

Preventing Ageing Unequally

How does SPAIN compare?



How will future retirees fare? The OECD report *Preventing Ageing Unequally* examines how the two global mega-trends of population ageing and rising inequalities have been developing and interacting, both within and across generations. Taking a life-course perspective the report shows how inequalities in education, health, employment and income interact, resulting in large lifetime differences across different groups. Drawing on good practices in OECD countries, it suggests a policy agenda to **prevent** inequality before it cumulates; **mitigate** entrenched inequalities; and **cope** with inequality at older ages. The report points to strong policy complementarities and synergies and thus a whole-of-government approach is likely to be much more effective than a series of separate inequality reducing policies. In particular, to ensure a better retirement for all, policies have to be coordinated across family, education, employment, social ministries and agencies.

Overview – Insufficient wages and jobs for generations born since the 1970s raise deep concern for their old age

Population ageing will accelerate at a very fast pace in Spain. In 2050, with 76 people above age 65 per 100 people aged 20-64 against 30 currently, Spain will become the second oldest country in the OECD, after Japan (78). Population ageing will have consequences on many different policy areas, from pressures on pension financing to long-term care needs, especially for people aged 80 and over, to a possible shortage of labour supply.

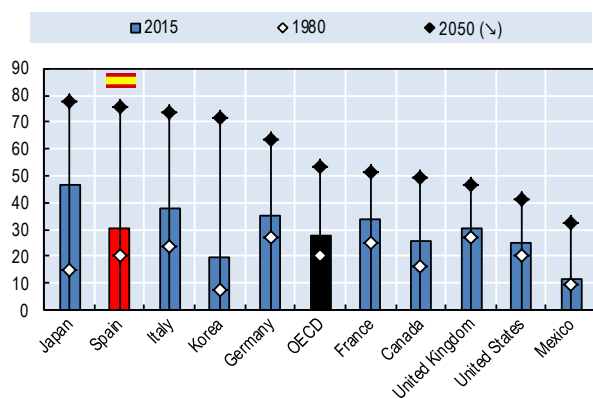
The Spanish economy is growing fast and continues its recovery from a deep recession. Making this growth more inclusive remains a challenge. Unemployment rates are falling but are still double the pre-crisis levels with substantial gaps between the high (11%) and low educated (26%). The share of 15-29 year-olds that are not in employment, education or training is still at 22%, which is six percentage points (p.p.) more than before the crisis. Relative poverty rates increased during the crisis and are especially high among children. Childhood circumstances have

long-lasting effects and disadvantages reinforce each other in different dimensions and compound over the life course. Action is needed now to prevent these inequalities becoming entrenched.

Young Spaniards have been falling behind older generations over the last three decades; more and more young people are in non-standard work and are finding it difficult to get a strong foothold in the job market. Employment rates of the 55-to-64 year-olds increased much more strongly between 2000 and 2016 (12 p.p.) than among prime age individuals (3 p.p.) and the young, whose employment rates declined sharply (-16 p.p.). Since the mid-1980s, the income of those aged 60-64 has grown by 25% more than that of the 30-34 age group. This gap between generations was only 13% on average across OECD countries. Young people have been especially hard hit by the recent economic crises; youth unemployment is currently at 45%. Achieving full careers and adequate wages has become increasingly difficult in general and in particular for the young with low levels of educational attainment (below upper-secondary) who are at a high risk of long-term scarring effects.

The old-age dependency ratio will increase by 2.5 times in Spain in the next 35 years

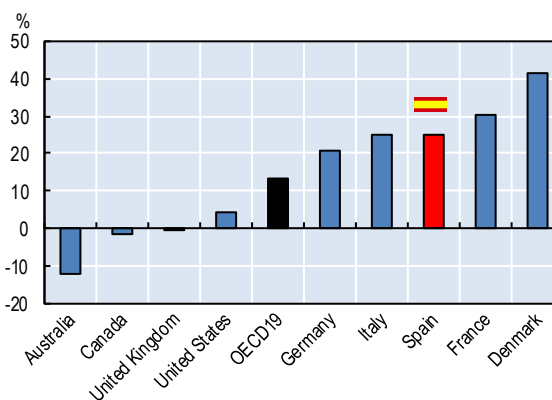
Number of people older than 65 years per 100 people of working-age (20-64), 1980-2050



Source: Calculations from United Nations, World Populations Prospects - 2015 Revisions. See [\[Figure 1.1\]](#).

Real income growth was faster for the older age groups in Spain

Change in relative income of 60-64 vs 30-34 year olds; mid-1980s to mid-2010s

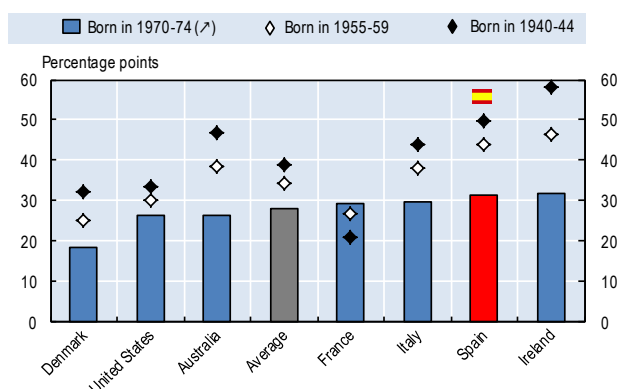


Note: The figure shows that in Spain relative incomes of the age group 60-64 grew by 25% more than those of the group aged 30-34.

Source: OECD computations from the Luxembourg Income Study data. See [\[Figure 1.8\]](#).

But older workers also face difficulties. Effective retirement ages, which were rising before the crisis, are stagnant at about 63 years, which is below the normal retirement age (65). Employment rates among 55-to-64 year-olds remain low in Spain (49%) when compared to OECD countries (59%, on average). Moreover, the employment gap between those with low and high levels of education is large in Spain (22 p.p.), especially among women (35 p.p.). Gender gaps in employment and wages have been narrowing but are still slightly above the OECD average and are higher among the lower educated: While highly educated older female workers have about the same employment rate (65%) as their male peers (68%), gender gaps among the low and medium educated are large at 16 and 12 p.p., respectively, contributing to unequal ageing of men and women. The situation, however, is likely to improve as younger women, especially the low educated, tend to have longer careers and the differences between education groups are shrinking.

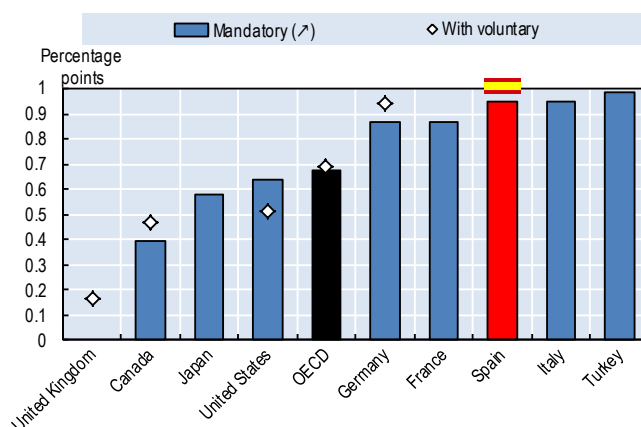
Differences in employment rates between the high and low educated are shrinking among younger Spanish women
 Career average of the difference in percentage points for three selected generations



Source: OECD estimations based on data from the European Community Household Panel, European Union Statistics on Income and Living Conditions and Panel Study of Income Dynamics. See [Figure 4.13](#).

Wage inequality increases –within a given generation– during working life. On average, across OECD countries, about two-thirds of lifetime earnings inequality is transmitted to old-age pensions; in Spain, this pass-through is close to 100% due to a strong link between contributions and benefits. This will likely trigger higher income inequality among future retirees. Spain does not have strong safety-nets which redistribute pension income, contrary to many other OECD countries which have these as a complement to earnings-related pension schemes. Ensuring a decent pension will be particularly difficult for the low educated and women, many of whom exit the labour market to care first for their children and then for their parents. Rapid population ageing in Spain will magnify any problems raised by insufficient income and larger old-age inequality among future retirees.

Large pass-through from wage to pension inequality
 Change in the Gini index of pensions for a 1 percentage point increase in the Gini index of wages



Notes: Computations based on the OECD pension model. See [Figure 4.16](#).

Policy makers need to act urgently to address these ageing and labour market challenges. Employment rates at older ages fall very sharply with age in Spain, and this is only partly explained by a worsening in health: there is a large unused work capacity among older workers which could help extend their working lives and result in higher pension entitlements. As for the young, it is critical to promote a good start in working life by ensuring a smooth school-to-work transition, limit the impact of job loss and combat long-term unemployment, which will help them achieve a decent income in retirement. It is key for Spain to maintain reform momentum to enhance economic recovery and boost inclusive growth.