



The U.S. Aging Challenge in International Perspective



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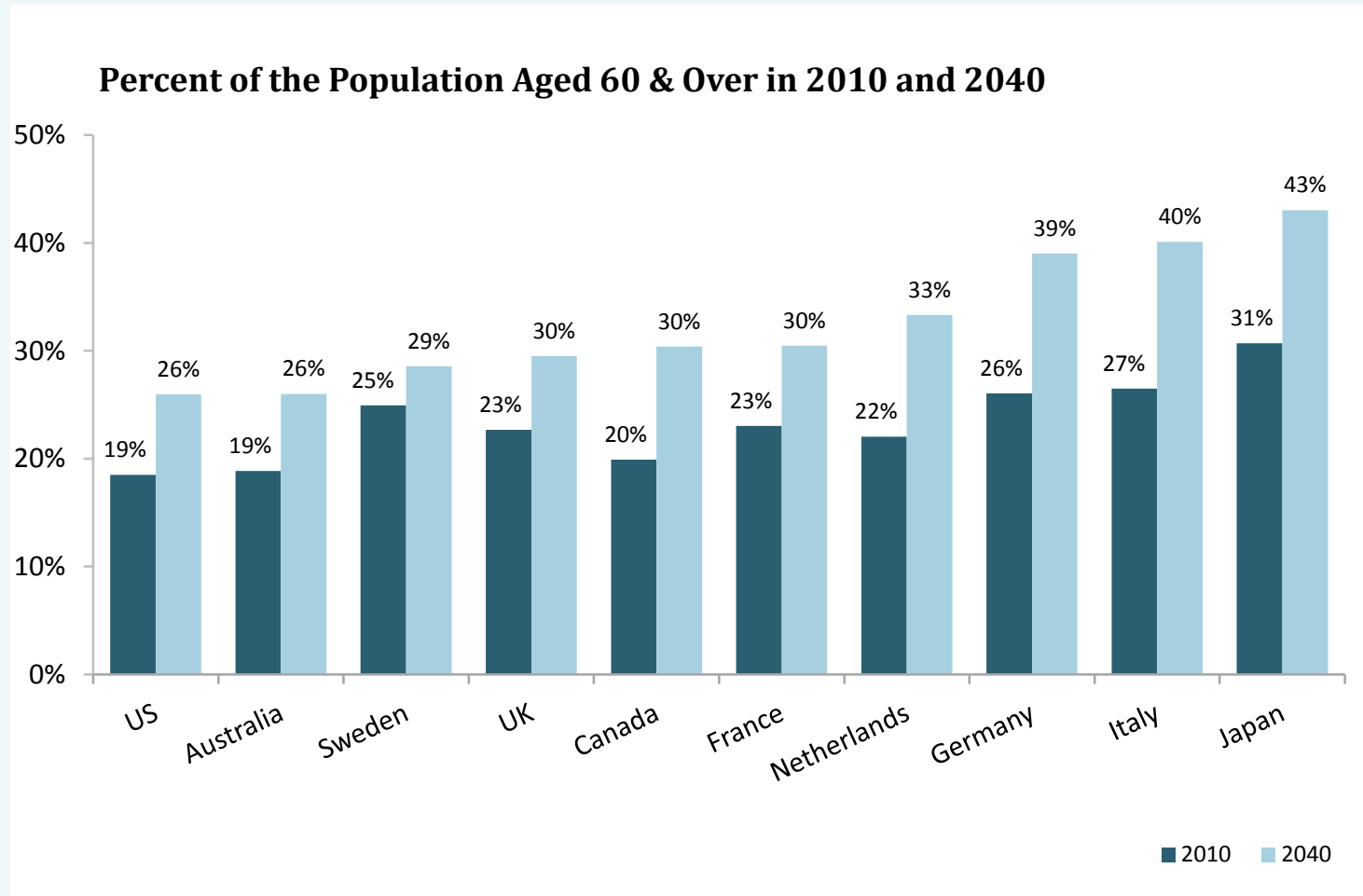


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The Good News

The United States is and will remain the youngest of the major developed countries.



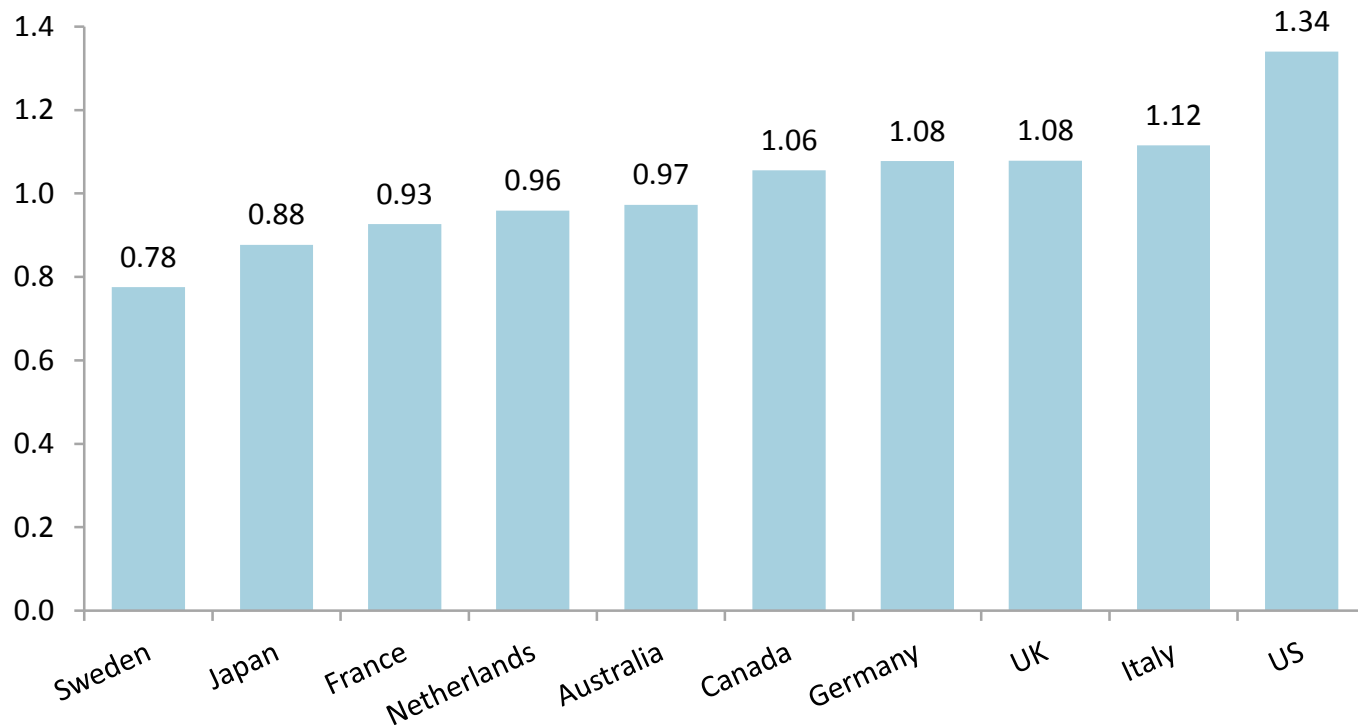
The U.S. public old-age dependency burden is not large by developed-world standards.

Total Public Benefits to the Elderly (Aged 60 & Over) as a Percent of GDP in 2010 and 2040

	Public Pensions		Health Benefits		Other Benefits		Total Benefits	
	2010	2040	2010	2040	2010	2040	2010	2040
Australia	3.7%	4.7%	3.0%	5.5%	2.3%	3.1%	9.1%	13.4%
Canada	4.0%	5.4%	4.3%	9.0%	1.0%	1.4%	9.3%	15.8%
France	12.6%	13.6%	4.7%	9.0%	1.3%	1.7%	18.6%	24.3%
Germany	10.3%	12.4%	4.7%	8.9%	1.9%	3.0%	17.0%	24.3%
Italy	13.9%	15.0%	3.9%	7.9%	2.2%	2.7%	20.0%	25.7%
Japan	9.3%	10.5%	5.2%	9.8%	0.6%	0.6%	15.1%	20.9%
Netherlands	4.6%	8.6%	3.4%	8.3%	2.2%	2.9%	10.2%	19.8%
Sweden	7.5%	8.4%	5.2%	7.3%	2.6%	3.5%	15.2%	19.3%
UK	7.5%	7.9%	4.6%	8.7%	1.9%	2.3%	13.9%	18.9%
US	4.8%	6.4%	5.1%	11.0%	1.2%	1.1%	11.1%	18.5%

The income of the typical U.S. elder is quite high by developed-world standards.

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.

One Reason for High Elderly Living Standards: America's Large Funded Pension System

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

	<u>Percent of Income</u>	<u>Percent of GDP</u>
Australia	15%	4.5%
Canada	33%	5.6%
France	1%	0.3%
Germany	5%	0.8%
Italy	5%	1.1%
Japan	14%	2.6%
Netherlands	30%	4.9%
Sweden	10%	1.9%
UK	18%	3.9%
US	31%	5.9%

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

Another Reason for High Elderly Living Standards: America's High Rate of Elderly Labor-Force Participation

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

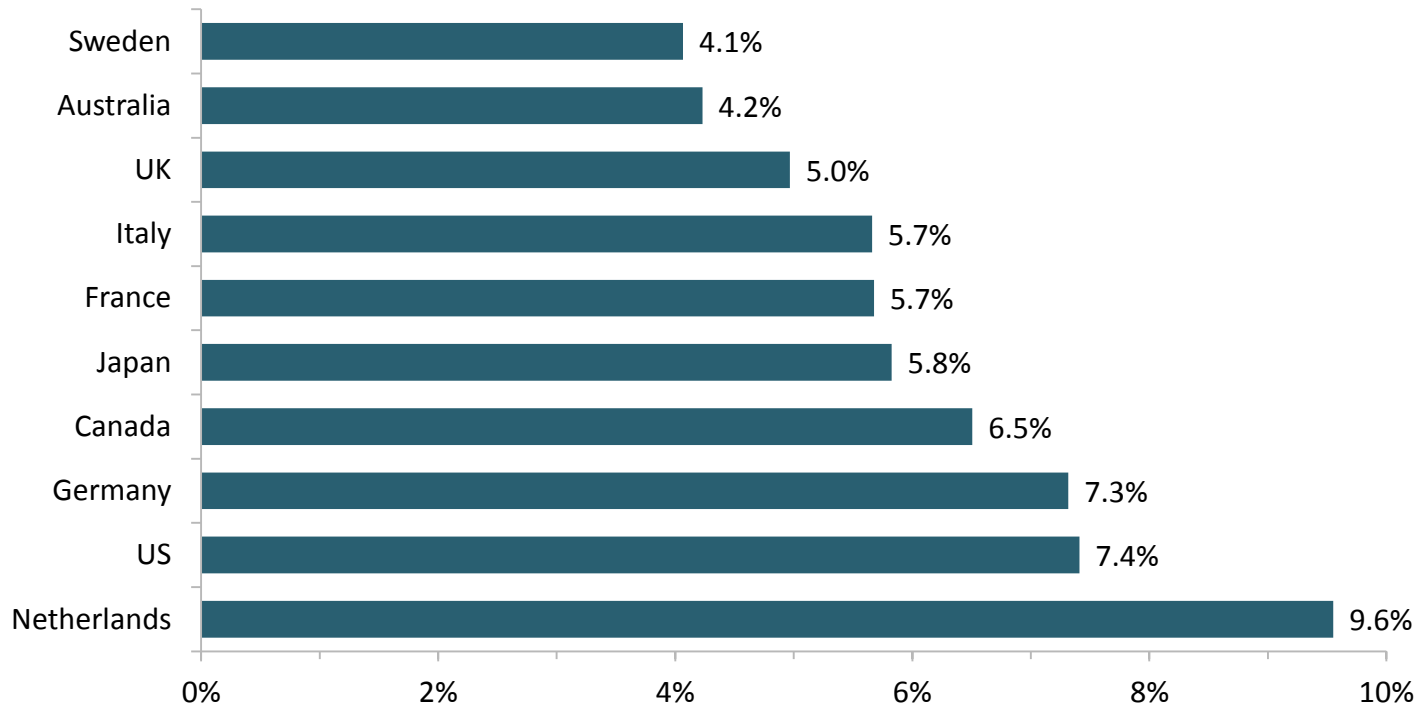
	Aged 60-64			Aged 60-74		
	1990	2000	2010	1990	2000	2010
Australia	33%	34%	52%	22%*	25%*	40%*
Canada	37%	36%	51%	20%	19%	32%
France	14%	11%	19%	8%	5%	10%
Germany	21%	22%	44%	12%	11%	18%
Italy	22%	19%	21%	12%	10%	11%
Japan	56%	56%	61%	44%	41%	44%
Netherlands	15%	19%	39%	8%	10%	23%
Sweden	58%	53%	65%	25%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

*Data refer to population aged 60-69.

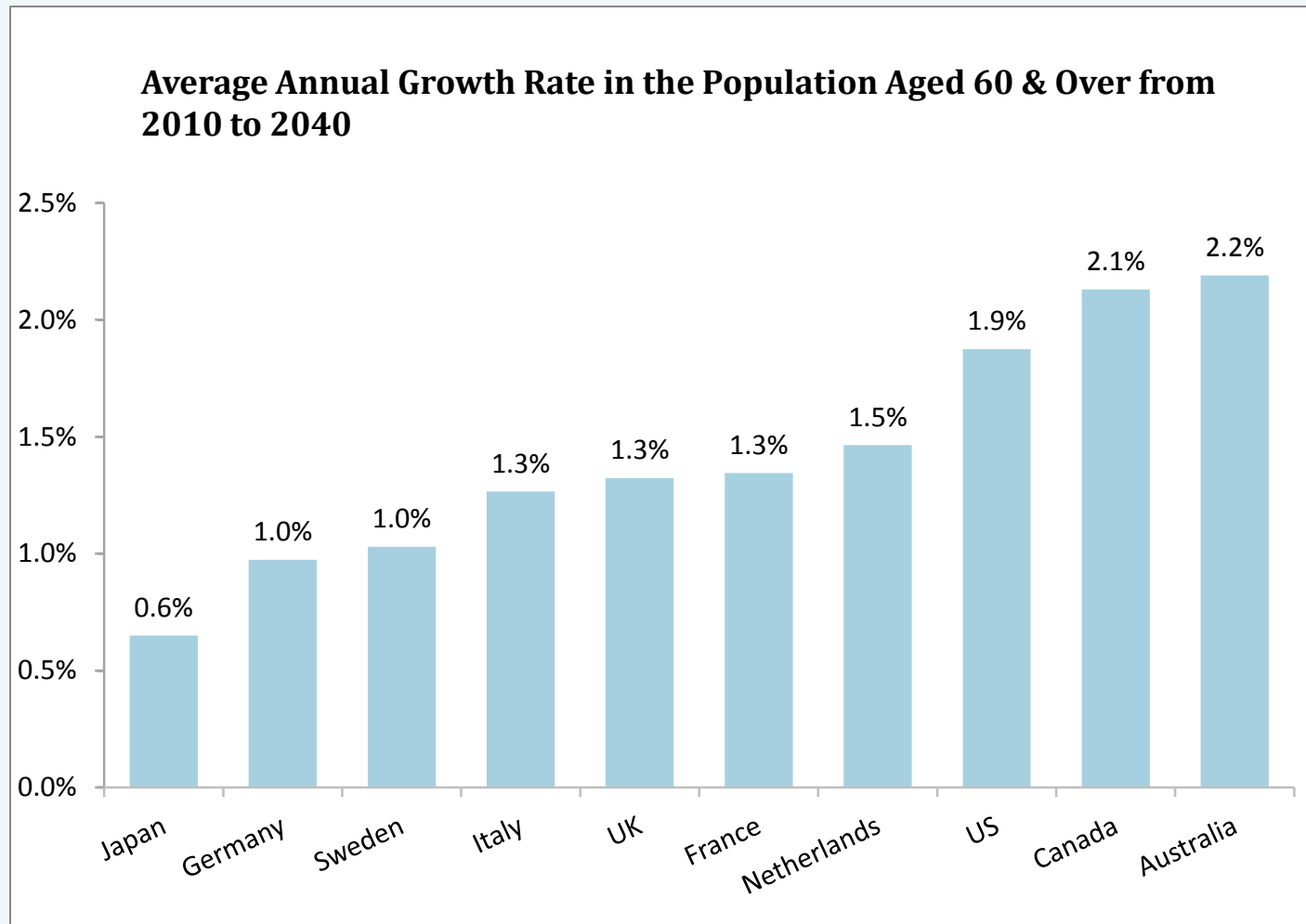
The Bad News

While the projected level of U.S. old-age benefit spending is not especially high, the projected growth in old-age benefit spending is.

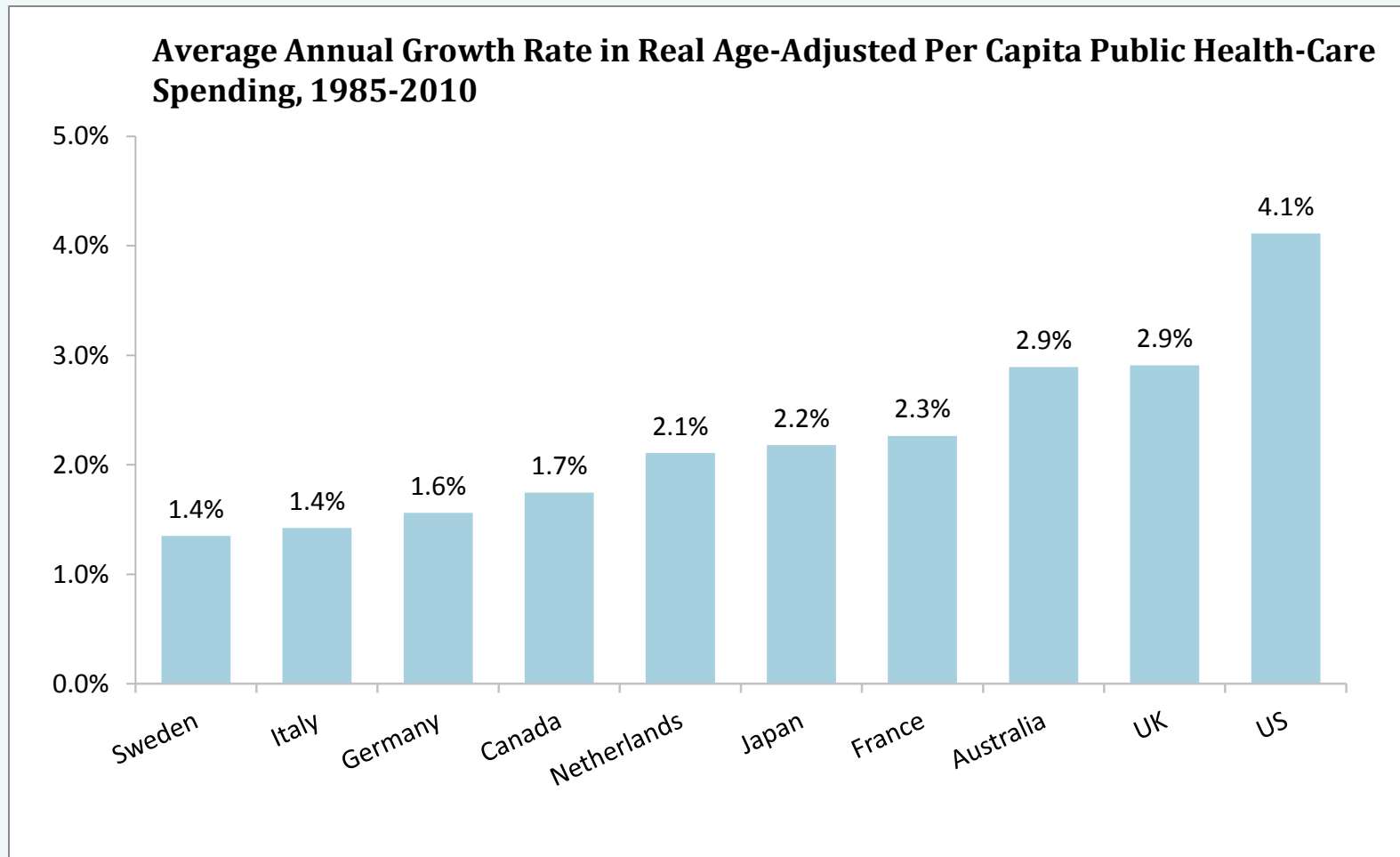
Growth in Total Public Benefits to the Elderly (Aged 60 & Over) as a Percent of GDP from 2010 to 2040



Behind the Growth in Entitlements: America's Unusually Large Baby Boom Generation

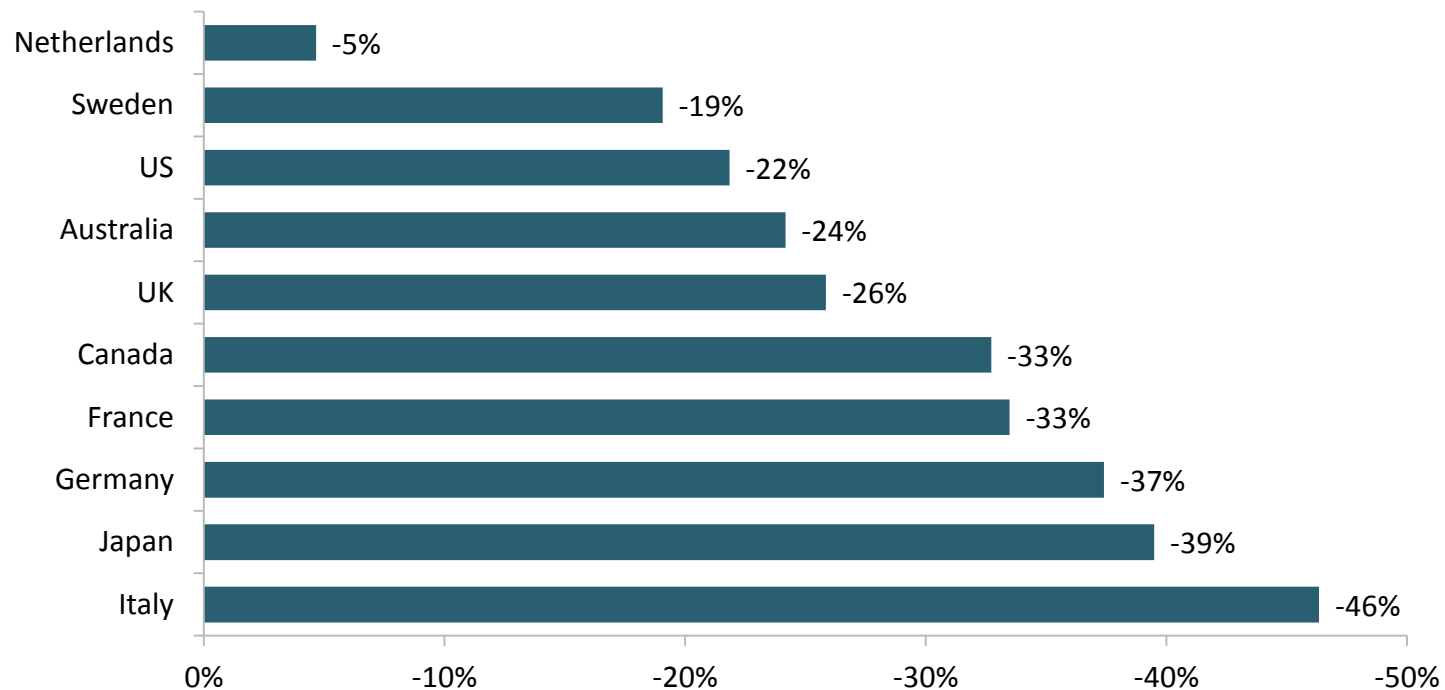


Behind the Growth in Entitlements: America's Unusually High Rate of Health-Care Cost Growth



Many developed countries have made large cuts in the generosity 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*

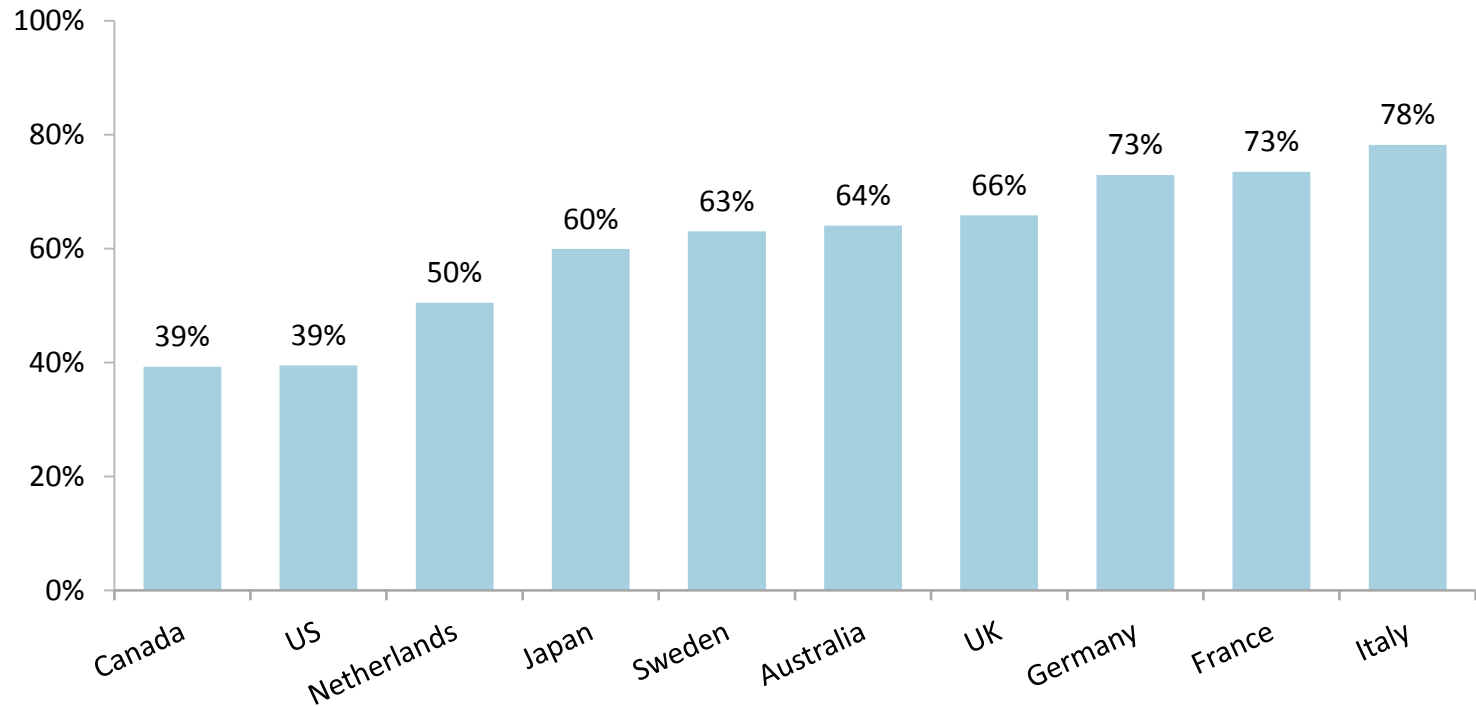


*The "current-deal" projection assumes that retirement ages and replacement rates remain unchanged in the future.

Conclusion

An apparent paradox: The countries making the deepest cuts in public benefits often have high levels of elderly dependence on public benefits.

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

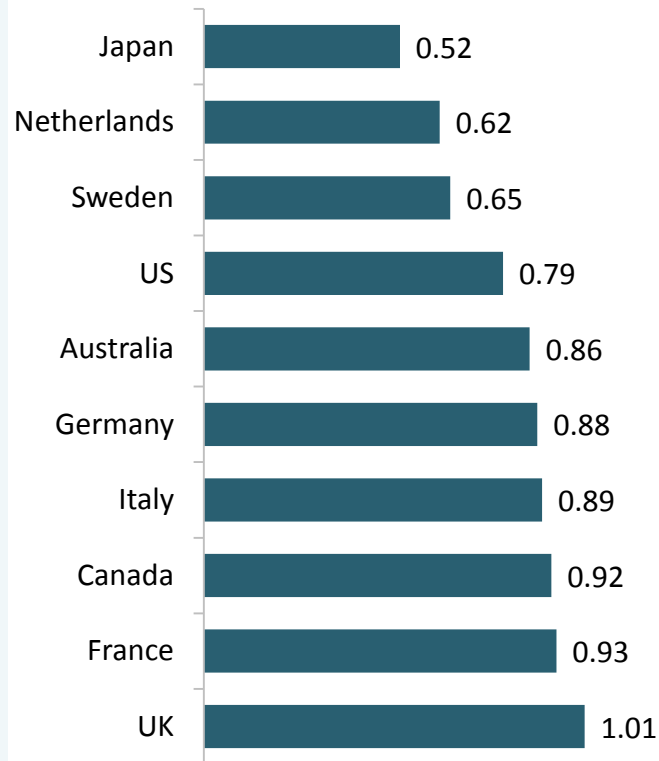


*Income refers to the third quintile of the elderly income distribution.

Some Policy Lessons

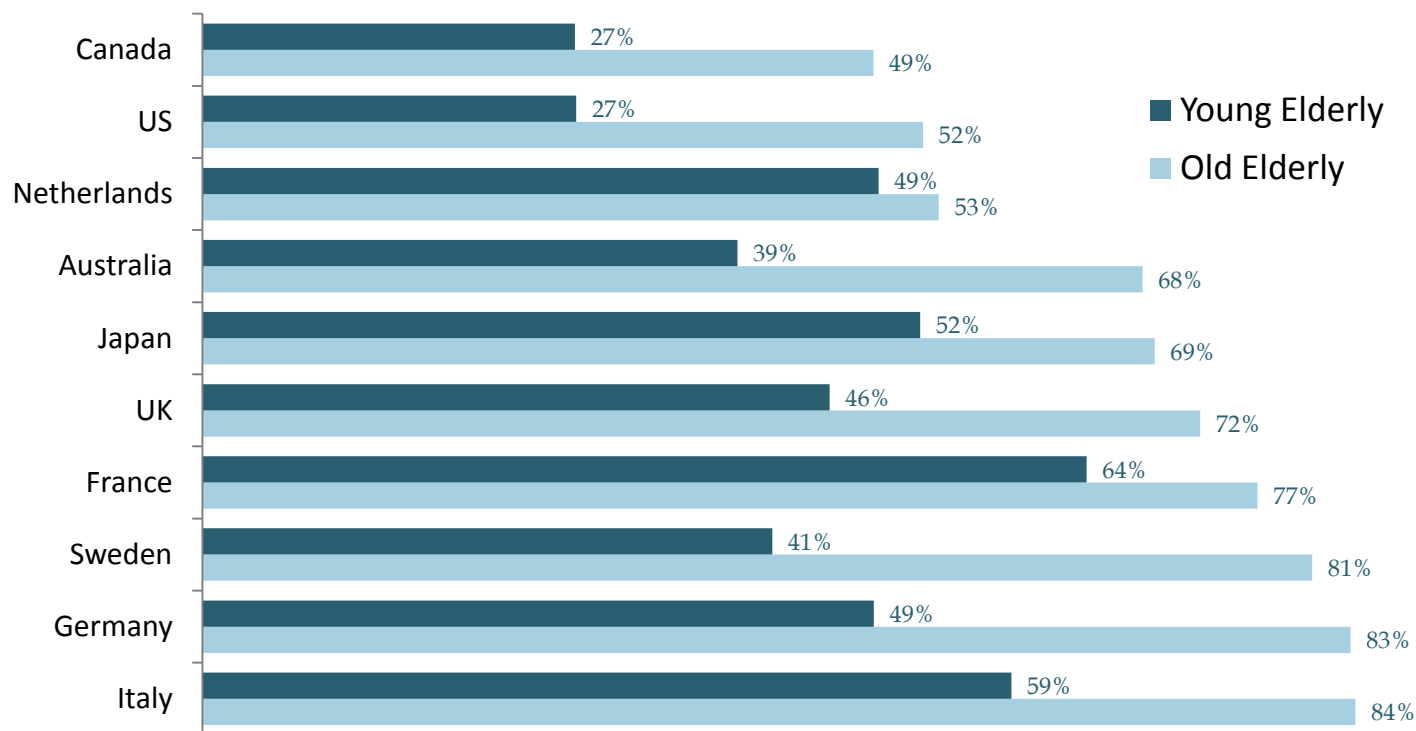
- ▣ In the long run, it may be no more feasible to have a retirement system that is sustainable but inadequate than it is to have a retirement system that is adequate but unsustainable.
- ▣ While there are many ways to restrain the growth in old-age benefit costs, demographic stabilizers represent the global state of the art in entitlement reform.
- ▣ There are only two ways that aging societies can maintain or improve the living standard of the old without imposing a new tax or family burden on the young: increase funded retirement savings and extend work lives.
- ▣ In the end, we may need to refashion the overall role of government in retirement provision so that it serves less as a retirement income floor for all of the elderly and more as a retirement income backstop for the “old elderly.”

Per Capita Ratio of Average After-Tax "Old Elderly" (Aged 70 & Over) to "Young Elderly" (Aged 60-69) Cash Income in 2010



The Old Elderly versus the Young Elderly: Higher Benefit Dependence

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.