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***Strategies of dealing with an aging
population on slow-growth societies
within the European Union***

-Spain as a case-

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Abstract

Europe is going through a demographic renewal. While the life expectancy is increasing, the fertility and mortality rates are decreasing, resulting in the phenomenon of the aging of Europe. In order to tackle this problem, several attempts are possible. This thesis is examining the incentives taken by the Spanish government in order to handle an aged population. The research question under investigation is trying to find out; to what extent the Spanish case can be useful for other European countries. By analyzing both qualitative data and statistical indicators, an attempt will be given to answer the before mentioned question. As a concluding remark it can be said, that only immigration will not solve the problem of an aging population, rather a combination of both liberal immigration policies and reformed welfare policies might be able to deal with the aging of Europe.

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1. Introduction

What is the aging of Europe? How does it influence the EU? To what extent is an open border approach, such as Spain is tackling the problem, effective? Can the Spanish approach be seen as a model for the EU? These are the main problems addressed in this thesis, which will examine the impact of an aging population on slow-growth societies using the case study of Spain.

The citizens of the European Union are more and more old citizen. By the year 2020 people aged 60+ will be one-fifth of the EU's population and those aged 65+ would have made up just one-fourteenth of the Union's population. This secret revolution in Europe's demographic structure has been taking place largely unnoticed by the public (Commission 2011). Next to this, the European Union is witnessing a change in the meaning and experience of old age in the recent society. One can say that retirement is no longer the beginning of the old age, and due to this, it is rather anachronistic as a concept of aging people. With increased longevity and a healthier lifestyle, retirement is no longer a connotation with frailty. But also the group of people being 80+ years old, which are more likely to get ill and become dependent, is rapidly growing. So it is estimated, that by the year 2020 about 20 million people will be aged 80+ in the current territory of the European Union, which is representing an increase of ca. 300% in the category of people aged 80+ years since 1960(Commission 2011).

Having an increasing old societal group, which is heavily dependent on benefits and support by the rest of the society, solutions are needed to tackle the aging of Europe. One possible approach to the solution of the aging of Europe is the open borders scenario, which implies that immigration will help to bear the increasing costs caused by an aging population.

One of the countries, which are following the open borders approach, is Spain. In 2007 the World Bank estimated, that by 2050 around 50% of the Spanish population will be older than 55, which would give Spain the highest median age compared to all of the countries in the world.

In order to avoid the fulfilling of this prediction, the Spanish government has decided, as mentioned above, to focus on a more lenient immigration policy, in order to replace the originated employment gaps through immigrants.

Whether this open border approach is effective and successful in Spain, and whether it may serve as a role model for the other countries within the European Union will be examined in this thesis, guided by the following main research question:

“To what extent can Spain be seen as a model for bracing aging, slow-growth societies within the European Union?”

Given that most countries in the EU are already dealing with an increasingly large group of aged people, or will sooner or later deal with this phenomenon, it might be from great importance to find out, which approach is the most effective and suitable to tackle the aging of Europe.

That the phenomenon of the aging of Europe exists and has an impact on the European societies is reflected in various analyses and studies. But, while most of the analyses study the phenomenon and its side effects as those, there is rarely a study, which is examining possible approaches to the denouement of the phenomenon of the aging of Europe.

That is why this thesis is trying to analyse and to illustrate the attempt, made by the Spanish government, and contemplating, whether this approach or parts of it might be suitable for other countries within the EU coping the aging of the population.

Having explored the topic and the relevance of this thesis, the next section will reveal the theoretical framework of this paper. A subsequent chapter will widen the methodological fundament by explaining the research design and the used data. Subsequently, an analysis of the Spanish policies will be presented and quantitative data will function as a way to examine the effectiveness of these policies. Eventually a discussion of the transferability of the Spanish policies to the rest of the Member States of the EU will conclude this paper.

2. Theoretical framework

2.1. Aging of Europe

Two demographic challenges are confronting the European Union today: population aging and population decline.

While low fertility and increasing age of people cause populations to rapidly grow older, low fertility is also leading to a decline in the population.

In general, population aging is a demographic phenomenon, which can be labelled by a decrease in mortality rate, a decrease in fertility rate and a higher life expectancy.

“Population aging in Europe is occurring because of the interaction of four demographic developments. First, fertility rates in all EU countries are, and are projected to remain, below

the natural population replacement rate. Second, the recent decline in fertility rates followed the post-war baby boom, and the impending retirement of these cohorts will lead to a transitory increase (albeit lasting several decades) in the old-age dependency ratio. Third, life expectancy at birth, having increased by eight years since 1960, is projected to rise by a further six years for males and five years for females by 2050, with most gains resulting from longer life spans. Fourth, large net migration inflows are projected up to 2050: although cumulating to close to 40 million people, they will not offset low fertility and growing life expectancy.” (Carone & Costello, 2006)

The population of the European Union is compared to the rest of the world population rapidly decreasing, due to the fact, that fertility and mortality rates are falling, while the life expectancy is increasing.

The economic and social consequences of population aging are manifold and its influence on the situation in Europe can definitely not be underestimated.

If one compares Europe to the rest of the world regions, one can say, that population aging is the most advanced in Europe. While the median age of the world population is 28 years, it is 39 years in Europe, 36 years in the United States, 32 years in China and 24 years in India (van Nimwegen and van der Erf 2010).

If one takes a look at the United Nations Aging Index (Nations 2007), which is showing the share of people of 60 years or older relative to 100 persons aged between 0-14 years, one can see that Europe is ranked first compared with other world regions, having an index value of 136. In Western Europe (147) and Southern Europe (156) population aging is advancing faster than in Eastern Europe (123) and Northern Europe (124).

Life expectancy is increasing lately and since 1980 the average annual increase in longevity was under 0,2 years (van Nimwegen and van der Erf 2010). At the current moment, the average life expectancy at birth in the EU is about 79 years, while it is 80 years in the old member states and 74 years in the newer member states.

The second demographic challenge for Europe is the decline in population, and also here Europe has the lowest population growth among the world regions. It is estimated, that by 2050, the population of the EU will have declined from 493 million inhabitants to 72 million inhabitants (van Nimwegen and van der Erf 2010).

The average number of children per woman in the European Union, which is measured as the Total Fertility Rate, is about 1,5 as a whole. This number is significantly below the replacement level of 2, 1 children, which is in turn demonstrating future population decline.

As well as in the longevity, the EU is also contrasting with the other world regions, when it comes to low fertility rates.

The fertility level of the United States (2, 1) is equal to the replacement; the fertility level of Africa is significantly higher with a record of 5 children per woman. In total the world average total fertility rate is 2,7 (van Nimwegen and van der Erf 2010).

This combination of population aging and population decline is leading to the so-called phenomenon of the “aging of Europe”.

Together the population aging and population decline will have great influence on the shape and characteristics of the future of Europe in the coming decades.

2.2 Two possible scenarios dealing with the phenomenon of the Aging of Europe

If the current demographic situation will continue, namely the aging of Europe, two scenarios, developed by Davoudi, Wishardt et al. (2010), might be possible.

The “silver century” scenario is based on the assumption, that the population of Europe will further continue to age and immigration will be rather limited and controlled. The declining work force will have to work longer shifts and pay more taxes in order to support the increasing costs of pensions and health care for the growing number of older people. Furthermore the fiscal demands of the aged population will put more emphasis on the European social model of welfare provision, which has its base on accepting lower economic growth in return for more social protection (Davoudi, Wishardt et al. 2010).

The current social model will need restructuring towards the needs of older people, while the problem of a continuing decreasing birth-rate will not be resolved. Most of the older people will move most likely to the rural area and a shift from North/West to the South is also visible. In these retirement destinations, the older people can use their grey voting power to shift public spending away from schools etc. towards retirement homes and health care (Davoudi, Wishardt et al. 2010) .

According to these hypotheses, the balance of power politically, spatially and economically is increasingly dominated by the older people in 2030 in Europe.

Next to the silver century scenario, another contrasting scenario was developed by Davoudi, Wishardt et al. (2010), namely the open borders scenario.

The open borders scenario assumes, that a proactive policy change is an answer to the predictions, that the population of Europe will continue to age as mortality rates will decline

and birth rates will also continue to fall. It is expected to result in a declining total population, which would be in significant contrast to the neighbouring regions of Europe, such as the Maghreb region, where a relatively young population can be found (Davoudi, Wishardt et al. 2010). Measures will be taken to reduce the present restrictions on external immigration and incentives will be issued in order to manage an increased volume of immigration flows from outside Europe.

According to the open borders scenario, migration between regions and countries will be allowed to develop in a “laissez faire” attitude, which will in turn lead to different perceptions among the regions (Davoudi, Wishardt et al. 2010).

Having these hypotheses in mind, the final picture will look as follows: By the end of 2020 most of the attempts have been made, when it comes to modifications of the external migration flows.

Even though the taken measures and incentives have retarded aging in some of the European regions, the demographic profile of less favoured regions has remained unchallenged and most have further declined. Furthermore new problems have developed, such as the integration, spatial segregation and differentiation by origin (Davoudi, Wishardt et al. 2010).

2.3. The EU and the silver century scenario

Comparing these two scenarios developed by Davoudi, Wishardt et al. (2010) to the European Union, one can say that the EU, concerning aging policies, fits best into the silver century scenario, according to which, the social welfare model is restructured towards the needs of dealing with aging population.

Population aging is a challenge to policy makers within the Member States, due to the fact, that retirement and pensions are already the biggest issue in the national social security budgets. Moreover the recent time is also characterized by economic recession concerns about the financial stability of pensions and more social security systems are getting more urgent.

Since aging became a policy issue, as it has severe implications on various sectors. The most important effects of the aging process in the European Union include:

- A decrease in the percentage of people in the working age and hence a decrease in the labour force
- An increase in the overall burden on the working population
- Increasing public expenditure on social security and health services, pensions

- Increasing failure of pay-as-you-go pension systems
- Growing demand for medical care
- Risk of intergenerational conflicts (Bijak, Kupiszewska et al. 2007).

The situation of older people was firstly addressed specifically in a number of Resolutions issued by the European Parliament in the 1980s, beginning with the Resolution from 1982 on the situation and concerns of aged people in the European Community. Also the Charter on the Fundamental Social Rights of Workers, which was adopted in 1989, is referring to older and retired people and is bringing this social group within its scope (AEDH, 2011).

In 1990, the Communication on the Elderly issued by the Commission set out a starting point for action at the Community level in the interest of aged people, recognizing the application of the principle of subsidiarity in this subject (Commission, 1990).

In 1991, the Commission established a Liaison Group to foster dialogue with organizations, which represent older people at the European level and through this strengthening the opinion and expressiveness of the older population at the European level (Commission, 1991).

In 1993, the Council decisions on Community action for older people acknowledged once again the role of the EU as an important actor in the fighting of the long-term challenges of an older population (Commission, 1991/1992). 1993 was the European Year of Older People and Solidarity between Generations with several activities and workshops ranging from European to local level. At that time, the measures taken by the Commission were mostly from a stimulating and encouraging character with low financial contribution by the Commission.

The European Year of Older People and Solidarity between Generations can be seen as a success, also due to the collaboration with non-governmental institutions and organizations.

In 1994, the White Paper “European Social Policy- A Way Forward for the Union” was adopted, which stated that the Commission is going to propose *“a Decision for further Union-wide actions to help meet the challenges of an aging population covering, in particular, the role and contribution of the active retired population”* (Commission, 1994).

In 2002, the Commission issued a report, on the request of the Stockholm European Council to think about, how to increase the labour force participation and promote active aging (Commission (1), 2002).

According to the Commission the overall aims should be:

- *“to ensure that present and future working generations will remain active as they grow older*
- *to maintain the participation of today’s older workers; those over 50 being at high risk for early retirement*

- *Enhancing efficiency of healthcare and eldercare facilities and improving their linkage with the social policy in general. Reforms need to be focused more on making the care system more responsive to the needs of an aging population”* (Commission (1), 2002).

In the same year, the Commission published a Communication as a contribution to the 2nd World Assembly on Aging, in which the support for the efforts of the Belgian and Spanish presidencies to develop a common EU position on the plan are guaranteed (Commission (2), 2002).

2007, the Commission recognized the growing importance of the Information and Communication technologies, also for the aging society, and an Action Plan was elaborated.

In this Action Plan it was made clear, that aging well at work, in the community and at home, can only be guaranteed with the *“help of, easy-to-access ICT, innovative practices for adaptable, flexible workplaces, ICT skills and competencies and ICT enhanced learning”* (Commission, 2007).

2009, the Commission publicised a Communication dealing with the impact of an aging population on the EU. The Commission acknowledged the fact, that the policy challenge, which accompanies the fast aging of the European population will be broad covering several already existing schemes and measures, such as the Lisbon strategy, the EU Sustainable Development strategy, the OMC of pension, health care and long-term care and the Stability & Growth Pact (Commission, 2009). According to the Commission, the total EU population will get older, meaning that the European Union would move from having four working age people for every person aged 65+ to a ratio of only two to one. Furthermore it is assumed, that the employment in the EU will shrink by 19 million people by the year of 2060.

As a consequence of the aged population, the fiscal impact will be substantial in nearly all the Member States. Also due to age-related expenditures the average GDP will increase by about 4, 75 percentage points by 2060 in the European Union.

Demographic trends will also push up the public pension expenditure significantly in all Member States and recent analysis has suggested that the future relative pensioners’ income will decline substantially in several Member States. Next to this, the health care systems within the EU are expected to undergo essential challenges in the future and an increased public spending on long-term care will be required, due to the fact, that the informal care will become a scarce resource (Commission, 2009).

Having stated these predictions of how aging will have an impact on the European Union, the Commission goes on with a policy plan and goals to cope with the economic and budgetary challenges:

- **Promote demographic renewal in Europe by creating better conditions for families**

In order to reach this goal, a shift to a more child-friendly society will be necessary. Furthermore reducing taxes on second earners could also be considered in order to create better conditions for families

- **Promote employment in Europe with more jobs and longer working lives of better quality**

Increasing participation and employability through ensuring that young people who fail to enter the job market, will not become permanently dependent on benefits.

Next to this, it might be suitable, to reduce benefit dependency through making work an economically and rewarding option.

Furthermore, it is important to raise the employment rates amongst older workers, through changing attitudes towards the work of older workers.

- **Sure sustainable public finances in Europe, guaranteeing and securing adequate social security and equality between the generations** (Commission,2009)

As it became clear to the Commission, action is necessary across a variety of policy areas. Thus, Coordination at the European level can facilitate the exchange of best practices and reduce negative spill-overs. Therefore the Commission defined a few points, how they could contribute in tackling the challenges produced by the aging of Europe:

- *“Deepening and broadening surveillance beyond fiscal policy in order to help better integrate structural reform in overall policy co-ordination*
- *In the fields of pensions, health care and long-term care, the Commission will continue to support Member States in their effort to improve the efficiency and effectiveness of social spending, and will continue monitoring the social, economic and budgetary consequences of an aging population within the context of the Lisbon strategy and the EU's fiscal framework under the Stability and Growth Pact and the open method of coordination (OMC) on Social Protection and Social Inclusion*
- *In the fields of financial services and taxation, the Commission will swiftly introduce the measures outlined in its Communication to the European Council* (Commission, 2009)

With this Communication, the Commission made clear, that it is quite aware of the current demographic transformation, which is taking place in the European Union, namely the aging of Europe.

In 2010, the Parliament and the Council announce a European Year for Active Aging, which should be seen as one of the highlights during the period 2011-14, while the EU will focus a lot of their programmes and policies on the topic of active aging and put in place a framework in which new initiatives and cooperation enhancing active aging at all levels can be fostered (Parliament & Council, 2010). By the end of the year 2010, the Commission launched, that 2012 will be the “European Year for Active Aging”.

This initiative is aiming at helping to create better job opportunities and working conditions for the increasing number of aged people in the European Union and helping them to take an active role in the society and encouraging healthy aging (Commission, 2011).

Having these facts and decisions made by the EU, one can in general see, that the European Union and especially the Commission is putting a strong emphasis on the enhancement of active aging at all levels.

To recapitulate, one can say, that the main characteristics, as hypothesized in the silver century scenario, can be applied to the European Union due to the following reasons. Firstly, it is hypothesized, that the fiscal demand of the aged population will put increasing emphasis on the European social model of welfare provisions. This can also be seen in the EU, since retirement and pensions are already the biggest issue in the national social security budgets and the fiscal impact of the aged population will be substantial in nearly alle the Member States. So, according to the Commission (2009), the average GDP, due to age-related expenditures, will increase by about 4, 75 percentage points by 2060 in the EU. Having this in mind, one can assume, that the first hypothesis of the silver century scenario is applicable to the European Union.

Secondly, it is assumed that there is a restructuring towards the needs of older people, while the decreasing birth rate will not be resolved. Also this can be seen in the EU, beginning with the Resolution from 1982 on the situation and concerns of aged people in the European Community. But also the Liaison Group, which was established in 1991, to serve as a representative of older people at the European level, is a proof for the restructuring towards the concerns of older people.

The last hypothesis of the silver century scenario is, that the grey voting power is used to shift public spending towards retirement homes and health care. Also this assumption can be applied to the European Union, due to the fact, that the Commission made clear, that the

efficiency of healthcare and eldercare facilities should be enhanced and improved through reforms and making the care system more responsive to the concerns of an aging population. This means, that the Commission is aware of the fact, that the health care system in the European Union is expected to undergo substantial challenges in the future and an increased public spending on long-term care will be needed. Due to the fact, that the hypotheses, developed in the silver century scenario, are applicable to the European Union, I assume that the European Union and its approach to the aging of Europe fit into the silver century scenario.

2.4. Spain and the open borders scenario

After hypothesizing, that the European Union and its approach to the aging of Europe fits into the silver century scenario, one can also make the assumption, that Spain is rather taking the approach mentioned in the open borders scenario. The reasons for assuming this are the following ones:

The first assumption of the open borders scenario is that only a pro-active policy change is an answer to the aging of Europe and that restrictions on external immigration and incentives should be reduced. This standpoint is also taken by the Spanish government through the implementation of the Reglamento de la Ley de Extranjeria. To stimulate further immigration, in 2005 the Reglamento de la Ley de Extranjeria was implemented by the Spanish government. This legal decision enabled illegal immigrants to become legal in a certain time period, if they were able to prove, that they are in the possession of a place of employment (La Monocla, 2004).

Next to this, another assumption of the open borders scenario is that migration between regions will be developed in a “laissez faire” attitude (Davoudi, Wishardt et al., 2010). Also this can be seen in Spain. Spain has taken in more than 3 million immigrants, and nowadays more than 11% of the residents in Spain are foreign born, which is representing one of the highest proportions within the European Union (Corkill, 2001). Immigration has risen from 57.000 in 1998 to about 600.000 for the last two years. The biggest influx of immigrants came from Ecuador, Romania and Morocco (Corkill, 2001). But also a lot of immigrants came from the newest EU-members from the old Soviet bloc, since the Spanish government places no restriction on immigration from these countries.

Since 1996 the number of foreigners in Spain is increasing. Formerly Spain was a country of

emigration, but since the 1980s Spain started to be considered as a destination country. The population has grown to 5.643.871 people in the time span 1998-2008 from which approximately 4.500.000 are foreigners (Eurostats, 2011).

Having this, one can assume, that also the assumptions, developed in the open borders scenario, are applicable to the case of Spain and therefore it is reasonable to say, that Spain fits into the open borders scenario.

3. Methodological framework

After presenting the theoretical framework and the assumptions made, that the European Union is following the approach of the silver century scenario, while Spain is taking the path of the open borders scenario; the following part will give an outline on the research design and the collection of the data, in order to find adequate answers to the main research question:

“To what extent can Spain be seen as a model for bracing aging, slow-growth societies within the European Union?”

On a step-by-step basis this question will be answered via the following sub-questions:

1. *What was the Spanish government doing in order to combat the phenomenon of the “aging of Spain” in the period 1998-2010?*

Firstly, it will be examined, which measures were taken by the Spanish government in the time period 1998-2010 in order to tackle the phenomenon of the aging of the Spanish population.

2. *In how far do the efforts made by the Spanish government in order to combat the aging of Spain have an impact on economic, demographic and welfare indicators?*

After presenting the taken measures, I will take a look at the statistical indicators in order to see, whether the implemented policies had an influence on the economic, demographic and welfare indicators in Spain.

3. *To what extent can the Spanish case or parts of it be useful for other countries?*

In a last step, it will be discussed, whether other European countries can use parts of the Spanish case as an example for combating the aging of Europe.

3.1. Research design

In order to find a valid and reasonable answer to the main research question presented above, Creswell (2003) has developed three questions, which should be a helpful guideline in order to develop a feasible research design. Firstly, one should find out, which knowledge claims are being made and which theoretical perspective will be used.

For my thesis I have chosen to take the pragmatism position. According to pragmatism, knowledge claims arise out of situations and consequences, instead of antecedent conditions as in the post positivism (Creswell, 2003). Furthermore, the pragmatists are interested more in the problem, instead of the methods. So they are using all positive approaches in order to understand the problem. According to this, pragmatists are free in their choice of suitable techniques and methods to collect and analyze data, rather than focusing on only one way. The second important question Creswell (2003) suggests in choosing a good research design is which strategies of inquiry will inform the procedures.

In my thesis, I have chosen to take a mixed methods approach and apply the concurrent procedure strategy, which enables me to combine qualitative and quantitative data in order to provide an understandable analysis of the research problem and question. In this design, I will collect both, quantitative and qualitative data, at the same time and finally integrate them in my interpretation of the main results.

Finally, one has the third central question, namely what methods of data collection and analysis will be used. As already mentioned, the research question will be answered through applying the mixed methods approach.

So on the one hand, legal decisions made by the Spanish government will be evaluated and examined; and on the other hand statistical data will be interpreted, in order to conclude, whether the legal incentives had any impact on the welfare indicators of Spain.

3.2. Data

Firstly, Spanish legislation and governmental documents will be further discussed in order to see how the Spanish government tried to tackle the fast ageing society in Spain and the consequences of this phenomenon and in order answer the first sub-question: *What is the Spanish government doing in order to combat the phenomenon of the “aging of Europe”?* After this rather qualitative approach to the research, also a quantitative approach will be taken. In order to see, whether the implementation of the Spanish regulation had any effect on

the Spanish demography and economy, statistical data from Eurostats, OECD and the Spanish Statistical Bureau will be compared. This step should make it possible to find a reasonable answer to the second sub-question: *In how far do the efforts made by the Spanish government in order to combat the aging of Spain have an impact on economic, demographic and welfare indicators?*

More precisely, when it comes to economical indicators, the GDP growth rate and the employment will be outlined. The GDP growth rate measures how fast the economy is growing and it is driven by government spending, retail expenditures, inventory levels and exports (Farlex Financial Dictionary, 2009). The GDP growth rate will be analysed, due to the fact, that it is the most important indicator of economic health; if the rate is growing, so will the business, jobs and income and vice versa. The employment rate “*is the number of persons, who have jobs, expressed as a percentage of the total work force*” (Farlex Financial Dictionary (2), 2009). This indicator is one of the most closely watched statistics, since a falling rate is seen as a sign of a weakening economy. Concluding, one can say, that the analysis of the presented economic indicators will give us a clear picture on the economic situation of Spain and whether the implementation of the policies had an impact on the Spanish economy.

Subsequently, demographic indicators, such as the foreign population number, the fertility rates, age support ratio and migration rates will be presented. The fertility rate is an average number of children that would be born to a woman over her lifetime (Farlex Dictionary, 2009). A steadily decreasing fertility rate in Spain would mean, that the aging of the Spanish population is increasing. Furthermore, as already mentioned, the age support ratio will be examined. “*Age-support ratios are a measure of the age structure of the population. They relate the number of individuals that are likely to be “dependent” on the support of others for their daily living – youths and the elderly– to the number of those individuals who are capable of providing such support*” (OECD,2007). Having this indicator, one can see, how many people in Spain are theoretically supporting one aged person and whether this rate has changed, due to the immigration policies implemented by the government. Next to the age-support ratio, migration rates will be examined. This step is valuable, in order to see, whether the Reglamento de la Ley de Extranjeria has further enhanced immigration to Spain or not. As a last step a focus will be put on the welfare indicators, such as the public expenditure on old-age and survivor benefits and the public & private expenditure on pensions. Most of these statistical indicators will be graphically compared with an EU average in order to make it

easier to compare the two different approaches and to conclude, whether the Spanish approach is better.

4. Analysis

After an outline over the methodological framework of this thesis, the following section will present and analyse the Spanish policies dealing with the phenomenon of the aging of the Spanish population. In a following step the policies will be examined on their impact on statistical indicators.

4.1. Spanish policies

In 2002, the Spanish government introduced a system called “flexible retirement”. Flexible retirement replaced a variety of pre-retirement measures and therefore simplified the retirement regime. According to the “flexible retirement” system it became possible to retire between 61 and 65 years. However, early retirement was in some way “penalized” through this new system, since pension was reduced between 6% and 8% per year. The main condition under which a worker could get early retirement is that the worker should be unemployed for reasons outside his control for a time period of at least six months before the application for early retirement (OECD, 2003).

Next to this, financial incentives were established to combine part-time working with receiving partially pensions. This was introduced to facilitate the transition from work to total retirement.

In order to support the demand of older workers, employers’ social security contributions for permanent contracts with workers over the age of 60 with at least five years of seniority were reduced by 50% or more. In exceptional cases the contributions can be suppressed entirely. In the area of employment programmes, a special unemployment assistance scheme for unemployed people over the age of 52 have been established, which serves as a de facto bridge to the public pension (OECD, 2003).

In the beginning of 2011 the Spanish government, business leaders and trade unions have discussed and agreed upon a Social and Economic Agreement, which includes the reform of the current pension system. The main purpose of the agreement is to strengthen the public pension system in light of the challenges posed by the demographic and social situation in the

coming decades. Furthermore it aims at removing all the risks of financial imbalance and enhancing solidarity and commitment between the generations.

The main lines of the Agreement were documented in a draft bill and comprehend the following changes:

- **Retirement age**

Due to the demographic transformation and the increasing longevity of the Spanish population, the retirement age of currently 65 years will be raised up to a legal retirement of 67 years and 35 years of contributions to the Social Security Systems.

- **Early retirement**

Formerly, it was an option from 61 years with a reduction coefficient on the pension per year ahead of the legal standard retirement age of 65.

With the new agreement, early retirement is also possible from the age of 63 with a reduction coefficient on the pension if it can be proved that the person has a minimum work contribution of 33 years.

- **Calculation of the pension**

Up to the agreement it was calculated with on the last 15 years of working life. This has been raised up to the last 25 years of working life and will take place over a transitional period of 10 years.

- **Minimum contribution period**

In order to have the right to receive a retirement pension, the minimum contribution period will remain at 15 years.

- **Benefits young people**

It is common, that young people enter the labour market through research or training programmes, which were formerly not counting for the Social Security System.

Through the agreement, those companies, who were financing those research or training programmes will have to pay contributions to the Social Security System in favour of the beneficiaries, who will receive such protection next to the training contract.

Furthermore, it will enable contributions, on a one-off basis and a maximum period of up to two years, to cover the contribution gap in the initial years of the working life of workers in those situations, where there was no obligation to pay contributions in the past but where such an obligation does exist today.

- **Improvements to minimum pensions**

The new reform strengthens the Social Security System in the way that, it improves the minimum pensions paid to old age pensioners who are living alone.

Next to this, Spain has taken an important step when it comes to immigration policies, namely the Reglamento de la Ley de Extranjeria.

After deliberations with trade unions, NGOs and syndicates, the Spanish government adopted this regulation in 2004. The regulation established a three-month period of legalisation, called 'normalisation', from the 7th February to the 7th May 2005 in order to provide residence and work permits for thousands of immigrants. The Reglamento de la Ley de Extranjeria is set up as follows:

- *“The immigrants must present a certificate of registration in a Spanish locality at least six months prior to 7 March, i.e. before 8 August 2004. They must also present a certificate stating that they have no criminal record in their countries of origin.*
- *The employers, who are thereby forgiven for having contracted the workers illegally, must present these documents and a work contract for the person in question at the offices set up for this purpose.*
- *If everything is in order, the normalisation will become effective at the moment at which the employers register the worker for social security, rather than at the moment when the documents are presented.” (Miguélez Lobo,2005)*

With this regulation, the Spanish government achieved on the one hand the social integration of illegal immigrants by granting those rights and obligations and on the other hand making them contribute to the cost of collective welfare through social security contributions and income tax.

To sum up, one can say, that Spain has taken several different incentives in order to combat the phenomenon of the “aging of Europe” instead of only concentrating on one possibility. On the one hand, the retirement system has been reformed through the introduction of the flexible retirement system. Next to this, incentives have been taken towards the needs of older workers and eventually in 2011 the whole Spanish pension system was reformed by the government in cooperation with business leaders and trade unions. On the other hand, Spain has also taken important steps concerning immigration policies via adopting the Reglamento de la Ley de Extranjeria in 2004.

4.2. Success of the policies? – Statistical evidence

After having outlined the incentives taken by the Spanish government, the next step will take a look at the statistical data in order to get a clear picture about the impact of the policies present above on the economy and demography in Spain.

4.2.1. Economical indicators

Employment rates

According to the OECD, the employment rates in Spain remained quite constant in the period 2009-2011, with an average employment rate of 59,7.

Comparing this, to the average employment rate of 1989-1998, which was 50,3 and the average of the employment rates of 1999-2008, which was 62,1; one can clearly state, that there is a fluctuation in the employment rates (OECD,2011).

While the employment rate was fluctuating over the last years, the labour force participation rates were increasing from 1989 until 2011, from a labour force participation rate of 59,4 respectively up to 74,8 (OECD,2011).

The employment rate of people, aged between 15 years and 24 years was at 38, 3 % in the year 1990. This percentage decreased up to 36, 3 % of people between 15-24 being employed. From 2004, the employment rate of people aged between 15 and 24 began to increase again and reached 42, 9 % in 2008.

Compared to this, the employment rate for the age group 25-54 was at 61, 4% in the year 1990. In the coming years the employment rate was slowly declining down to 58, 4% in 1994. After 1994, the employment rate for the age group 25-54 started to increase again, up to a percentage of 76,8 in 2008 (OECD,2011).

The employment rates of the last age group might be from importance, due to the fact, that it shows how many of the older workers were employed over time.

In 1990, 36, 9% of people aged between 55-64 were employed in comparison to 32, 4% of older workers, who were employed in 1995. This shows, that a decrease in the employment rates has taken place, leaving more and more older worker unemployed.

Nevertheless, the rates were slightly rising in the coming years, reaching a percentage of 36, 4 in 2008 (OECD, 2011).

Even though, the employment rate of people aged between 55-64 increased slightly in the past

years, it still remains quite low, compared to other Member States, such as Denmark (57, 7%) and Sweden (70, 3%).

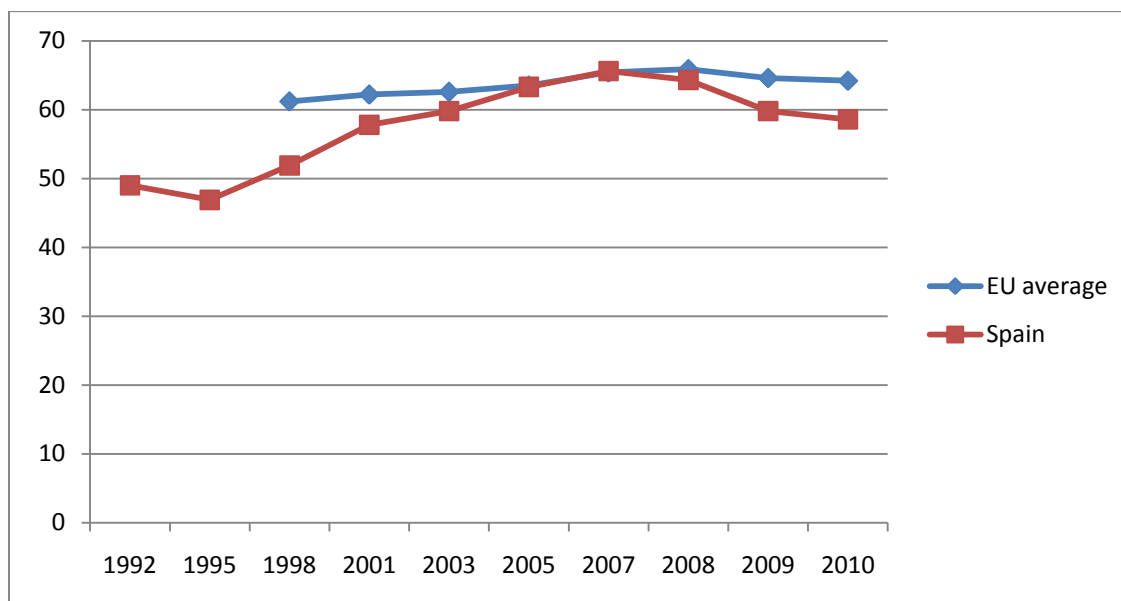


Figure 1: Compared employment rate 15-64 years in percentage

Source: OECD (2011) & own production

Comparing the employment rates of the 15-64 years of Spain with the EU average, one can clearly see, that the Spanish employment rate is most of the time lower than the EU average, which means, that the percentage of employed people in the EU is higher than in Spain.

The presented figures show, that the overall employment rates in Spain are fluctuating. Especially, the employment rates of the people, aged between 15-24, are decreasing and below the EU average. Nevertheless, one can say, that in general, when it comes to employment rates, Spain was actually doing well until the recession of 2008. This development can also be seen in Figure 1, where a steadily increasing employment rate towards the EU average can be examined. Actually, from 2004 until 2007 the Spanish employment rates were at the same level as the EU average employment rates. Only from 2008 a decrease in the Spanish employment rates can be seen, exactly the point at which the financial crisis has its starting point.

GDP growth rates

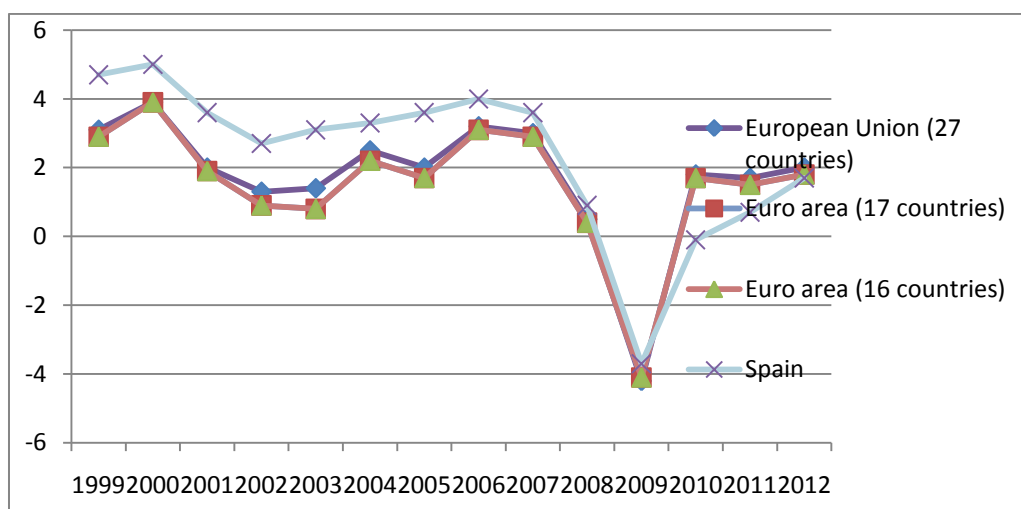


Figure 2 : Real GDP growth rate

Source: Eurostats (2011) & own production

Taking a look at the real GDP growth rate of Spain, one can clearly see, that it has been fluctuating over time. While the growth rate was 5 % in 2000, it decreased to a point of 2.7% in 2002. After 2002, a slight increase of the GDP growth rate can be remarked up to 4% in 2006.

In comparison to Spain, the EU real GDP growth rate was also fluctuating over time and a similar development as in Spain can be seen. While the growth rate was 3.9% in 2000, it decreased to 1.2% in 2002. After this, the growth rate slowly increased up to a point of 3.3% in 2006.

The year of the financial crisis in 2008 was a watershed for both, the European Union and Spain, since the growth rates decreased drastically to -4.3% for the EU, and respectively to -3.7% for Spain.

As a concluding remark, it can be said, that in terms of economic indicators, Spain was doing quite well and the economy was strong in comparison to the European Union average. The whole situation changed with the economic crisis in 2008, which has hit the Spanish economy quite hard, as it can be seen in the figures and data.

4.2.2. Demographic indicators

Fertility rates

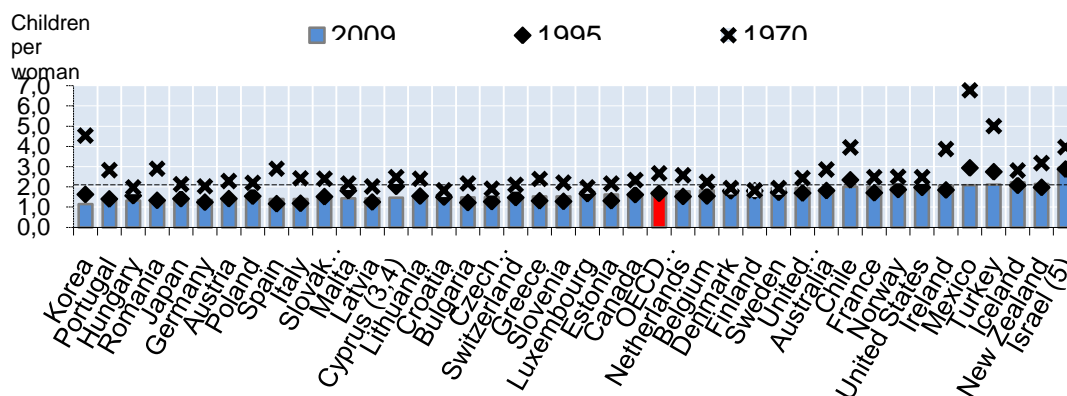


Figure 3 : Total fertility rates in 1970, 1995 and 2009

Source: OECD (2011)

According to the OECD, the fertility rates in Spain decreased comparing the years 1970 and 2009. While the total fertility rate was 2.90 in 1970, it went down to a fertility rate of 1, 17 in 1995. In 2009, a slight increase of the total fertility rate up to 1, 40 can be seen. Still this rate is relatively low, compared to other European countries, such as the Netherlands (1, 79) or Sweden with a total fertility rate of 1, 94 in the year 2009 (OECD, 2011).

This shows, that although incentives have been taken by the Spanish government, e.g. through enhancing immigration, the fertility rates remained low.

Life expectancy

In contrast to the fertility rates, the life expectancy increased over the years. While the life expectancy in Spain in 2003 was 79,7 years, it increased to 80,3 years in 2005 and reached 81,8 years in the year 2009 (OECD,2011).

Age support ratio

Having a low fertility rate and an increasing life expectancy, the age support ratio declined in the last decades. While in 1980 the age support ratio was 5,56, meaning that there were 5,56 working persons to support one aged person, the ratio was 4,84 in 1980, 3,92 in 1995 and reaching its lowest point at 3,64 in the recent year (OECD,2011).

Migration

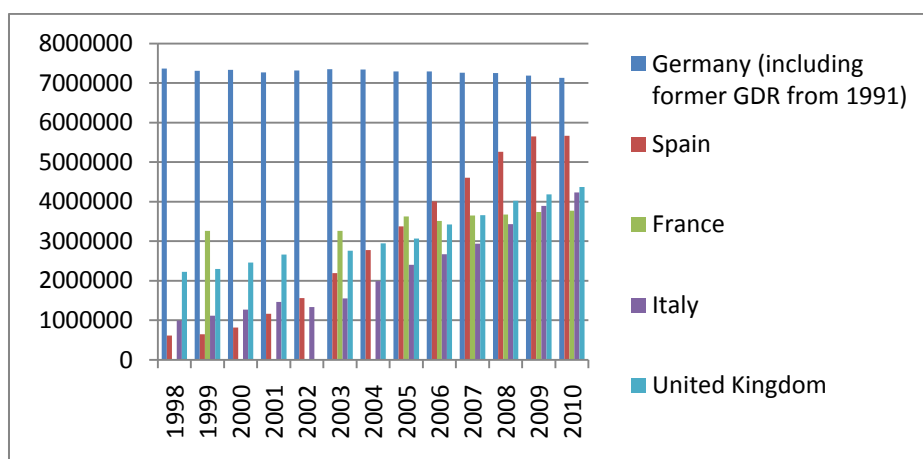


Figure 4: Foreign Population. Selected EU countries.1998-2010

Source: Eurostats (2011) & own production

Another important factor, which is shaping the demography of a country, is migration. In 1999, the inflow of foreign population into Spain was 99.100, while in 2002 the number of foreign population the rapidly increased to 443.100. In the years 2002-2007, the inflow of foreign population into Spain increased steadily, reaching a peak in 2007 with 920.500 foreigners immigrating to Spain (OECD, 2011).

In 2008, the number of foreign population coming to Spain decreased slightly to 692.200 persons. Still this number is significantly high compared to other countries, such as Germany (573.800) and the Netherlands (103.400).

Concluding, one can say, that immigration to Spain increased steadily over the years, leading to the fact, that number of foreign population is significantly high. Nevertheless, it looks like immigration has not had an influence on the fertility rates, which unfortunately remained quite low. Together with the increasing life expectancy, the outcome of the age support ratio can be explained, since the population is getting older, to the number of people supporting them is decreasing.

So, in terms of demographic indicators, except for migration rates, the incentives taken by the Spanish government did not have any substantial influence.

4.2.3. Welfare indicators

Public expenditure old-age and survivor benefits

The public expenditure on old-age and survivor benefits changed around 1, 5% between 1990 and 2007.

While the public expenditure on old-age and survivor benefits compromised 7, 9% of the national GDP, it was 9, 0% of the national GDP in 1995. This percentage decreased down to 8, 0% of national GDP in 2007 (OECD, 2011).

Public & private expenditure on pensions

The public expenditure on pensions decreased over time. While public expenditure on pensions was 8, 1% of the GDP, it decreased up to 7, 5% of the national GDP in 2005.

In contrast to the public expenditure, one has the private expenditure on pensions. In general one can say, that amount of private expenditure on pension in Spain is relatively low. While the private expenditure was around 0, 4 % of the national GDP in 1995, it increased slightly up to 0, 6% of the national GDP in 2007 (OECD, 2011).

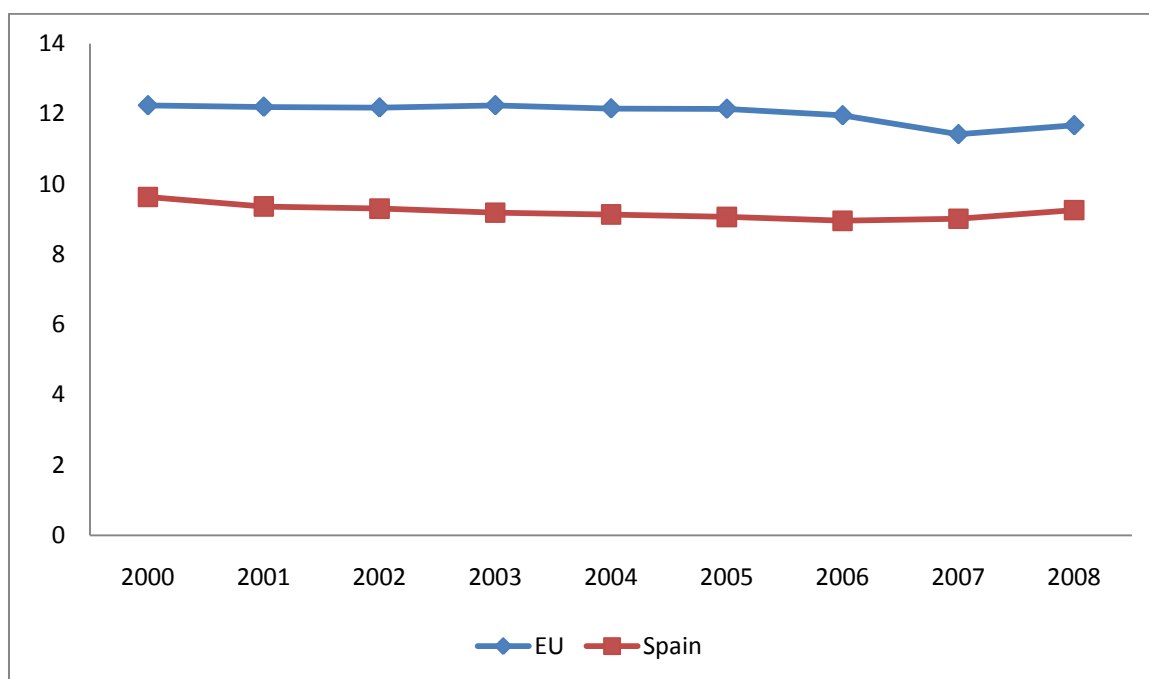


Figure 5: Expenditure on pensions in the EU & Spain. Current prices (%of GDP)

Source: Eurostats (2011) & own production

Compared to the expenditure on pension in the European Union, one can clearly see, that Spain is unambiguously lower. While the Spanish expenditure on pension is constant around a value of 9.5 % of the GDP, the EU expenditure is on average around 12% of the GDP.

Recapitulatory, one can say, that, when it comes to the economic indicators, namely the employment rate and the real GDP growth rate, and the migration rates, the efforts made by the Spanish government were effective. Both the employment rate and the real GDP growth rate were increasing, showing that the Spanish economy was indeed healthy. Next to this, the number of foreigners in Spain is also increasing, which shows that the Reglamento de la Ley de Extranjeria might have had a positive impact on the influx of immigrants.

However, the success and effectiveness of the attempts of the Spanish government end here. If one takes a closer look at the fertility rates and the age support ratio, one can assess, that both rates are still quite low or even decreasing. If one adds the increasing longevity to this, it becomes clear, that the actual problem of the population aging is not resolved through the attempts being made by the Spanish government.

The same is true, if one takes into consideration the welfare indicators. Although the Spanish government has initiated reforms on the pension system, the expenditure on pension is remaining constant and at a quite low level. Therefore, when it comes to the welfare indicators, the attempts were not successful.

5. Discussion

Looking back, the overall aim of this thesis was to evaluate, on the basis of quantitative and qualitative data, the efforts made by the Spanish government and its influence on the statistical indicators, in order to examine in a subsequent step, to what extent Spain can be seen as a model for bracing aging, slow-growth societies within the European Union.

Respectively, the empirical part of the thesis firstly examined the incentives by the Spanish government to deal with the problem of an aging population. The Spanish government has, on the one hand, reformed the pension and retirement system and put more emphasis on the needs of older workers and, on the other hand, it has implemented the Reglamento de la Ley de Extranjeria, in order to legalize the status of the illegal immigrants. After this, statistical indicators have been used in order to examine, whether, the before mentioned policies were influential or not. If one would need to say, whether the incentives were effective and successful in general, the answer probably would be no. While the economic indicators have

shown a rather positive image, the demographic and welfare indicators were contradicting this image. While the employment rates and the real GDP growth rate were steadily increasing until the economic crisis, the expenditure on pensions and old-age and survivor benefits remained constant or were decreasing. This shows, that even though Spain had a rather healthy economy, the expenditures on the welfare were remaining at a low level. Another important indicator, which has been examined, was the immigration rate. Although the influx of immigration increased steadily, showing that the Reglamento de la Ley de Extranjeria was a success, the fertility rate and the age-support ratio remained constant or even decreased. This is showing, that even with the influx of immigrants, the demographic picture of Spain did not really changed, meaning that the problem of an aged population and a decreasing number of young people is still consistent.

Due to the statistical evidence it is rather difficult to say, whether and to what extent the Spanish model can be useful for other European countries. While the Spanish policy incentives show fruitful and relevant aspects in order to combat the aging of the population; the statistical evidence militates against those policies, due to the fact, that either no change or aggravation can be detected. Especially the increasing unemployment rates after 2008, especially youth unemployment, are giving enough evidence, that the Spanish model is not working.

Nevertheless, one has also to accentuate, that the intention behind the Reglamento de la Ley de Extranjeria can be seen as useful for other European countries. With this regulation, the Spanish government compassed, that the twilight zone of informal work is reduced. Next to this, social integration of the illegal immigrants is achieved by granting those rights and obligations and next to this making them contribute to the cost of collective welfare through social security contributions and income tax. Next to this, also the reformation of the pension system and the incentives of supporting older workers were essential in order to tackle the aging population.

While the European Union is characterized by rather neat and organised immigration policies of internal migration (from one Member State into another Member State), it is still in its early stages, when it comes to external immigration. One attempt of the European Union towards effective external immigration policies can be seen in the implementation of the Blue European Labour Card. This card can be seen as a starting point in order to enhance external immigration, but the European Union can still learn from the Spanish Reglamento de la Ley de Extranjeria, since the Blue Card is limited to high skilled non-EU citizen, while the Reglamento is without exceptions valid for all non-EU citizens.

In a nutshell, only the enhancing of immigration cannot solve the problem of an increased aged population and the side-effects of it. Next to more liberal immigration policies, especially those directed towards external immigrants, more pro-active policies towards the needs and concerns of the aging population are needed. Only through a combination of those two methods it might be possible, for the European Union to handle the aging of Europe.

After having laid out the main conclusions of this thesis, it is important to stress, that the outcomes of this thesis might be still relevant. In the theoretical approach, the open borders scenario was presented as a possible attempt to solve the problem of the aging of Europe. After the analysis, it became clear, that solely a more lenient immigration policy, which develops in a laissez-faire manner, might not solve the problem of an aging Europe. Furthermore it became clear, that the outcomes of policies on the aging of Europe have to be examined in the long run, since changes on the demography of a society develop over a longer period and the success can only be seen after a longer time.

Next to the findings, another important factor, which should be taken into consideration, is the validity of this study. First of all, the assumption, that Spain fits into the open borders scenario, is not entirely true. Even though the Spanish government has shown strong interest in enhancing immigration to Spain through the implementation of the Reglamento de la Ley de Extranjeria in order to gain from the legalization of immigrants in the country, this was not the only incentive Spain has chosen.

Next to the regulation, which fits perfectly in the assumptions of the open borders scenario, the Spanish government has also put great emphasis on the needs of the older population, be it through the introduction of flexible retirement, the support of the demands of older workers or eventually the reform of the current pension system. These incentives are actually traits of the silver century scenario, which is based on the assumption, that the current social model needs restructuring towards the needs of older people. Therefore the assumption, that Spain is representing the open borders scenario, would need some rephrasing, in the sense, that Spain can be seen as a hybrid model, which has characteristics of both, the silver century and the open borders scenario.

Besides this, it has to be taken into consideration, that changes on the pension system and other welfare institutions need time to develop and can be seen best in the long run. Since most of the incentives were taken in the last few years, it is difficult to say, whether they had an impact on the demographic and welfare indicators. In order to be sure, that they had an influence, it might be an idea, to do further research on this topic at a later point of time.

It might be also interesting, to investigate the underlying reasons for the negative performance when it comes to demographic and welfare indicators. Next to this, a further step might be in how far Spain would have developed, if it would not have been hit that hard by the economic crisis. Finally a more approach that is taking other European countries and their policies deeper into perspective might be reasonable and worth conducting in order to facilitate the understanding of which policies might be most effective in order to combat the aging of Europe for the European Union.

This thesis made clear, which way Spain has taken in order to deal with an aged population and showed its impact on statistical indicators. The main result is, that the Spanish attempt might be a good starting point for the EU, but it has to be implemented together with other policies fitted to the needs of the aged population.

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