

Pension Plans

Ladies and Gentlemen,

The population of Europe is changing. The birth rate is lower – fewer children are being born. This means that there are fewer young people entering the work force. At the same time, people are living longer, so the proportion of older people in the population is growing.

These demographic changes have consequences for our social welfare systems, especially for pension plans and health care.

Pension plans in Europe work on the principle that the active work force – we who are working and earning salaries – pay in contributions to a pension fund. This money is spent on pensions for people who are retired, no longer working. Then, when we retire, the new workers entering the work force – the next generation – will pay for our pensions out of their contributions.

Each new generation pays for the pensions of its “parents”, you might say, and in turn they expect the next generation – their “children” – to support them when they become too old to work.

This system has worked pretty well up to now, because in the past, there were always more people working than there were pensioners. But today, the system is in trouble, and there are three reasons for this. First, fewer young people entering the work force means that there is less money available for pensions. And at the same time, more people are retiring.

The second reason is that we are living longer. Pension plans were designed on the assumption – which was quite true until recently – that most people die around the age of 70 or 75. But now we live into our 80s and 90s. Instead of 5-10 years of retirement, we expect to live on our pensions for 15-20 years or more.

Finally, the fact that the population of Europe is getting older also affects health care systems. Modern medicine has made tremendous progress, and people no longer have to die of heart attacks or strokes. Which is a good thing, of course. But medical treatment for these diseases is very expensive: triple bypasses and open-heart surgery cost a lot of money.

So, we are going to be faced with some tough choices in the near future. Either we have to reduce costs – by, for example, lowering pensions, and limiting the kind of operations covered by public health care – which clearly is not a very popular choice.

Or, we will have to find some way of increasing the work force. This might be easier. We could make people work for a few more years before they retire, for example. Or we could allow more immigrants into Europe. Of course, these are not very popular alternatives either. But they seem to be the best alternatives that we have.

Thank you.

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