

Global Report on Aging

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► POLICY FORUM

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Chile's Privatization

By **Jose Pinera**, President, International Center for Pension Reform, and Chile's former Minister of Labor and Social Security

A specter is haunting the world. It is the specter of bankrupt government-run social security systems. The pay-as-you-go system that reigned supreme through most of the 20th century has a fundamental flaw, one rooted in a false conception of how human beings behave: it destroys, at the individual level, the link between contributions and benefits—in other words, between effort and reward.

Whenever that happens on a massive scale and for a long period of time, the final result is disaster. The world would be a better place if every worker were also an owner of capital.

Global demographic megatrends, such as longer life expectancy and reduced fertility rates, will accelerate the crisis of pay-as-you-go pension systems. Today,
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Is There any Future for Public Pension Programs?

By **Dalmer Hoskins**, Secretary General, International Social Security Association

Hardly a day passes without seeing an alarmist article in national newspapers about the impending collapse of public pay-as-you-go (PAYG) pension programs. Many of these critiques use seemingly convincing economic and fiscal arguments and a few—in fact very few—reveal their public policy and philosophical underpinnings. The economic argument most frequently advanced is that, with demographic

aging and falling fertility, PAYG schemes are inherently bankrupt over the long term. This view rarely takes into account the fact that pension programs—public or private, PAYG or funded—are based on the transfer of resources from active workers to inactive retired persons at the time the pensions are paid. There is no real “saving” in total pension costs achieved by privatizing public pension programs. There is no evidence that

enhanced economic growth followed the privatization of public pension systems. Research by respected scholars in the United States, Chile and elsewhere has abundantly proved this point. It is obvious that the aging of the population will oblige nations to make adjustments to the retirement age and possibly to the generosity of their pension benefits for future generations of workers. There is, thus, a world-
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Chile's Privatization

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fewer workers have to support more and more retirees. Since increasing payroll taxes generates unemployment, sooner or later promised benefits have to be reduced, a tell-tale sign of a bankrupt system. Whether benefits are reduced through inflation, as in most developing countries, or through legislation, the result is the same: anguish about old age is created, paradoxically, by the inherent insecurity of an unfunded "social security" system.

In Chile, the Pension Reform law of 1980 introduced a revolutionary innovation. The law gave every worker the choice of opting out fully

years. Since 95 percent of the workers chose the PRA system, the end result was a "privatization from below" of Chile's social security system.

2001, even Sweden, once an emblematic welfare state, allowed its workers to put 2.5 percentage points worth of their 18.5 percent payroll tax contribution into an individual retirement account. Those developments led The Economist to state: "Radical reform of social security is the next great liberal reform, easily as significant a change as privatization of state owned enterprises-also dismissed in its time as Utopian. On retirement benefits Latin America has led the way. Let the world follow." ◀

The success of the Chilean pension reform has led another 15 countries...to follow suit.

from the government-run pension system and instead putting the former payroll tax in a privately-managed Personal Retirement Account (PRA), where the worker's benefit amount is the amount of money he accumulates in his PRA during his working

When we celebrated the first 21 years of this reform, the results spoke for themselves. The success of the Chilean pension reform has led another 15 countries in Latin America and Europe to follow suit. In January

Is There any Future for Public Pension Programs?

(Continued from page 1)

wide trend to put in place multi-tiered pension schemes composed of 1) a means-tested program to provide assistance to the most needy older persons; 2) a public PAYG scheme with universal coverage; 3) a compulsory occupational retirement plan for wage earners and the self-employed; and 4) tax and other incentives for personal retirement savings.

The "devil is in the detail" however since each country must decide on the relative importance of these different pension pillars. And, it is at this point,

that the public debate often becomes more "political" and, unfortunately, less well informed. Does, for example,

The recent down-turn of world stock markets and investments has given us all a rough lesson.

the use of funded individual pension accounts actually increase the coverage of the population? The experience of Latin America and elsewhere reveals a negative reply to this question.

Are privatized funded programs more secure and less subject to fluctuations

in benefit levels than public programs? The recent downturn of the world's stock markets and investment

portfolios has given us all a rough lesson in this regard.

And, recent events in Argentina, which adopted many elements of the Chile reform, demonstrated that privately-managed pension plans are not immune from economic downturns or even political manipulation.

The debate about the future of pension programs, public or private, must take into account not only the economic arguments but also the public policy objectives. What level of security does a nation wish to afford its elderly?

What level of sharing across the generations is acceptable to workers and employers? What is the extent of trust that citizens can place in their governments to honor the promises made to future generations of pensioners? It is time to move beyond the economics of the pension reform to a more informed debate about security in old age. ◀

► POLICY FORUM

Chile's Public Pension System—In Brief

In 1981, Chile introduced a radical free market reform of its social security system. Chile privatized its traditional state-managed pay-as-you-go defined benefit structure by moving to a state-monitored, privately-managed defined contribution plan. Workers must contribute 10 percent of their earnings, up to a maximum amount, to an individual account.

An additional amount covers administrative fees and survivors and disability insurance. Account holders may choose from a selection of stock and bond investment options, make voluntary additional contributions, and select how their retirement benefit will be paid from three options.

► CHARACTERISTICS OF THE CHILEAN MODEL

1 Employers

- No employer contribution to mandatory workers' individual pension accounts

2 Government

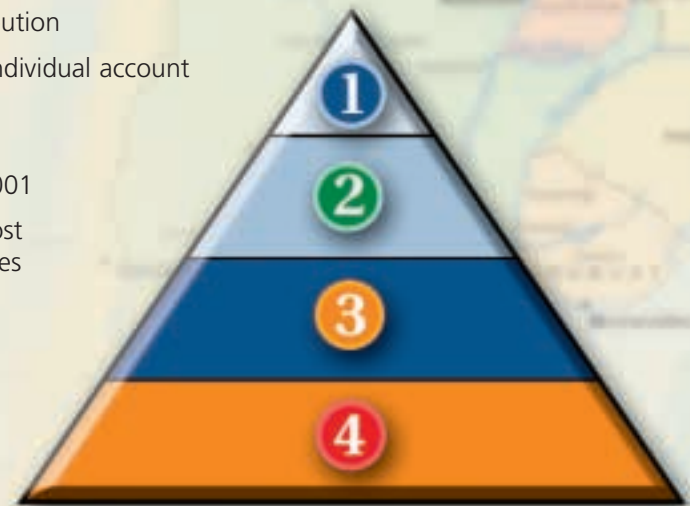
- No direct government contribution to workers' individual pension accounts
- Guarantees a minimum pension to contributors of 20 years or more and retirees outliving their fund assets
- Regulates funds' allocation of investments, and minimum rate of return

3 Individuals

- System is mandatory for employees, voluntary for self-employed
- Employee solely responsible for pension contribution
- Only half of the labor force contributes to an individual account

4 Funds

- Pension fund assets equaled 55% of GDP in 2001
- High administrative costs due in part to high cost of competition between fund companies reduces rate of return on investment
- 7 pension fund providers in 2003, down from 21 in 1994
- Funds' real rate of return, averaging 10.5% through 2002, has fluctuated greatly, with a high of 29.7% in 1991 and a low of -2.5% in 1995.



Sources:

- *Social Security Bulletin* — B. Kritzer
- *The Relevance of the Financial Market for Optimizing Pension Fund Investment* — A. Ferreiro Yazigi
- *Women and Individual Social Security Accounts in Chile, Australia, and the United Kingdom* — S. Korczyk

▶ FROM THE CEO



Our mission at AARP is to improve life for people as they get older so they can live long, healthy, secure and productive lives. To do this, we are reaching beyond our borders to engage leaders in other countries to address policy challenges... and to help find solutions.

Seizing the Opportunities of Aging— A Borderless Challenge

It has become increasingly clear to AARP that the cause of protecting and advancing the interests of older people does not and cannot end at our national borders.

One of the results of increased life expectancy—which was one of the great success stories of the 20th century—is that the older population is now increasing much faster than other age groups in the industrialized countries, making it a larger share of the population.

An aging population will affect nearly every sector of public life: our economies, our politics, healthcare, our infrastructures—such as transportation and housing—our social involvement in virtually every way. So global aging is a priority issue that demands the attention of governments, academe, business, non-profits and the public. But, we and others believe that global aging also presents substantial opportunities to the economy and to society. The 50+ population of the world is both a production power as an employee force and a purchasing power as a consumer force. If we seize the opportunity now, these forces combined can yield economic growth... not the stagnation that some predict.

Our mission at AARP is to improve life for people as they get older so they can live long, healthy, secure and productive lives. To do this, we are reaching beyond our borders to engage leaders in other countries to address policy challenges...and to help find solutions.

Recently, several colleagues and I went to the United Kingdom and Germany to discuss how these countries are addressing these issues, and how they view these trends. We met with parliamentarians, government officials, academics, business and union leaders, NGOs and journalists. Most had responsibility for and/or interest in policy related to older people, as well as other sectors of their societies.

In meeting with the top health and pension officials and aging advocates in these countries, it seems clear that, even though we have much in common, we also have significant differences with respect to how each country is aging and the resulting economic and social implications.

- ▶ Each of us—the U.S., the UK and Germany—is an aging society. But the UK and Germany are a bit ahead of the curve, with more retirees per capita than the U.S. Currently, the 50+ population constitutes about 27 percent of the total U.S. population, compared with over 33 percent in the UK and over 35 percent in Germany. By 2050, those percentages will go up to about 37 percent for the U.S., and 42 percent and 46 percent for the UK and Germany, respectively.

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► FROM THE CEO

(Continued from page 4)

- Each country faces major financial problems, putting pressure on public health and pension programs. Germany is the more difficult case, with 11 percent unemployment, apparently no long-term immigration plan to provide workers when the economy recovers, and the added cost of benefits for the East German population, which only started contributing to the pension and health programs after the country's unification in 1990.
- Though we are all living longer, people are retiring younger. In each country, people are exiting the work force 3-5 years earlier than the statutory retirement age.
- Each country is contending with obstacles to retraining and retaining older workers. Part of this challenge lies in age discrimination. In the U.S., we have laws that protect older workers from discrimination based solely on age in all aspects of employment, including hiring, dismissal and training. However, there are no such laws in the UK or Germany.
- In our meetings, we found that each country shares concerns about long-term care in terms of capacity, quality and how to pay for it. Questions about managing chronic disease and end-of-life issues are also common.

This trip strengthened my belief that we need to forge a new consensus on increasing employment opportunities for older people. This should not be about *compelling* people to keep working beyond retirement age, but of giving those who would like to work the opportunity to do so. It's about having real choices.

We will need these older workers, we all agreed, because as our societies age, there are fewer young people in the workforce. Furthermore, with lower levels of immigration across the UK and Europe—and only modest productivity gains—there is a real labor crunch coming. This is also true in the U.S.

The consensus on the older worker must include a discussion of how companies can eliminate compulsory retirement ages for their employees—something that is illegal in the U.S. and that a new EU mandate could soon prohibit. But the EU mandate is subject to interpretation by Member States, and this will be a major test for Europe's approach to older workers. Another crucial step

for all three countries is to establish policies to ensure that public pension and healthcare systems do not collapse under the weight of aging populations. Currently, public pension costs constitute 4.4 percent of GDP in the U.S., 4.3 percent in the UK and 11.8 percent in Germany. In Europe, public pensions are a significantly higher percentage of income for retirees than in the U.S., where we rely more heavily on corporate pensions and private savings.

There needs to be an honest, broad debate in all developed countries about aging.

It seems that much of the global aging challenge lies in national psyches. There needs to be an honest, broad debate in all developed countries about aging. This debate must challenge public expectations about entitlements, as well as assumptions about the role of older people in society. In many cases, a transition from an "entitlement" ethic to an "endowment" ethic is required. Policymakers and opinion leaders need to exchange information, best practices and research. Consultation among a broad range of business, labor, media, environmental, educational, healthcare, civil society and other sectors is crucial in creating a society for all ages.

All countries face challenges with people living longer and slow-growing or even shrinking numbers of workers...and we don't want to minimize those challenges. But, aging populations, as mere numbers, do not threaten world stability. The increased longevity of our population has been called "the true wealth of nations." As employers, workers, governments and others learn to capitalize on this "wealth", they will contribute to world economies and societies through measured and responsible reform.

It has been said that the sweetest victories are those born of challenges. With increased international cooperation, the challenges aging poses to the world will be met. Older people can lead longer, healthier, financially secure and more productive lives...to the benefit of economies and societies everywhere.



William D. Novelli,
Executive Director and CEO, AARP

▶ FROM THE EDITOR



The 50+ population worldwide is a vibrant force, and we have the opportunity to use that force to enact a positive change in our public pension systems.

I am pleased to introduce the inaugural *AARP Global Report on Aging*. Created to provide a balanced voice on aging issues, this report brings together the thoughts of policymakers and opinion leaders from around the world. People are living longer, healthier lives due to advances in medicine and technology, and innovations in public policy will ensure that the lives of seniors are more productive and financially secure. Changing demographics alone are not a problem, but failure to act will create problems. In this issue, we focus on one of the most pressing challenges of global aging—pension reform.

The question for developed countries is no longer whether pension reforms are needed but what those reforms will look like. Europe's generous public pension systems have long been the envy of the rest of the world, but the generosity of these systems, combined with lower fertility rates, make questionable the forecast for Europe's pension programs. The United States' Social Security Administration Board of Trustees interim report provides a 39-year solvency prognosis until 2042 for the U.S. Social Security System, up one year from last year's report.

Reforms under consideration by policymakers around the world include introduction of private individual accounts, raising the retirement age, decreasing the benefit level of public pensions, and increasing employment opportunities of older workers. Countries that rely heavily on the private sector to provide retirement benefits have been hurt severely by economic recessions, while countries with generous public pension systems are discovering that those systems may soon come under pressure due to rapidly increasing dependency ratios. Although pension reforms should be tailored to the structure and culture of each country in order to be most effective, aging populations are a global phenomenon. We have much to learn from each other as we search for solutions.

Regardless of the solution or combination of solutions, countries choose to implement, we must ensure that our focus is on improving life in retirement. The 50+ population worldwide is a vibrant force, and we have the opportunity to use that force to enact a positive change in our public pension systems.

My hope is that we may move beyond concerns over current pension systems to finding innovative solutions that improve the lives of persons age 50 and over and their families around the globe. At AARP we celebrate the vitality of older persons, and we believe that global aging is an opportunity. We know from experience the valuable contributions that the age 50+ population makes to their families, their communities, their countries and their world. This and future publications of the *AARP Global Report on Aging* are celebrations of those contributions.

A handwritten signature in black ink, appearing to read 'Nancy LeaMond'.

Nancy LeaMond

Director, AARP International Affairs

Prescription Drugs – Who Pays the Price?

Consumer access to affordable prescription drugs is at the forefront of the United States' domestic policy debate. To help inform the public debate using experiences of other nations, AARP's Global Aging Program held a one-day International Forum on Prescription Drug Policy. It examined how European countries, the United Kingdom, Australia, and Canada are attempting to contain costs, ensure adequate access to pharmaceutical products for consumers, and promote innovation among pharmaceutical companies.

Novartis AG Chairman and Chief Executive Officer Daniel Vasella, MD, addressed the conference stating the U.S. does not spend too much on health care in general or on drugs in particular. He noted that government policies are helping to make the U.S. the primary engine for research and development (R&D) in the pharmaceutical industry worldwide. He also believes that these policies and high levels of R&D spending are having a positive impact on the U.S. economy and on U.S. consumers, who enjoy quicker access to new therapies.

Calling on the U.S. Congress to pass a drug benefit under Medicare, the U.S. public health insurance for persons age 65 and over and some persons under 65 with disabilities, Vasella said, "I think it's an anomaly that in the U.S., the most needy people [who] are the seniors do... not have the coverage." He also urged governments throughout the world to enact policies to accelerate drug development and speed regulatory approvals so that patients gain faster access to needed drugs.

Dr. F.M. Scherer, Professor Emeritus at the John F. Kennedy School of Government at Harvard University, contrasted the U.S. pharmaceutical industry with that of other countries, noting that the U.S. has lower rates of overall insurance coverage, a higher degree of generic substitution, and relatively weak price controls. Yet he cautioned lawmakers about designing policies that control the price of pharmaceuticals, because such laws could reduce innovation in the U.S., the biggest supporter of R&D in the world, and potentially raise prices of drugs in third-world countries.



► TOTAL EXPENDITURE PHARMACEUTICALS AND OTHER PER CAPITA, US\$ X-RATE (OECD 2003).

Specifics of the European Union, United Kingdom, Australian and Canadian models for controlling drug costs while ensuring access, offered a variety of policy options for the U.S.

Europe's approach to facilitating access to prescription drugs includes several features such as: near universal public coverage of drugs with a limited role for private insurance; national formularies; strong regulation of drug prices; modest co-payments with exemptions for certain vulnerable populations; no direct-to-consumer advertising; and increasing "parallel trade" where prescription drugs manufactured in one EU country are freely sold in other EU

countries. Dr. Panos Kanavos of the London School of Economics noted Europe's lesson for the U.S. is the importance of creating the right incentives for stakeholders to control costs, promoting evidence-based use of pharmaceuticals, and considering greater use of "reference pricing," where prices are pegged to a benchmark drug of similar therapeutic value.

The UK government's approach was to develop a 10-year strategic and funding plan that called for greater use of generic drugs and instituting a quality framework that focused on evidence-based medicine and guidelines.

Under the auspices of the

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▶ GLOBAL AGING FOCUS ON PENSIONS

Recent Pensions Reforms

Statistics can be used to seed unnecessary fear: Worldwide, the population of people age 65 and over is expected to triple in the next 30 years.

How to reshape policies affecting aging, and how to reform the existing pension and healthcare systems are among the top agenda items in many countries. This holds true particularly in Europe and North America where life expectancy is rising, fertility is declining, and populations are maturing faster than policymakers' solutions.

Following is a brief description of some of the pension reform measures under discussion to address concerns over solvency of the public pensions systems in the United Kingdom, Germany, France, Italy, and Austria.

United Kingdom

In the United Kingdom, most recent pension reforms have been geared toward stabilizing public pension spending as a percentage of GDP without deteriorating the already precarious situation of the poorest pensioners. Benefits from the pay-as-you-go state welfare system have been reduced, while leveraged use of funded substitutes has been increased.

- ▶ In the public system, the underutilized SERPS is being phased out and a requirement-independent minimum pension provision called "State Second Provision" is to take its place.
- ▶ In the aftermath of several corporate pension mismanagement scandals and company closures, the government is taking a more active role in encouraging the use of and overseeing non-governmental occupational pensions and private insurance companies.

Andrew Smith, the UK's Secretary of State for Work and Pensions issued a Green Paper—"Simplicity, Security and Choice: Working and Saving for Retirement". It outlines a dual strategy to encourage more saving and promote longer working lives. The package of proposals addresses, among other things:

- ▶ promoting employment of older people
- ▶ informed retirement choices for individuals
- ▶ a simpler tax pensions framework

Germany

In Germany, particular attention is being paid to financial consolidation of an outdated system without adversely affecting contribution and benefit payout levels. Three rounds of reform, one already complete, were introduced. Some feel reform is beginning to improve the situation, but others consider the reforms too timid for lasting effect.

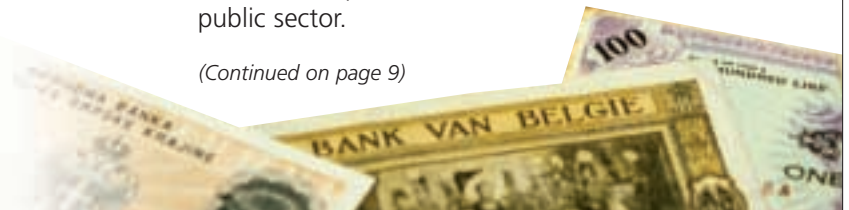
- ▶ In early 2002, the Riestter reforms offered subsidies or tax benefits to encourage individuals to save for their retirement in supplemental individual or group plans.
- ▶ In December 2002, a special commission headed by Bert Rürup, was assembled to prepare proposals to put the pension and health insurance systems on sustainable footing and to lower non-wage labor costs. Recent proposals have included raising the retirement age, considering whether private pension provision should be made obligatory, and shifting indexation from gross to wages.
- ▶ Recently, German Chancellor Gerhard Schröder announced his plans for modernization of the social welfare state—Agenda 2010. His proposals would raise the pension age, restrict health benefits, cut public services, scale back unemployment payments from 32 to 12 months, and loosen Germany's rigid job protection, in hopes of reviving the paralyzed economy.

France

In France, public opinion has crippled all moves at sweeping reform, despite public recognition of the need for financial relief to the system. Three successive administrations have attempted to tackle pension reform with incremental changes resulting.

- ▶ In October 2002, the Socialist-led government succeeded in small scale reform, without calling it as much. A voluntary long term savings scheme known as PPESV now assures tax breaks and employer paid wage top ups to workers contributing directly from their salaries.
- ▶ Prime Minister Jean-Pierre Raffarin has proposed new pension reform, including raising the minimum work contribution period in the public sector.

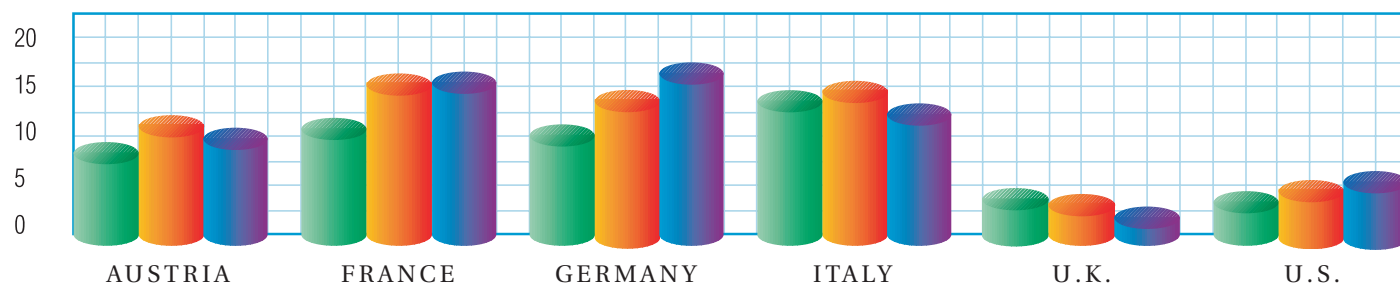
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▶ GLOBAL AGING FOCUS ON PENSIONS

PUBLIC PENSION COSTS AS % OF GDP

2000 2025 2050



OECD, *Fiscal Implications of Aging: Projections of Age-Related Spending, 2001* <http://www.oecd.org/dataoecd/28/0/1890227.pdf>

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Italy

Italy is one of the “grayest” countries in Europe, in terms of its population’s age. Having a public retirement system with one of the highest percentages of GDP, pension reform has been particularly important. Although dabbling with reform of the system has not been as difficult as in France, confidence in proposed reforms is very low. The system has been reshaped, providing less coverage from state funds by shifting the burden to occupational and personal schemes. The two primary, long term concerns stem from far reaching reform with a very long, gradual implementation period, and a built-in deficit being shifted from today’s workers to the generation due to retire in 2040.

- ▶ Reforms in the early 1990s included raising the retirement age and minimum work contribution period, lowering contribution levels, and raising minimum pension levels.
- ▶ The major reform has been to de-link pensions from the salaries to which they had been indexed, but instead to link them to contributions. This is known as the transformation from a defined benefit program into a system of national defined contribution accounts indexed to GDP growth.
- ▶ Pension systems for civil servants, the military and favored industries and professions have been trimmed back or will be phased out completely, as have “seniority pensions” that allow workers with long work histories to retire early.
- ▶ Tax incentives have been instituted to encourage growth in private employment and individual plans.

Austria

In Austria, pension reform is at the top of the present political agenda. On June 11, 2003, after months of political maneuvering, strong union opposition, and the worst strikes to have hit the country since World War II, the government approved reforms to the current pension system. Opposition, particularly from the shadow government and unions, is still very hot, since the governing majority rejected a call for a public referendum. Opposition leaders claim that should a change of government occur in coming months, the reforms would be repealed. The most significant modifications to the old system, slated to take effect in 2004, include:

- ▶ Elimination of early retirement (previously possible at age 61.5 for men and 56.5 for women)
- ▶ Calculation of retirement income based on the average of 40 previous years of work, not just 15 best
- ▶ Suppression of inflation adjustments
- ▶ Cuts in benefits capped at 10 percent

European Union

At the European Union level, recent legislation passed after 10 years of negotiations creates an internal market for occupational pensions requiring that funds hold sufficient assets to cover their commitments. The initiative provides an extra level of security to workers receiving a pension fund by bringing all company pension funds under EU supervision. This has no impact on Member State national pension schemes, but smoothes the way for labor movement and pension transfers between EU countries. ◀



▶ MAKING IT BETTER

Wakamaru

Researchers in Japan have invented a home care robot especially designed to look after aging persons. Wakamaru is three feet, three inches tall, has a vocabulary of 10,000 words and has been programmed to hold a reasonably intelligent conversation in either a male or female voice. Wakamaru can cheerfully remind its owner to take medication, read the news through its internal Internet connection, and chat amiably using body and facial gestures. Through voice and face recognition technology, Wakamaru recognizes up to ten people, and calls pre-programmed numbers on its internal cell phone. If its owner fails to answer the question "How are you?" or exhibits worrisome behavior, Wakamaru will send pictures of the person to relatives and caregivers through built-in cameras in its eyebrows. Wakamaru then acts as a speaker phone, allowing the two parties to communicate directly. Wakamaru can help with light housework and is designed to give its owner comfort, companionship, safety and security.

Do you know of an interesting best practice, product or service that is helping to improve the lives of the age 50+ population? Tell us about it. E-mail us at intlaffairs@arp.org or fax us at +1 202 434 2454.

Happy 50th Mr. Prime Minister!

Upon turning 50, UK Prime Minister, Tony Blair, joined the ranks of AARP's 35 million members, by being personally delivered his membership card from AARP CEO, Bill Novelli.



Tony Blair (right) accepts his membership card specially delivered from AARP CEO, Bill Novelli (left).

Prescription Drugs – Who Pays the Price?

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National Institute for Clinical Excellence (NICE), stake-holders such as experts and physicians determine how effective and efficient a product is once on the market, and then create guidelines for appropriate use. The 10-year plan also monitors the extent to which the National Health Service providers are complying with national standards.

Australia's method for drug cost containment relies heavily on a national formulary. Manufacturers apply to be placed on the formulary with a suggested price for their product. New drugs are then evaluated with respect to their cost-effectiveness versus alternatives available at the suggested price. For drugs placed on the formulary, reimbursement is provided only when appropriate guidelines for usage are followed. Whether the Australian guidelines have successfully controlled costs is unclear, yet the system does seem to get appropriate drugs to those who need them.

Canada's federal Patented Medicine Prices Review Board (PMPRB) reviews drug prices and uses established, transparent guidelines to ensure that the prices charged by manufacturers of patented medicines are not excessive. In addition to the PMPRB, provincial plans play a critical role in controlling drug costs in Canada. Provincial plans account for about 40 percent of all pharmaceutical spending. The provincial plans include a formulary with a list of drugs that the plans will reimburse.

AARP's Director of Policy and Strategy John Rother drew out several lessons for the U.S. First, there's an inevitability that the U.S. should start to address pharmaceutical pricing, but in a broader context that includes the impact on total health costs, clinical outcomes, and economic growth. Many trade-offs exist in developing such policies, and no one approach can simply be "lifted" wholesale from abroad—there is no single "magic bullet". Rother also pointed to the need for tools to promote use of information that compares drug efficacy and cost effectiveness.

AARP CEO, Bill Novelli, stated that other countries offer the U.S. valuable guidance with respect to access, affordability, and maintaining incentives for innovation. "After more than a decade of missed opportunities on prescription drugs, and more than a decade of rising drug costs, the time has come here in the United States to find solutions," Novelli proclaimed. ◀



▶ INTERNATIONAL NEWS HIGHLIGHTS

Austria

SCHÜSSEL PROPOSES DARING CHANGES IN PENSIONS

Despite several massive and debilitating nationwide strikes, Chancellor Wolfgang Schüssel saw parliament pass sweeping pension reforms, including 10% cuts to new pension benefits, and penalties on early retirement. By 2030, workers in their 30s could see their retirement benefit lose up to 50% in value.

Brazil

PRESIDENT PASSES PENSION REFORM

President Luiz Inácio Lula da Silva passed pension reforms allowing partial privatization of the current system and increasing the minimum retirement age from 48 to 55 years for women and from 53 to 60 years for men. The plans were met with opposition as tens of thousands of civil servants marched in protest against the proposal to cut pension benefits in order to eliminate an annual social security deficit of 5% of GDP.

Canada

INCOME-BASED TAX MAY HELP FUND HEALTH CARE

Finance Minister John Manley announced in May the creation of an income-based tax that would help sustain healthcare funding for an increasingly aging population. This tax runs counter to current healthcare policies promising treatment to all regardless of income.

European Union

CROSS-BORDER PENSIONS ALLOWED

EU Finance Ministers ratified a directive creating a framework for companies to create cross-border pension plans throughout the 15-nation bloc, covering 25% of the EU labor market. This step is seen as essential to alleviating pressure on Europe's patchwork of country-by-country pension funds.

France

FRANCE REFORMS PENSION LAW

After months of heated social debate and paralyzing strikes, the French parliament passed Prime Minister Jean-Pierre Raffarin's pension reforms. The legislation increases public sector workers' mandated contribution to state pension funds by 2 additional years, forcing them to work 40 years before they can receive full pension benefits. By 2012, both private and public sector workers will need to work 41 years to qualify, and work 42 years by 2020.

Germany

SCHRÖDER BETS ON "AGENDA 2010"

German Chancellor Gerhard Schröder underscored the need to adjust pensions to compensate for an aging population and tumbling birthrates, and overwhelmingly won party approval for his hotly contested economic reform plan—Agenda 2010. Germany's government and the conservative opposition also agreed on health care reform proposals aiming for creation of a more cost-effective system.

Japan

HIGHEST RATIO OF PEOPLE OVER 65 IN THE DEVELOPED WORLD

A Japanese government white paper revealed that 18.5% of Japan's population of 23.6 million people is 65 or older. It also claimed that by 2050, the ratio of citizens 65 or over to the total population is estimated to reach 35.7%, or one third of the total population.

United Kingdom

GOVERNMENT PREPARES TO ADOPT U.S.-STYLE BENEFITS GUARANTEE FUND

In an effort to counter the effects of pension scheme closures leaving non-retired workers with reduced or cancelled benefits, in early June, the government voted to develop a U.S.-style benefits guarantee fund as its insurance safety net for company pensions.

United States

MEDICARE PRESCRIPTION DRUG COVERAGE IN QUESTION; HOUSE PASSES DRUG RE-IMPORTATION BILL

Democrats and Republicans are seeking compromise proposals on a prescription drug benefit under Medicare. While legislation offering a \$400 billion package was in the works before the summer recess, soaring budget deficits are forcing Republicans and Democrats to now consider alternatives including means testing, and a drug discount card. Also, resisting pharmaceutical industry pressure, the House of Representatives passed a bill giving American consumers access to U.S.-made prescription drugs imported from Canada and more than 20 other countries where the drugs are cheaper. Senate action on the re-importation bill is unknown.

World

G8 SUMMIT ADDRESSES MAJOR CONCERNS INCLUDING GLOBAL AGING

Leaders of the Group of Eight (G8) met in Evian, France, in June to address challenges associated with promoting growth, enhancing sustainable development, and improving security around the world. They recognized the aging of their populations and the need to implement pension and health care reforms.

▶ **WHAT THE LEADERS ARE SAYING**

Global Report on Aging

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AARP is a 35 million member non-governmental organization representing and addressing the needs and interests of persons age 50 and over. We lead positive social change and enhance the quality of life for people age 50 and over through social policy, group buying arrangements, communications, advocacy, and community service.

“For us, a pension is a legal right, not an act of mercy.”

Fritz Verzetnitsch, Head of Austria's National Federation of Unions

“We know there are problems with an aging population but we won't accept diktats thrust down our throats.”

John Monks, General Secretary, European Trade Unions Congress

“In Italy people retire on average at 57. It means unsustainable costs and an annoying loss of talent, which could end up sinking us.”

Silvio Berlusconi, Prime Minister of Italy

“When I was young, I paid more regard to intellect than judgment. As I've gotten older, I pay more regard to judgment than intellect.”

Prime Minister Tony Blair, on turning 50, May 6, 2003

“They [the reforms] guarantee the pensions of future retirees, balance the government's accounts and eliminate, in public service, the high salaries and pensions that are absolutely incompatible with the Brazilian reality.”

Luis Inacio Lula da Silva, President of Brazil

“Over the longer term, we're going to need to deal with what will be inevitably increased pressure on healthcare budgets because of the aging of the population.”

John Manley, Finance Minister, Canada

▶ **AARP GLOBAL AGING PROGRAM EVENTS**

OCTOBER 17, 2003

Global Aging and (What Kind of) Growth?

Council on Foreign Relations Chairman, Peter Peterson, and AARP Executive Director and CEO, William Novelli, will debate what kind of growth can be expected from the effects of global aging.

Co-sponsors: AARP and the Council on Foreign Relations
New York, NY

NOVEMBER 6-7, 2003

International Conference on Law and Aging

International legal experts will focus on emerging legal issues affecting the 50+ population, including age discrimination and consumer issues.

Co-sponsors: AARP and Stetson University School of Law
Orlando, FL

OCTOBER 22, 2003

International Forum on Long-Term Care

Health Ministers and officials from developed countries will discuss options in long-term care delivery and financing.

Sponsor: AARP
Washington, DC

DECEMBER 5, 2003

Pension Reform—Answers from Experience

Experiences of countries where reforms to pension systems have been implemented will be examined.

Co-sponsors: AARP and the Woodrow Wilson International Center for Scholars
Washington, DC

See full event proceedings at www.aarp.org/international-events
International events calendar can be found at www.aarp.org/international-calendar

Questions about upcoming AARP Global Aging Program events should be directed to intlaffairs@aarp.org