



DEMOGRAPHIC AGING AND RETIREMENT CRISIS IN THE EUROPEAN UNION : THE CASE OF ITALY

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Summary*

KEY POINTS*

1-THE AGING POPULATION IN THE EUROPEAN UNION

2-THE FOCUS COUNTRY OF THE DEMOGRAPHIC CRISIS : ITALY

3- THE RETIREMENT SYSTEM CRISIS

The aging population in Europe is one of the most important problems facing the continent. The low birth rates and the longer life expectancy have been increasing for a long time, increasing the share of the elderly population in the total population. The aging of the population is not only a demographic change, but also an important problem affecting economic sustainability, social state understanding and public policies. Italy, in particular, is one of the countries where this problem is clearly seen . According to EUROSTAT data, individuals over the age of 65 in Italy will make up about 24.7% of the total population in 2025, while this figure is 22% across the European Union in the same year.

The aim of this study is to address the problem of aging population in the European union in general, to examine the causes and consequences of demographic change in Italy, as well as to evaluate the effects of the situation on the pension system . In the study, how does the aging population problem in the European Union affect the financial sustainability of the pension system and the future of social security, especially in Italy? The question will be focused on . The aging of the population and the decline of the working population in Italy are increasing the pressure on the existing pension system. In addition, policies based solely on raising the retirement age are insufficient to solve the problem in the long term. According to the information obtained in this study, it is seen that low birth rates, problems experienced in the participation of young people in the labor force and the needs to increase the employment rates of women deepen the demographic pressure. This situation makes it difficult to establish a financing balance between the retired and working population. Dec. Accordingly, for the sustainability of the Italian pension system, it should adopt a comprehensive framework that increases youth employment, supports women's participation in business life, diversifies child care services and, most importantly, combines skilled migration with long-term labor force policies.

- THE AGING POPULATION IN THE EUROPEAN UNION

One of the important structural problems facing the European Union is the aging of the population. In fact, this is one of the most radical demographic transformations in the history of the European Union. Although the increase in health standards and the extension of the average life expectancy in the Union member states in recent years have been considered a positive development, the sharp decline in birth rates has created a serious wave of aging across the continent and has changed the age distribution of societies. While the share of the young population in the total population is decreasing, the share of the elderly population is increasing. This situation has a greater impact, especially on long-term care and retirement policies.

Demographic aging is not just a social change . It is a macroeconomic threat that directly affects the balance of economic growth, productivity and public financing in the European Union. It brings with it the difficulty of finding employees in the sectors and the need for reorganization of public expenditures. Especially in the pension systems, the change in the balance between the working and retired population can create a big problem. The Decrement of the number of employees compared to the number of retirees may increase the difference between the system's revenues and expenses.

According to Eurostat data, about 22% of the population of the European Union in 2025 will be 65 years of age or older ,. the proportion of the elderly population compared to the young and working population is increasing every passing year. This increase in the elderly dependency ratio increases the expenditures on health and care services in the public budgets of the member states. However, the number of active individuals who pay taxes and social security contributions is decreasing. Therefore, this population problem carries the risk of turning into a social and financial sustainability crisis. However, it would not be completely correct to evaluate this situation only on the basis of economic indicators. The issue is also related to the future of the welfare state , social solidarity and the capacity of European countries to adapt to changing demographic conditions. The example of Italy is a good example to examine how these problems become linked to each other.

- THE FOCUS COUNTRY OF THE DEMOGRAPHIC CRISIS : ITALY

This demographic crisis experienced throughout the European Union does not show an equal distribution among the member states. It is especially felt more heavily in southern European countries. The country where the aging population is most prominent in the European Union is Italy . with a median age exceeding 49, it is the oldest country in the European Union and the country with the second oldest elderly population in the world after Japan. Low birth rates, an increasing share of the elderly population and a decrease in the active working population significantly affect the demographic structure in the country. According to the figures, the fertility rate in Italy has fallen to about 1.20 per woman and remains extremely below the population's self-renewal rate of 2.10 .

These data show us that the problem in Italy is not only caused by long life . The fact that new generations are born in smaller numbers leads to a change in the age structure of the population and a decrease in individuals who will participate in the job market in the future. In this direction, the economic cost of having a child, the increase in the age of having a first child, job security and the lack of services that support family life are important parts of this process that should be evaluated.

Regional differences are also an important issue to understand the demographic structure of Italy. The population loss in the southern regions of the country and the migration of young people to other countries or regions complicate things in many issues, from local economic activities to the sustainability of public services. Another important issue is the low labor force participation rate of women in the southern region . According to the data, the fact that the participation rate of women in the labor force in the region is at 40% also prevents the expansion of the premium base. The lack of child care services, work-life imbalance force women to choose between employment and starting a family Decently. In addition, the brain drain of qualified Octogenarians has an even more negative impact on the active population of the country.

These developments show the impact of the aging population on the pension system. The decrease in the active population and the increase in the elderly population make it difficult to finance the current system, while also increasing health and long-term care expenditures. The European Commission says that the population of Italy is expected to decrease by more than 4 million by 2050. For these reasons, Italy's demographic change policies should be planned in a long-term social and economic framework rather than in a short-term one.

The most fragile reflection of the deepening demographic crisis in Italy is seen in the country's social security and pension infrastructure. Italy uses the "pay as you go" pension model. In other words, it is a system in which the pensions of existing pensioners are covered by the premiums paid by employees. However, the change in the balances between the working and retired population may also affect the income and expense balance. Dec. A decrease in the number of employees limits premium incomes, while an increase in the number of retirees allows people to receive pensions for longer, and total expenses rise. This situation creates a great pressure on the public budget and seriously affects the use of resources that can be allocated to education, employment and other services.

Today, Italy pays about 16% of its gross domestic product (GDP) directly to pension payments, which is much higher than the EU average. This huge burden of pension expenditures on the public budget prevents the public debt from being brought under control and increases the budget deficit. The transfer of a large part of the public budget to pensions restricts the financing of future-oriented investments such as digitalization and green transformation. For these reasons, the discussion of the pension system should not be conducted solely on the expenditures to be made by the state. Issues such as the ability of retired people to live with a sufficient income, balancing the premium burden of employees, and ensuring that young people have access to stable employment should be addressed together. Otherwise, measures aimed at ensuring fiscal balance may increase economic inequalities between generations in the long run. Dec. Therefore, the solution will not only be by changing the pension system.

Demographic aging is a common problem that concerns the European union as a whole, although it occurs at different speeds in the member states. For this reason, the European commission and relevant EU institutions should strengthen the experience and sharing of policies developed by member states in the process of adapting to demographic change. Joint evaluation mechanisms should be developed on these issues. The aging population and the sustainability of the pension system are not a problem that can be solved by using a single policy tool. Long-term and most importantly Decoupling policies should be developed taking into account the demographic change, the relations between the labor market and the social security system. Some of the issues to be taken into consideration are women's participation in working life, facilitating young people's access to stable and secure jobs by strengthening the labor market, supporting skilled migration and migrant labor force participation, and ensuring that pensioners receive adequate income by strengthening the long-term financing of the pension system. It is very important in the services developed to meet these conditions, for example, increasing women's participation in employment is one of the important tools that can help mitigate the economic consequences of demographic aging. For this purpose, it is necessary to expand child care services, provide balanced parental leave, and develop and implement services that facilitate work - life balance. The development of policies to identify and reduce the economic uncertainties affecting families' decisions to have children is important in the long term. In short, this crisis is actually a broad policy area that is interconnected with each other and can only be managed with a holistic approach and long-term decisions.

FOOTNOTES *

1- European Commission. (2024a). 2024 ageing report: Economic and budgetary projections for the EU Member States (2022–2070). Directorate-General for Economic and Financial Affairs. https://economy-finance.ec.europa.eu/publications/2024-ageing-report-economic-and-budgetary-projections-eu-member-states-2022-2070_en

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