



Comments on the AWG's 2009 Report

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Main Thrust of Comments

- No real divergence between OECD and AWG projections for Health and Long-Term Care Public Expenditure
- Macro/financial projections for Pensions and Health/LTC spending need to be complemented by more micro approach to be useful for policy decision-making:
 - Pensions : entitlements projections necessary to judge whether pensions are socially sustainable -> Pensions at a Glance
 - Health spending: need to understand better the role played by “technology” in macro projections

Micro approach in Pensions

- Beyond issue of fiscal sustainability, important to look at social impact of potential reforms, e.g. in terms of benefit adequacy at individual level as well as equity and redistribution of income.
- Past reforms have reduced public spending in some countries but replacement rates may be very low
- For example, reforms in France and Finland have protected low-income pensioners, whereas in Poland and Germany, pension levels of low-income workers have been cut substantially.
- Micro approach also useful to estimate “pension gap” that needs to be filled by “private pensions” if public pensions are reduced.
- OECD Pension Models : Micro models that look at these issues and complement macro projections to guide policy



Preview: Pensions at a Glance 2009

- Special feature on the crisis in the 2009 issue of Pensions at a Glance, to be released on June 23.
- Main messages:
 - Older workers and retirees with retirement savings most affected while for younger workers losses are on the books
 - Most OECD countries have old-age income safety nets which partly compensate for private pension losses but some countries need to strengthen pensioner protection
 - Diversified public/private pension systems must be maintained in the context of population ageing
 - Confidence in private pensions can only be restored through better regulation, transparency and informed choices



Projections of health care and long-term care spending

- Health: AWG scenario: increase to 2060 is around 1.6 percentage points of GDP for EU27. Long-Term Care : AWG scenario: increase is around 1.1 percentage points of GDP .
- Results are similar to most recent OECD projections for health and LTC:
 - *Cost-containment* scenario: Health: 2 ppt of GDP for OECD by 2050; LTC : 1.3 ppt of GDP
 - *Cost-pressure* scenario: 4 points of GDP by 2050; LTC: 2.2 ppt of GDP
- Limited impact of demographics. For health, important factor is "technology " (including all exogenous drivers). For LTC, unit costs.
- But as with the AWG projections, no guidance as to what elements of 'technology' are driving up health costs -- need for a more micro approach to provide policy advice



Micro approach needed to understand whether “technology” is driving up costs

- ICT as an example of potential cost-reduction
 - Scope for efficiency and savings potentially enormous
 - » Electronic patient records to improve co-ordination of care
 - » Reduced prescription errors
 - » Remote imaging in diagnosis
 - But in practice, poor take-up and outcomes due to wrong incentives, privacy concerns, bad setting of objectives

- New pharmaceuticals and medical equipment
 - Can be very costly investment
 - But Health Technology Assessments (HTA) can be cost-reducing (for both)

What about other factors ?

- More investment in prevention: may be a cost-effective way of producing healthy lives but will increase health spending, as people will still get sick from something, just later in their lives
- System characteristics:
 - More rational payment structures – DRGs reward cost reductions but quality-based payments increase costs
 - Better co-ordination of care – substantial savings in theory, but difficult to realise them
 - More market forces in delivery and financing: little evidence of impact on cost reduction so far.
- New OECD project on Efficiency : can you get the same health outcomes for less spending or better outcomes for same cost?

General message on future health costs

- More spending due to 'technology' likely to continue to be the norm:
 - There are some policies which might reduce costs (a bit)
 - There are some policies which might increase efficiency (a lot) but not necessarily reduce costs
 - There are some policies which might increase efficiency but will cost a lot
- Cost-containment scenario is probably a fantasy : like for pensions need to make hard choices regarding reduction in share of public financing while maintaining access, quality and affordability of care