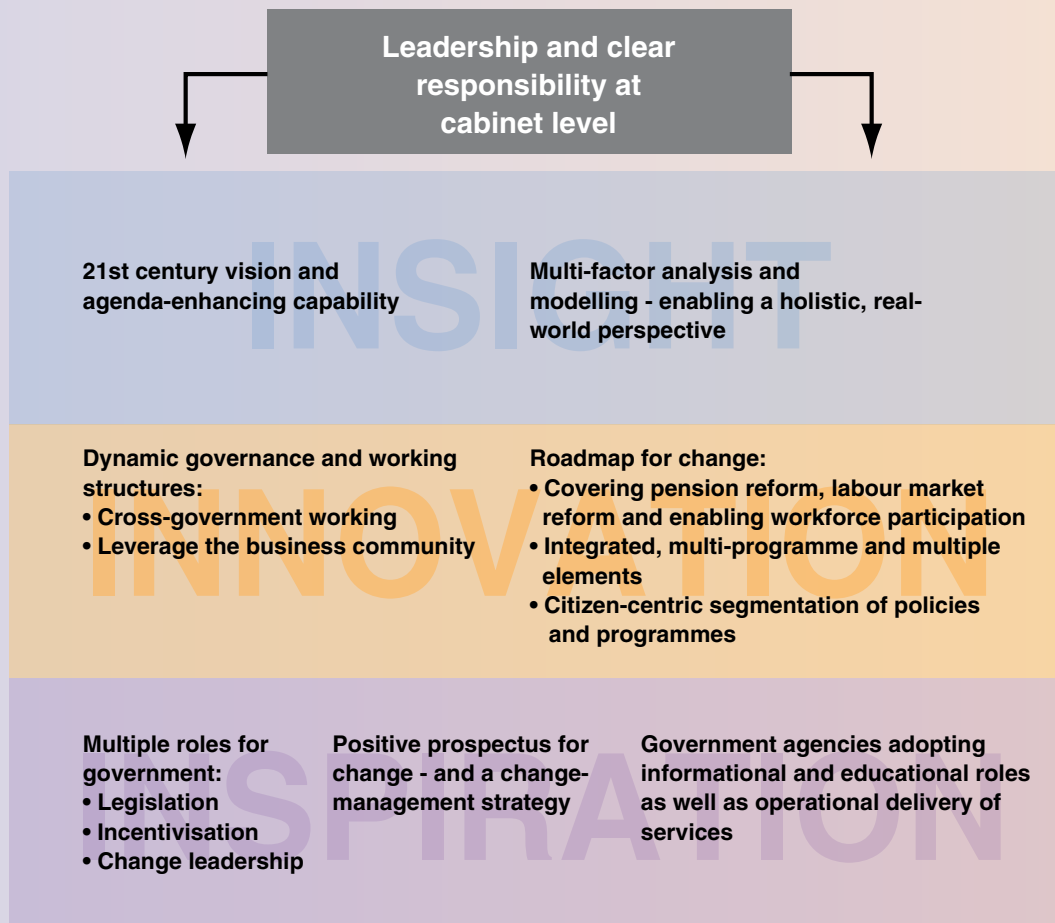- Bilateral agreements to enable working across borders

Some events in the modern world are not predictable. However, the challenge of the aging workforce is. We know it is happening, we know that it will happen; we cannot stop it. The good news is that we can turn this challenge into an opportunity – not just for longer lives, but for better lives. Already, some governments and businesses have grasped the nettle and started to demonstrate action and leadership. We and many others want to be a part of the solution. Part of the demand moving forward is to raise popular awareness of the issues and to broaden the engagement of the range of stakeholders who can help make a difference. By engaging with political leaders and the public at large in a constructive exchange, we want to help stimulate the climate for change needed to secure our economic and social future.

Accepting the challenge presented by the aging of populations implies a need to take action; the profound implications already discussed mean that some of this action will be radical and far-reaching. This calls for leadership to plan and create the conditions for change and to establish the partnerships and mechanisms to deliver it. Whilst ultimately delivering change will involve a number of constituencies, governments undoubtedly have the key leadership role. What actions are required,

then? The diagram on the right summarises and presents a framework for the actions required by governments to prepare for, and implement, reform – also highlighting the fact that the radical change required demands 21st century responses of insight, innovation and inspiration.

Doing nothing is not an option. Europe can meet the challenge, and make "living longer – living better" a powerful mantra and vision for the future. It's just that, in the end, were Sir Paul to write a hit song about aging today, he would be compelled to call it, "When I'm 84."

There is no one-size-fits-all approach for what has to be done. However, governments' frameworks for action involve a number of elements, enabled by clear leadership at the most senior level.

Leadership and clear responsibility at cabinet level

21st century vision and agenda-enhancing capability

Multi-factor analysis and modelling - enabling a holistic, real-world perspective

Dynamic governance and working structures:
- **Cross-government working**
- **Leverage the business community**

Roadmap for change:
- **Covering pension reform, labour market reform and enabling workforce participation**
- **Integrated, multi-programme and multiple elements**
- **Citizen-centric segmentation of policies and programmes**

Multiple roles for government:
- **Legislation**
- **Incentivisation**
- **Change leadership**

Positive prospectus for change - and a change-management strategy

Government agencies adopting informational and educational roles as well as operational delivery of services

Introduction

Fundamental shifts in the demographic structure of national and regional populations around the globe present far-reaching challenges to the way our societies operate.

But population growth and decline, and the underlying cyclical pattern which underpins it, are not new. Over two centuries ago, Malthus described shifts in the age structure of populations over a cycle and highlighted the implications of such shifts – at that time an expected inability of populations to produce enough food to sustain themselves. So whilst the issue is not completely novel, there is little doubt that the contemporary challenge is different. The shock arising from this current cycle presents an unprecedented challenge because of the exponential nature of the population growth during the 20th century, together with underlying changes in our societies, such as:

- The development of social protection schemes (pensions and unemployment benefits)
- Societal expectations
- Medical advance
- Globalisation of world economies

Addressing the contemporary challenge requires a focus on achieving better outcomes for citizens by taking a wide and integrated view of the issues. Such an approach can lead to the positive and forward-looking agenda that is required – a multi-programme set of responses including

In the US, 19% of the entire workforce holding executive, administrative and managerial positions will retire in the next five years.

In Italy in the year 2000, there were more people receiving pensions (22 million) than working (21 million).

In Japan, within the next seven years over 33 million individuals (26% of the population) are expected to be over 65 years old.

Source: Beazley, et. al, Continuity Management, Mackay, Alan. "Mature Age Workers: Sustaining Our Future Labor Force." An Ageless Workforce - Opportunities for Business' Symposium Conference Paper. August 27, 2003. www.ageing.health.gov.au/ofoa/wellplan/aawpapers.htm , "Time to act quickly on aging." The Japan Times Online. August 23, 2002 www.japantimes.co.jp/cgi-bin/getarticle.p15?ed20020823a1.htm, A. Paulli, "Pension systems and gradual retirement in Italy," September 2000, p.17.

Figure 5: Some fundamental shifts in the demographic structure of national and regional populations.

both macro- and micro-economic aspects, social and health programmes and broader social issues such as expectations and living standards throughout citizens' lives and across generations.

This report is intended as a contribution to the debate around the challenges and how they can be dealt with, and is aimed at policy makers, business leaders and social commentators. It reflects a world position but also draws particular attention to the issues in Europe. A key issue is that the factors that have led us to the current situation, notably declining fertility and regressive employment practices, have been operating for decades. Similarly, the solutions will not take effect overnight. The economic and social (metaphorical) "super-tanker" will take years to be turned around, so we need to change course now.

This report aims to draw attention to the issues associated with taking the decisions and managing the resulting changes within our complex societies. As such, the report:

- Provides a brief review of the demographic changes facing society to set the context
- Highlights the nature of the challenges arising and what is required
- Draws out some key management-of-change strategies to address the undoubted complexity
- Reviews what we can learn from existing experience by looking at examples from around the world

In discussing some key questions around the practicalities of managing transition, change leaders must undertake and implement three distinct processes to bring about successful reform. These are illustrated in Figure 6.
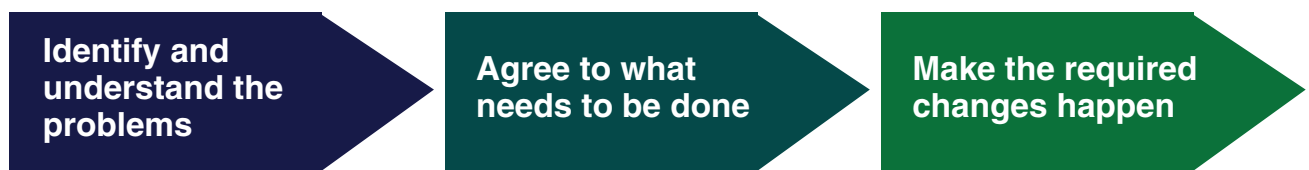
Identify and understand the problems → Agree to what needs to be done → Make the required changes happen

Figure 6: Three steps in managing change.

Much political and strategic attention focuses on the first two steps. Whilst this is obviously not a mistake *per se*, history shows that it is the last stage that is actually the most difficult. The challenge of the aging workforce (like a number of other 21st century challenges such as global warming, and maintaining security) has a very broad scope and impact and requires solutions that go beyond the existing *modus operandi* of current and traditional institutions. Critically, it will require new forms of governance and partnerships to implement innovative programmes and practices.

We do not seek to offer a prescriptive blueprint for what needs to be done; the starting point and cultural and political traditions of different societies mean that a one-size-fits-all approach is not realistic. Nonetheless, we do observe a global context arising from the global economy. As a result, there is increasing convergence in the approaches different countries take; our premise is that there is indeed merit in reviewing and understanding solutions and practices from other parts of the world. Lessons can be learned. And, on the positive side, we can already identify some innovative and relevant responses in countries – "beacons of progress" that give us clues on how to move forward.

The factor of increased longevity is, of course, a blessing. However, failing to take steps to adapt to this new reality leads to the likelihood that, rather than being realised as a blessing, the implications for both the older population and the younger working population will be less than a blessing and, potentially, a social and economic disaster.

Our proposition is that a Perfect Storm is brewing – which means a period of potential decline if it cannot be tackled. This arises from the multiple factors of aging populations, declining fertility, baby-boomer retirement, regressive employment policies and the maturation of 20th century social security commitments (notably pensions). Ignoring this Perfect Storm is not realistic – Europe's ongoing position in the global economy may even be at stake. To ride out the storm requires modernisation of social models to address 21st century realities; this requires not just government leadership but active participation and collaboration with the business community and citizens. Importantly, it is a much better option to act now rather than face even more dislocation and dramatic change later.

The demographic challenge: A global and European perspective

The 20th century has witnessed accelerating changes in two key demographic factors, life expectancy and birth rate, as shown in Figure 7. The effect of these historical trends on contemporary population age structures, most notably in developed countries, is equally dramatic as shown in Figure 8 – which shows over time an increasing proportion of the population over the age of 60 in both the US and Europe (coupled with, in the latter case, a shrinking of the overall population).
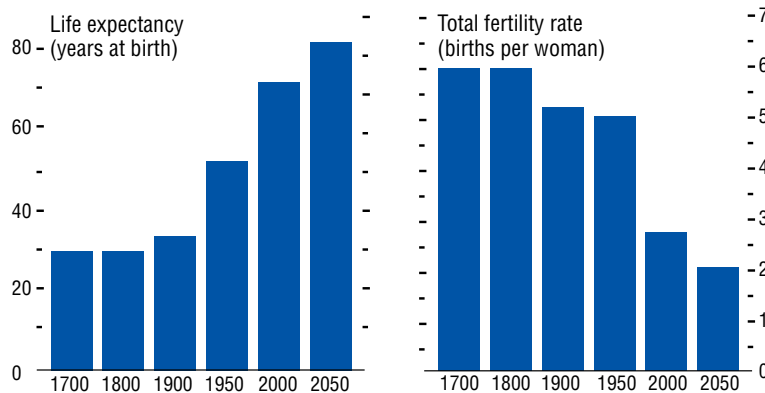
Figure 7: Historical changes in life expectancy and birth rates.

Source: International Monetary Fund - World Economic Outlook (September 2004).
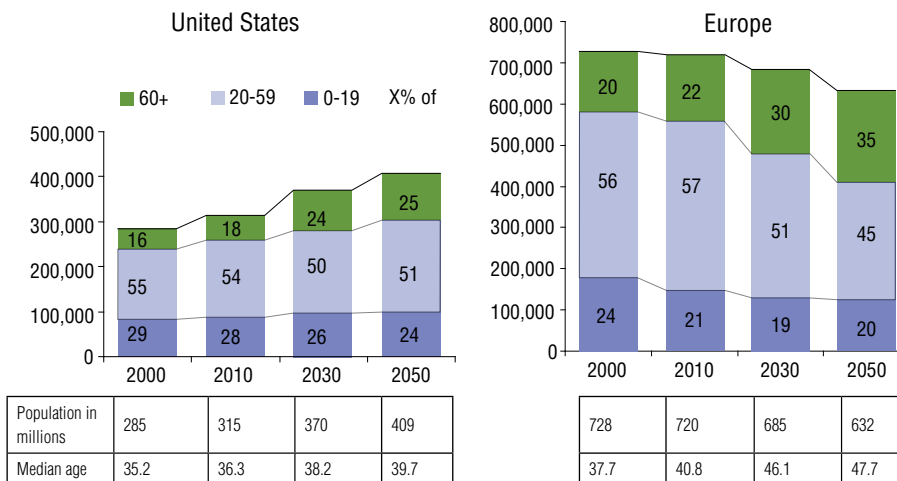
Figure 8: Changes in the age structure – aging populations.

United States

Population in millions	285	315	370	409
Median age	35.2	36.3	38.2	39.7

Europe

728	720	685	632
37.7	40.8	46.1	47.7

Note: "Europe" comprises 47 countries encompassing Northern, Southern, Eastern, and Western Europe.
Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, Word Population Prospects: The 2002 Revision and World Urbanization Prospects.

In addition to these demographic changes, public policy (including extension of educational opportunity and employment policies and practices around retirement, e.g., early retirement and earlier exiting from the workforce on health grounds) add further pressure on the balance of working and non-working populations.

Figure 9 shows changes in old-age dependency ratios (the proportion of non-workers to workers) in the major world geographies. The box on page 17 details two factors that have promoted early retirement in Europe: generous pensions and early retirement packages.

Employees per retiree

Number of employees for each retiree*

*Retirees defined as the number of people aged 55 and above who are not employed.
Source: Martin Baily, Transforming the European Economy; OECD Ageing and Income, Financial Resources and Retirement in 9 OECD Countries, EUROSTAT Population Forecasts.
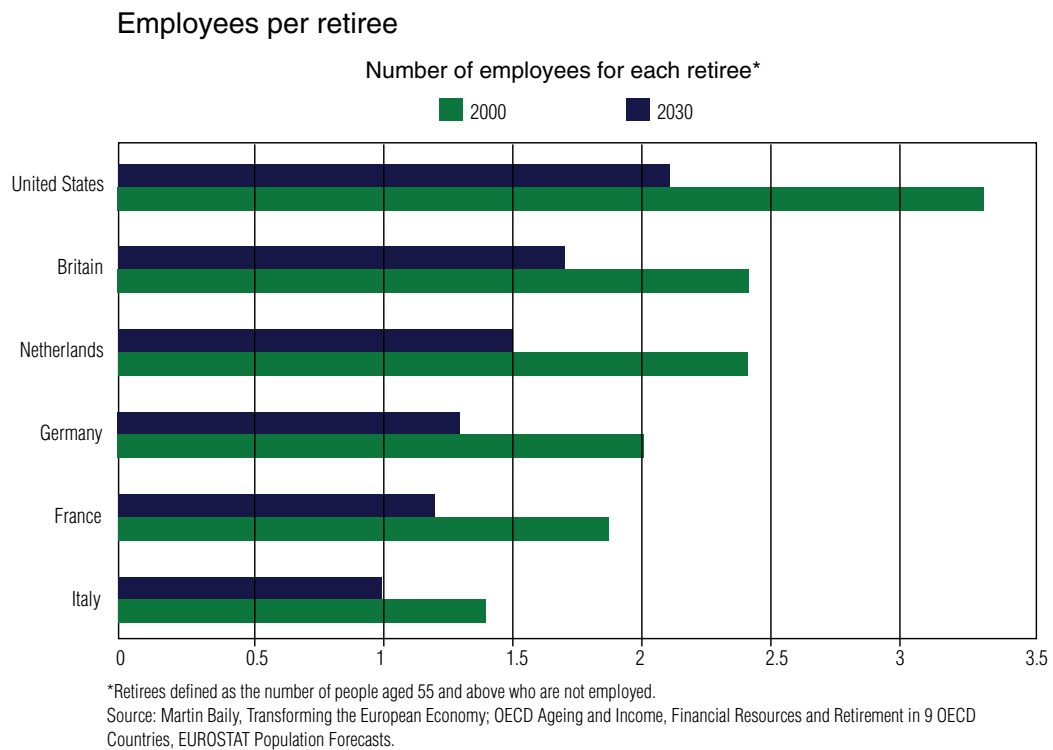
Figure 9: Change in old-age dependency ratios 2000 - 2030, number of employees for each retiree.

Impact of public policy and employment practices

Two important factors have promoted the trend toward early retirement in European countries. First, relatively generous state pension plans have made it attractive for individuals to retire early; and, in many countries, there may even be taxation-led incentives to retire early.

In addition, companies looking to reduce head count in European countries have traditionally offered early retirement packages as a way of avoiding costly layoffs resulting from overly rigid employment protection legislation. In many ways, early retirement was seen by governments and companies as a way of mitigating the impact of high unemployment, as less expensive younger workers were able to move into jobs vacated by older employees.[2]

In fact, a recent EU study showed that, whilst approximately 33% of all individuals between the ages of 55-64 who had retired indicated they had left their last jobs as "normal" retirement, almost 20% (or 3 million people per year) cited "early" retirement as the main reason.[3] From a short-term perspective, both employers and employees appeared to have benefited from this arrangement, as retiring employees received benefits whist employers avoided the expensive costs of involuntary layoffs and were able to replace retiring employees with lower-cost workers. In reality, there are more hidden negative implications – such as the increased liability on defined benefit public pension schemes and reduced tax revenues.

---

2 Von Nordheim, Frtiz, "EU policies in support of Member States efforts to retain, reinforce and re-integrate older workers in employment," in Buck, Hartmut and Bernd Dworschak, eds. Aging and Work in Europe, Stuttgart: 2003.
3 European Commission, "Increasing employment of older workers and delaying the exit from the labour market," p.9.

The effects of existing government policies and company practices, in combination with current demographic patterns are recognised, and one response of the European Union (EU) has been towards mobilising the aging workforce. In recent summits, EU leaders have set goals to encourage member countries to focus on this aging workforce problem. At the 2001 European Council in Stockholm, member states agreed on a goal of achieving a 50% employment rate for older workers (55-64 years). The 2002 Barcelona European Council concluded that the exit ages of older workers for each country in the EU should be raised by five years by 2010.

Figure 10 summarises the current status of the 25 European Union countries with respect to their progress toward the Stockholm and Barcelona targets as of 2002.[4]

The message in this data is clear; in looking at the responses to date, even where we have recognised the issues, we are currently falling far short of what is needed to head off inevitable and entirely predictable problems.

We are simply not doing enough or doing what we need to do fast enough.

The Barcelona and Stockholm targets in 2002

Average exit age from the labour force

Employment rates of older workers
(percent of population 55-64)
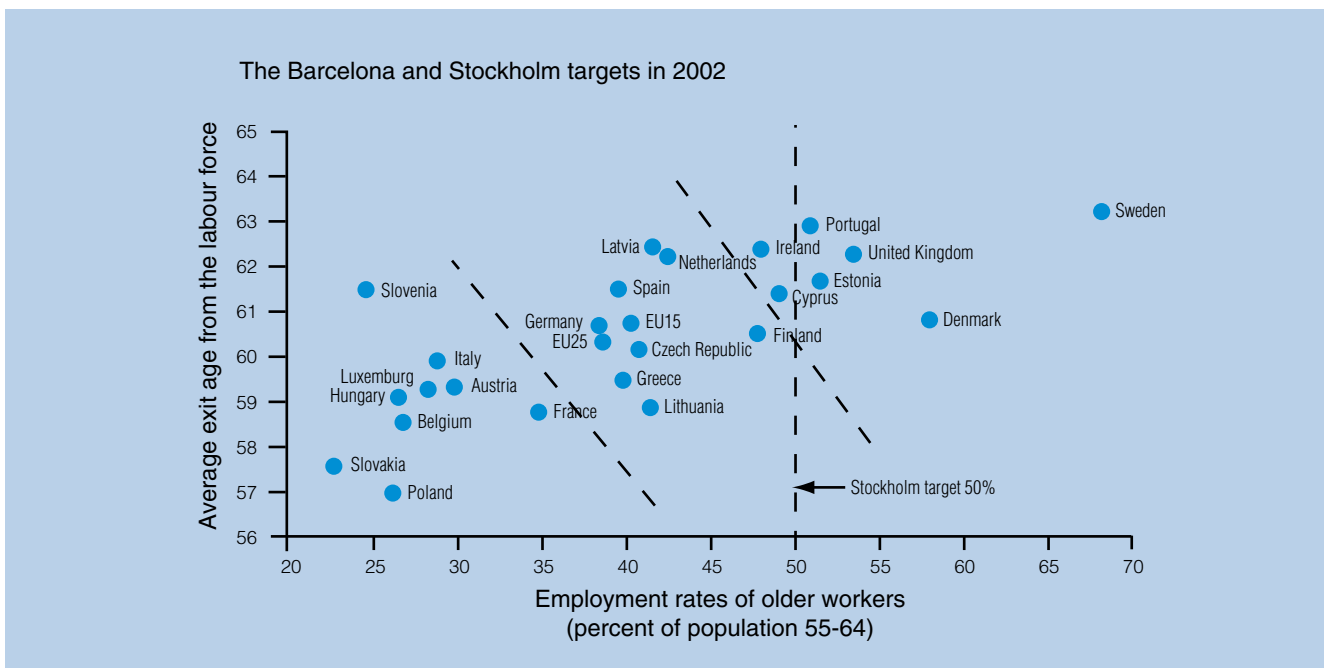
Figure 10: Status of EU countries regarding progress toward targets for aging workers.

Creating a Virtuous Circle through a co-ordinated and integrated multi-programme approach

The stakes in tackling the issues presented by demographic changes coupled with prevailing public and employment policies are high, and the timescale for starting to make serious progress is short.

There are two potential future courses, a "Perfect Storm" scenario arising from a failure to act in which there is an unaffordable aging population as a result of spiralling pensions and health costs placing an increasing financial burden on an ever shrinking workforce. The risks are of:

• An impoverished older generation with insufficient resources
• A poor quality of life as a result of poor health
• An inability to benefit from modern society, such as improvements in technology
• An intolerable financial burden on younger generations

However, there is another way. To deliver a "Virtuous Circle" scenario, the challenge for policy makers is to create conditions that produce an environment in which older citizens have sufficient income and are healthy enough to enjoy decent post-work lives.

To understand how this can be achieved requires an examination of the conditions associated with the Perfect Storm scenario and identification of the challenges that must be addressed in order to avoid it becoming a reality.

Initially the challenge of the aging society was characterised as a pensions problem, and the principal focus was on changing the detailed conditions of pension schemes (so-called parametric reforms) including changing features such as:

• Age of retirement
• Level of pension contributions
• Amount of money and other benefits paid to pensioners

In fact, much of the popular and media discussion continues to focus on pensioners and providing sufficient financial resources for a longer period of conventional retirement. However, whilst pensions are indeed a key issue, it has become increasingly clear that the challenge posed by demographic change involves more than just addressing retirement. Governments are increasingly moving towards more *structural* reforms, including both changing the basis of pensions schemes but also making wider changes in the operation of the labour markets – reflecting a better understanding of the complex interaction between economic and social factors.

One of the key factors is to recognise the critical interaction between economic and social policy. A central linkage is ensuring ongoing economic growth so that wealth continues to be created in order that, amongst other social and economic benefits, current and future pension liabilities and other social protections remain affordable.

To enable this, both demand and supply-side issues need to be addressed. On the demand side, ensuring a stable macro-economic environment through which jobs may be created is clearly vital, as is the effective operation

of product, labour and capital markets. Increasingly though, issues around the supply of labour to meet the demand is a recurrent theme in governmental policy.

Simply put, the supply and demand equation requires making sure that jobs are created to enable ongoing growth, that there are enough economically active workers to fill the jobs, and that those workers have the requisite skills to fulfill them.

Casting the problem in these terms makes it plain that the policy challenges are much wider than just how to balance the books from a fiscal point of view. Indeed part of the challenge is about moving away from a mindset that is about fixing a financial problem to one that focuses on securing better outcomes for citizens – covering a variety of different dimensions. But taking this broader approach highlights that, as well as putting in place conditions that are conducive to growth, there are a variety of other factors that need also to be addressed to secure that individuals are able to participate and achieve positive life outcomes. The true range of challenges that arise from the Perfect Storm scenario include:

Under-funded pension systems – Pensions and other savings need to be adequate including structural reforms to create multiple pillars of income amongst older citizens.

Enabling creation of jobs – Evidence from OECD[5] countries suggests that employment flexibility, e.g., part-time work and less strict employment protection, is a promising route to follow since rigid employment protection limits companies' willingness to create jobs. A lack of such flexibility may differentially limit opportunities for some sectors like immigrants, young people, people with disabilities and the sick.

Provision of sufficient labour – This is the third key area and, in many countries, the rate of employment (as well as the rate of unemployment) is at issue, and the challenge is to activate labour markets (i.e., increase labour market supply) by making them more inclusive for women, older workers, people with medical conditions, young people and immigrants. Tapping into these often underutilised pools of labour will involve measures to make work pay, clamp down on discrimination and achieve changes in employer attitudes.

Achieving this involves tackling some underlying contributory issues:
• Rigid work organisation – The way employers organise and manage work at the workplace often does not coincide with the needs of mature workers. Organisations need to develop innovative work arrangements to retain valued workers and prevent them from becoming early leavers, as well as measures to enable older workers to operate effectively; this can extend to a more flexible concept of retirement.

---

5 OECD, "Economic policy reforms: going for growth," 2007.

- Low job readiness – Individual citizens need to be prepared and encouraged to participate in the labour market.
- Insufficient skills – In an age of globalisation, job security will increasingly be based on skill assets rather than employment protection legislation. Investments in life-long education and training, basic as well as high-value, will not only help fill skills gaps resulting from older workers exiting the workforce but also provide insurance against labour market risk – adding future flexibility.
- Poor health – Poor health including disability, sickness and poor physical condition is inhibiting employment rates in many countries. Measures need to be developed to address health limitations on employment (since disability and ill health are not necessarily a barrier to all work) and also the changing nature of health problems, where poor health is increasingly related to stress and musculo-skeletal problems.
- Inadequate provision of care services – In many households there is a need to take on tasks related to caring for children and elderly relatives. Increasing the provision of affordable, accessible and high-quality care services will be key to enabling, for example, more women to be active in the labour market.
- Negative attitudes to work – People need to recognise better the value of work for their social and emotional as well as financial well-being, whilst employers need to change their attitudes towards new entrants in the labour markets, including immigrants and women.
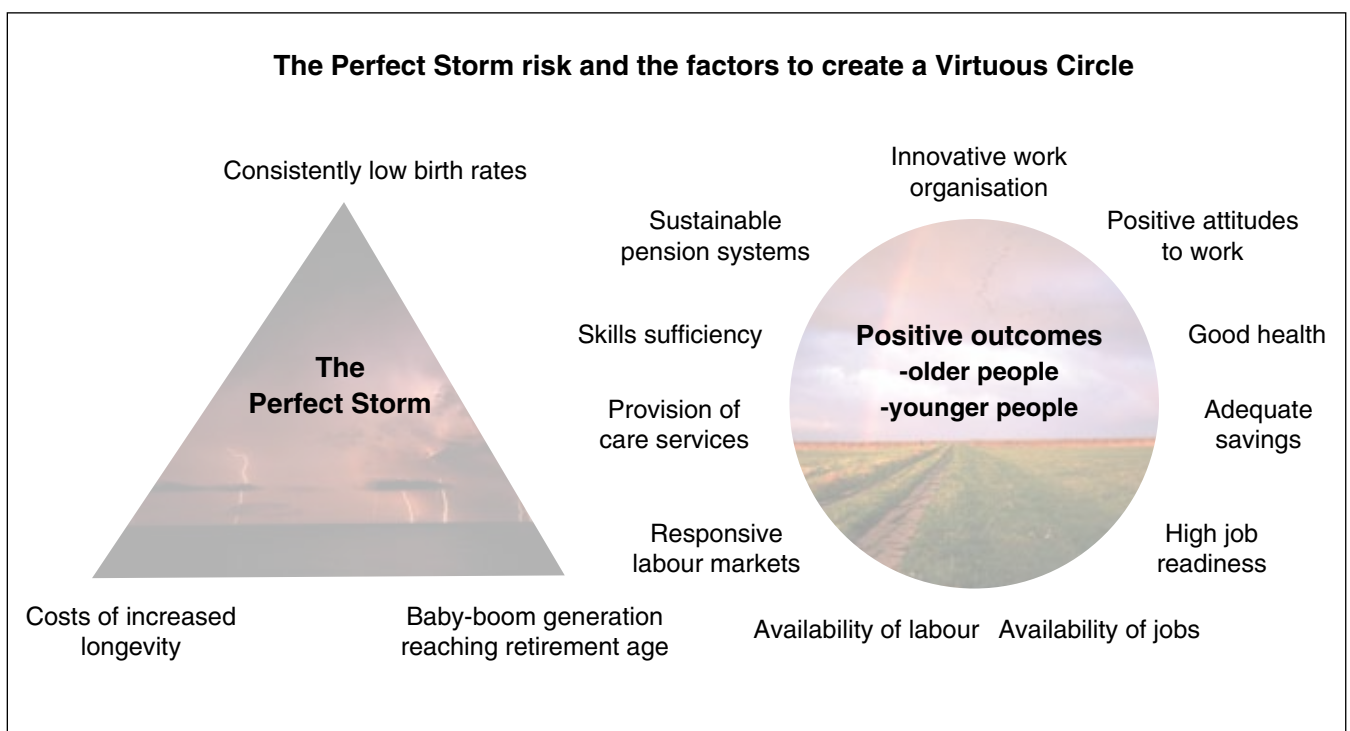
The Perfect Storm risk and the factors to create a Virtuous Circle

Consistently low birth rates

Innovative work organisation

Sustainable pension systems

Positive attitudes to work

Skills sufficiency

The Perfect Storm

Positive outcomes -older people -younger people

Good health

Provision of care services

Adequate savings

Responsive labour markets

High job readiness

Costs of increased longevity

Baby-boom generation reaching retirement age

Availability of labour   Availability of jobs

Figure 11: The Perfect Storm risk and the factors to create a Virtuous Circle.

In summary then, the Perfect Storm risk arises from the maturation of key demographic trends. To create the Virtuous Circle scenario, attention is needed across this broad range of factors, as represented in Figure 11.

When the conditions and factors required to achieve the Virtuous Circle scenario are examined, it is clear that there are significant consequences arising from the:

- Range and types of factors associated with the Virtuous Circle scenario
- Complexity of these factors in both social and economic terms, and the
- Degree of interaction between them

Three of the major consequences are mentioned here.

Firstly, there is a need to deploy a multi-programme and integrated approach – both in terms of the public policy mix and innovative practices at the organisational level. Securing the future is not a question of selecting a single correct lever to deliver ongoing growth. The reality is that there is no single labour market response such as increasing the retirement age, or allowing increased migration to soak up jobs that might otherwise be unfilled. Rather than finding the correct policy response, action on many fronts is required – so whilst encouraging migration of workers to fill jobs may be a part of the answer, other actions will also be required, such as ensuring that people of working age who are able to work can do so. Therefore, there is a need to pay attention to the impediments to workforce participation, such as ill health. So, practically, in determining what actions to take, governments need to create a change roadmap based upon their own national circumstances but undoubtedly founded on the need to tackle the issues on a broad range of fronts.

This multi-factor response places a great premium on the need for co-ordination. From a government point of view, this means developing and executing co-ordinated plans across some of the traditional ministry boundaries. The cry for joined-up government is not a new one. However, these sorts of challenges make this demand not simply one of improving efficiency by eliminating duplication and waste but, more importantly also securing effectiveness and achieving policy outcomes through a joined-up approach. The box on the next page contains examples of progress being made in this regard.

Cross-government working in action [6]

There are some examples where progress is being made. In the United Kingdom, there has been interesting collaborative work to better understand the interplay of multiple factors to create a better analysis and enable the development of joined-up responses. The English Longitudinal Study of Aging (ELSA) is an academic study sponsored by the government which gathers data on a longitudinal basis from individual citizens covering a variety of social elements including employment, health, family factors, etc. The results are considered collectively across departments. The cohort nature of the analysis provides very powerful insights into the interplay between factors by understanding the realities of individual cases. This insight is extremely valuable to policy makers addressing, amongst other things, policy responses to the challenge of an aging workforce.

This analysis is supporting cross-government thematic approaches involving, for example, the Department for Work and Pensions (DWP), the Department of Health (DH) and the Department of Business Enterprise and Regulatory Reform (BERR), formerly the Department for Trade and Industry (DTI). A good example is in understanding the role that ill health plays in taking workers out of the labour market and developing a variety of both proactive and reactive measures to address the effects. Proactively, there is considerable effort to recognise and promote the role that work plays in citizens' achieving better quality lives – not just financially but also recognising the social and health benefits of work.

The challenge of achieving better co-ordination may be, of course, even greater in countries where government is rather decentralised. In Germany, the German Federal Employment Agency's (GEFA) Hartz reform of 2002 was undertaken to improve operation of the labour market. A key outcome was decentralisation of federal responsibilities to the regional tier in order to facilitate better integration of economic policy planning amongst all of the players in "natural economic areas."

---

6 IBM research and customer contact.

Secondly, achieving positive outcomes involves a broad constituency – involving actions by, and implications for, governments, the business community and citizens. When addressing the questions of maintaining an active workforce and overcoming impediments to effective workforce participation, it is clear that the responsibility for the necessary changes is broadly based.[7] It is not just a government policy issue; employers also have a part to play in terms of ensuring that workers have the skills necessary to be effective in the workforce. And citizens themselves have to be broadly engaged, for instance, in recognising the value of work and taking more responsibility for their health. This is illustrated in Figure 12.

Driving changes across these multiple constituencies calls for co-ordination as already noted, but also the deployment of a range of change levers beyond just legislation, including, for example, change leadership and incentivisation.

Thirdly, innovation and flexibility in governance structures and approaches will be required. The challenges arising from the aging workforce have implications across a range of government programmes. Solutions and ways forward will involve co-ordinated responses across a wide range of programmes including:

• Traditional social security programmes
• Labour market management including employment legislation
• Health care and health promotion
• Education and training, and
• Arrangements for social care

Government programmes & leadership
- Employment & social programmes
- Education programmes
- Economic programmes
- Health programmes

Positive outcomes for all

Individual citizen responsibilities
- Attitude - work orientation
- Healthy lifestyle
- Skills development
- Savings

Company planning & practices
- Employment practices
- Retention initiatives
- Staff development
- Employee support

Figure 12: Achieving positive outcomes requires a broad and integrated thematic response.

7 Liddle, Roger and Lerais, Frederic, Europe's Social Reality: A Consultation Paper from the Bureau of European Policy Advisers (Brussels: European Commission, 2007).

Delivering across this range of programmes, coupled with the range of stakeholders involved will put a strain on existing policy, decision-making and management models, and new and innovative governance models will need to be put in place. This will include a demand for:

- More joined-up government to pool and direct resources more effectively, to leverage insight and to optimise existing deep expertise

- More collaborative models of developing and managing programmes to build and connect constituencies across society in support of change

The two paragraphs in the box below suggest how sophisticated modelling approaches and leveraging the resources of the business community might be helpful innovative approaches.

Better modelling of integrated policy development

The co-ordination of policy development across diverse programmes is undoubtedly a challenge. Some commercial enterprises and other government functions (e.g., the military) facing complex challenges deploy sophisticated modelling approaches like systems thinking to support the complex analysis required. Systems thinking is a powerful analytical technique that allows mapping of the interaction of qualitative and quantitative factors in complex systems, to enable understanding of causes and effects and to perform what-if modelling of the consequences of changes throughout the system.

Key concept – Building societal capability

A key concept at play is that of improving a society's overall capability to adapt to the demands posed by the issue of an aging workforce. The challenges presented by the aging of populations and workforces are complex. Meeting these sorts of challenges should not be regarded as an issue of fixing specific problems. This is too narrow a focus and ignores the fact that there will be ongoing related challenges. Rather, we need an overall and ongoing improvement in our adaptability and ability to respond. We must think of this as building our societal capability. Thinking in these broader terms, it is apparent that we need to collaborate more to achieve more. In particular, it becomes easier to appreciate that the business community has huge resources of skills, motivation, knowledge and insight that, if effectively mobilised, can contribute dramatically to the overall aim of enhancing our capability. The business community needs to be leveraged to address this more ambitious agenda. In doing so, not only will its interest be served, but also those of society as a whole.

The real challenge – managing the change

Having identified Virtuous Circle outcomes, and the underpinning requirement for a co-ordinated and integrated, multi-constituency response, the next key question is, "How do we manage the change to enable progress?"

The environment for making changes happen is very complex in a number of ways:

- Actions that may be required at government level typically cross the boundaries of traditional ministries and require co-ordinated approaches.
- The timescales for many of the changes are long and do not align well with political cycles.

- Popular disenchantment with politicians, their motives and political processes is evident in many developed countries.
- The actions that are required involve governments, the business community and citizens.
- Some of the changes will not be popular and therefore are difficult politically.
- Changes will impact differentially in different demographic segments, e.g., grey power.
- Whilst some of the changes that may be required may involve direct legislation, other changes will inevitably be more subtle and involve shifting the social climate. The governmental role will be one of leadership as well as driving change through legislation.

Managing from the Perfect Storm to the Virtuous Circle

The
Perfect Storm

1) Leadership and governance

2) Communication and persuasion

3) Transparency and clarity

4) Building momentum

5) Segmentation and
   intergenerational fairness

Virtuous Circle

Figure 13: Five key management-of-change strategies to achieve the Virtuous Circle.

In undertaking the research for this study, we have identified five key practical change-management themes for managing complex change in such a difficult environment. These change-management strategies are shown in Figure 13 and, as implied, they represent key approaches in securing that we achieve a Virtuous Circle rather than Perfect Storm future.

New forms of leadership and governance – Functional federalism

We need to address the need for modernised governance arrangements to address modern challenges. The timescale over which many of the reforms are required to be planned and implemented, for example, reform of pensions, does not align well with political cycles. In addition, there is a lack of trust in politicians. Under these circumstances, there is value in creating independent bodies to take primary executive responsibility for analysing and planning ways forward.

This is not to say that there may be no political involvement – the objectives and broad direction may be determined as part of the political process. However, in a *functional federalism* model,[8] day-to-day responsibility is decoupled from the political process. Perhaps the most well known example of this arrangement is that of the independent central bank adopted in many countries around the world.[9] The benefits are the creation of a sense of independence and credibility together with a clear focus and expertise in the specific subject. Taken together, these benefits can improve public support for

difficult decisions. Whether from the political perspective such an approach may be attractive is a moot point. On the one hand, ceding control of an important part of public policy and economic influence may be difficult; however, as already noted, a more technocratic approach has already demonstrated value in significant areas of public policy.

Another feature of managing complex, sensitive change is broadening the range of stakeholders who have an interest in taking the long-term, end-to-end view, rather than a narrow, sectional and short-term interest. Key to this can be broadening the range of stakeholders who are involved as partners in both determining approaches but also in benefiting from the outcomes, rather than simply being recipients of the consequences of decisions made by others. This can be key to building the sense of a common and shared vision for the future that increases commitment and facilitates change. There is a good deal of experience in Europe of seeking to broaden the base of social partners involved in social policies. Not all of this experience is successful, and the involvement of social partners does not necessarily mean that sectional interests are automatically subjugated to the wider long-term good. However, approached constructively and responsibly, the approach has much merit in driving towards securing win - win - win outcomes. This is both feasible and

8 Pieters, Danny and Schoukens, Paul (2007), Quo Vadis. The future of Social Security.
9 Bini-Smaghi, Lorenzo, How to Save the Young from the Burden of Pensions, Financial Times, 18 October 2006.

realistic since, in general, economic success is not a zero-sum game with success for, say, businesses being at the cost of social or other positive citizen outcomes. There is no one-size-fits-all model for dialogue, and different national traditions and cultures have to be respected. But applying a multi-stakeholder approach, so as to ensure that the views of as many groups as possible are heard, is an effective way to ensure broad support for important reforms.

As an example, the box below tells how President Sarkozy in France is opening consultations with stakeholders to achieve labour market reforms.

France: Negotiations on the modernisation of the labour market

In France, the new government of President Nicholas Sarkozy is seeking to capitalise on its broad election mandate for labour market reform by launching extensive consultation with stakeholders with a view to reaching an agreement by end of 2007 on main reform steps. Encouraged by the government, the French social partners have started negotiations on the securing of career development, the employment contract and unemployment insurance. Apart from the negotiations, three tripartite conferences gathering representatives from government, trade unions and employers' federations are scheduled to take place in autumn 2007. On the agenda are working conditions, professional and wage equality between men and women, employment, income and purchasing power.

Communication and persuasion – the other "climate change"
Some of the required changes will not have immediate popular appeal and may not be amenable to direct legislative enforcement. Rather, the challenge is about influencing public opinion to create the climate whereby individuals and groups accept the prevailing need for, and correctness of, the required change.

A key issue for governments is being able to shift public opinion to accept the need for changes. Often this is a long, not short-term task (for example, in seeking to increase workforce participation amongst citizens who may have a medical disability). The challenge is making the case for the change in such a way that benefits are seen to accrue to all parties in the process – government, citizens and employers. Achieving such shifts in public opinion is, of course, a key element of the political art and is not really a primary focus of this report. However, key elements include:

- Education and raising awareness of the need for changes, and the implications of not changing.
- Countering potential negative sentiment by the creation and promotion of simple positive messages, e.g., jobs represent the best form of personal, social and financial welfare, a statement for which there is a good deal of research endorsement.
- Creating the conditions where the change is recognised as win - win - win.
- Involvement of independent experts and independent reviews. Because of popular suspicion of politicians, independent external experts and studies may help.

- Use of incentives (e.g., to employers or citizens) may be a powerful tool to encourage the sense of win - win. Often most helpfully deployed as a transitional measure, incentives must be transparent and applied fairly and with care to ensure that they are not perceived as being used cynically for purely political ends.

A second element of persuasion may be the way that the need for change is packaged. Governments requiring or encouraging change of practices amongst employers can be perceived as introducing more red tape or costs to business. One issue concerns how specific a change of practice is. For instance, addressing the training and skills needs of older workers is a rather specific issue and may look like red tape.

However, IBM's own research and experience in this area confirms that the underlying challenge is normally not about the skills and training of one section of the workforce. Rather, the key issue is ensuring that the whole workforce has the skills and training required in order to optimise company performance and improve efficiency, effectiveness and ultimately profitability. Promoting good business practice in general – linked to a well-articulated case for the business benefits – is important, alongside specific initiatives.

Building momentum
The range of factors involved in responding to the challenges we face is both wide and highly interrelated. Roadmaps for change and the tools to develop them, taking account of the complex interactions between the factors, are needed. Roadmaps are important in affirming direction and building consensus for individual changes as part of an overall plan that is coherent and socially manageable. They are part of governments' leadership approach. The fact that the agenda is so large may be daunting and imply a supposed need for perfect information. But from a management-of-change perspective, a key issue is to build a sense of momentum by ensuring that early progress is made. Demonstrating early tangible progress is an important symbol to all stakeholders that there is real commitment and that the journey is underway. It is also often an essential ingredient in building commitment and energy in the wider stakeholder community. So there is a delicate balance between fully understanding the change roadmap and building a change momentum. Certainly, avoiding paralysis by analysis is crucial. In essence, the change roadmap provides a framework for building momentum by demonstrating early progress as well as defining to the overall journey.

Transparency and clarity
A key issue is improving peoples' understanding of social security systems and the way they operate. People are more likely to be persuaded of the need for change if they can understand the context. Two points might be made – both of which are concerned with improving transparency and therefore aiding understanding.

Firstly, many social security schemes are complex with complex rules governing them; people, therefore, find it very difficult to understand schemes and their entitlements and obligations. An objective in making changes involving social security schemes should therefore be to simplify them rather than add further complexity. In practice, however, such simplification is rare – the reverse is the norm.

Secondly, individuals' informed participation and decision making will be enhanced if they understand the way that these systems work – for example, that social security systems are based on the need to contribute as well as draw benefits. Research evidence from the European Institute for Social Security[10] suggests that CEOs of social security organisations believe that the underpinning notion of contribution has started to erode.

It is necessary to make sure that citizens are properly informed. A function of social security organisations should be educational and informational as well as the day-to-day operational delivery of services.

---

10 Pieters, Danny and Schoukens, Paul (2007), Quo Vadis. The future of Social Security.

The mixed economy of social protection

Improving transparency and maintaining the sense that social security entails responsibilities as well as entitlements is likely to be easier where contributions and payments are more clearly linked. This implies some merit in more insurance-based approaches rather than welfare approaches, where the source of payments may be indistinguishable from general taxation. In addition, ongoing development of elements of more personally based schemes such as personal accounts as well as traditional solidarity models are likely to be important as a transparency mechanism. This situation may be most applicable in countries where there are relatively well-developed social security systems in place. In countries where the key issue is more one of developing some form of social protection for citizens, then taxation-based schemes may have the benefit of better securing the position of the weakest members of the society.

Segmentation of analysis and policy responses – the critical aspect of intergenerational fairness

Changes in social security provisions such as pensions must be planned and implemented over a long period of time. However, the society into which changes are being delivered is not a homogeneous entity. Politicians understand well that society itself is segmented, for example, for social security issues, by age (e.g., the grey vote). Invariably, change in complex systems such as social security results in winners and losers. Table 1 identifies four key groups in societies based on age. It is clear that each of these groups stands to be impacted differently by longer-term changes in social security such as pension reform. This has important lessons for issues such as how change is presented to different groupings together with the timing and phasing arrangements for changes. In effect, it implies that revolutionary changes,

Table 1: Work status of key groups		
Cohort	**Age**	**Work status**
WW 2	60+	Retired
Baby boomers	45-60	Considering retirement
Generation X	30-45	Main employment years
Generation Y	20-30	Starting work

whilst often expedient from a management-of-change perspective, are likely to be problematic – a planned, evolutionary approach is more likely to be realistic. The core point, though, is that it is essential that analysis takes account of the implications of long-term policy changes for different cohorts in society and for policy implementation to be managed taking account of these differences. We need to be sophisticated in our analysis and how we present change.

Intergenerational fairness

In thinking about the differential implications of change, one of the key principles at play is the concept of intergenerational fairness. Historically, when the family was the key social unit, there was often an inbuilt solidarity across the family age range, which provided protection and security. Today in many countries this is less true, yet one group, the young, is potentially at risk of bearing the brunt of the consequences of demographic change. The Perfect Storm scenario recognises a risk that the costs of the aging population will fall disproportionately on younger people – particularly if older generations regard their expected benefits as their inalienable right.

The risk is compounded by the very phenomenon of the demographic changes. The young will be relatively smaller in number and, as a consequence, disenfranchised politically, especially given the tendency for younger people to be more disengaged from political processes. However, if we arrive at the position when younger generations no longer feel that there is something in it for them, then they will cease to play an active part by, for instance, refusing to comply with social insurance contributions (as is already happening in some countries), itself leading to a vicious cycle of decline rather than a Virtuous Circle. Accordingly, our view is that it is vital that grey power is not exerted with a narrow sectional set of interests as its sole motivation. This is a difficult area given the need also to balance the life-long expectations of an older generation. But on balance our view is that all members of society need to accept the implications of the changing circumstances. It cannot fall on one group.

In fact, global research carried out by the Oxford Institute of Ageing for HSBC in 2006[11] is somewhat optimistic about this. Many people do apparently understand that they must bear the costs of their old age. The research noted that worldwide almost two-thirds of individuals surveyed believed their financial needs in old age should be met by themselves and/or their immediate family rather than government.

However, the same report notes that the position in Europe may be less favourable. In Europe the extent of government provision has typically been greater, and changing expectations from this historical backdrop is likely to be harder; the transition in Europe may be more difficult. But for fairness across society as a whole it is a challenge that must be accepted.

How Japan, a country with one of the oldest populations amongst OECD countries, is reforming its health insurance system is summarised in the box on the next page. The example reflects a number of key points made in this report – not least the fact that change involving apparently tough choices is nonetheless do-able.

---

11 Oxford Institute of Ageing (2006), The future of retirement; What the world wants.

Japan: Care insurance – reform reflecting intergenerational fairness.[12]

Japan has one of the oldest populations amongst OECD countries – and the trend is continuing, building a still greater super-elderly population. The implications for the costs of Japanese health care system are progressively and substantially increased costs. One of the key reforms targets the health insurance system, and was introduced in October 2006.

The main objectives of the 2006 reform are:
- *Increase co-payments made by recipients of services (though with a maximum ceiling)*
- *Reduce the use of hospitalisation for essentially "social care" reasons including providing more dedicated elder care facilities to complement care at home provision – which had sometimes been inadequate*
- *Create a separate insurance system for 75 year olds and above.*
- *Reduce long-term care expenditure by placing a greater emphasis on prevention through compulsory medical check-ups, physical training, nutritional counselling, oral care, and guidance and counselling*

One aspect of the reform is that the elderly must play their role in lowering rising health costs. This is a comparatively recent reform and its long-term effectiveness will need to be considered. Although the example concerns provision of health care services, there are nonetheless a number of broadly relevant points:
- *The recognition of the need to make tough choices*
- *The adoption of proactive health improvement strategies as well as remedial care for poor health*
- *An emphasis on intergenerational fairness – older people bearing some of the costs of their increased longevity*

---

12 OECD (2004), Aging and Employment Policies – Japan.

Segmentation is equally important for companies undertaking their planning – the devil is in the detail.
From IBM's experience, a key insight, which is particularly relevant for larger employers in planning their workforce strategies, is to understand that their real challenges and problems may not be apparent at the whole-enterprise level. Our experience both as an employer and in working with consulting clients is that future problems arising from the aging workforce such as skills shortages are not understood unless analysis is done at a granular level. For small employers this is unlikely to be an issue since the management line of vision to staffing issues is normally very clear.

However, for larger employers with centralised human resources (HR) functions the story may be different. From our own experience, the overall enterprise-wide age distribution of the staff may not suggest problems. However, a drilled-down view can reveal major problems with specific staff groups or in specific specialties or skill groups. The message is that organisations that employ large numbers of people need to be sophisticated in their human capital management planning – the problems are likely to be lurking well below the surface.

The elements of the Virtuous Circle and beacons of progress

We have identified the need for an integrated multi-programme set of actions to achieve a Virtuous Circle set of outcomes, and also discussed a number of change management strategies. In this section, we talk more specifically about the types of initiatives that are required – drawing on examples where progress can be observed.

Interestingly but not surprisingly, where progress has been achieved we can usually see evidence of the change-management strategies discussed in the previous section. As shown in Figure 14, we have identified three broad programme themes for change together with an explanation of the types of change that need to be considered.

Three key themes in achieving Virtuous Circle outcomes

Labour market reform

Flexible labour market
- Ease restrictions on hiring and firing
- Enable more flexible and variable working hours

Active labour market
- Improve access/remove barriers for less included groups
  - Women
  - Older people
  - Young people
  - Immigrants
  - People with medical conditions

Enabling workforce participation and success

Skills and training
- For job seekers
- For employees

Recruitment and retention practices for older workers

Employment support facilities
- Flexible working
- Child care

Proactive health practices

Government leadership

Business partnership

Citizen engagement

Pensions reform

Affordability
- Increase retirement age
- More defined contribution
- Funded schemes
- Multi-pillar pension schemes

Flexibility
- Redefine retirement - work and pensions concurrently
- Bilateral agreements to enable working across borders

Figure 14: Areas where change is required together with the types of change that need to be considered.

Figure 14 also shows that in each theme there are implications for:

- Governments as providers of leadership including, where required, legislation; the importance of the leadership role is difficult to overstate and, indeed, is a key recurrent point that emerges from these examples.
- The business community as innovators and active partners in the strategy for, and delivery of, the change agenda.
- Citizens, engaged as both individuals and as members of their society.

Using this framework, the rest of this section highlights some of the key issues in relation to each area, including commenting on specific issues for governments, businesses and individual citizens. We also point to some examples of best practice or progress – illustrating that, with commitment, the necessary change is certainly do-able. In addition, we discuss briefly areas where the current range of initiatives may be inadequate – where more may need to be done – and we suggest some further ideas that may need to be incorporated into future thinking, including more radical approaches.

Pension reform

Although we have been at pains to emphasise that the *problem* is not just a *pensions problem*, the issue of adequacy of pensions is nonetheless significant. As well as parametric reforms mentioned earlier (e.g., changing retirement age), there are other potential structural initiatives such as a more flexible definition of retirement – allowing people to work whilst drawing pensions, shifting to funded pensions systems and creating a so-called multi-pillar approach in which provision for an individual's retirement years is made up of a variety of different pension elements – state, occupational and personal as well as other personal savings instruments.

The issue of protecting workers' social security entitlements, such as pensions, when workers are increasingly mobile and live and work in multiple countries is also important. Within the EU, the provisions for the free movement of goods and labour means that the protection of pensions for the mobile workforce is well-established. A recent IBM report argued an increasing demand for such coverage extending beyond the EU boundaries.[13]

Table 2: Pension reform options
For affordability
Increase retirement age
More defined contribution
Funded schemes
Multi-pillar pension schemes
For flexibility
Redefine retirement – work and pensions concurrently
Bilateral agreements to enable working across borders

---

13 For the good of the global economy (2007), IBM Institute for Business Value.

36

It is hard to overstate the challenge in modernising pension schemes designed in and for a different age, and issues like increasing pension age, reducing benefits and changing the balance of responsibilities for funding of older age are also politically challenging. However, substantial change is inevitable, and we can see a point where, in effect, retirement as a concept may fade, at least as an age-related and universal concept; with many people choosing to continue to work to some degree, potentially right up to the point they are physically and intellectually impaired from doing so. (In effect going back to the original Bismarckian concept of a pension which was concerned with work incapacity; the age dimension was originally conceived to recognise that by 60 years of age a lifetime of physical work meant that a worker would effectively be unable to continue.)

A further potential change to pension schemes could be a tightening of the conditions that qualify as contributing for pensions purposes – taking into account only periods actually spent working and making contributions, rather than accepting other qualifying activity. We may well have more to do in rolling back from the very generous schemes that were put in place in the last century and, if in doing so we can emphasise the extremely important social and economic advantages of staying in work, then this may ultimately prove helpful.

There is also a strong case for seeing the state of older age in a more holistic and integrated manner. Ultimately, living longer is not just about funding living costs but also associated health costs, and we may need to consider rebalancing the funding of the costs of old age to take better account of both – hence an arrangement where the state discharges its obligations to older citizens by providing less money as a pension but securing better health care services.

Two boxes on the following pages detail how Sweden and New Zealand are taking Virtuous Circle approaches to pension reform.

Sweden: Pension system reform holds lessons[14]

Pension reform in Sweden took place in the mid-1990s, and it has served as an inspiration around the world for being far-reaching and forward-looking whilst avoiding the risk of a quick-fix, but ultimately short-term, approach.

Sweden replaced its two-tier defined benefit scheme with a new two-tier earnings-related scheme – consisting of a notional defined contribution (NDC) and a financial defined contribution (FDC) component – supplemented by a guaranteed pension level at the bottom. The stability of the new system stems primarily from its defined contribution design, where 14% of contributions (2.5% of earnings) go into individual financial accounts (fully funded), whilst the remaining 86% (16% of earnings) is paid into the new pay-as-you-go system. There is no formal retirement age – pension credits will always be earned and added if the individual has pensionable income, regardless of his or her age and of whether the individual has already begun to draw a pension. Also pensions are calculated at retirement using an annuity divisor that reflects the person's life expectancy at retirement, so as life expectancy increases the same notional capital will produce a lower yearly pension.

The reform has led to a wide range of Virtuous Circle outcomes:
* *It is financially stable.*
* *The public FDC scheme creates savings which may not have otherwise occurred.*
* *The system has become neutral in terms of influencing labour market decisions of older workers.*
* *Labour market mobility is not inhibited under defined contribution schemes as is potentially the case with defined benefit schemes.*

---

14 Matthew Bishop, Liam Halligan, Kamil, Kajetanowicz, Edward Palmer, Giuseppe Pennisi, Wilfried Prewo, L. Jacobo Rodríguez, Ian Vásquez, "Europe Needs Saving – Defusing the pensions time bomb," 2006.

New Zealand: A system for individually based savings [15]

As citizens expect longer retirement periods as a result of increased longevity, a concern is financial security. There is a widespread move towards a "multi-pillar" approach – involving state pensions, company pensions (where provided), and individually based savings.

Many governments recognise the desirability of encouraging citizens to save. The New Zealand Kiwisaver scheme takes this a step further by adopting a process of auto-enrolling citizens into the Kiwisaver scheme, which is a long-term savings scheme typically intended to start paying an income at the age of 65. Whilst some workers may be covered by company schemes, many are not, and the Kiwisaver scheme is designed to provide greater security in retirement for these citizens. The scheme can be characterised as one of "soft compulsion" involving strong encouragement yet some flexibility. Importantly, the scheme is characterised as a savings scheme and not a pension scheme. Key characteristics include:

- *Enrolment is automatic and results in a 4% deduction of salary into the scheme.*
- *The government pays in a sum of $1,000 on enrolment, locked in for a period or until 65.*
- *Citizens may opt out of the scheme for a period of four weeks after enrolment*
- *Citizens may also access or draw down funds in the case of certain specific financial hardships, or for specific key life events such as buying a house.*
- *Contribution holidays of up to five years are also permitted.*
- *Citizens can choose specific funds or accept the default fund.*

The Kiwisaver scheme is attracting attention and other countries are considering similar approaches. In particular, the UK Pensions Reform including proposals for a National Pensions Savings Scheme (NPSS) draws on similar principles of encouraging savings through soft compulsion.

15 Pensions Policy Institute (PPI). Briefing Note 21. June 2005. www.pensionspolicyinstitute.org.uk

Labour market reform

Reform of the labour market is a key issue for many governments around Europe and beyond. Against the backdrop of a shrinking workforce, a key challenge for governments is increasing the employment rate amongst the working-age population. A recurrent theme is enabling and encouraging workers to participate in the workforce by linking benefit payments to job-seeking activity – including Active Labour Market Policies (ALMPs). There is particular attention on groups of citizens potentially less involved in the labour market – such as older workers but not yet at retirement age (typically people 50 and over) and people with some medical conditions or disability, both groups sometimes making up a so-called hidden unemployed.

Many countries in Europe already have an acute focus on this, and some are providing a mixture of *carrots* with improved, more individualised support for citizens to enter or re-enter the labour market, and *sticks* or penalties for those who opt prematurely to stay out. However, looking to the future, there may still be further to go.

It is important to recall that the essence of the social contract between states and their citizens implies they have responsibilities as well as rights. Further, the work ethos is important to the operation of societies. There is a growing consensus on the social and health benefits to individuals of being in work.

On the other side of the equation, securing flexibility in employment practices (such as hiring and firing) as a means to promoting job creation remains a clear problem in parts of Europe. The Danish flexicurity model described on the next page provides an example of how this may be addressed.

Table 3: Labour market reform
Flexible labour market
Ease restrictions on hiring and firing
Enable more flexible and variable working hours
Active labour market
Improve access/remove barriers for less included groups like women, the elderly, young people, immigrants, and those with medical conditions

Labour market initiatives: Denmark's "flexicurity" model,[16] UK's New Deal, and unemployment in The Netherlands

Denmark's flexicurity social benefits model, first implemented in the 1990s, is regarded as a model approach by many observers. There are two dimensions. On the one hand, there is a high degree of labour market flexibility promoted by flexible employment laws (i.e., easy hiring and firing). On the other hand, for those not in the labour market social security benefits are relatively generous. The model is essentially a rights coupled with responsibility approach.

The plan requires that recipients of unemployment benefits actively seek a job, but there are a variety of training and other support mechanisms available. Nonetheless, if ultimately a person is unsuccessful in re-entering a job, he or she moves from the generous unemployment benefit to a lower level means-tested rate of social assistance. The model is accredited with contributing to near-full employment and substantially lowering levels of poverty. However, generalisation of the flexicurity model to other countries potentially requires developing appropriate financing models.

In the United Kingdom, there are so-called "New Deal" programmes targeting specialist assistance on "harder to help" groups with specific needs, e.g., people aged 50+, long-term unemployed, and lone parents. The schemes involve specialist advisers to plan individual strategies including, for example, training. A new regime based on similar principles for managing people with medical conditions, the "Employment Support Allowance," is being introduced in 2008 – providing employment and medical support and financial incentives to support the transition into the workforce.[17]

In The Netherlands, there was a similar specific programme to focus on perceived hidden unemployment as a result of high levels of disability insurance claims.[18] Reforms included:
- *Extensive screening of persons applying for disability benefits*
- *Periodic reassessment of those with possibility of recovery*
- *Increased employer incentives to hire disabled people, e.g., by providing exemptions from a number of social security contributions*

---

16 Madsen Per Kongshøjm (2002), The Danish Model of Flexicurity: A Paradise with Some Snakes, European Foundation for the Improvement of Living and Working Conditions.
17 IBM research and customer contact.
18 OECD (2005), Aging and Employment Policies – Netherlands.

Enabling workforce participation and success

If reforming pensions and labour markets provide a macro level set of challenges, there is a third category for action focused at a more micro level – enabling effective participation in the workforce. We need to make sure that individual people are able to be engaged in the workforce by ensuring they have the skills and opportunities to contribute.[19] Governments have a leadership role in terms of providing the climate through which barriers to workforce participation are overcome, for instance in having a skills agenda and proactive health promotion policies. Poor health is often a reason why citizens leave the workforce and, whilst we must clearly recognise situations where there are medical limitations on peoples' capacity to work, we need also to proactively promote the part that more healthy lifestyles can play in overcoming avoidable health issues like obesity.

Table 4: Enabling workforce participation and success
Skills and training
For job seekers
For employees
Recruitment and retention practices for older workers
Employment support facilities
Flexible working
Child care
Protective health policies

However, companies also have a key role in optimising working and employment practices to secure ongoing participation of older workers and other groups such as women and people with disabilities. In this section we focus on examples of what employers can do.

As labour and talent become more scarce, a short-term response of adopting a competitive approach – paying more to attract workers will become unsustainable owing to spiralling costs. The issue for business is taking a longer term view. In the battle for human resources and talent, costs incurred today represent tomorrow's competitive advantage. But is there really a problem? In this regard, the following two examples from the United States are helpful.

In 1983, half of the nursing workforce was under the age of 35; by 2006 that number was less than 22%. The average age of nurses is expected to climb to 45.4 years by the year 2010, and by 2020, the US nursing shortage is expected to increase from 6% today to 29%.[20] The irony, of course, is that, given the increasing demands for health care professionals as the result of the aging population, the increasing age of the nursing population represents a significant additional challenge both from a demand and supply perspective.

19 Ederer, Peer, Innovation at Work: The European Human Capital Index, (Brussels: The Lisbon Council, 2006).

20 Cohen, J. (2006). The Aging Nursing Workforce: How to Retain Experienced Nurses Cohen, Journal of Healthcare Management, July, 2006.

The electric utility industry is also facing significant demographic issues. According to research carried out by Carnegie Mellon University in 2005, about half of the country's 400,000 electric-utility workers will be eligible to retire within the next five years.[21]

Faced with this real challenge, in truth, progress has been limited. The business community needs to do more. (A recent survey by the Boston College Center on Aging at Work indicated that only one-third of employers in the US reported that their organization had undertaken projects about retirement rates of their workers to either a moderate 24%, or a great 10%, extent).[22]

So whilst there may have been some progress in tackling the issues, generally the picture is not as positive as it needs to be − particularly for small- and medium-sized businesses, where progress has been much slower. Such enterprises may be more fragile than larger companies but, given that the majority of people are not employed in large businesses, making progress in this sector remains a challenge. Government leadership in this area seems to be important as the example below, concerned with developing skills, demonstrates.

Engaging small- and medium-sized businesses in the UK – Train to Gain

A new Government-led initiative "Train to Gain" launched in the UK in 2006 involves funding a programme through which paid "skills brokers" are made available to visit smaller companies and assist them in performing a skills needs analysis and develop a workforce training plan. Companies are then supported financially to pay for the training subsequently carried out (wholly government funded to achieve level 2 literacy and numeracy and shared funded for higher levels). Also, companies with less than 50 employees are compensated for the loss of time of the employee who has attended the training. Underpinning this initiative is the recognition that skills enhancement is vital to national competitiveness and that government needs to be proactive. The programme is currently voluntary and the outcomes achieved will be reviewed after a few years operation. Plans are also underway to create demand from citizens through introducing the concept of citizen skills entitlements, operationalised by the creation of individualised "skills accounts."

21 Greene, K. (2005). Bye Bye Boomers – Employers May Face Exodus As More Retire. Wall Street Journal, September 29, 2005.
22 Pitt-Catsouphes, M., Smyer, M. A., Matz-Costa, C., & Kane, K. (2007). Phase II of the National Study of Business Strategy and Workforce Development. March 2007

IBM itself has been actively assessing and analysing the implications of changes in company workforces, both on its own part as a major employer and with other companies as consultancy clients. We have identified the following seven key strategies relevant to companies and other organisations employing people in addressing the challenges of an aging workforce and provide examples of what these can mean in practice.

Strategy 1: Redirect recruiting and sourcing efforts to include mature workers

ASDA, a large UK retailer, has recognised the value of attracting mature workers on a part-time basis. The company has over 20,000 employees who are over 50 years old, representing 19% of its workforce. ASDA conducts over-50 workshops at local job recruitment centres in the UK for anyone interested in continuing to work, not just those interested in working for ASDA.

They also provide a number of specific benefits, for example:

> *Benidorm leave:* A three-months unpaid leave between January and March
> *Grandparent leave:* A week unpaid leave after the birth of a grandchild

A while ago, the company opened a store in the UK where 40% of the associates were over age 50. ASDA has found this focus on aging workers provided a number of organizational benefits. For example, stores with a higher proportion of older workers have absenteeism rates less than a third of ASDA'S average rate. In March 2003, ASDA was selected as the UK's best company for flexible working.[23]

Westpac, a major financial services institution based in Australia, was looking to increase its presence in the financial advising market. To accomplish this, it trained approximately 900 recruits who were over 55 years of age and looking to establish a second career.

Subsequently, the general manager of stakeholder communications noted that these older workers became an important asset because they related well with older customers, who sometimes felt that younger staff were not experienced enough to address their financial concerns.[24]

Strategy 2: Retain valued employees through developing alternative work arrangements

IBM Canada developed a "Retirees On Call (ROC)" programme to allow experienced retirees to "come back" and collaborate and work on projects for which they have relevant skills – normally on a part-time basis. This is a small-scale, but nonetheless locally important initiative.[25]

23 Case Study: ASDA Stores at http://www.agepositive.gov.uk
24 Nixon, S. (2002). Looming Labour Crisis Puts the Focus on Grey Force. Sydney Morning Herald. October 2, 2002.
25 IBM research and customer contact.

Also in North America, organizations such as The Aerospace Corporation, a defence contractor, Stanley Consultants, an engineering firm, and Mitre, a consulting firm focused on the public sector, have been successful in allowing mature workers to work either on a part-time or project-by-project basis. These part-time arrangements have enabled organizations to have the flexibility to cover peaks in their demand and to retain critical experience along the way.

One programme participant, a retired executive vice president, noted, "The Retiree Casual programme keeps expertise around and helps transfer it to others. People often remark that we don't have many consultants around here. Actually, we do, but they are called retirees and they already know the business inside out."[26]

26 Dychtwald, K., Erickson, T., & Morison, B. (2004). It's time to retire retirement. Harvard Business Review. March, 2004.

Strategy 3: Preserve critical knowledge before it walks out the door

To retain valuable experiences, share lessons learned, expand the organization's knowledge base and improve operational and product quality, the World Bank captures videos and audiotapes of selected individuals and groups involved in challenging projects – allowing important knowledge to be retained by the Bank.[27]

Some companies have focused their knowledge transfer efforts around the process of inducting new employees. Siemens, for example, has developed a "4 x 6" integration process, where new employees have four defined points of knowledge transfer. During the first six hours, there is an initial job orientation. Within the first six days, there is a thorough discussion between the new employee and the manager to develop a mutual agreement for integration into the new job, based on information outlined in the job profile. For the next six weeks, there is a close working relationship between the new and departing employee. Finally, after six months, there is a feedback session between the new employee and the manager to discuss the results of the knowledge transfer.[28]

Similarly, when West Australian Petroleum Proprietary Limited identifies an employee who is about to retire, the company attempts to find a replacement approximately three months before the planned retirement date. For the retiring employee's last three months, he or she is able to work at a reduced schedule whilst drawing full salary. During this time the retiree is expected to "diligently apply himself or herself to instructing their successor until they are capable of assuming full responsibility for the job." This transition period provides the incumbent with the opportunity to share with their replacement some of the critical knowledge which might not be easily capture or stored.[29]

---

27 Retaining Valuable Knowledge: Proactive Strategies to Deal with a Shifting Workforce." APQC Best Practice Report. August 2002.

28 Ibid.
29 Department of the Premier and Cabinet, Government of Western Australia. (2004). Phased Retirement in the Western Australian Public Sector." March 2003 (amended March 2004).
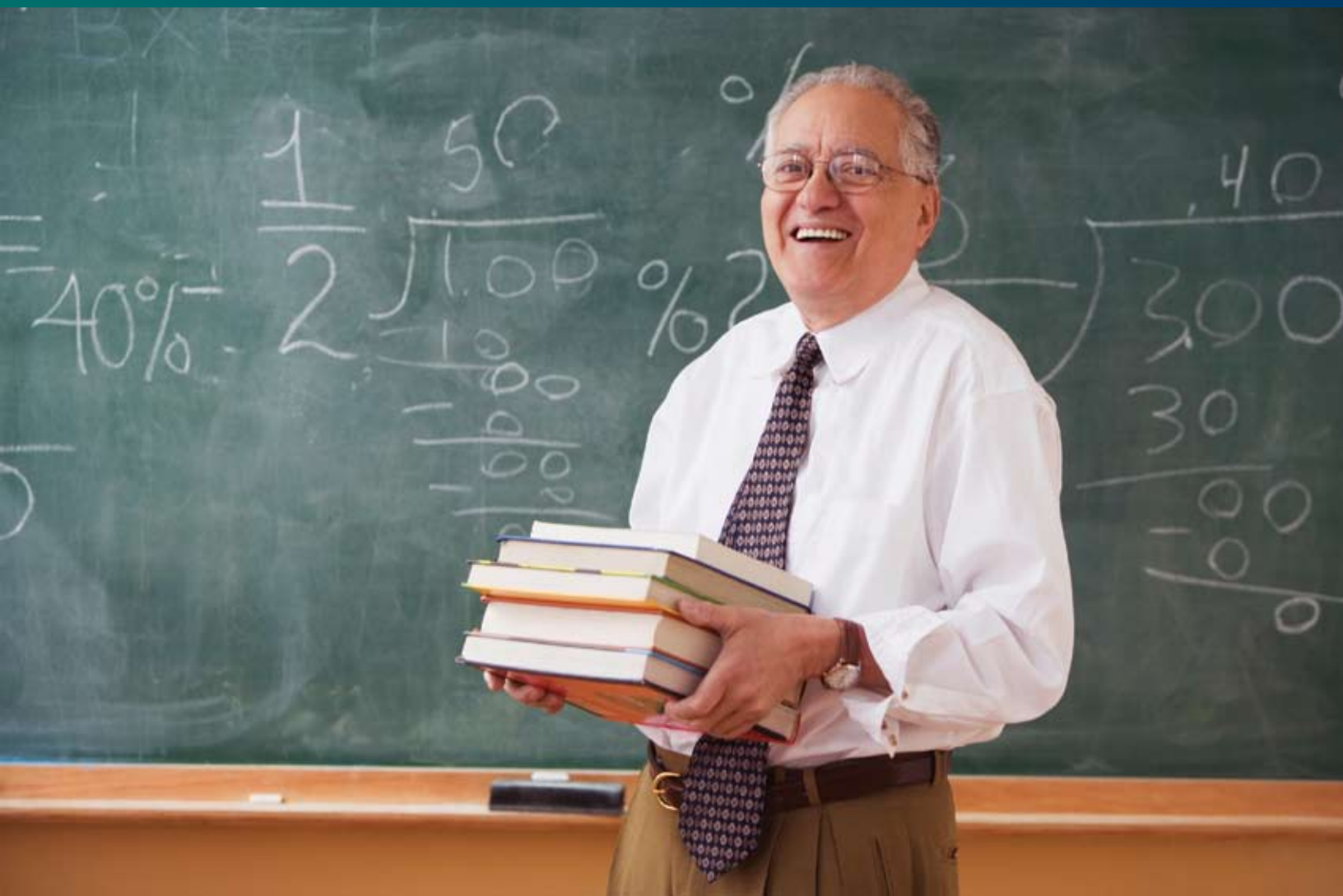
Strategy 4: Provide and promote opportunities for older workers to continually update their skills

There is widespread concern that older workers become progressively less involved in skills development and training. Lufthansa, the German airline, recognised that many of its older workers were not participating in learning activities.

An annual evaluation of its training showed that the company had not offered systematic training opportunities for older workers for more then 10 years. To address the learning needs of managers older than 45, the company started an initiative called the "Added Experience Program."[30]

Strategy 5: Better facilitate the coexistence of multiple generations in the workforce

Her Majesty's Land Registry (HMLR) in the UK provides an example of an organization that recognised the importance of understanding and better balancing the different needs, interests and work styles of different generations.[31]

---

30 Euler, Petra, "Die vergessenen Manager trainieren," in Personalführung 1998, p. 1.

31 HM Land Registry – Engaging with Line Managers. http://www. efaagediversity.org.uk/case-studies/hmlr1.htm

As a first step, HMLR took a number of actions, including:[32]

- Monitoring age profiles by local office and grade level every six months
- Monitoring recruitment and promotion decisions to prevent age discrimination
- Incorporating age profiling results into the annual diversity report
- Engaging key business unit managers in its age diversity challenges
- Creating a mandatory diversity training programme for managers (with scenarios and role-playing) designed to address age-related issues as well as other diversity challenges

Strategy 6: Help ensure that mature workers are able to use technology effectively in the workplace
A view held by some employers is that older workers have more difficulty learning and adopting new technologies. However, a number of research studies have demonstrated that age alone is not directly linked to the adoption of computer use in the work environment. For example, a recent case study involving mature workers at the UK retailer Tesco found that, whilst not all older workers were initially comfortable using new technologies, many quickly adapted to it. Motivation was cited as one of the primary drivers for adopting new technologies.[33]

On a related point, it may indeed be the case that older workers experience more difficultly in using new technologies as a result of age-led limitations, for example, in dexterity or eye sight. However, many "assistive" technologies (for instance, help for people with visual or auditory impairment) have been developed and are available. Even more simply, basic display features (such as font size) in most applications can be adjusted, which is often not widely known – particularly amongst older worker who may not want to be seen as having a problem.[34]

Nonetheless, training of older workers, particularly in the use of technology, remains a key priority.

Strategy 7: Not seeing the issue as "problem of older workers" but taking account of the challenges into overall workforce development planning
In IBM in the UK, an analysis of the future needs and distribution of key professions by age revealed potential future skills shortages in certain key areas, notably IT

32 Personnel Today Awards 2004, September 14, 2004. http://www.personnel today.co.uk/Articles/2004/09/14/25567/Personnel+Today+Awards+2004.htm
33 Stoney, Christopher and Mark Roberts, "The case for older workers at Tesco: An examination of attitudes, assumptions and attributes," Carleton University School of Public Policy and Administration, Working Paper, No. 53. June, 2003.

34 IBM research and customer contact.

architects. This issue was not apparent from an aggregate level view of the age profile of workers. In response to the skills shortages identified, IBM implemented a programme to develop a conversion training scheme, to identify candidates who would be able to benefit from this training and to deliver the course. It started in the second half of 2005 and, within a year, staff who had been through the programme were already pursuing a new career direction.

As a result of this experience, IBM is executing a detailed age and job classification analysis in each of the major countries where it operates, and developing relevant plans to mitigate risks – but as part of the overall workforce development programme – it is a business issue and not an older workers issue.

China: economic growth paying for social growth

A significant proportion of the world's economic attention is on the rapid and on-going transformation in China. With one-sixth of the world's population, China's booming economy and rapid industrialisation has potential economic and social ramifications for the entire world. In parallel to growth there has been a programme of social security reform. It is striking to note that in absolute terms there are almost as many people in receipt of pension benefits in China as in any other country in the world. (By the end of 2004, the number of active workers and retirees covered by the urban enterprise old age insurance scheme reached 109 million and 37.7, respectively). However the scale of the challenge remains considerable – there remains over a billion people not covered.

Whilst China was a latecomer in providing social security, the old-age insurance scheme for urban enterprises was instituted in the 1950s. Social security is regarded as a social stabilizer, an economic shock absorber and a mechanism for social justice. Nonetheless, funding deficits remain a huge problem and responses similar to those seen in other countries are being observed. In the mid-1990s, China replaced the traditional pay-as-you-go system of financing for social insurance with a combined system of social pooling and individual accounts. This approach means that the state (national and provincial levels), the enterprises and individuals all share a stake in providing a stable and properly financed social insurance system. The government strategy is for all parties to divert some of the benefits of economic growth and productivity improvements into the social protection system. The aim is provide a social insurance scheme that is compatible with the socialist market economic system.

It is also worth noting that China faces a similar demographic problem to that we have discussed for Europe. Despite decades of rapid population growth, by 2050, including as a result of the impact of the one-child policy, China potentially faces similar issues of a very large older population being supported by a smaller workforce. This could potentially be exacerbated by even greater health care problems as a result of the environmental impacts of pollution caused through rapid industrialisation.

The case of China illustrates the key lesson for countries developing social security systems – which is not to build 21st century schemes based on the conditions and norms that attended the development of the earlier schemes and which are now found wanting.

Implications for citizens – responsibilities and choices
There are considerable implications for individual citizens arising from the challenges of the aging workforce. These include:

• Taking responsibility to save for retirement
• Remaining employable and adaptable
• Investing time and effort in continuous up-skilling or re-skilling
• Making healthy lifestyle choices
• Accepting work obligations in return for the state social protection

Whilst for many citizens such changes are realistic, inevitably this will not be universally true – for some they will not be achievable. So, whilst it is absolutely right to encourage and enable citizens to secure more positive life outcomes, the state's social protection system also needs to provide ongoing support for the weaker members of society for whom such outcomes are simply not achievable.

In this complex area of state-citizen interaction, there is a tension between what governments may legitimately expect of their citizens and individuals' rights to make their own choices. In reconciling this conundrum, it is right and proper for governments to provide relevant information and to create the climate within which citizens can exercise their choices. This includes ensuring public awareness of the issues and consequences of various courses of action.

Innovation and technology

Innovation is the intersection of invention and business foresight.[35] Innovation enabled by technology has been a great enabler of increased productivity in the latter half of the 20th century. It is expected that innovation will continue to drive productivity growth not just for large organisations but also for the majority of businesses which are small business with less that 10 employees. (Such organisations constitute nearly 90% of European businesses).[36]

Technology-based innovation will increasingly come within reach of the majority small business community through the maturation of Internet-based services and ubiquitous access to high-speed broadband. When this is combined with business foresight and the development of new business models, operational processes and products and services, the business community will have the opportunity to enhance workforce participation through providing opportunities for flexible working – including remote and mobile workforces, job sharing and part-time workforces and home-based working (building on existing experience such as virtualised contact centre operations). Such trends will become increasingly important as Europe continues on its trajectory to become increasingly a "knowledge economy."

In the competition for human resources and talent, we perceive an increasing threat to governments' abilities to attract and retain sufficient skilled workers to perform aspects of its business – ironically, for example, the large-scale processing often involved in social security operations. Yet, at the same time, complexity and the demands seem to be increasing. We see that governments will be under increasing pressure to modernise their operations, including through technology, to make better use of scarce skills.

---

35 IBM Global Innovation Outlook 2.0 (2006).
36 The European Commission. Observatory of European SMEs (2003) SMEs in Europe 2003.

Conclusion

Certainly, the challenges posed by demographic change are substantial and complex. They will require sophisticated responses. Developing these sophisticated responses will put pressure on existing structures. Yet experience shows that change can be effected. Success, though, will be a function not only of the quality of policy responses (which have indeed to be high quality) but also of the quality of the effort to implement change.

So what has to happen?

There is no single blueprint for action. But governments need to take a leadership role in enabling a better future. From the point of view of specific policies and plans, governments need to perform their own analyses and develop integrated policies and roadmaps for change based on their circumstances. However, this must include each of the three key areas and is likely to include some common themes as set out in Table 5.

Table 5: Key areas for change	
Area for change	**Likely elements of programme**

Pension reform – creating sustainable pensions	Affordability
	   • *Increase retirement age*
	   • *More defined contribution*
	   • *Funded schemes*
	   • *Multi-pillar pensions schemes*
	Flexibility
	   • *Redefine retirement - work and pensions concurrently*
	   • *Bilateral agreements to enable working across borders*

Labour market reform – providing jobs and labour supply to fill jobs	Flexible labour market
	   • *Ease restrictions on hiring and firing*
	   • *Enable more flexible and variable working hours*
	Active labour market
	   • *Improve access/remove barriers for less included groups*
	   • *Women*
	   • *Older people*
	   • *Young people*
	   • *Immigrants*
	   • *People with medical conditions*

Enabling workforce participation – creating conditions for workers to be successful in the labour market	Skills and training
	   • *For job seekers*
	   • *For employees*
	Incentivising small and medium-sized businesses to adopt forward-looking practices
	Recruitment and retention practices for older workers
	Employment support facilities
	   • *Flexible working*
	   • *Child care*
	Proactive health policies

Business as a key partner

The business community faces its own set of Perfect Storms such as the market forces of intensified competition, escalating customer expectations, and unexpected market shifts. In addition, there are the workforce issues associated with aging, technological advances, regulatory concerns, and globalisation. These are forcing significant change on the business community. In a study of over 750 CEOs from around the world from both the private and government sectors, IBM found that CEOs in the main are not intimidated or content to simply cope.[37] CEOs see it as both reason and license to expand their innovation horizon – to pursue less traditional forms of innovation, to look high and low, outside and in, for innovative ideas and to accept greater personal responsibility for fostering innovation within and beyond their organizations.

Collaboration was cited by study participants as the one of the fundamental ingredients of innovation to solve problems. As one study participant said, "On a scale of one to five, collaboration's importance is enormous. I'd give this a six if I could."

So whilst it is acknowledged that the business community has not consistently addressed all of the challenges and has more to do, its history of innovation also provides lessons for governments to consider as they tackle their highly turbulent environments. It also adds weight to the contention that still more can be achieved through collaboration.

---

37 IBM Business Consulting Services Expanding the Innovation Horizon, The Global CEO Study 2006, IBM New York.

As well as legislation, *governments* need to provide leadership and to create the climate for other players, the business community, and citizens themselves to become a part of the change required. This will entail a focus on:

- Articulating the issues
- Educating employers and citizens
- Raising awareness not only of the problems but also of the role of governments, employers and citizens in securing progress
- Building a consensus around a more positive mindset – that this contemporary challenge is not just a problem that needs a solution, but an opportunity to live longer and live better. We should aim to share the benefits of longer, better lives as employees, as parents and grandparents, as members of a vibrant society, and as individual citizens.

Rising to these challenges will require new forms of governance and new forms of engagement between stakeholders.

The *business community* has a key role as a partner and stakeholder, and it needs to take steps to maintain and develop the workforce. There is no blueprint, but the key is for companies to recognise that there are problems to be addressed (which many have not) and to put in place plans and programmes to analyse and articulate their specific problem areas and to develop responses including:

- Older worker recruitment and retention
- Older worker-friendly policies
- Skills enhancement for older workers
- Better planned workforce development
- Support for employees (e.g., child care)

Whilst there are some examples of good practice, in overall terms progress within the business community has been patchy at best. This is doubly disappointing since not only does it mean that the business community is failing to secure its own best interests, but also it is not contributing the overall enhancement of society's capability to address the complex 21st century challenge of the aging workforce. The challenge is particularly acute in the small- and medium-sized business sector.

The implications for *individual citizens* are also considerable. Under the leadership of government and the business community, most citizens will need to become more engaged in securing a better future for themselves, their families and their society by actions such as savings, making healthy lifestyle choices, being flexible and adaptable and embracing life-long learning.

Some events in the modern world are, arguably, not predictable. The challenge of the aging workforce is, however, utterly predictable. We know it is happening, and we know that we cannot stop it. But, if we can find the strength and the courage to adapt our existing institutions to this dramatic change in the way we will live and work, we can surely turn this challenge into the best news the world has received in a long time. Put simply, longevity offers people a fantastic opportunity – not just to live longer, but also to live better.

The authoring team
The Executive Sponsor for "Living Longer, Living Better" is **Dr. Chris Gibbon**, who is IBM Vice President and Partner for the IBM Global Social Segment leading a team of industry and solution experts, solution developers and sales consultants. Chris has established the IBM worldwide focus on social organizations and has worked directly with social services and social security organizations in many countries across the world helping define and implement change programs. chris_gibbon@uk.ibm.com

In addition, the following undertook the research and produced the report.

Chris Brailey is an IBM Global Business Services Associate Partner with more than 15 years management consulting experience, predominantly in the government sector. He has spent over seven years consulting in the United Kingdom's Department for Work and Pensions, focused primarily on the Employment and Benefits programme and the Jobcentre Plus Agency. His particular skill set as a consultant is in the management of change, performance and implementation of large and complex business and IT transformations. He is a member of IBM's Global Social Segment and leads on Employment aspects. chris.brailey@uk.ibm.com.

Alexandra Cwielong provides all-round marketing, sales and solution support to the Global Social Segment and wider Social Services and Social Security community within IBM. A student of the University of Surrey, studying towards a degree in Business Management, Alexandra researches contemporary issues related to the social security industry and contributes to IBM's thought leadership. alexcwie@uk.ibm.com

Paul Hofheinz is president and co-founder of the Lisbon Council, a Brussels-based think tank and policy network. Incorporated in Belgium as an independent, not-for-profit and non-partisan association, the Lisbon Council has emerged as one of Europe's most authoritative and thoughtful voices on economic reform and social renewal. Its homepage is www.lisboncouncil.net.

Ian Jenner is the Social Segment Marketing Manager, with over 25 years experience working with IBM's clients in North America and Europe, in technical sales, consulting and marketing. Ian leads IBM's Social Segment market research, and, the development and execution of marketing strategy. jenneri@us.ibm.com

Brian Lee-Archer has worked with social sector organizations for 25 years. After a 12-year career as a civil servant with the Australian Department of Social Security, he joined IBM in 1996. He is a founding member of the IBM Global Social Segment team formed in 1999. He now leads an international team of industry specialists that collaborates with a wide variety of partners (government, industry and academia) to conduct research on business and IT topics challenging the social sector industry. brianla@au.ibm.com.

Marc Le Noir has worked as a consultant for 15 years, mainly within the government sector with clients such as Workers Safety and the Insurance Board in Ontario and the Childcare Department in Belgium. In his current role, Marc is part of the IBM Global Social Segment team working with Benelux. Previously, Marc was part of the IBM Institute for Business Value, where he was responsible for research and thought leadership related to the government sector. marc.le.noir@be.ibm.com.

Ann Mettler is executive director and co-founder of the Lisbon Council, a Brussels-based think tank and policy network. Incorporated in Belgium as an independent, not-for-profit and non-partisan association, the Lisbon Council has emerged as one of Europe's most authoritative and thoughtful voices on economic reform and social renewal. Its homepage is www.lisboncouncil.net

Fredrik Sjögren is Government Programmes Executive responsible for HR public policy and global resourcing. Before joining IBM in 2004, he worked for the Swedish Government. In 1995 he worked as Secretary to the Working Hours Commission. From 1996 to 1998, he worked in the Ministry of Labour, focussing on shaping the Swedish government's views on and structures for engaging in the new European Employment Strategy, enabled by the Amsterdam Treaty. Between 1998 and 2001, he was Deputy Director in the Ministry of Industry, Employment and Communications, with a special responsibility for preparing the Stockholm European Council in 2001, the first follow-up summit of the Lisbon strategy. Fredrik.Sjogren@be.ibm.com

IBM®

theLisboncouncil
making Europe fit for the future