

Parallel Session 3B

Balancing Adequacy and Sustainability

Insights from the Global Aging Preparedness Index

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ASFA Conference

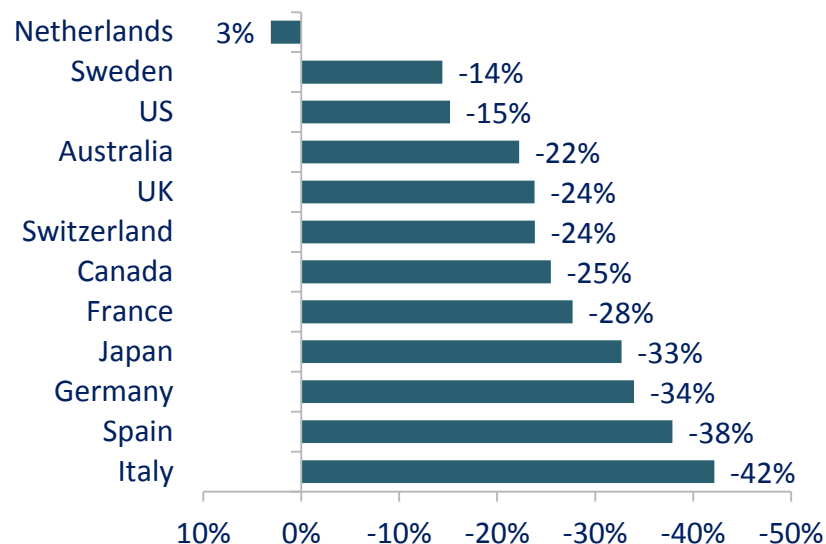
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Global aging will challenge the ability of societies to maintain a decent standard of living for the old without imposing a crushing burden on the young.

- In the developed world, the rising burden of old-age benefit programs is forcing countries to make dramatic reductions in the future generosity of state retirement provision.
- In the developing world, countries are rushing to put in place adequate government or market substitutes for informal family support networks.
- Everywhere, governments are struggling to ensure the sustainability and adequacy of their retirement systems.

Cumulative Percentage Change in Current-Law Public Pension Benefits to the Elderly 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

Introducing the GAP Index

- ▣ The GAP Index provides a unique new quantitative assessment of the progress that countries worldwide are making in preparing for the global aging challenge.
- ▣ The GAP Index covers twenty countries, including most major developed economies and a selection of economically important emerging markets.
- ▣ The GAP Index consists of two subindices—a fiscal sustainability index and an income adequacy index.

GAP Index Countries

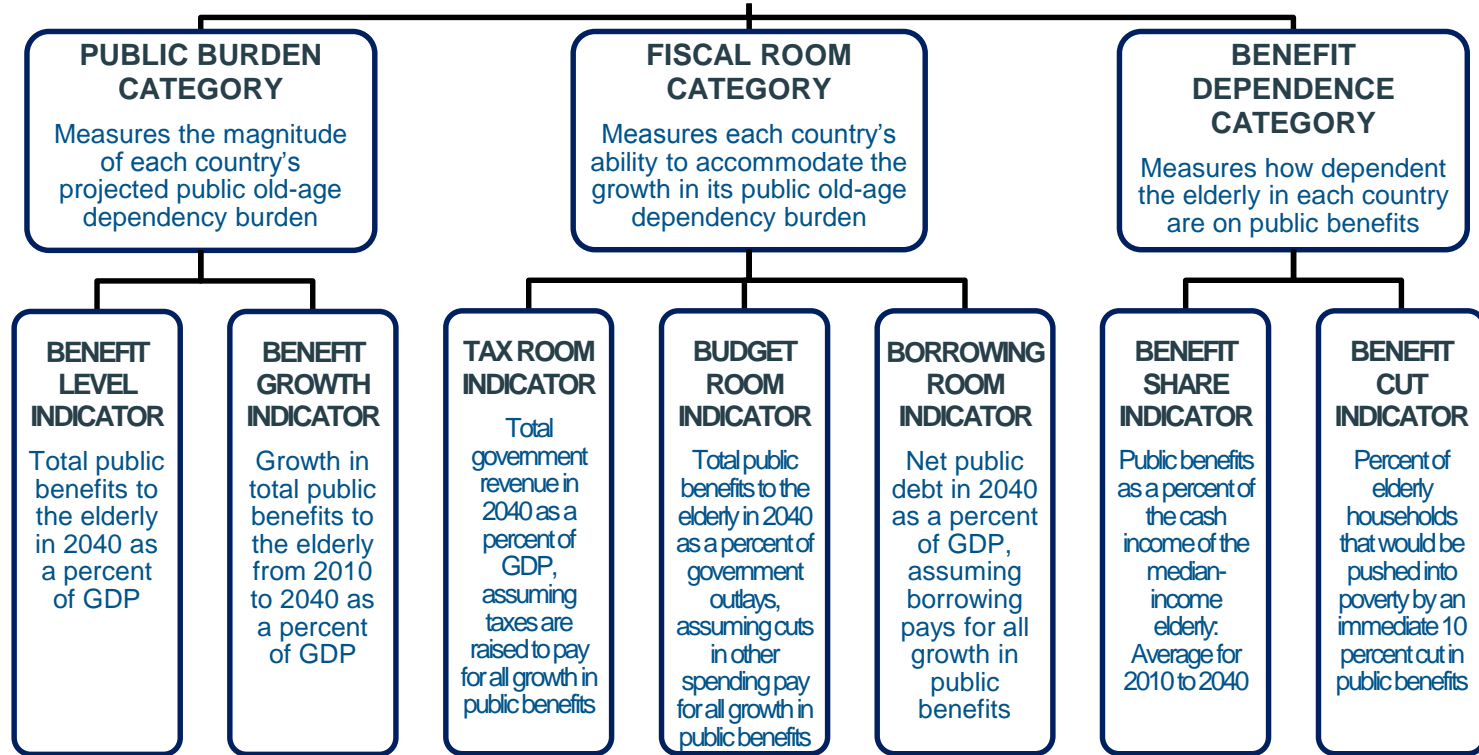
Australia
Brazil
Canada
Chile
China
France
Germany
India
Italy
Japan
Korea
Mexico
Netherlands
Poland
Russia
Spain
Sweden
Switzerland
UK
US

The GAP Index Framework

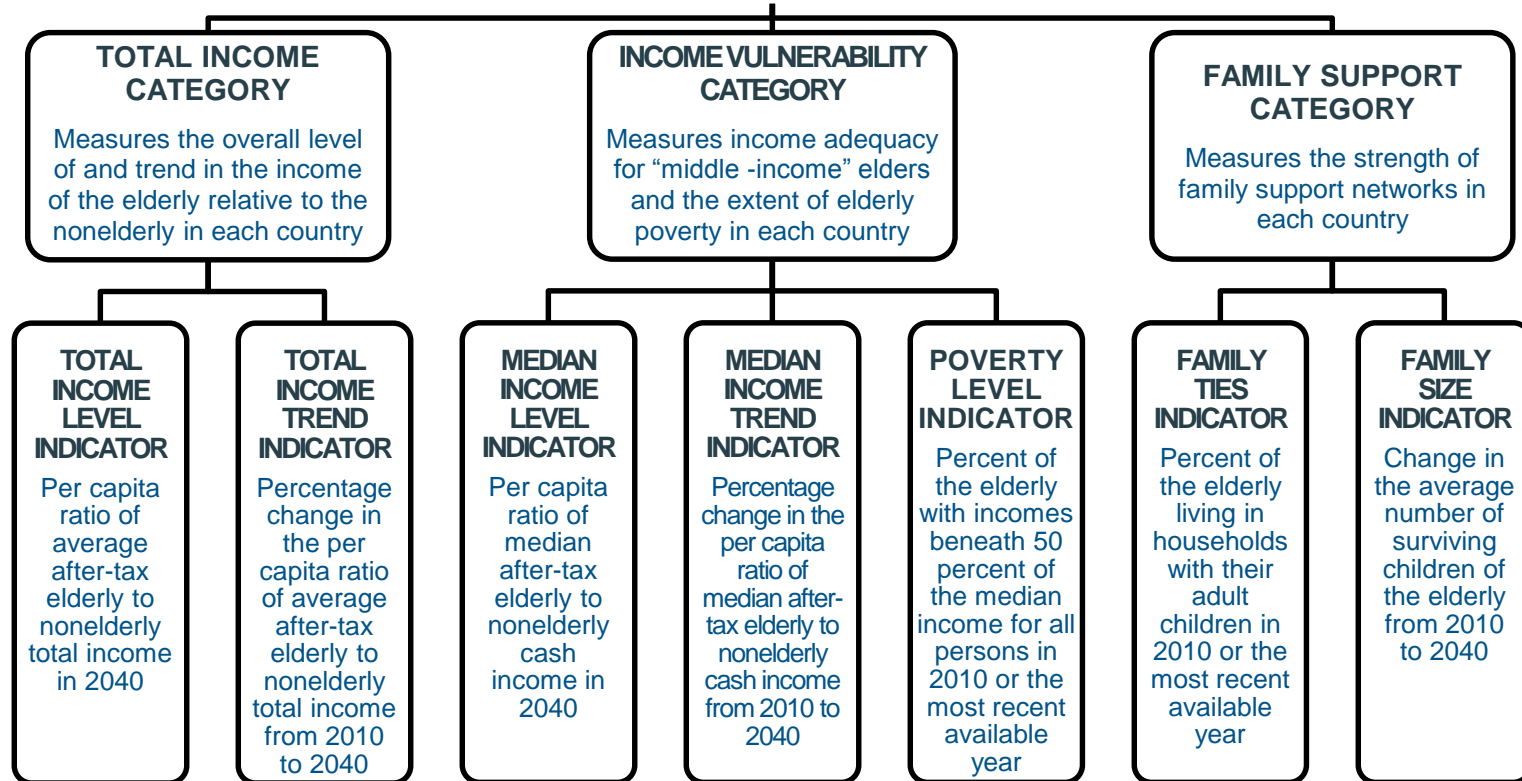
- ❑ The GAP Index is based on projections of total government benefit spending and total household income by age through the year 2040.
- ❑ The GAP Index divides the population into two groups: the elderly (persons aged 60 and older) and the nonelderly (persons under age 60).
- ❑ The GAP Index assumes a current policy and current behavior baseline, which allows it to serve as a “stress test” for existing retirement policies.
- ❑ The GAP Index is forward looking: It ranks countries based on where they are heading, rather than where they currently stand.
- ❑ The GAP Index is relative: The performance of countries on each indicator is measured relative to that of other countries. There are no absolute “preparedness” benchmarks for fiscal sustainability or income adequacy.

GAP

FISCAL SUSTAINABILITY INDEX



GAP INCOME ADEQUACY INDEX



GAP Index Rankings: 2nd Edition



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Fiscal Sustainability Index		Income Adequacy Index	
1	India	1	Netherlands
2	Mexico	2	US
3	Chile	3	Brazil
4	China	4	Australia
5	Russia	5	Germany
6	Australia	6	Sweden
7	Sweden	7	UK
8	Canada	8	Chile
9	Poland	9	Canada
10	Korea	10	France
11	US	11	Italy
12	Switzerland	12	Spain
13	UK	13	China
14	Brazil	14	Japan
15	Japan	15	India
16	France	16	Switzerland
17	Netherlands	17	Mexico
18	Germany	18	Russia
19	Italy	19	Korea
20	Spain	20	Poland

By developed-world standards, Australia's old-age dependency burden is quite small.

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%
Spain	8.3%	11.2%	3.3%	9.2%	2.3%	3.2%	13.9%	23.6%
Sweden	7.5%	8.4%	5.2%	7.3%	2.6%	3.5%	15.2%	19.3%
Switzerland	5.6%	8.4%	3.9%	9.6%	0.9%	1.5%	10.4%	19.5%
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%

Australia has ample fiscal room to accommodate the rising cost of its old-age benefit programs.

Tax Room Indicator (%)			Budget Room Indicator (%)			Borrowing Room Indicator (%)		
1	Australia	38	1	Australia	38	1	Sweden	-19
2	Switzerland	41	2	Canada	39	2	Australia	11
3	US	41	3	Sweden	40	3	Canada	76
4	Japan	42	4	Netherlands	42	4	Switzerland	81
5	Canada	43	5	UK	44	5	France	82
6	UK	43	6	France	45	6	UK	91
7	Spain	46	7	US	48	7	Germany	104
8	Germany	50	8	Italy	51	8	Italy	140
9	Sweden	51	9	Japan	53	9	Netherlands	176
10	Italy	53	10	Germany	54	10	US	177
11	Netherlands	54	11	Switzerland	57	11	Japan	325
12	France	56	12	Spain	59	12	Spain	331

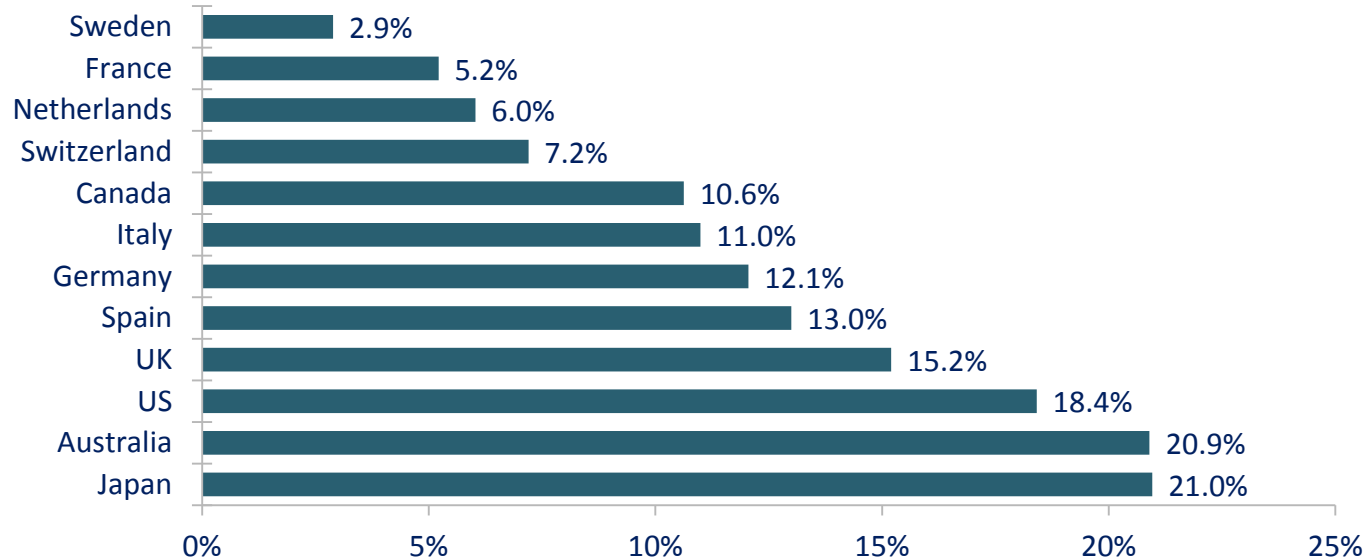
INDICATOR KEY

Tax Room Indicator = Total government revenue in 2040 as a percent of GDP, assuming taxes are raised to pay for all growth in public benefits
Budget Room Indicator = Total public benefits to the elderly as a percent of government outlays in 2040, assuming cuts in other spending pay for all growth in public benefits
Borrowing Room Indicator = Net public debt in 2040 as a percent of GDP, assuming borrowing pays for all growth in public benefits

Source: GAP Index, 2nd Edition

Australia's low public benefit spending helps to explain its high elderly poverty rate.

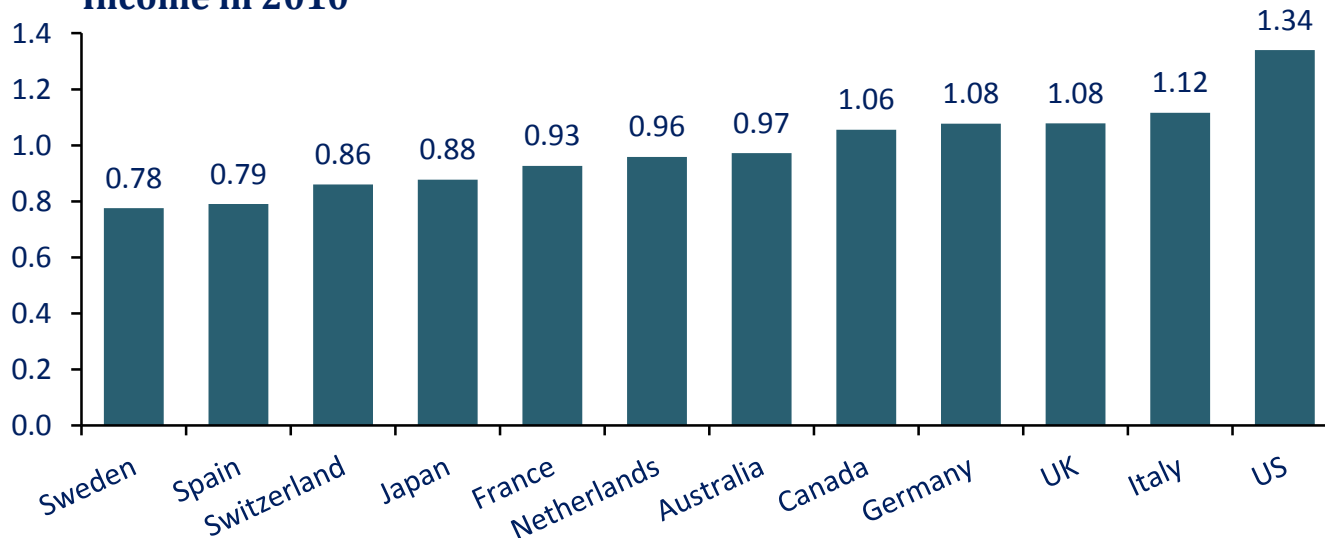
Percent of the Elderly (Aged 60 & Over) Living in Households with Incomes beneath 50 Percent of the Median Income for All Households in Most Recent Year Available



Source: GAP Index, 2nd Edition

The living standard of today's middle-income elderly is relatively high in Australia.

Per Capita Ratio of Median After-Tax Elderly to Nonelderly Cash Income in 2010*

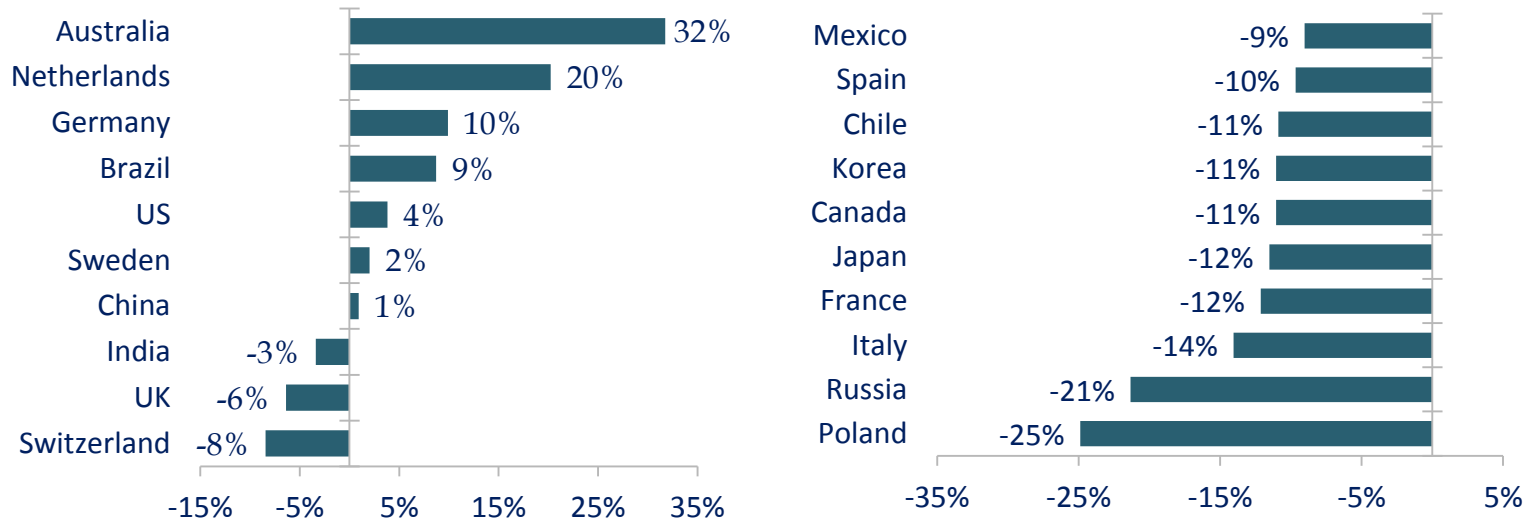


*Income refers to the third quintile of the elderly and nonelderly income distribution.

Source: GAP Index, 2nd Edition

The living standard of Australia's middle-income elderly, moreover, is due to improve dramatically over the next few decades.

Percentage Change in the Per Capita Ratio of Median After-Tax Elderly to Nonelderly Cash Income from 2010 to 2040*



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

Source: GAP Index, 2nd Edition

The most important reason for the projected improvement in elderly living standards: SUPER

Funded Pension Benefits as a Percent of Median Elderly Cash 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%
Spain	3%	5%	0.6%	1.2%
Sweden	10%	21%	1.9%	4.8%
Switzerland	32%	40%	5.1%	9.8%
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.

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