23. Sustaining the Nordic welfare model in the face of population ageing

Virpi Timonen and Mikko Kautto

1. INTRODUCTION

The Nordic countries are already very ‘aged’ societies, and are set to witness further population ageing in the future. In global comparison, Sweden, Finland and Denmark have the 4th, 6th and 11th highest proportions of people aged 60 and over in their populations (United Nations 2010: 7). Sweden is currently one of only five countries in the world where people aged 80 and over account for more than 5 per cent of the total population (ibid.: 25). By 2050, the proportion of the population aged 65 and over is predicted to exceed one quarter in Finland, Norway and Denmark, and to pass the 30 per cent mark in Sweden (United Nations 2002).

The Nordic countries are widely seen as forming a ‘family’ or a ‘regime’ of welfare states that is characterized by extensive redistribution, high legitimacy for public welfare provision, universal (citizenship-based) and earnings-related social rights, and comparatively low levels of inequality (Kautto 2010). They are also argued to share normative foundations in the form of widespread support for policies that foster equality of opportunities, a high degree of equality of outcomes, and gender equality (Kildal and Kuhnle 2005). In the area of benefits and services for older people, this translates into pension systems that cover the entire older population at a relatively generous benefit level (Kautto 2012), and long-term care systems that grant older adults with disabilities the right to public assistance. Szebehely (2011: 215) states that the hallmark of the Nordic ‘service state’ is extensive provision of high-quality services that are taken up by all sections of the population, rich and poor alike. What happens when population ageing and extensive welfare state provisions coincide? Are these comparatively ‘generous’ welfare states sustainable when confronted with such aged populations and further population ageing?

The key word in the question posed above is ‘sustainability’, a concept that can be understood in many ways and that has no single agreed definition in the literature. Sustainable development is generally understood to encompass economic, social and environmental sustainability (see, e.g., Sen 2009). ‘Economic sustainability’ usually refers to the sound management of public finances. In the EU, long-term sustainability is assessed by calculating the ‘sustainability gap’. This can be defined as the adjustment required in public finances for covering the debt in the initial year and the aggregate present value of future surpluses and deficits in public finances over the period analysed. The EU also uses another sustainability indicator that reveals the fiscal adjustment needed to meet the Stability and Growth Pact’s maximum debt target of 60 per cent of GDP. Spelling out the concept of ‘social sustainability’, Kautto (2011) sees basic rights, fairness, intergenerational justice and legitimacy as its component parts. Often policy reforms are justified by economic necessities, but if they are carried out in a socially
unsustainable way, such reforms are likely to prove politically unsustainable and short-lived. Societies may be seen as ‘politically sustainable’ when there is a perceived balance between social and economic sustainability. As societies change, this balance between economic and social sustainability needs to be renegotiated.

Ageing of societies presents both fiscal and social challenges that need to be confronted. Unless reforms are made, ageing will deteriorate public finances, but could also threaten social goals. Therefore Nordic pension reforms have been motivated by efforts to improve financial sustainability, but they have often aimed at social improvements, too, for instance through improving fairness between generations and by acknowledging the existence of new social risks (Timonen 2004). Sustainability can be improved by parametric reforms or more fundamental systemic change. Parametric reforms are seemingly small adjustments that do not challenge the underlying logic of the institution, at least in the short term, while systemic change is interpreted as path-breaking. However, we acknowledge that the long-term ramifications of even small changes are important, albeit difficult to predict. As Kildal and Kuhnle (2005: 2) suggest, ‘seemingly insignificant piece-meal changes may be understood as merely pragmatic adjustments or . . . indications of more fundamental normative trends in the development of social policies’. Hinrichs and Kangas (2003) and Palier (2010) in turn have discussed how small changes may result in a fundamentally different future. A systemic reform, on the other hand, could mark a path-change, but it could also ensure continuity in goals (see Hall 1993).

In our view, ageing is a sweeping megatrend that all societies need to assess and prepare for. Given the change in the age structure of Nordic societies, reform is a must. Indeed, all welfare systems have come under pressure from population ageing and a multitude of other social and economic transformations. Thus, coming under pressure and undergoing adjustment do not in themselves signify that a system is unsustainable. The more interesting question is whether the Nordic model of welfare is saved or sacrificed by these reforms.

Investigating the sustainability of the Nordic model is made very challenging by the fact that the countries classified as belonging to it (Sweden, Denmark, Norway, Finland and Iceland) are not uniform, but rather harbour considerable diversity, and their welfare states are constantly evolving. It is not possible to discuss all Nordic countries within the confines of this chapter. Moreover, the challenges within the two main policy areas affected by population ageing, namely pensions and long-term care, differ in important respects. Within broad similarity, there are important differences between pension systems in the Nordic countries. Also care arrangements differ in many important respects. Moreover, ageing affects these systems with differing impact and timing. A detailed discussion of several countries in different policy areas in a long time perspective is not feasible here.

We therefore cannot discuss here all the variants within the model, but will rather focus on the Finnish and Swedish cases, making only brief references to the other Nordic countries. The Finnish and Swedish cases are illustrative of the challenges and responses to challenges of population ageing within the Nordic welfare states. They are at the forefront of ageing and constitute the best ‘test cases’ as they are frequently argued to have departed from ‘the model’ to a greater extent that Denmark or Norway (e.g. with regard to long-term care, see Rostgaard and Szehely 2012). Norway has been able to rely on its oil wealth, and Denmark stands out in many statistics as a particularly heavy spender in
the area of long-term care services. In the field of pensions Sweden was the first to reform its pension system by introducing the notional defined-contribution scheme (where pensions are based on lifetime earnings). Finland followed and adopted similar actuarial principles. Norway has only just revised its pension system, while Denmark is characterized more by a drift (Kangas et al. 2010). By this logic, if the more challenged, reform-orientated or ‘weaker’ cases of Finland and Sweden are shown to improve sustainability without sacrificing Nordic social policy principles, the ‘stronger’ cases of Norway and Denmark could be sustainable, too.

2. POPULATION AGEING

Population forecasts of international organizations tend to differ from national population scenarios. The latest Eurostat Population Projection (Eurostat/Europop 2011) was done in 2010, and projected populations from 2011 to 2060. It should be borne in mind that Eurostat’s population scenarios are based on an idea of convergence between member states in how their populations could develop. Therefore they are not comparable to national forecasts. The EU’s old-age dependency ratio is projected to double from 25.9 per cent in 2010 to 50.2 per cent by 2050. How different are the Nordic countries? This can be seen from Table 23.1, where the five Nordic countries and their old-age dependency ratios are compared to the EU27 averages. The first remark is that in Iceland, population ageing is far less pronounced than elsewhere. Norway is somewhere between Iceland and the other three Nordic countries. Finland has the weakest old-age dependency ratio from 2020 onwards. In 2010, the Nordic countries are close to EU27 average, in the 2020s and 2030s above average, and after that, below average.

While starting points for population scenarios in international forecasts are often very similar, national calculations are rather different. In all Nordic countries, population statistics are compiled by national statistics offices. With register-based data, they have a very accurate starting point for making forecasts. Registers also allow for reliable information on how fertility, migration and mortality have developed. While there are similarities between the Nordic countries regarding their population, important differences

Table 23.1 Projected old-age dependency ratios in the Nordic countries and the EU27 averages (persons over 65 years as a percentage of population between 15 and 64 years)

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<th>2010</th>
<th>2020</th>
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<tr>
<td>Denmark</td>
<td>24.9</td>
<td>31.4</td>
<td>37.0</td>
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<td>Finland</td>
<td>25.6</td>
<td>36.2</td>
<td>42.7</td>
<td>43.5</td>
<td>44.9</td>
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<tr>
<td>Sweden</td>
<td>27.7</td>
<td>33.5</td>
<td>37.2</td>
<td>40.5</td>
<td>41.7</td>
</tr>
<tr>
<td>Iceland</td>
<td>17.9</td>
<td>25.1</td>
<td>32.2</td>
<td>34.5</td>
<td>33.5</td>
</tr>
<tr>
<td>Norway</td>
<td>22.5</td>
<td>27.4</td>
<td>33.0</td>
<td>38.5</td>
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</tr>
<tr>
<td>EU (27 countries)</td>
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<td>31.4</td>
<td>38.3</td>
<td>45.5</td>
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also exist. Sweden, for instance, has experienced much more immigration in the past than Finland.

While Finland expects immigration to continue, Norway and Sweden foresee declining inflows. And while Finland presumes continuity in past mortality development (towards declining mortality rates), Sweden and Norway are more conservative and anticipate slowly decreasing mortality trends. In all countries continuously decreasing mortality leads to increases in life expectancy and in the number of the aged. Meanwhile, fertility rates below 2.0 in combination with constant (Finland) or declining (Sweden, Norway) migration assumptions yield less dramatic changes in the number of the working-age population. All countries will thus see an increasing share of the aged in their populations, and higher old-age dependency ratios.

Small differences in parameters yield considerable differences between the countries in the long run. Therefore, for Finland old-age dependency ratios (calculated as the ratio of 65+ to those aged 15–64 years) are set to almost double from the current 0.26 to 0.49 in 2050 (Statistics Finland 2009). In Sweden the old-age dependency ratio is calculated differently (the ratio of those aged 65+ to those aged 20–64 years) (SCB 2009). While the figure is not comparable, the trend is nevertheless less pronounced: from the current 0.30 to 0.45 in 2050. For Norway, Brunborg and Texmon (2009) calculate the ratio of those aged 67+ to those aged 20–66 years, and estimate an increase from the current 0.20 to around 0.40 in 2050. For Denmark, the increase is of a similar order. With the data provided by Statistics Denmark (2011), it can be calculated that the share of those aged 70+ to those between 20 and 69 years increases from the current 0.17 to 0.33 in 2050.

While there are certain important differences in parameters and how population scenarios are made – and there is always the question of uncertainty about how accurate future projections will turn out to be – the important message for policy makers is less negligible. In the coming few decades, old-age dependency rates increase significantly in four Nordic countries, maybe even double in some of them. As population scenarios are the basis for making sustainability calculations, it is clear the demographic effect is boosting especially pension and care expenditure.

3. SUSTAINABILITY CALCULATIONS

In the EU, sustainability calculations are regularly performed by the so-called Ageing Working Group of the Economic Policy Committee. In the EU area, the average ageing scenario is rather similar to what was outlined above for three Nordic countries. In 2008, the old-age dependency ratio was 0.25 (for 65+/15–64 years). In 2050, the predicted EU average is close to 0.50. One difference with the Nordic countries is that they are at the forefront of population ageing. Ageing and expenditure increases will happen between 2010 and 2030, while in many other countries, for example Germany, Italy and Spain, changes are still fast in 2040s and 2050s.

Based on projected expenditure increases, the EU27 member states are classified into three categories, namely those with moderate, restricted and marked increases in public expenditure (AWG 2009). All Nordic EU countries (Norway is not a member) fare rather well in these sustainability comparisons, thanks to their favourable starting points and reforms in their pension systems. The European Commission classifies countries
into three groups; Sweden and Denmark are in the best one where they face ‘moderate expenditure pressures’, while Finland is in the second category, experiencing a tougher scenario of ‘restricted increases’. Thus, for Sweden and Denmark, AWG calculations predict an increase in age-related spending of around 2.6 percentage points compared to GDP between 2007 and 2060. For Finland, the total increase is more considerable (5.3 percentage points), owing especially to the differences in how pension expenditures are projected to increase. For health and long-term care, the long-term increases are reasonably similar, ranging from 2.5 in Denmark to 3.1 in Sweden and 3.6 in Finland between 2007 and 2060 (AWG 2009).

Assessed in terms of sustainability gaps, Denmark and Sweden are among the best performers in the EU27. In 2009, their public finances were deemed sound. Finland was an average performer with a sustainability gap around the eurozone average (AWG 2009). These sustainability calculations indicate that, while ageing is rapid and considerable in the Nordic countries, they have also been able to reform their social policies in a way that has been compatible with their economic sustainability. Due to relatively good fiscal balance and reform ability, international credit-rating agencies such as Standard and Poor’s and Moody’s currently rank the creditworthiness of these countries in the best category.

4. PENSIONS

Given the growing pensioner population with full pension rights, the Nordic pensions systems experience significant cost pressures from ageing. However, the extent of cost pressure varies as there is no single Nordic pension model. Denmark has had in international terms a generous flat-rate basic pension system. In addition, there is a supplementary scheme, which is not earnings-related. In recent years occupational pensions have come to play an increasingly important role as top-ups to the public schemes. Iceland has a residence-based national pension scheme and a supplementary pension scheme covering all workers and the self-employed. Norway has had a national pension system that includes flat-rate and earnings-related components. Occupational pension schemes became mandatory in 2006. Norway reformed its pension system in 2011 and introduced an earnings-related pension scheme that is coupled with a guaranteed pension for those residents who have not earned a sufficient pension. Sweden and Finland used to have universal residency-based national pensions but with a lower level than Denmark as they also had employment pension schemes. Following reforms in Finland and Sweden, national pensions are no longer paid to all pensioners but only to those who have not earned a sufficiently large employment-related pension (Timonen 2003). Moreover, in order to reduce poverty among low-income pensioners, Sweden and Finland have also introduced so-called guarantee pension schemes that set a politically accepted minimum pension level, and target additional resources to the least well-off pensioners.

National and guarantee pension schemes are tax-financed pay-as-you-go (PAYG) schemes. Their share of total pension expenditure is limited. Most pension expenditure arises from mandatory employment and earnings-related schemes that are financed through employer and employee contributions, and that is why these schemes have been targeted in reforms, first in Sweden, then in Finland, and most recently in Norway. There
is also a marked difference between the countries in the role that supplementary occupational pensions play. In Finland, their role is very limited as the mandatory employment pensions system operates without a ceiling (i.e. there is no upper limit to occupational pensions, meaning that pensions are sufficiently high even for the highest income earners). In Sweden and Norway the mandatory systems have a ceiling, which generates more demand for complementary pension arrangements.

The common philosophy in the reforms of employment-related pension schemes has been to strengthen the link between work and pension, or, in pension terminology, between pension contributions and pension benefits. Previously pensions depended heavily on last year’s salaries, but now it is the lifetime earnings (and contributions) that define the level of pension.

Another important measure carried out in reforms has been the abolition of the fixed old age pension age. In Sweden one can retire from 61 years but the ‘normal’ retirement age is set at 65. In Finland, retirement age is flexible between 63 and 68. In Norway, the flexibility in retirement age is pronounced, from 62 to 75 (67 is the baseline). Flexibility has also been increased by allowing part-time retiring, that is, working and being a pensioner at the same time. How pension and work can be combined, and at what age such arrangements are possible, vary between the countries.

Within the framework of flexibility, all countries have aimed to reward late retirement by providing financial incentives to work longer. In Finland, the pension accrual rate increases from 1.9 per cent to 4.5 per cent if one continues to work after reaching 63 years of age. In Sweden and Norway, postponing retirement is rewarded with an increase in pension level, based on actuarially neutral terms, and taking the pension ‘too early’ reduces the pension level.

In addition, these countries have introduced so-called automatic stabilizers that take into account changes in life expectancy, that is, the length of time pensions are paid. In Finland, pension is adjusted with a life-expectancy coefficient, which takes into account each cohort’s life expectancy and cuts the level of starting pensions in a manner that keeps the pension capital constant. One can avoid the effect of the cut by working longer, for a period that is at present a little less than half of the expected increase in life expectancy. In Sweden and Norway, changes in life expectancy are taken into account with financial sustainability calculations that produce a ‘balance ratio’ that indicates whether and how pension levels should be adjusted. Such an automatic stabilizer thus directly affects the level of all pensions paid out to pensioners, depending on how revenues and expenditures of the pension system are seen to develop, constantly aiming at keeping the pension system financially stable. In Finland, the life-expectancy coefficient works only once for each cohort, and affects only the starting pension. Sweden, Finland and Norway thus have a measure to counteract increases in life expectancy, but the stabilizers differ in who carries the risk. In Sweden and Norway, it is the pensioners who adjust as the stabilizer affects the level of all pensions, while in Finland financial stability needs to be corrected primarily by changes in contributions from the employers and employees, not by pensioners.

How sustainable are the Nordic pension schemes after reforms? One problem in comparative pension sustainability calculations is that they include only statutory pension schemes. What is taken into account as pension expenditure thus varies: the more a country relies on supplementary occupational and/or voluntary schemes, the less its public
pension expenditure tends to increase (although total pension costs could rise much more significantly). Because of other differences in pension systems (the risks they cover, their coverage, ceilings, generosity etc.), AWG or other calculations can provide only a broad idea of the financial sustainability of pension schemes. A further problem in comparing national pension forecasts arises from the different expectations concerning demography, economy (e.g. growth rates) and employment. With these caveats, Table 23.2 shows the pension projections of the AWG from 2006 for three Nordic countries and the EU25 average. In 2010, pension expenditures in the Nordic countries were close to average, but already in 2020 above average, and stabilizing after 2030 at a higher level. There is a clear difference between Finland and Sweden, as in Finland pension expenditure and the need to raise contributions increases (due to ageing), while in Sweden the employment pension system is built on a logic that keeps the contributions stable in terms of wages, and thus the expenditures in relation to GDP is fairly stable (despite ageing). Since 2001, the Swedish earnings-related pension system is a notional defined-contribution system, where the level of contributions (including a contribution of 16 per cent of wages and a pre-funded part of 2.5 per cent) will be kept constant, meaning that pension levels need to be adjusted upwards or downwards depending on the value of the so-called balance ratio that measures total assets divided by pension liability. As the Danish public pension scheme is based on flat-rate benefits, its pension expenditure level settles between that of Finland and Sweden.

The consequences of these differences can be approached with reference to the replacement rate calculations done by the OECD and the EU. At present, replacement rates in Finland and Sweden are at the average OECD level. Pension reforms in Finland and Sweden will result in lower replacement rates in the future. The change will be of similar magnitude in both countries, –11 percentage points in Finland and –13 in Sweden (EC 2010; see also somewhat different calculations by OECD 2011). However, Zaidi and Grech (2007) report big differences between Finland and Sweden in their calculations for hypothetical full-time workers, a decline of 2 per cent in Finland compared to 20 per cent decrease in Sweden. They further note that pension reforms are shifting risks towards individuals and, by strengthening the work–pensions link, affecting income redistribution. In contrast to expenditure projections, replacement rate scenarios are based on model family simulations and, depending on chosen parameters, yield differing results, as the examples above highlighted. It is nevertheless reasonable to conclude that part of the financial adjustment in pension systems results in less generous replacement rates in the future.

In summary, changes in age structures are profound and ongoing in the Nordic countries. Their effect on public finances is visible especially as cost increases in the field of

### Table 23.2 Gross public pension expenditure as a share of GDP between 2010 and 2050

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<tr>
<td>Denmark</td>
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<td>Sweden</td>
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<td>11.6</td>
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<tr>
<td>EU (25 countries)</td>
<td>10.3</td>
<td>10.7</td>
<td>11.9</td>
<td>12.8</td>
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pensions and care systems. However, ageing is not a new phenomenon and the governments and policy makers in the Nordic countries have already acted to counterbalance the demographic effects. Especially countries that have pronounced mandatory employment-related pension schemes – Sweden, Finland and Norway – have all reformed their pension systems. Both national pension schemes and employment-related schemes have been amended. As a result, the financial sustainability of the Swedish scheme has improved tremendously, but the price has been, or will be, declining replacement ratios. Finland has also revised its pension architecture. Improvements in the financial sustainability of the Finnish pension system so far are less impressive than for Sweden, but on the other hand the average replacement rates seem to decrease less dramatically.3 Comparative assessments are missing for Norway, where the pensions system has only just been reformed, using many of the actuarial techniques described above.

5. LONG-TERM CARE

Estimating long-term care expenditure is very challenging. Prima facie, population ageing increases pressure on long-term care services, but there is evidence of a mitigating impact of improved health at older ages, as a consequence of rising education levels and better preventative health care (Batljan and Lagergren 2005; Batljan et al. 2009). Inflation in health and social care expenses, and the rising expectations among populations, are additional factors that are extremely difficult to estimate. However, growth in health and social care expenditure is a long-established trend across the OECD that has to date proven sustainable; the key question therefore concerns the willingness of policy makers and populations to continue supporting increases in long-term care expenditure.

In the Nordic countries, long-term care is financed mainly out of general tax revenue, and service delivery involves local and in some cases regional governments that have a high degree of autonomy in decisions over resource allocation, with general guidelines and direction being issued from central government. In some countries (e.g. Sweden), central governments have introduced significant long-term care reforms, but important strands of policy change have also arisen by default at the local level without any explicit direction from central level – typically in response to the need to control costs in the face of limited budgets and increasing demand for services across population groups (Kröger and Leinonen 2012).

In recent decades, long-term care services in both Finland and Sweden have become more targeted to people in poorest health and with lowest functional ability. In Sweden, there is evidence that this is leading to a new bifurcation between better-off older people who pay for (part of) their care themselves, and lower-income groups within the older population who have become more dependent on help from family members (Szebehely and Trydegard 2012). In Finland, there is evidence that family carers are becoming more involved in the care of ageing relatives, and in fact are being integrated into the care system as quasi-formal, paid carers (Kröger and Leinonen 2012). These trends run counter to the principle (established in the Nordic countries during the postwar decades) that care is primarily a collectively shared responsibility, based on need and independent of one’s ability to pay for it, and also seems to contradict the aim of high (female) labour market participation that underpins the financing of the Nordic model.
Nine out of ten Finns believe that the state and local government should be primarily responsible for providing health and social care services. Regarding social care for older people, three-quarters believe that the state and local government have primary responsibility, a quarter place this responsibility on the family, and only 1 per cent believe that the private sector should be responsible (Vaarama and Moisio 2009: 21–2). Regarding the financing of long-term care, 20 per cent of Finns are prepared to increase taxes, and a similar proportion express support for introducing a compulsory long-term care insurance, whereas increasing user fees is supported by only a very small minority (Vaarama and Moisio 2009: 23). This indicates preference for collective (tax- or insurance-funded), rather than individual (user fees) solutions to strengthening the funding of long-term care. The fact that support for compulsory insurance has increased significantly among older Finns, and support for voluntary insurance is gaining ground among younger Finns, may indicate decreasing levels of trust in the current system. Nonetheless, the key policy-relevant findings here are the high level of support for insurance- and tax-based financing of long-term care (collective solutions), and the very low level of support for private financing and user fees (individual solutions).

Support for the basic underpinnings of financing the long-term care system through taxation and other ‘collective’ solutions is widespread in Sweden, too. Szebehely (2010: 86) argues that no political party in Sweden supports an increase in individual responsibility for financing long-term care, and cautions against a move towards privately purchased ‘top-up’ services that would lead to further bifurcation of services for the better-off and those who cannot afford to make out-of-pocket payments. However, Szebehely (2010: 77) also points out that important policy actors (first and foremost the Swedish Ministry of Finance and the representative organization of local governments) are arguing strongly for increases in private spending on care, which is seen by these actors as the only feasible way of meeting the increased expectations of the ageing population. This calls into question the political sustainability of the long-term care system.

Kiander (2009) expresses an optimistic view on the sustainability of the Finnish welfare state in the face of population ageing, basing his belief on the relatively high fertility rate, expectation of immigration inflows, healthy public finances, and expected increases in employment rates. Kiander anticipates that the economy and policies will adjust in various ways to further population ageing. He estimates that the number of employees in the elder care sector will need to increase by 30,000 by 2030, leading to additional expenditure amounting to 1.2 billion euro (but ‘only’ 0.6 % of GDP), an increase that Kiander believes to be manageable, especially as it will take place over a long period of time (Kiander 2009: 105). Improvements in population health are another key factor that may suppress the growth in the number of older adults with disabilities, and hence both help to control the costs of care, and allow longer working lives.

6. CONCLUSION

The remarkable increases in the older population in recent past – for instance, an 85 per cent increase in the 80+ population of Sweden between 1980 and 2005 (Szebehely 2010: 78) – have not brought about the demise of the model. Sustainability concerns have been strongly in evidence since the 1990s, and significant reforms have already been
implemented – explicit (and highly consensual) reforms in the area of pensions, and more implicit but highly influential adjustments in the area of long-term care (in particular, the gradual changes in eligibility criteria at local government level). Given that ‘the model’ has already ‘passed’ these tests, can future population ageing threaten the sustainability of the Nordic model?

There certainly are some ‘warning signals’ about the sustainability of the model. Unlike in the area of pensions, there have been no explicit reforms targeted at controlling growth in long-term care expenditure. However, as demand for long-term care services has increased, the local government level responsible for service delivery has responded by greater targeting of long-term services and the better-off individuals have responded by having recourse to privately funding some or all of their care needs. Individuals and families with more limited means have turned increasingly to family support. These developments are undeniably contrary to the basic tenets of the Nordic model, which nonetheless remains distinctive in its basic approach, which is to grant individuals a right to assistance and to finance care mostly through taxation. Private spending on care remains limited in comparative perspective (Huber et al. 2009: 118). Trust and legitimacy are high, bolstering the prospects of the model. For instance, Rostgaard and Szébényi (2012) highlight that in international comparison there is a very high trust in the quality of formal care in both Denmark and Sweden: 80 per cent agree that ‘professional care staff looking after dependent elderly people are highly committed and are doing an excellent job’ (compared with 59 per cent on average in the EU27). There is little to no evidence of intergenerational conflict in these societies (Vaarama and Moisio 2009). The ‘normative underpinnings’ of the Nordic service states have therefore proven quite strong, so far. The popularity of the Nordic welfare state among the electorate discourages politicians across the Left – Right spectrum from making radical changes. A government that wants to stay in power needs to consider both economic and social sustainability.

Have pension reforms undermined the ideals of the Nordic welfare model? Admittedly, pensions are more tightly linked to work, but on the other hand, the Nordic model has always been based on high employment. All residents are still covered by one pension scheme or another. Besides, at the same time these countries have reformed their basic pensions and introduced minimum levels that aim to guarantee a better basic livelihood for all residents. Thus the coverage of pension systems has not decreased, but perhaps even increased in employment pension reforms, as time spent studying and caring is now taken into account in pension accrual. One can be more critical regarding the future replacement rates. Financial sustainability of the Nordic pension systems is partly achieved by less generous pensions in the future, at least compared to average future earnings. On the other hand, the reforms have introduced more flexibility and better incentives to continue at work. The stricter link between contributions and pensions may offset the declining replacement rate trend if workers stay in employment longer.

The ability of individual older people to adapt to the challenges of ageing has given rise to the SOC (selective optimization with compensation) model developed by Baltes and Baltes (1990); in many ways, societies now face the need to adapt to continuing population ageing. Sustainability of policies has proven to be largely a matter of political will. Nordic welfare states have already demonstrated considerable ability to adapt, albeit not entirely without damage to some aspects of the model. All models evolve, and remaining the same is simply not an option. The degree of sustained commitment to the normative
underpinnings of the model (among the majority of politicians and the population), and the ability of policy makers to adjust pensions and long-term care broadly ‘within the model’, give grounds for optimism about the future of the Nordic welfare states in the face of further population ageing.

NOTES

1. The starting points behind the 2010 average figures are rather different, ranging between 16 per cent in Ireland and 31 per cent in Germany.
2. Differing premises can be questioned. For instance, it remains to be seen whether life expectancy of women in Finland will in fact exceed that of women in Sweden.
3. The latest pension reform in Finland was agreed in March 2012. The measures raise the age limits of remaining early-exit pension routes and improve somewhat the projected financial situation of the employment pension system.

REFERENCES