DINNER ROUNDTABLE ON THE GLOBAL AGING CHALLENGE

February 23, 2016

Event Summary

The Global Aging Institute (GAI) hosted a dinner roundtable on February 23, 2016 that brought together prominent public servants, business leaders, and experts on global aging for an off-the-record discussion of what is shaping up to be one of the defining challenges of the twenty-first century. GAI is grateful to Chuck Bowsher for making the Metropolitan Club available for the evening; to John Brown of Jackson National Life Insurance Company for moderating the discussion; and to Prudential plc for its sponsorship of the event.

The following people were in attendance:

Brad Belt	Vice Chairman, Orchard Global Capital Group
Pieter Bottelier	Professor Emeritus, Johns Hopkins University
Chuck Bowsher	*retired*
John Brown	Vice President, Public Policy & Communications, Jackson National Life Insurance Company
Benedict Clements	Division Chief, Fiscal Policy & Surveillance Division, Fiscal Affairs Department, IMF
Lee Covington	Senior Vice President & General Counsel, Insured Retirement Institute
Adm. Bruce DeMars	*retired*
Gene Dodaro	Comptroller General of the United States, GAO
Dalmer Hoskins	Special Advisor, Social Security Administration
Neil Howe	President, LifeCourse Associates
Richard Jackson	President, Global Aging Institute
Jeffrey Jordan	President & CEO, Population Reference Bureau
Don Kanak	Chairman, Eastspring Investments
Gov. Dirk Kempthorne	President & CEO, American Council of Life Insurers

Josh McGee	Vice President, Public Accountability, The Laura and John Arnold Foundation
John May	Visiting Scholar, Population Reference Bureau
Carol Navin	Special Projects Liaison, Global Aging Institute
Tom Terry	Chairman, Global Aging Institute

Setting the Stage

After Tom Terry and John Brown convened the event, Richard Jackson and Don Kanak set the stage for the evening's discussion with some brief opening remarks.

Richard, who focused his remarks on the developed world, warned that global aging could usher in a future of rising fiscal burdens, slower economic growth, and diminished geopolitical stature. But he also stressed that we are by no means helpless in the face of global aging. We can reduce future fiscal burdens by enacting timely pension and health-care reform. We can boost economic growth by encouraging longer and healthier work lives. And we can prepare for shifts in the global balance of power by forging new security alliances and making strategic investments in the emerging world.

Don then outlined the very different situation in emerging markets. While today's developed countries became affluent societies before they became aging societies, today's emerging markets are aging while they are still in the midst of development and before they have put in place robust government or market substitutes for traditional family support networks. The challenge there is not so much how to afford the sunk cost of existing retirement systems, but rather how to build new retirement systems that are both adequate and sustainable—and that support rather than undermine economic growth.

The discussion that ensued was wide-ranging, covering everything from the impact of global aging on retirement security to national security. Although much of the group's attention was focused on the United States, the challenges facing the rest of the world, and particularly the fast-aging countries of Europe and East Asia, also figured prominently in the discussion. The summary that follows is organized thematically rather than sequentially. It touches on most of the major issues that were discussed during the course of the evening, but does not pretend to capture all of the detail.

Burdening Future Generations

There was a clear consensus among participants that the United States is not adequately prepared to meet its aging challenge. One recurring theme in the discussion was that Americans are not saving enough for retirement. Another was that the federal budget remains on an unsustainable trajectory. Some participants expressed concern about the fiscal impact of leaving retirement and health-benefit programs on autopilot, while others questioned the morality of burdening future generations with large unfunded benefit liabilities. It was noted that slower projected economic growth, which is itself largely a consequence of the aging of the population, will make honoring the benefit promises we've made even more burdensome. It was also noted that today's record low interest rates conceal the true size of America's fiscal imbalance, and that when interest rates rise, as they surely will, the cost of servicing the national debt will soar.

Many participants stressed that the real problem is not so much the magnitude of the U.S. aging challenge as our dysfunctional political economy. Compared with other developed countries, the United States ought to be at what one participant called the "opportunity end of the spectrum." After all, we have flexible labor markets, broad and deep capital markets, and an entrepreneurial culture that is still the envy of the world. Thanks to our near-replacement fertility rate and substantial net immigration, we also have relatively favorable demographics. Even after the last of the Boomers have retired, the United States will be no older than Germany, Italy, or Japan already are today.

Yet far from leveraging our underlying advantages, we may be squandering them. It was noted that many other developed countries, most of which have faster-aging populations and more expansive welfare states, have enacted sweeping reforms that reduce the long-term cost of government old-age benefit programs. Meanwhile in the United States, we seem incapable of making resource trade-offs between competing priorities. It was also noted that over the years there have been many bipartisan reform proposals, like that of the 2011 Simpson-Bowles Commission, that would have gone a long way toward putting the federal budget back on a sustainable trajectory. Yet in the end, Washington policymakers always seem to defer the difficult choices. Several participants suggested that as a nation we seem to have lost our ability to build consensus around "shared sacrifice"—and wondered whether it will take a major economic or geopolitical crisis to relearn it.

Looking beyond the Beltway to developments at the state and municipal level, the group seemed to be of two minds. On the one hand, there was much concern expressed about the fiscal impact of rising Medicaid costs and ballooning unfunded pension liabilities, which are progressively crowding out other public purpose spending. Many municipalities are hurtling toward bankruptcy, even as their infrastructure crumbles. On the other hand, there seemed to be somewhat more optimism about the potential for reform. As one participant put it, Congress only thinks in "two year increments," while state governors can be "instigators of long-term change."

Millennials to the Rescue

Some participants expressed concern that the aging of the electorate might make entitlement reform even more difficult than it is today. As the share of voters who are current Social Security and Medicare beneficiaries grows, the reasoning goes, so will the clout of the senior lobby. But others questioned whether it is correct to assume that older voters will necessarily vote in their own self-interest. After all, grandparents by definition have grandkids, and hence a stake in the welfare of future generations. One participant cited a focus group in which seniors, when asked to brainstorm about how to close Social Security's long-term deficit, came up with a solution that balanced hiking taxes for the young with trimming benefits for the old.

There was also some discussion of how shifting generational dynamics might alter the political calculus of entitlement reform. One participant pointed out that there has been a dramatic increase over the past few decades in the share of young adults living with their parents. While some might characterize this negatively as a "failure to launch," it may also reflect a narrowing of the generation gap and a renewal of family ties. Polling data also show that Millennials, regardless of political affiliation, emphasize "sense of community" over "self-reliance" by much wider margins than older generations. In short, they are shaping up to be a new "civic generation," and as such may favor the public interest over their own self-interest. It was unclear, however, whether this portends support for policies that would alter the status quo or merely seek to prop it up.

Is Immigration the Solution?

As the discussion turned toward possible policy responses, several participants suggested that ramping up immigration would be one obvious way for countries with aging populations and slowly growing or contracting workforces to mitigate rising dependency burdens and help maintain economic growth. Not surprisingly, considerable concern was expressed that the growing anti-immigrant sentiment in Europe and the United States might rule out this option.

Yet other participants, while acknowledging the potential economic benefits of immigration, stressed that it has its limitations. To begin with, the benefits depend critically on the ability of countries to economically and socially assimilate migrants. Traditional "destination countries" like Australia, Canada, and the United States have a good historical track record of doing so, while most European countries, not to mention Japan, do not. It was also pointed out that the nature of migrant flows may itself affect the assimilation equation. Assimilating political refugees from Africa and the Middle East could be much more challenging than assimilating labor migrants from Latin America. As one participant put it, countries cannot expect to "plug and play" migrants.

Another participant pointed out that international migration is determined by both "push factors" and "pull factors," and that the push factors driving migration from Latin America are weakening. Birthrates have fallen dramatically throughout most of the region over the past few decades, while its economies are also performing better. If the United States wants to depend on immigration in the future, it will increasingly have to come from other faster-growing parts of the developing world.

Finally, it was noted that politically feasible levels of immigration, no matter how well assimilated, won't do much to slow the aging of the population. After all, though migrants may on average be younger than the native-born population, they too eventually grow old. For higher immigration to significantly alter a nation's age structure, the increase in the annual level of immigration not only needs to be large, but permanent.

Save More and Work Longer

On the retirement policy front, there was broad agreement that government should encourage or require greater private retirement savings. It was pointed out that even among U.S. adults nearing retirement age, median net financial assets are barely sufficient to finance a year of retirement income. One participant suggested that employer provided retirement schemes should be mandated, noting that countries like Australia or the Netherlands that have done so are much better equipped to deal with their aging populations. Most participants, however, seemed to favor "soft compulsion." It was noted that auto enrollment in 401(k) plans has already begun to boost participation rates, and that additional incremental steps, such as strengthening incentives for small businesses to offer 401(k)s or other retirement savings schemes, could boost them further. Most also stressed the importance of increasing financial literacy among citizens of all ages, something that will be increasingly important as the trend from DB to DC pensions continues. Evidence suggests that when people understand how much savings they need to accumulate to generate a given retirement income stream, they tend to save more.

While recognizing that Americans are undersaving for retirement, one participant pointed out that there is a certain irony in calling for new initiatives to encourage greater savings at a time when nearly all economists, the Fed included, are urging Americans to save less and spend more. Clearly, there is a tension between near-term and long-term policy goals that may be difficult to resolve.

There was also broad, if qualified, agreement that U.S. retirement ages need to rise. Although it was noted that there has been some progress in this direction, it was also noted that increases in retirement ages have lagged far behind increases in life expectancy. Some participants suggested that Social Security's normal retirement age should, at a minimum, be indexed to life expectancy. Others, however, pointed out that an across-the-board increase would raise serious equity concerns, since both life expectancy and health expectancy vary greatly by ethnicity, educational attainment, and socio-economic status. Moreover, unless policies are well crafted, what we save from lower spending on retirement benefits might be offset by additional spending on disability benefits.

Although much of the discussion focused on retirement policy, health policy also came up a number of times during the evening. Several participants stressed that the United States needs to take a more coherent approach to delivering and financing "end of life" health care, including both medical care and long-term care. Several participants also stressed that health-care costs must be controlled if we are to improve the long-term fiscal outlook. At least one participant questioned whether it is even possible to address the U.S. aging challenge without first enacting fundamental health-care reform.

We're All in It Together

There was broad agreement that the aging challenge is not just a domestic policy issue, and that the U.S. response to it could have important implications for the global economy and world order. We are entering an era of "shared prosperity," as one participant put it, in which our success or failure in confronting the aging challenge could affect the prospects for growth and stability around the world. Similarly, the success or failure of other countries may affect the United States in important ways.

In this regard, some participants expressed concern that demographic trends may weaken the traditional developed-world security alliance. It was pointed out that unless Europe and Japan change course, they will soon be in steep demographic and economic decline. Meanwhile, many of the countries that will be experiencing the most rapid demographic and economic growth do not share the same commitment to liberal democracy, free markets, and a rules-based world order.

But if the group stressed that global aging poses potential global problems, it also recognized that there are potential global solutions. Open global capital markets can match savers in an older and more slowly growing developed world with investment opportunities in a younger and faster growing emerging world. Open global labor markets can similarly match workers with job opportunities, whether through immigration or outsourcing. In short, for an aging world to prosper it needs to be an interconnected world. The danger is that aging societies with stagnant or contracting domestic markets may be tempted to roll back globalization.

Concluding Remarks

At the end of the evening, Richard Jackson made brief concluding remarks that underscored some of the major themes that emerged during the discussion. He noted that there is both good news and bad news for the United States. The good news is that our underlying demographic and economic fundamentals are more favorable than in most other developed countries. Yes, the retirement of the Boomer generation will generate a large fiscal and economic shock. But unlike Japan and Europe, we do not face a future of hyper-aging and population decline. The bad news is that we labor under a number of serious self-inflicted handicaps, from a low national savings rate and high health-care cost growth to our dysfunctional political economy. We should be able to meet our aging challenge with sensible reforms that move us from age-based to needs-based entitlements, make realistic trade-offs in health care, and unlock the productive potential of the elderly. Unfortunately, it is an open question whether we will.

Richard also stressed the inevitability of global aging. Demography, he explained, is like an ocean liner: When steaming full speed ahead, it can only change course slowly. The implication is that, one way or the other, the United States cannot avoid its aging challenge. How successfully we confront the challenge may not only determine our own future welfare, but also the welfare of the rest of the world.