



The Challenge of Global Aging

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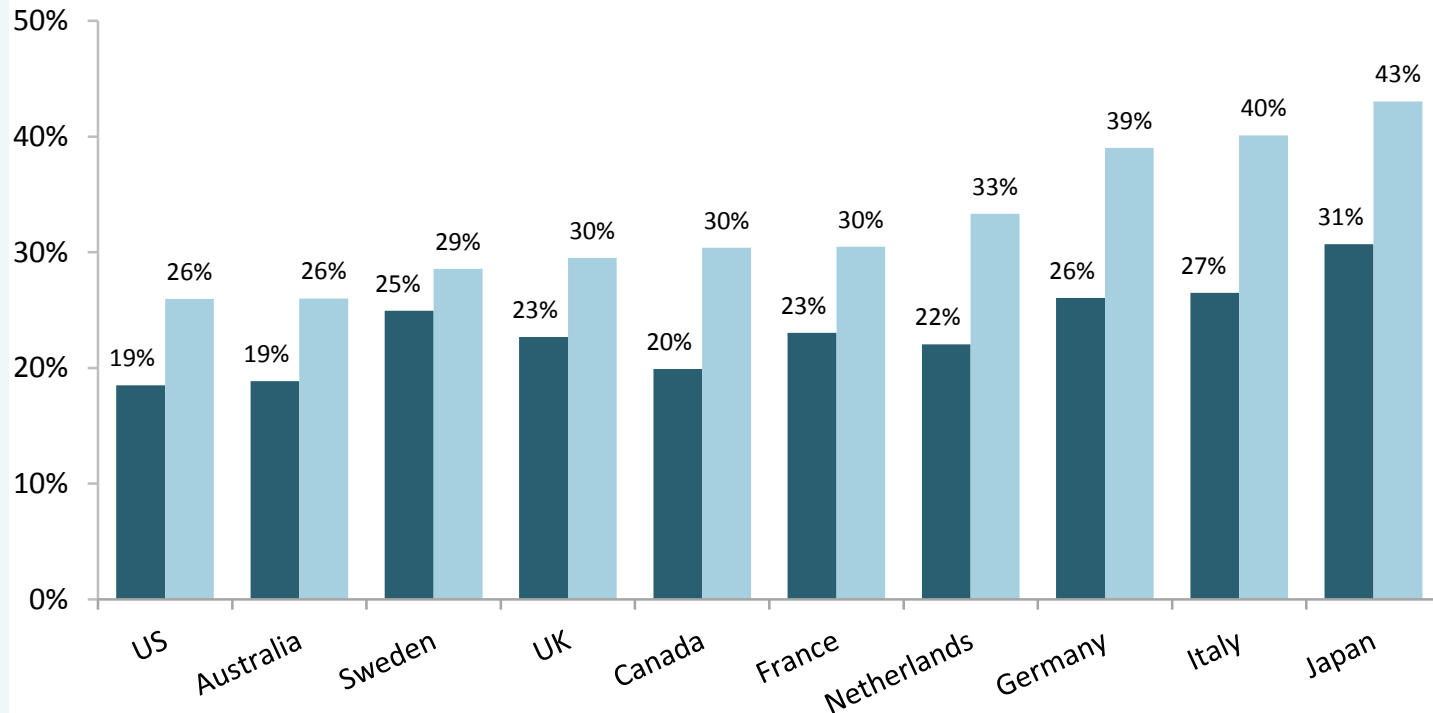
Department of Work and Pensions

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The Demographic Transformation

The developed world is being overtaken by an unprecedented age wave.

Percent of the Population Aged 60 & Over in 2010 and 2040



Source: *World Population Prospects: 2012 Revision* (New York: UN Population Division, 2013)

■ 2010 ■ 2040

Two Forces behind the Aging of the Population: Falling Fertility and Rising Longevity

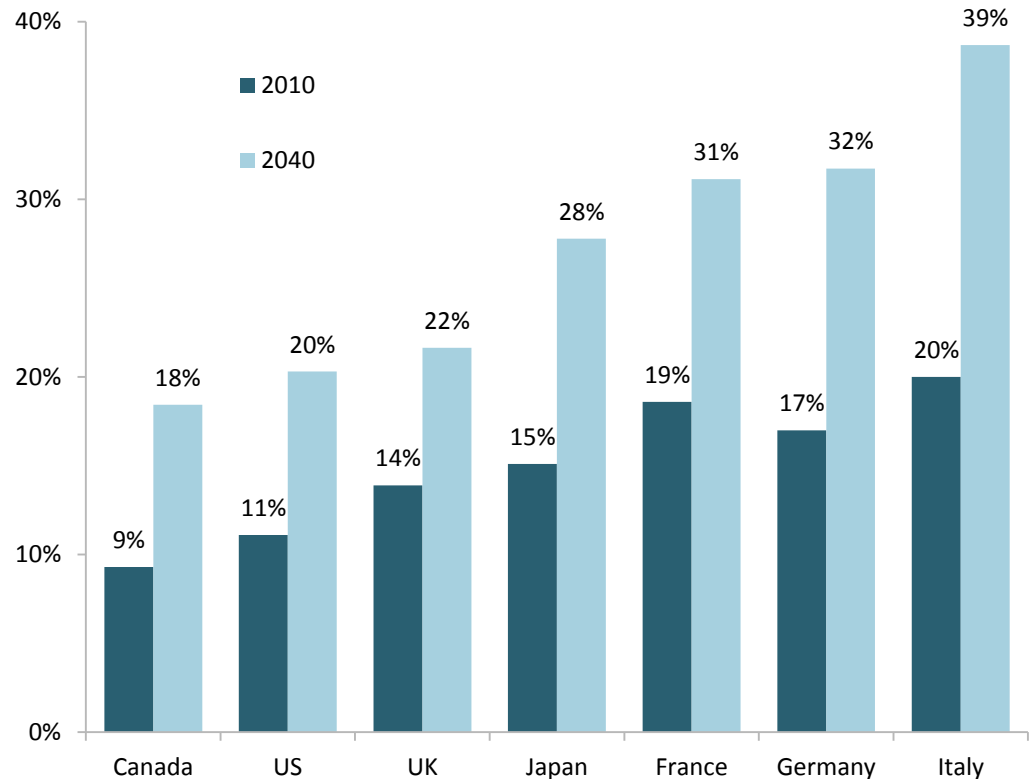
	Total Fertility Rate			Life Expectancy at Birth		
	1960-65	1980-85	2005-10	1960-65	1980-85	2005-10
Australia	3.3	1.9	1.9	69.3	75.1	81.7
Canada	3.7	1.6	1.6	69.0	75.8	80.5
France	2.9	1.9	1.9	70.7	74.7	81.2
Germany	2.5	1.5	1.3	70.3	73.8	79.9
Italy	2.5	1.5	1.4	69.6	74.7	81.2
Japan	2.0	1.8	1.3	68.9	76.9	82.7
Netherlands	3.2	1.5	1.7	73.4	76.1	80.0
Sweden	2.3	1.6	1.9	73.5	76.3	80.9
UK	2.8	1.8	1.8	70.8	74.0	79.4
US	3.3	1.8	2.1	70.0	74.3	79.2

Dimensions of the Challenge

Growing Fiscal Burdens

- ❑ Graying means paying more for pensions, health care, and long-term care for the frail elderly.
- ❑ Few developed countries will be able to raise taxes enough to cover more than a fraction of the age wave's total cost.
- ❑ Most countries will have to cut benefits, but the required adjustments are large and are bound to meet resistance from aging electorates.
- ❑ The likely result: Rising old-age benefit costs will crowd out other government spending and/or lead to widening fiscal deficits.

“Current Deal” Projection: Total Government Benefits to Persons Aged 60 & Over, as a Percent of GDP, 2010 and 2040



Note: Projections assume that program eligibility ages and benefit levels remain unchanged in the future.

Source: *The Global Aging Preparedness Index, Second Edition* (CSIS, 2013)

Slower Economic Growth

- ❑ Slowly growing or contracting working-age populations in the developed world will translate into slower growth in GDP.
- ❑ Japan and some faster-aging European countries Germany, Italy, and Spain may face a future of “secular stagnation.”
- ❑ Productivity and living standard growth may also slow as rates of saving and investment decline.
- ❑ Aging workforces may be less flexible, less mobile, and less entrepreneurial, putting a further drag on economic growth.

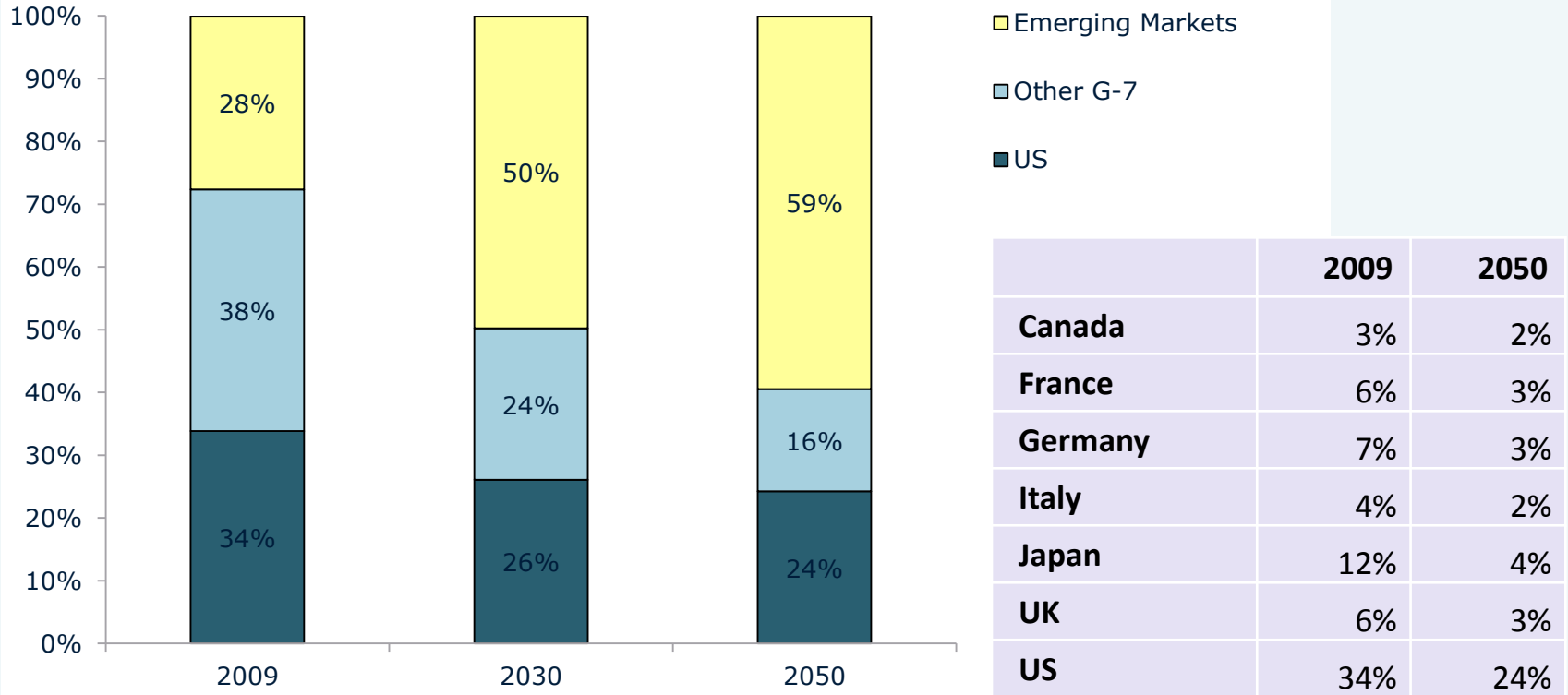
Average Annual Growth Rate in the Working-Age Population (Aged 20-64), by Decade

	1980s	1990s	2000s	2010s	2020s	2030s	2040s
Canada	1.9%	1.2%	1.4%	-0.1%	-0.1%	0.4%	0.2%
France	1.1%	0.4%	0.8%	0.0%	0.0%	0.0%	0.3%
Germany	1.2%	0.2%	-0.3%	-0.3%	-1.1%	-1.1%	-0.9%
Italy	0.9%	0.2%	0.4%	-0.2%	-0.6%	-1.1%	-0.8%
Japan	0.8%	0.4%	-0.4%	-0.9%	-0.7%	-1.3%	-1.3%
UK	0.7%	0.4%	0.6%	0.2%	0.0%	0.1%	0.2%
US	1.4%	1.3%	1.1%	0.4%	0.1%	0.5%	0.5%

Source: UN Population Division (2013)

Relative Economic Decline

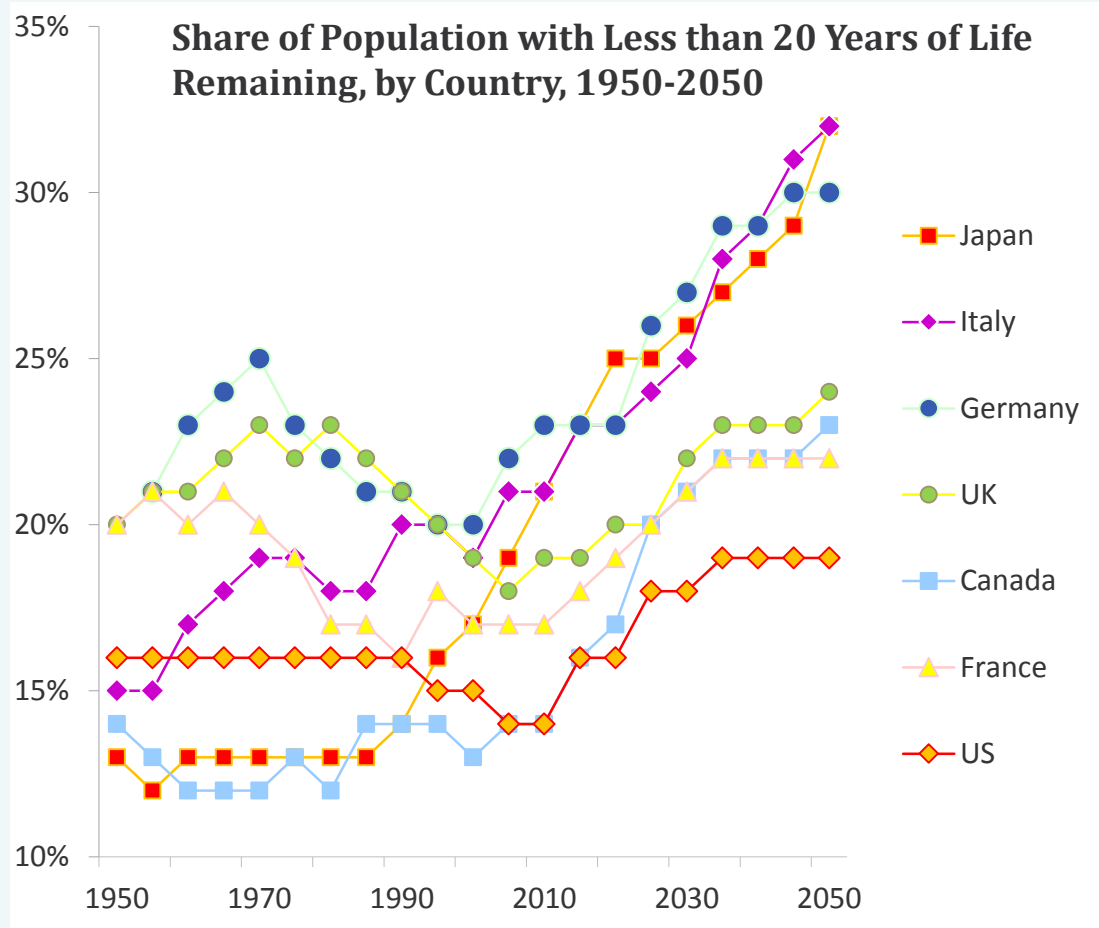
GDP (in 2005 US Dollars) by Country or Country Group, as a Percent of G-20 Total, 2009-2050



Source: Carnegie Endowment for International Peace (2010)

A More Risk-Averse Social Mood

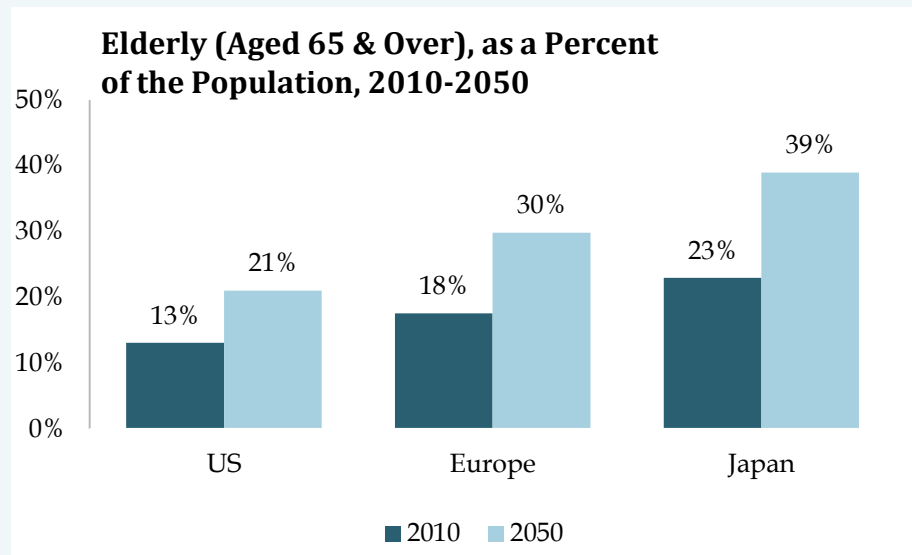
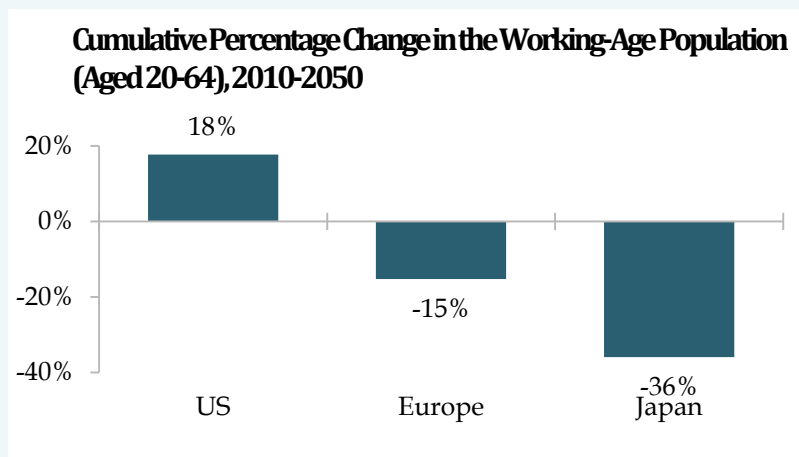
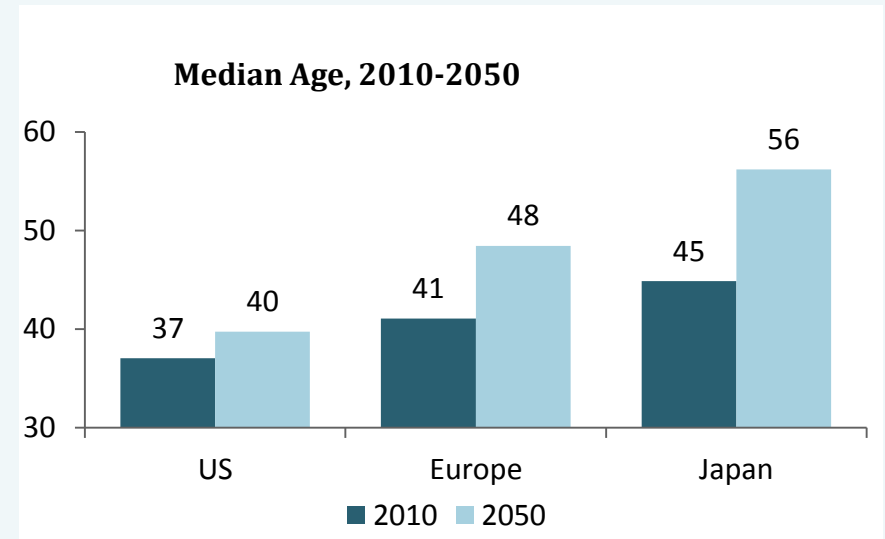
- ❑ As domestic markets in the developed countries stagnate or contract, the risk of protectionism may grow.
- ❑ The potential shift in business psychology could be mirrored by a broader shift in social mood toward greater risk aversion.
- ❑ Aging electorates may be prone to lock in current public spending commitments at the expense of new priorities and to shun decisive confrontations in favor of ad hoc settlements.



Source: Author's calculations based on UN Population Division (2007) and Human Mortality Database (UC Berkeley and Max Planck Institute for Demographic Research)

The impact of global aging will vary enormously across the developed world.

- ❑ **UNITED STATES:** Due to its relatively high fertility rate and substantial immigration, the United States has a more favorable demographic outlook than any other major developed country.
- ❑ **JAPAN:** Due to its chronically low fertility rate, world-record life expectancy, and aversion to immigration, Japan has become ground zero for global aging.



Source: UN Population Division (2013)

European Demographic Indicators by Region

	Total Fertility Rate	Life Expectancy at Birth	Elderly Share of Population		% Change in Working-Age Population	% Change in Total Population
	2005-10	2005-10	2010	2050	2010-50	2010-50
France & Northern Europe	1.9	80.2	17%	25%	0%	+12%
Germany & Central Europe	1.3	78.2	18%	32%	-29%	-16%
Italy & Southern Europe	1.4	80.7	19%	34%	-22%	-4%
The Russian Federation	1.4	66.5	13%	26%	-35%	-25%
Ukraine & Rest of Slavic CIS	1.3	68.8	15%	28%	-39%	-31%
The Balkans	1.4	73.6	15%	28%	-30%	-20%

Source: UN (2009)

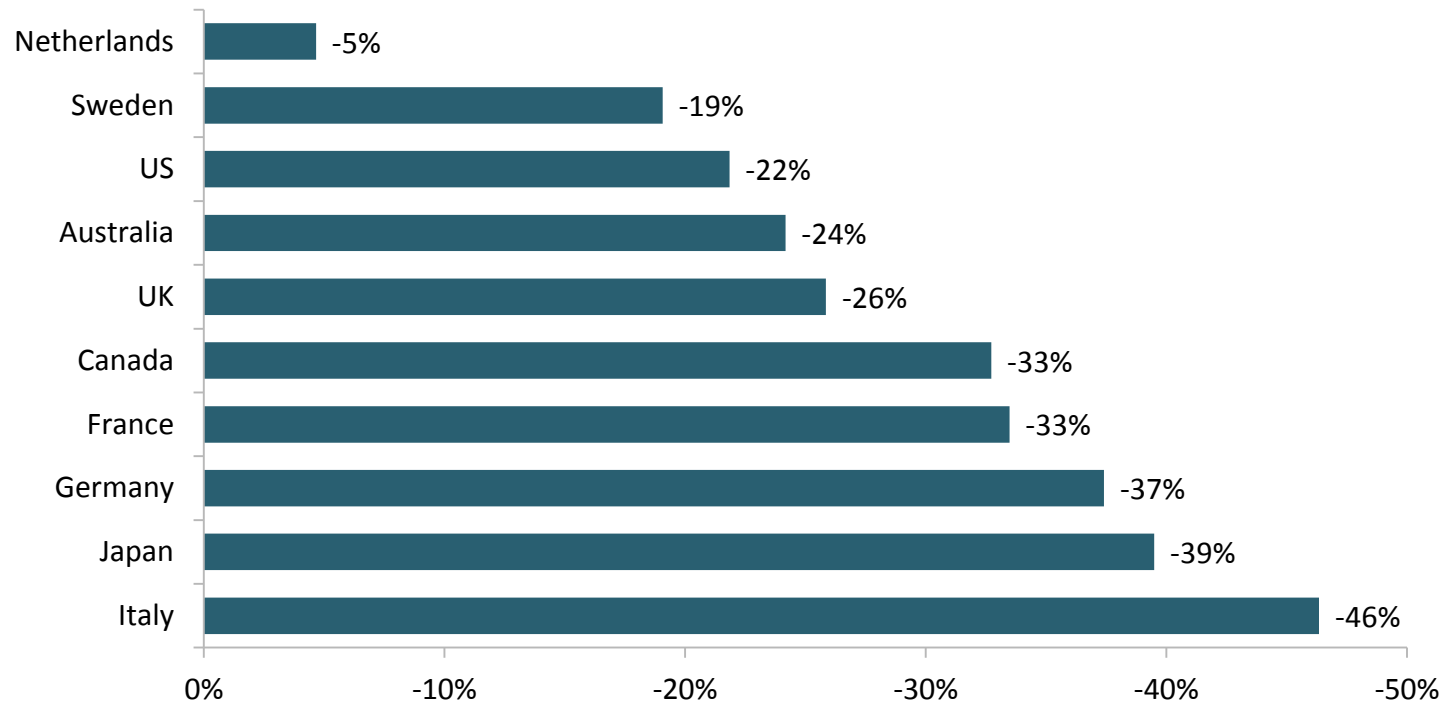
Directions for Reform

Six Policy Priorities

1. Reduce the fiscal burden of pay-as-you-go benefit programs.
2. Expand funded retirement savings.
3. Extend work lives, combat ageism, and promote productive aging.
4. Ensure that health spans rise along with life spans.
5. Recognize that age alone is no longer a reasonable proxy for financial need or inability to work—and so should no longer be a categorical criterion for access to public subsidy.
6. Recognize that global aging is a global problem requiring global solutions.

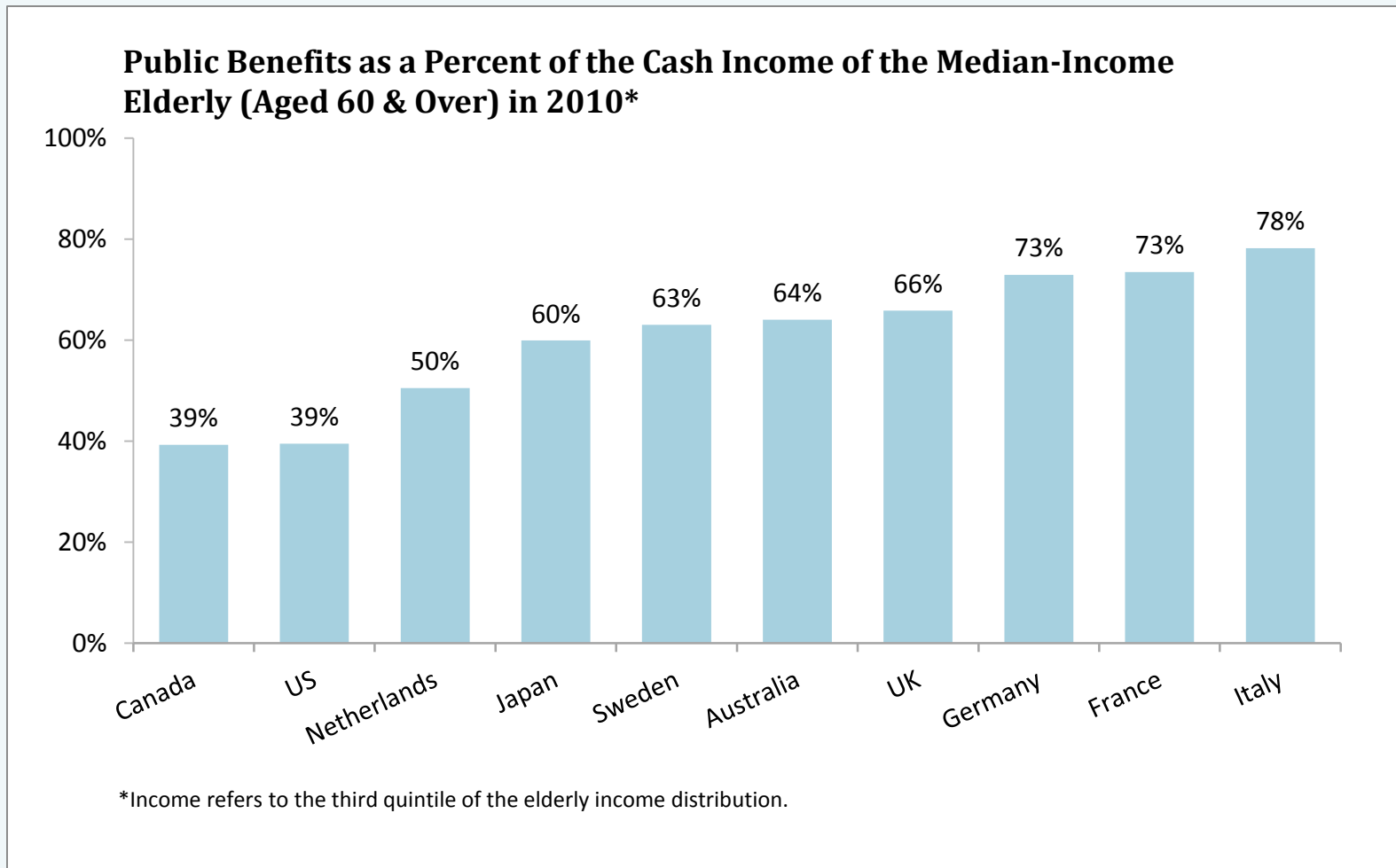
Many developed countries have already enacted reforms that greatly reduce the “current deal” cost of their public pension systems.

Cumulative Percentage Decline in Current-Law Public Pension Benefits to the Elderly (Aged 60 & Over) Relative to "Current-Deal" Benefits, from 2010 to 2040*



*The "current-deal" projection assumes that retirement ages and replacement rates remain unchanged in the future.

The elderly in most developed countries remain highly dependent on public benefits.



Recent reforms in several developed countries are increasing funded retirement savings.

Funded Pension Savings as a Percent of Median Elderly Income and GDP in 2010 and 2040*

	Percent of Income		Percent of GDP	
	2010	2040	2010	2040
Australia	15%	34%	4.5%	9.8%
Canada	33%	35%	5.6%	7.9%
France	1%	2%	0.3%	0.4%
Germany	5%	14%	0.8%	3.3%
Italy	5%	10%	1.1%	2.8%
Japan	14%	15%	2.6%	3.3%
Netherlands	30%	29%	4.9%	7.5%
Sweden	10%	21%	1.9%	4.8%
UK	18%	22%	3.9%	5.4%
US	31%	34%	5.9%	8.1%

*Income refers to the third quintile of the elderly income distribution.

In many developed countries, labor-force participation rates for older workers have begun to rise.

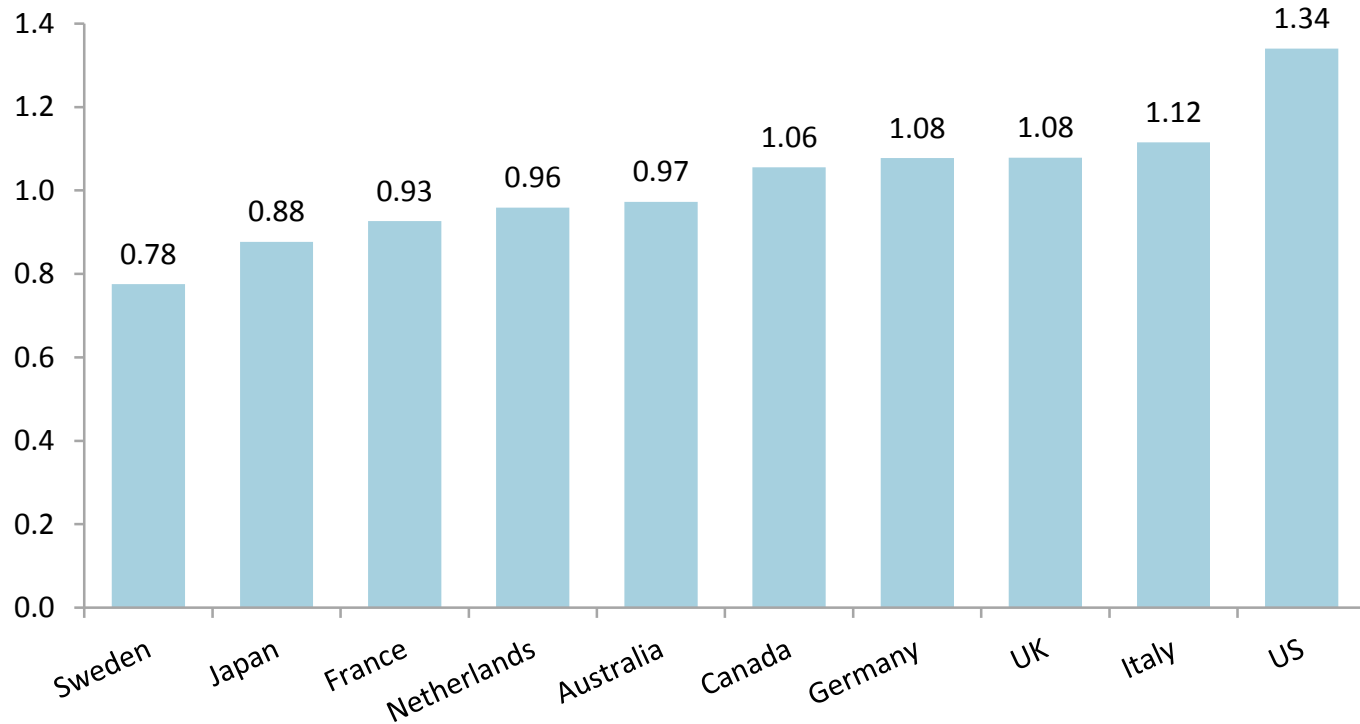
Elderly Labor-Force Participation Rate by Age Group, 1990-2010

	Aged 60-64			Aged 60-74		
	1990	2000	2010	1990	2000	2010
Australia	33%	34%	52%	22%*	25%*	40%*
Canada	37%	36%	51%	20%	19%	32%
France	14%	11%	19%	8%	5%	10%
Germany	21%	22%	44%	12%	11%	18%
Italy	22%	19%	21%	12%	10%	11%
Japan	56%	56%	61%	44%	41%	44%
Netherlands	15%	19%	39%	8%	10%	23%
Sweden	58%	53%	65%	25%	26%	34%
UK	38%	38%	46%	19%	19%	27%
US	45%	47%	55%	27%	30%	39%

*Data refer to population aged 60-69.

The living standard of the elderly in most developed countries is surprisingly high.

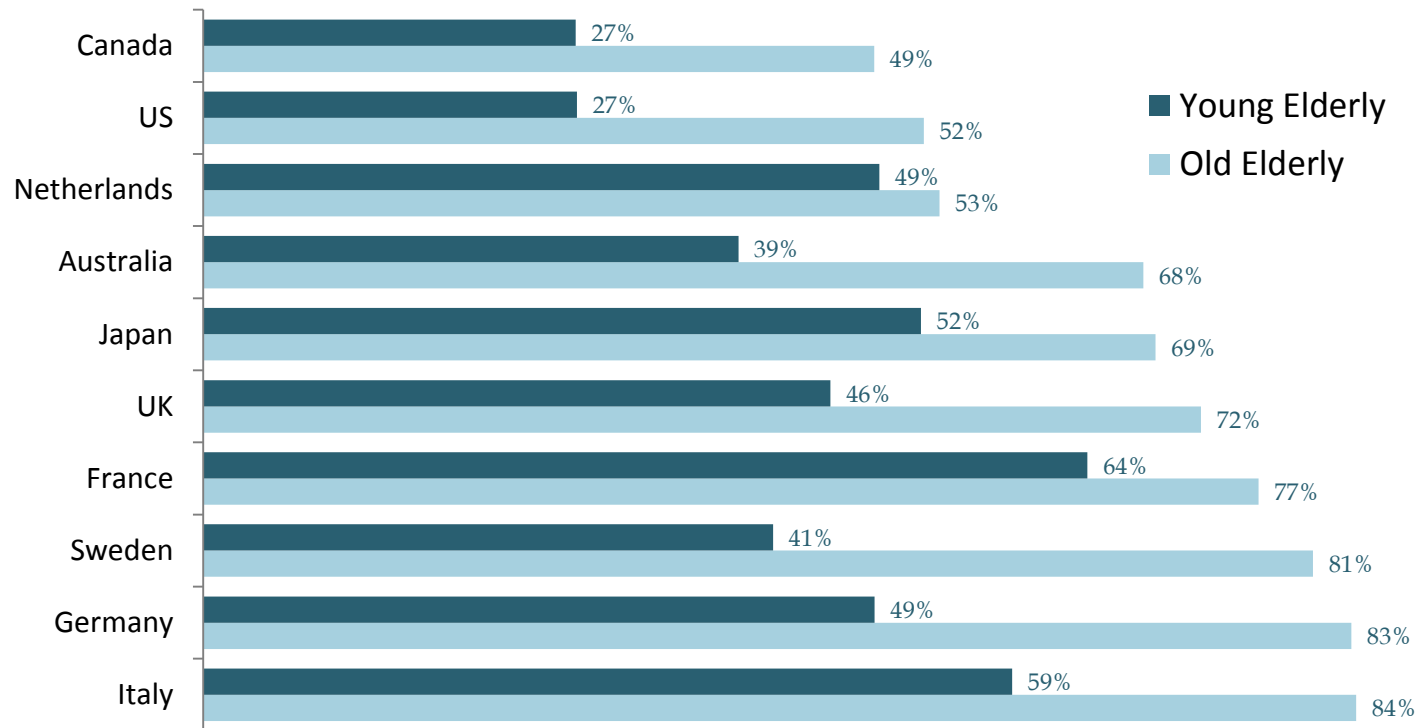
Per Capita Ratio of Median After-Tax Elderly (Aged 60 & Over) to Nonelderly (Under Age 60) Cash Income in 2010*



*Income refers to the third quintile of the elderly and nonelderly income distribution.

The “old elderly” are far more dependent on public benefits than the “young elderly.”

Public Benefits as a Percent of the Cash Income of the Median-Income Young Elderly (Aged 60-69) and Median-Income Old Elderly (70 & Over) in 2010*



* Data refer to the third quintile of the elderly income distribution.

Demographic Indicators for the Developing World

	Fertility Rate		Life Expectancy		Median Age			Elderly Share			Total Pop. Change
	1975	2010	1975	2010	2010	2030	2050	2010	2030	2050	2010-50
	Sub-Saharan Africa	6.7	5.2	45.5	51.7	18.5	20.6	24.6	3.1%	3.6%	5.2%
Muslim World	6.2	2.9	52.2	68.2	24.7	29.4	32.8	4.6%	7.4%	12.2%	69.5%
China & East Asia	4.7	1.7	63.2	73.2	34.4	41.6	46.4	8.4%	16.3%	24.2%	1.8%
India & South Asia	5.4	2.7	51.4	64.9	25.4	30.3	34.0	5.1%	8.4%	12.4%	52.6%
Russian Sphere	2.1	1.4	69.3	67.3	38.2	44.5	48.6	13.5%	20.1%	26.3%	-26.7%
Eastern Europe	2.4	1.4	70.0	74.9	38.9	46.0	51.2	14.9%	21.6%	30.0%	-17.6%
Latin America	5.1	2.3	61.3	73.5	27.7	33.5	37.5	6.9%	11.7%	17.4%	38.8%