



The U.S. Aging Challenge in International Perspective

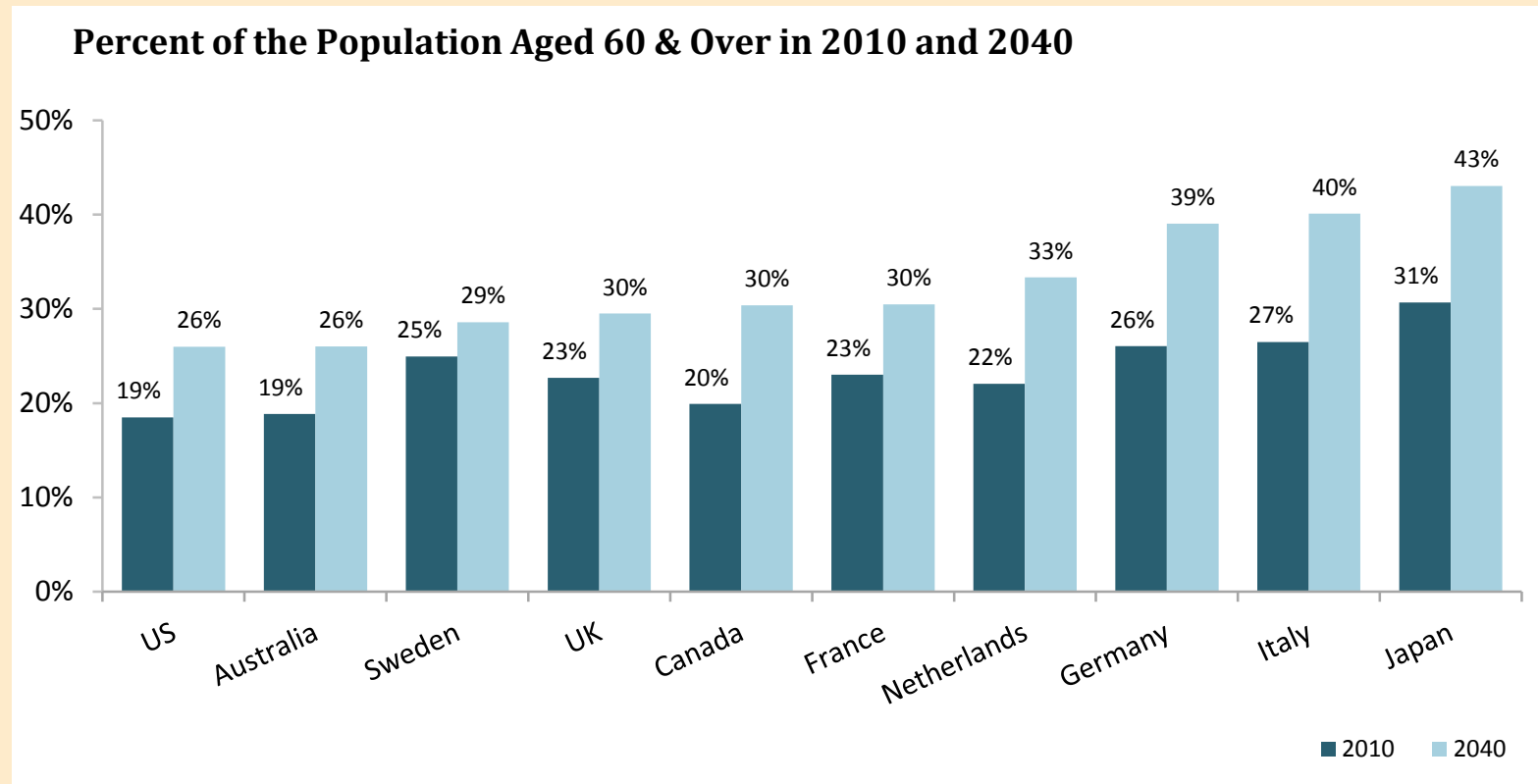
Richard Jackson
President
Global Aging Institute

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The Good News

Thanks to its relatively high birthrate and substantial net immigration, the United States is and will likely remain the youngest of the major developed countries.



Source: UN Population Division (UN, 2013)

By developed-world standards, the U.S. old-age dependency burden is not large.

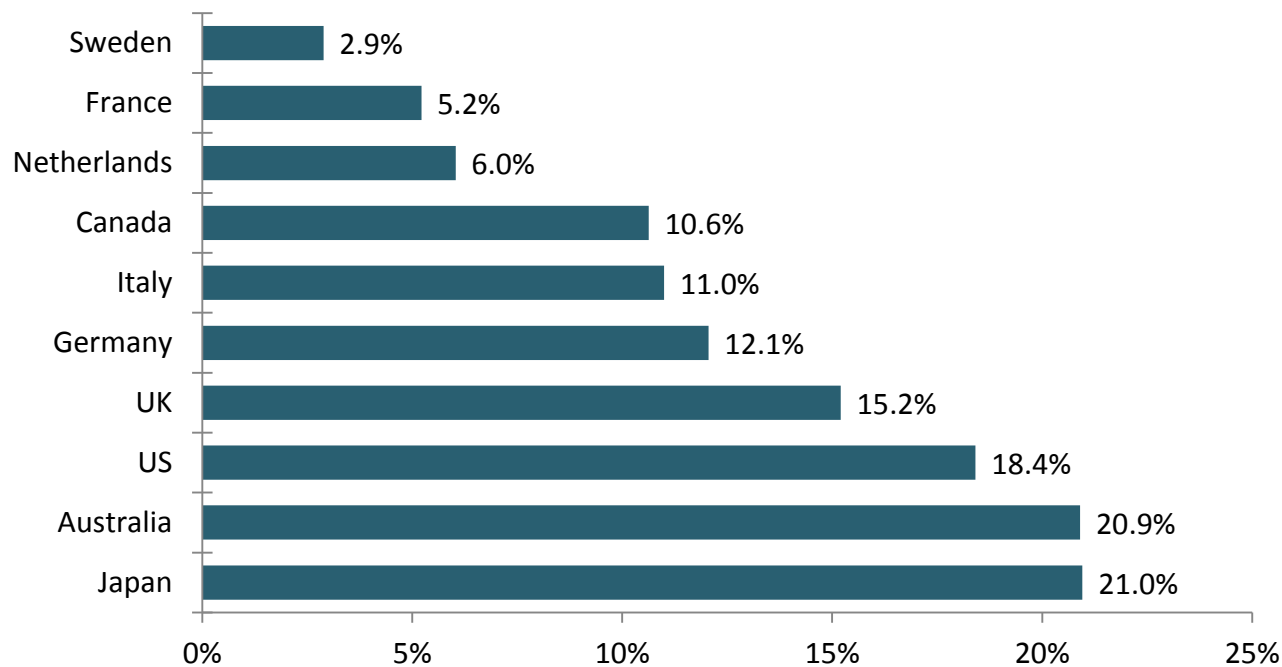
Total Public Benefits to the Elderly (Aged 60 & Over), as a Percent of GDP in 2010 and 2040

	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%

Source: GAP Index, 2nd Edition (CSIS, 2013)

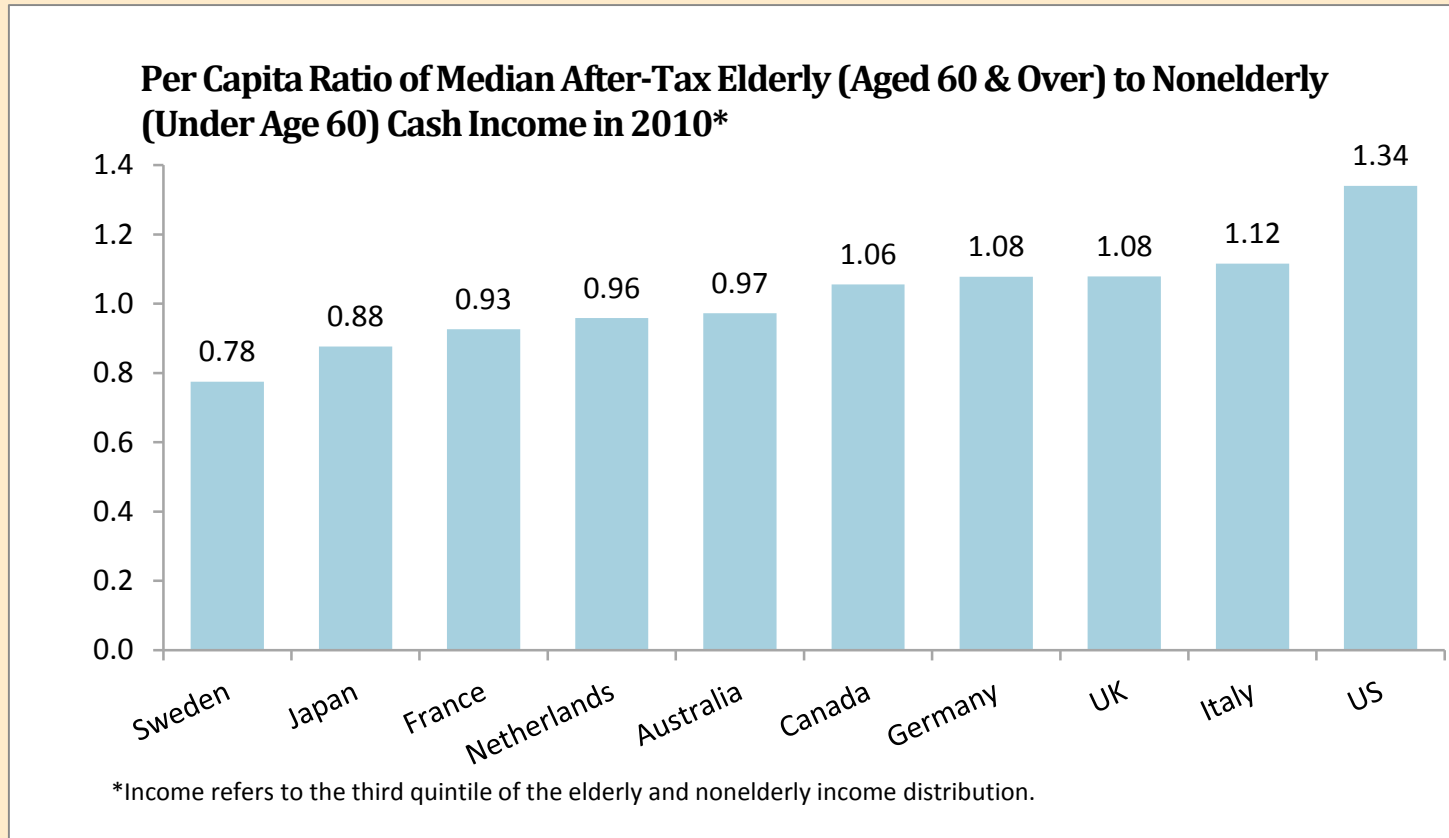
Low public benefit spending helps to explain the high relative poverty rate of the U.S. elderly.

Percent of the Elderly (Aged 60 & Over) Living in Households with Incomes beneath 50 Percent of the Median Income for All Households in Most Recent Year Available



Source: GAP Index, 2nd Edition (CSIS, 2013)

Yet despite low public benefit spending, the income of the middle-income elderly is very high by developed-world standards.



One reason for high elderly living standards: America's large funded pension system

Funded Pension Benefits 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.

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

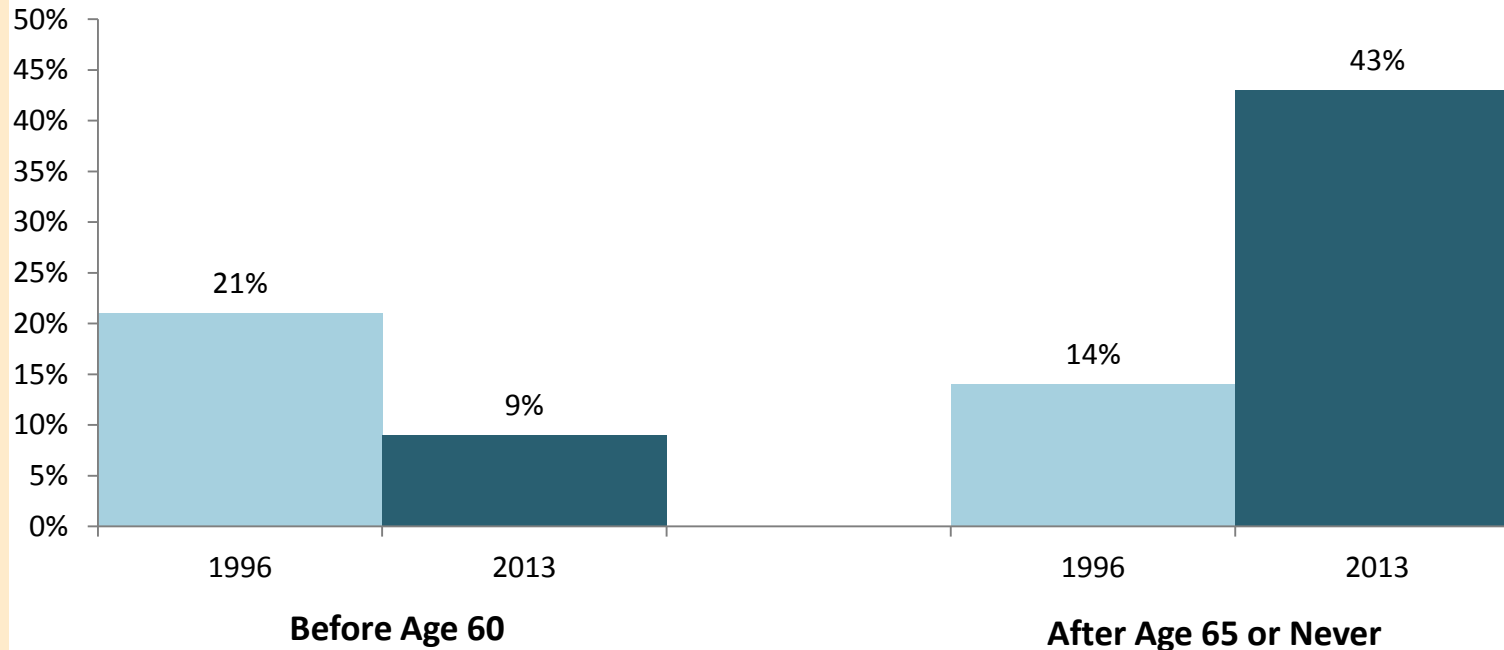
	Aged 60-64			Aged 60-74		
	1990	2000	2010	1990	2000	2010
	33%	34%	52%	22%*	25%*	40%*
Canada	37%	36%	51%	20%	19%	32%
France	14%	11%	19%	8%	5%	10%
Germany	21%	22%	44%	12%	11%	18%
Italy	22%	19%	21%	12%	10%	11%
Japan	56%	56%	61%	44%	41%	44%
Netherlands	15%	19%	39%	8%	10%	23%
Sweden	58%	53%	65%	25%	26%	34%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

*Data refer to population aged 60-69.

Source: Labor Force Statistics Database (OECD, 2013)

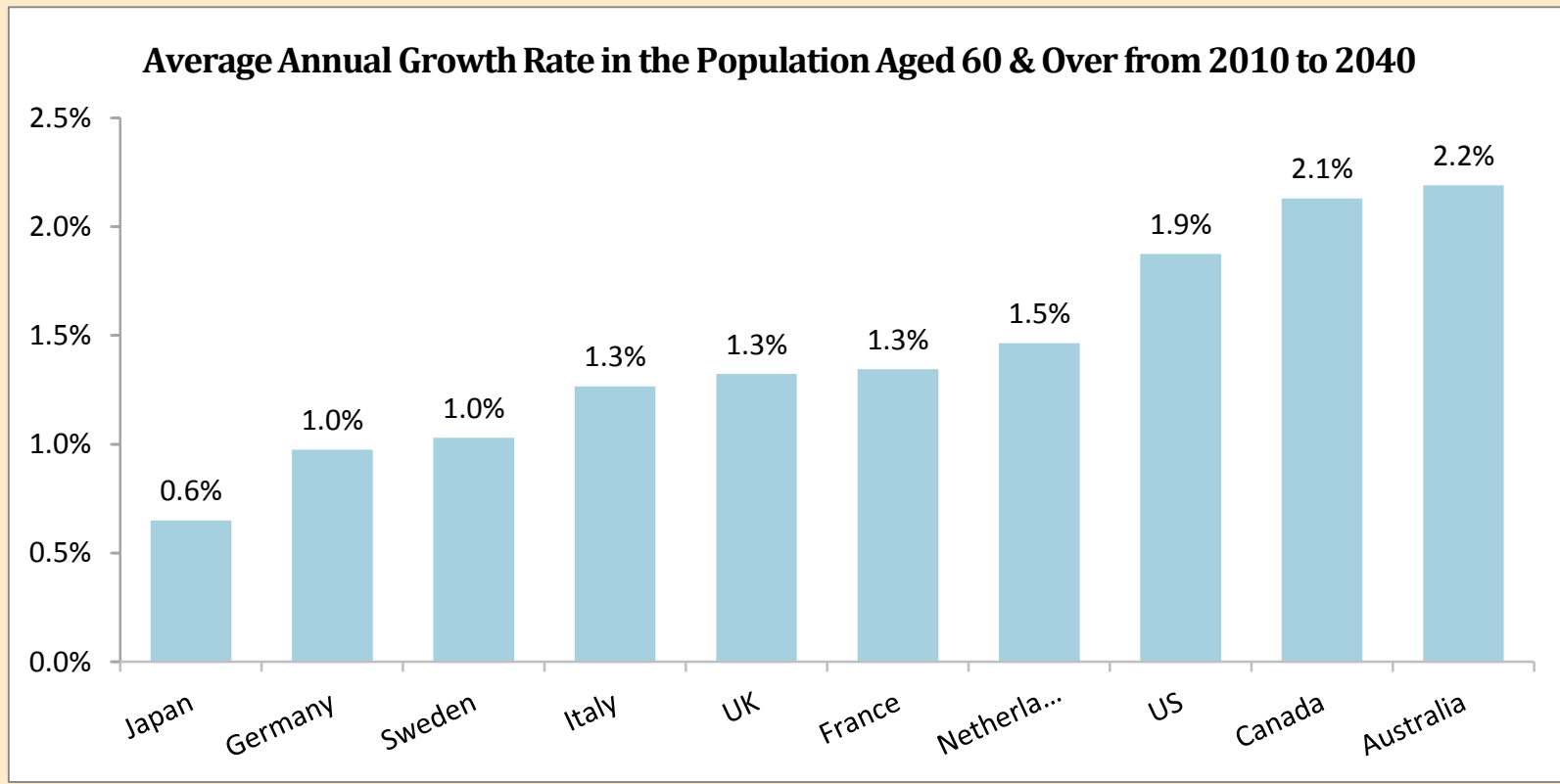
Surveys of retirement expectations suggest that a large additional increase in elderly labor-force participation rates may now be in the pipeline.

Percent of All U.S. Workers Expecting to Retire Before Age 60 and After Age 65 or Never, 1996 and 2013

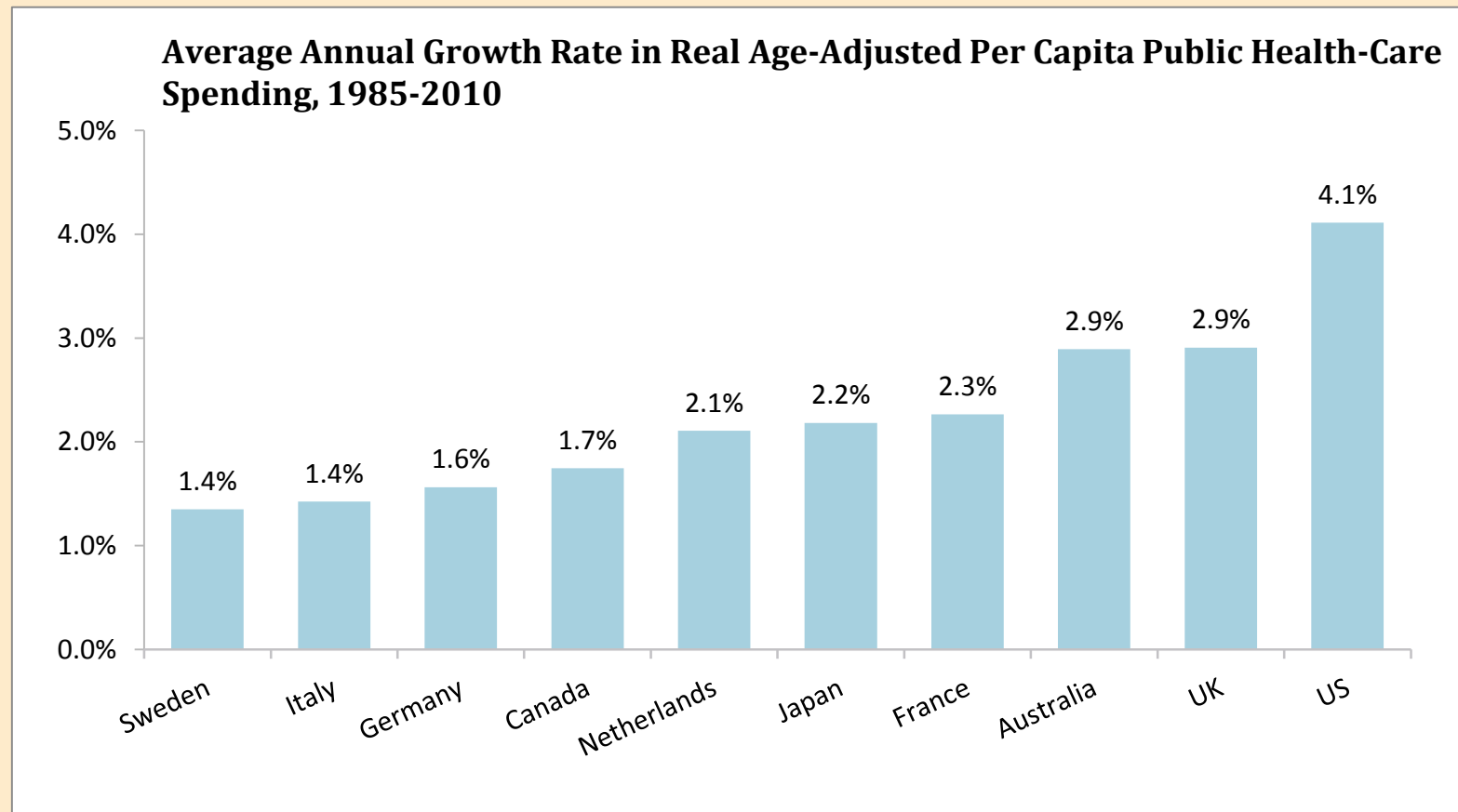


The Bad News

Although the United States will not age as much as other developed countries, its large Baby Boom means that it will age more rapidly than most.

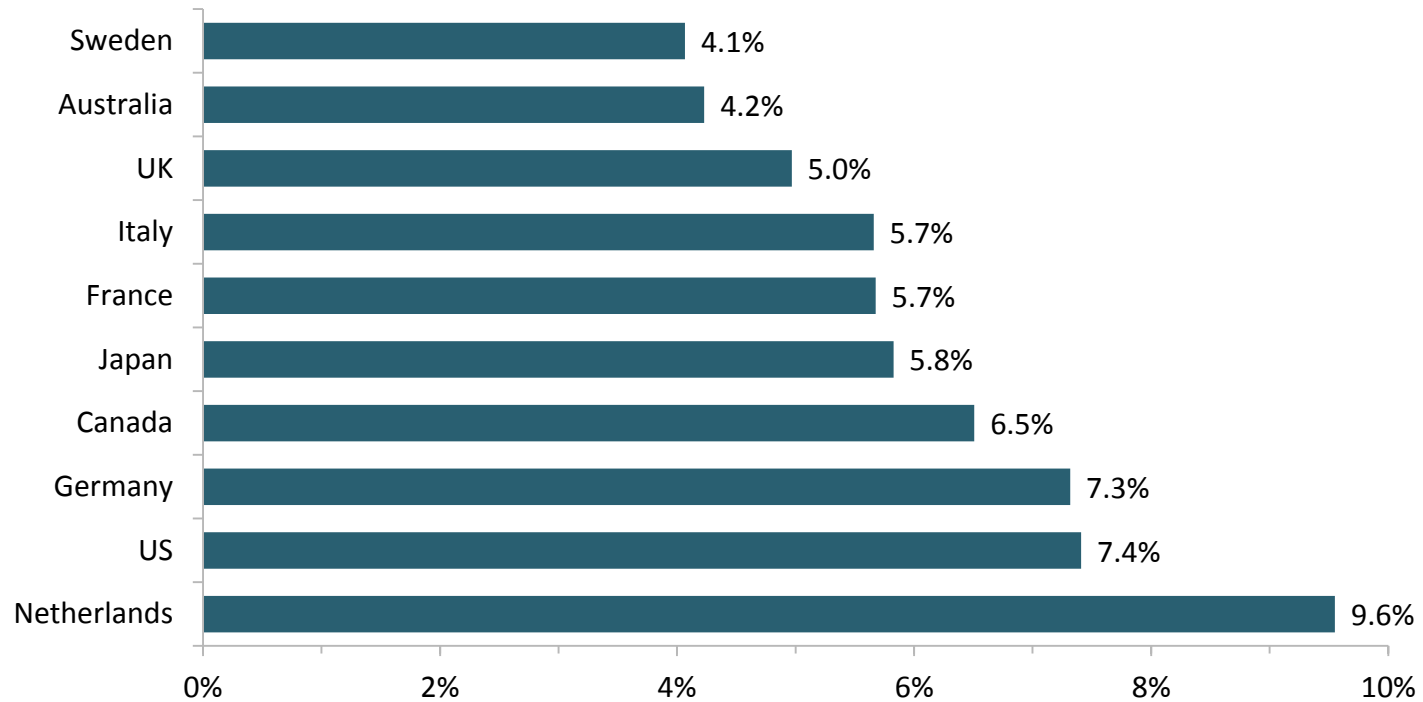


America's high rate of health-care cost growth will act as a multiplier on population aging.



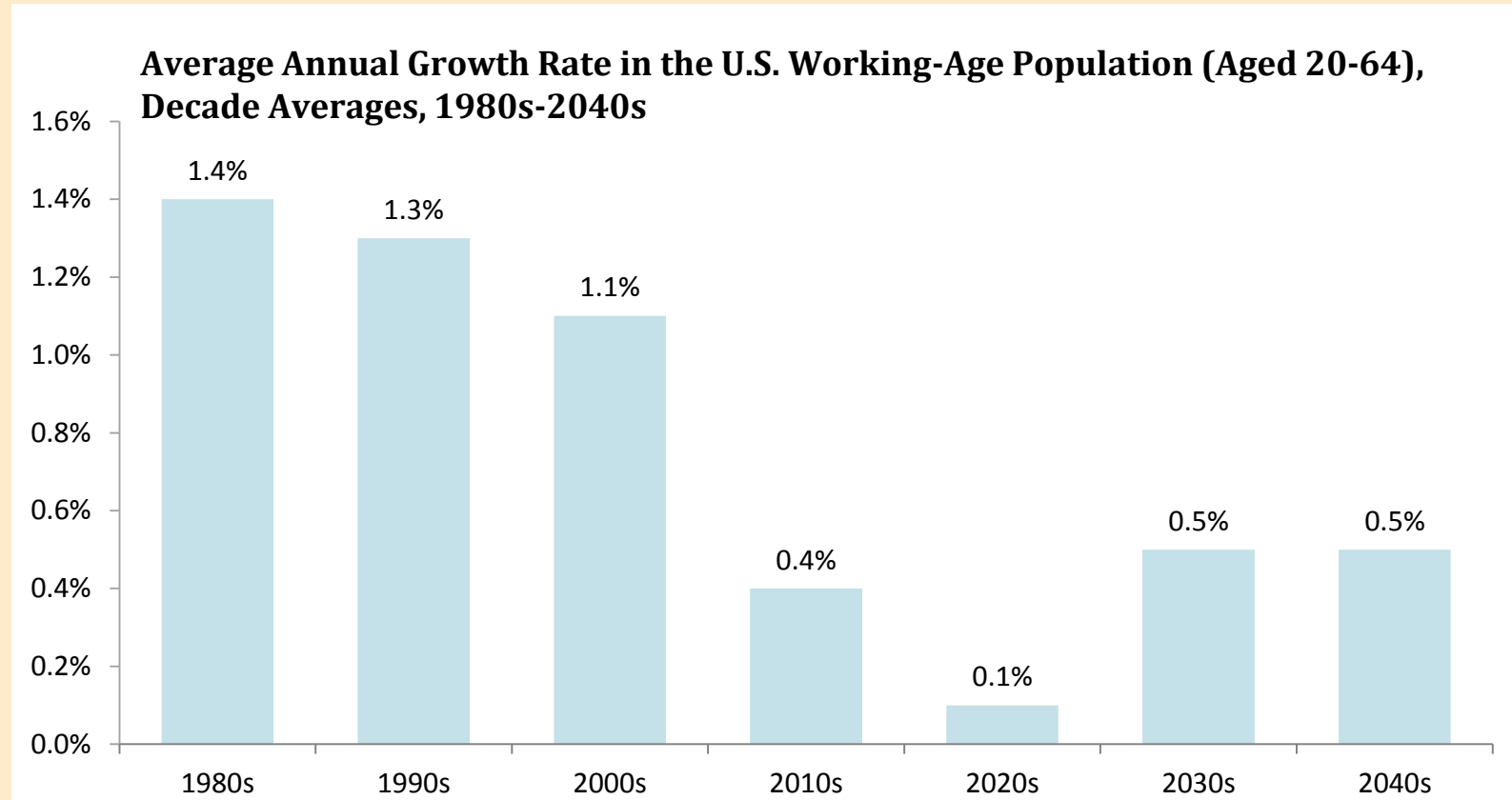
One Result: A Large Fiscal Shock

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



Source: GAP Index, 2nd Edition (CSIS, 2013)

Another Result: A Large Labor-Market Shock



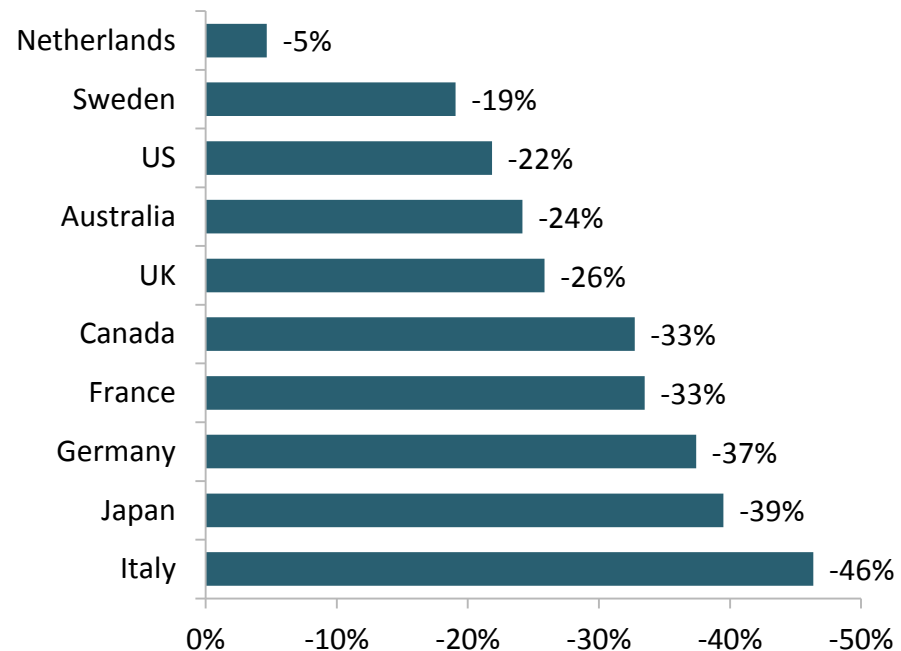
Source: UN Population Division (UN, 2013)

Concluding Thoughts

Even as entitlement reform in the United States remains gridlocked, many other developed countries have enacted major cost-saving reforms.

- ▣ Italy and Sweden are transforming their traditional DB public pension systems into notional defined contribution systems in which benefits are in effect indexed to the growth in the payroll tax base.
- ▣ Germany and Japan have added “demographic stabilizers” to their DB systems that achieve a similar result by automatically adjusting annual benefits to offset the annual change in the system dependency ratio of retired beneficiaries to contributing workers.
- ▣ Many other developed countries have raised retirement ages, trimmed benefit formulas, and adjusted indexing provisions.

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

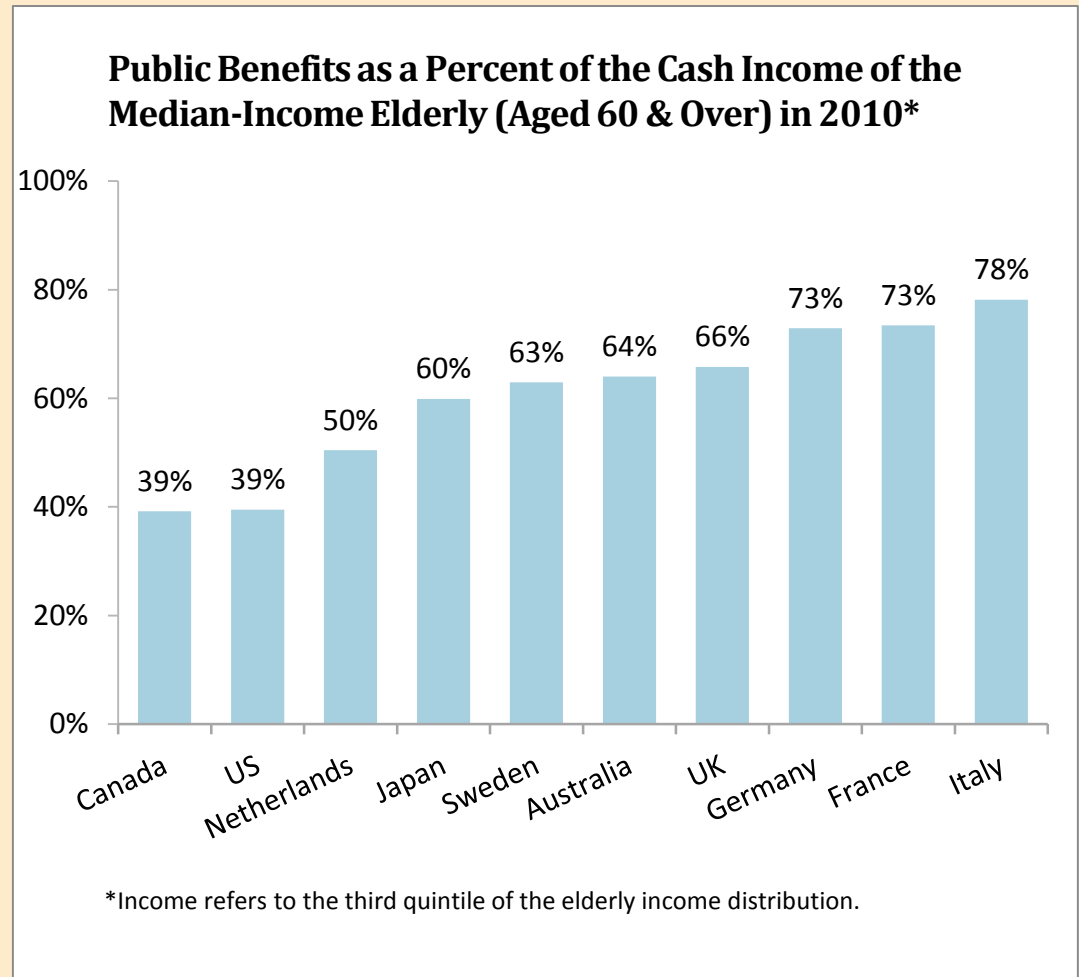


*The "current-deal" projection assumes that retirement ages and replacement rates remain unchanged in the future.

Source: GAP Index, 2nd Edition (CSIS, 2013)

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

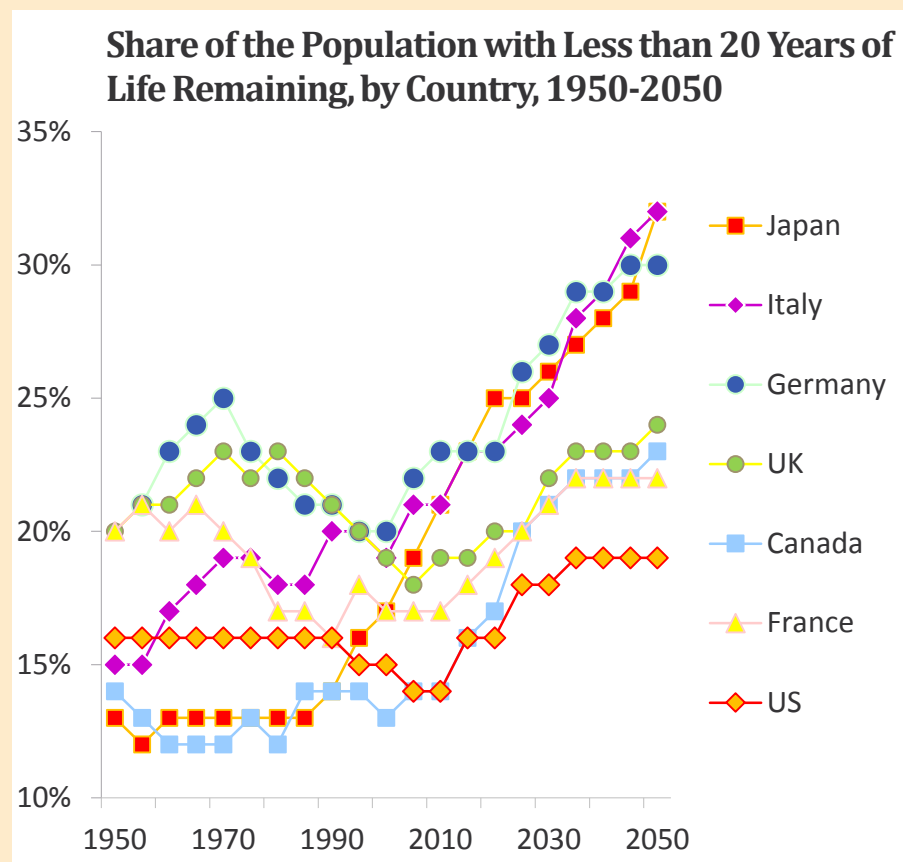
- ▣ It may be that the political economy of public benefits in the United States, where entitlements are viewed as quasi-contracts between individual and state, makes reform more difficult.
- ▣ It may also be that the progress other countries have made in reducing future fiscal burdens is more apparent than real. Unless they fill in the resulting gap in elderly income with alternative sources of income, they will face push back from aging electorates.
- ▣ In the long run, it may be no more feasible to have a retirement system that is fiscally sustainable but socially inadequate than it is to have one that is socially adequate but fiscally unsustainable.



Source: GAP Index, 2nd Edition (CSIS, 2013)

Four Big Questions

- Is age alone still a reasonable proxy for financial need or inability to work in the developed world? And if not, should age alone still be a categorical criterion for entitlement to public subsidy?
- Are health spans rising along with life spans? Sixty may be the new forty, but will eighty ever be the new sixty?
- How will the aging of the population affect the broader economy? Will aging societies be characterized by chronically low economic and living standard growth?
- How will the aging of the population affect social mood? Will aging societies be characterized by greater risk aversion and shorter time horizons?



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

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