



The U.S. Aging Challenge in International Perspective



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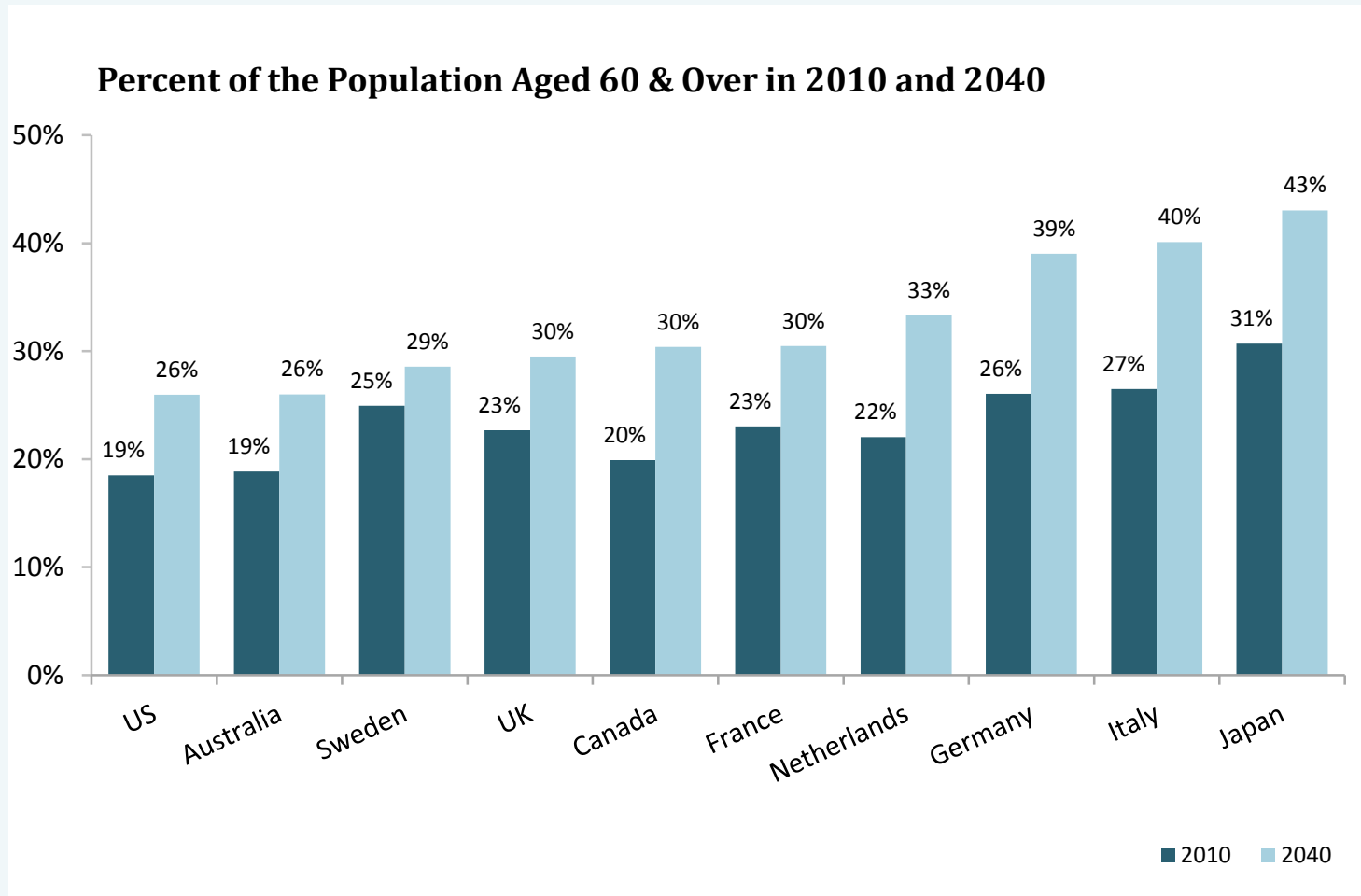


GAI & Terry Group Roundtable

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The Good News

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



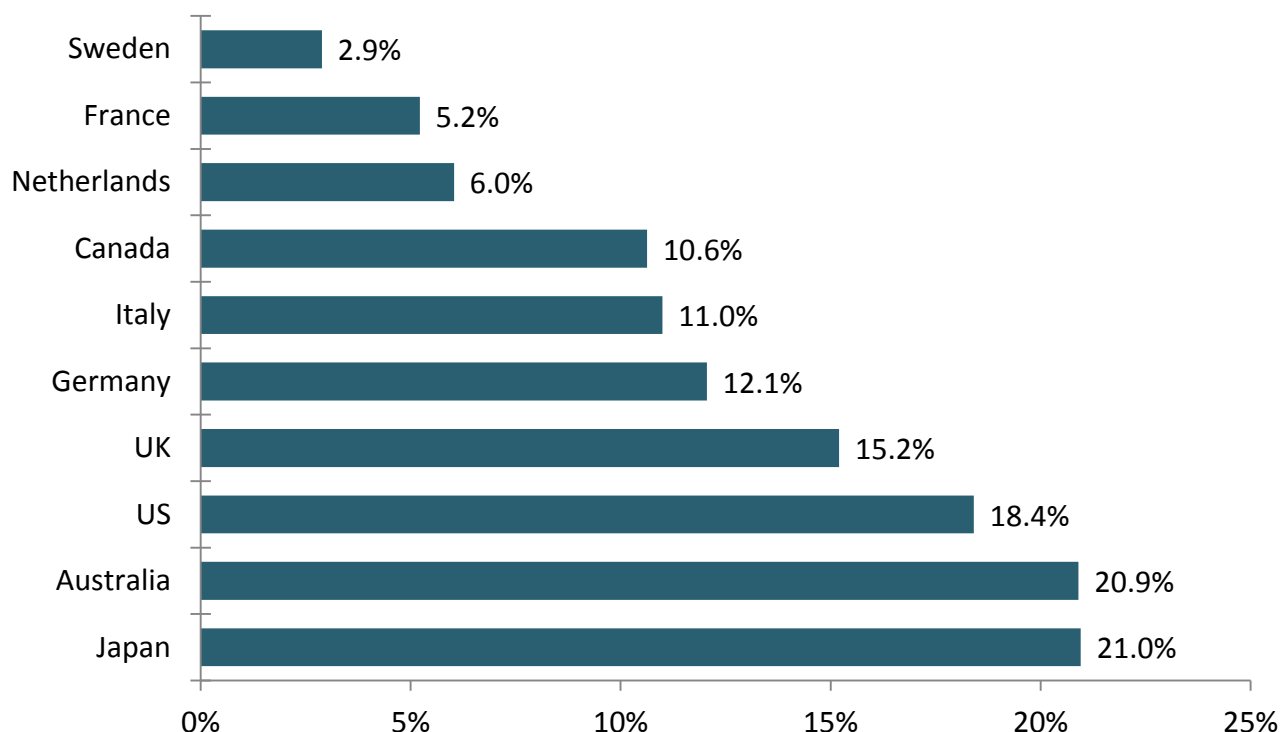
The U.S. public old-age dependency burden is not large by developed-world standards.

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%

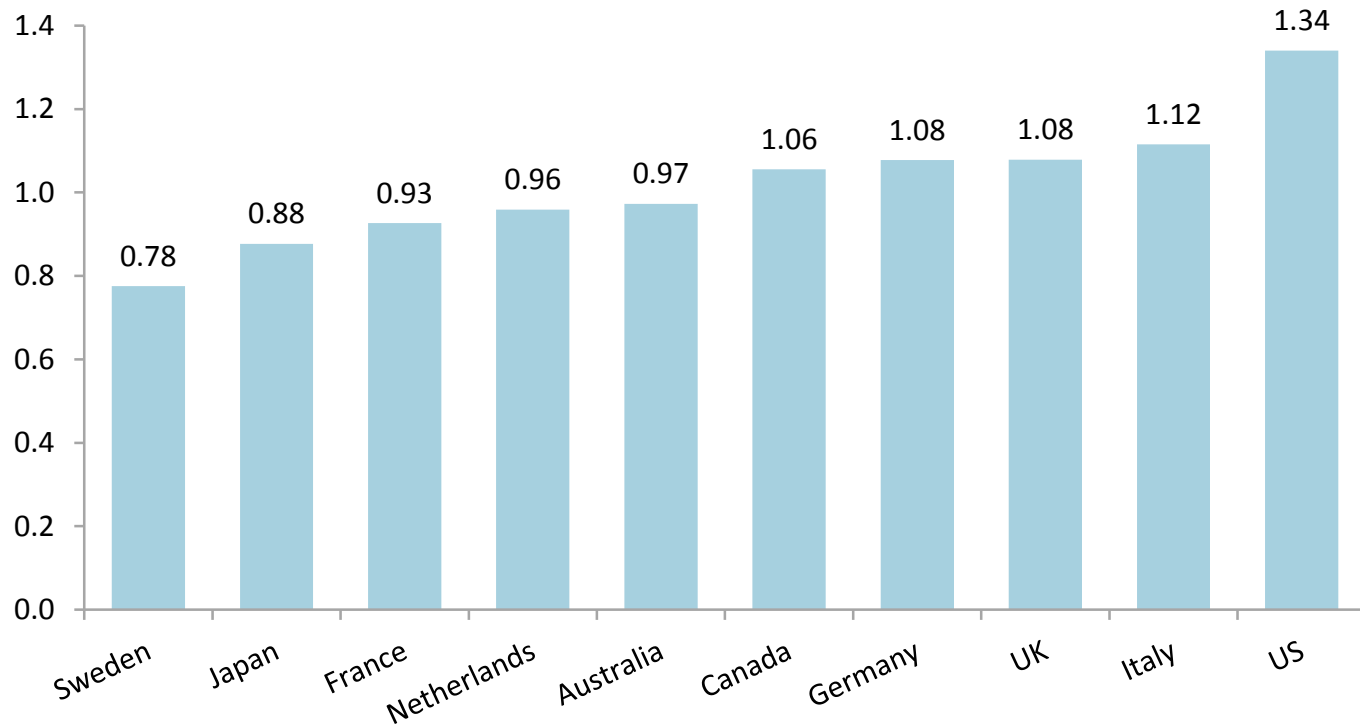
Low public benefit spending helps to explain the high relative poverty rate of the U.S. elderly.

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



Nonetheless, the income of the typical U.S. elder is very 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.

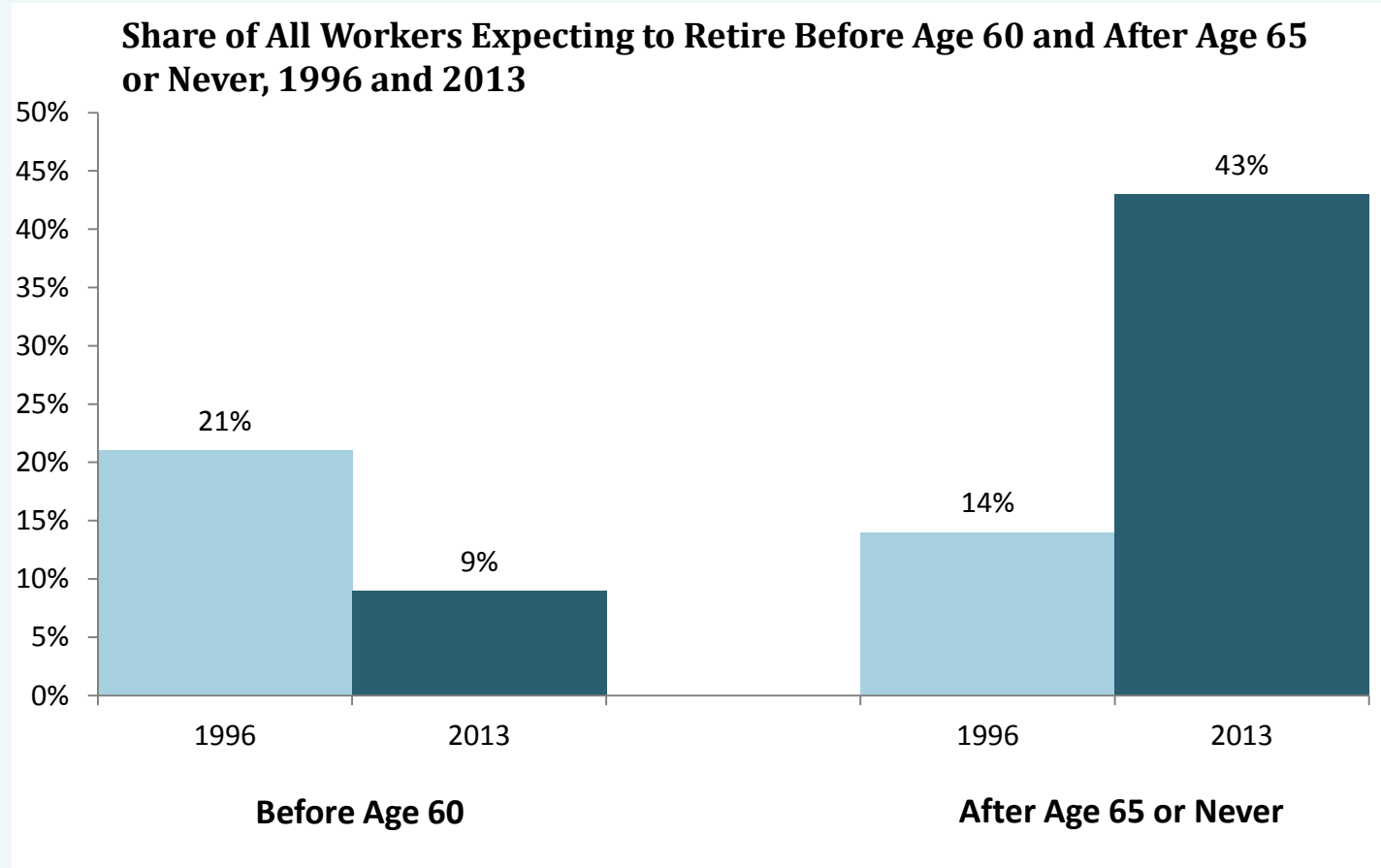
Another Reason for High Elderly Living Standards: America's High Rate of Elderly Labor-Force Participation

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.

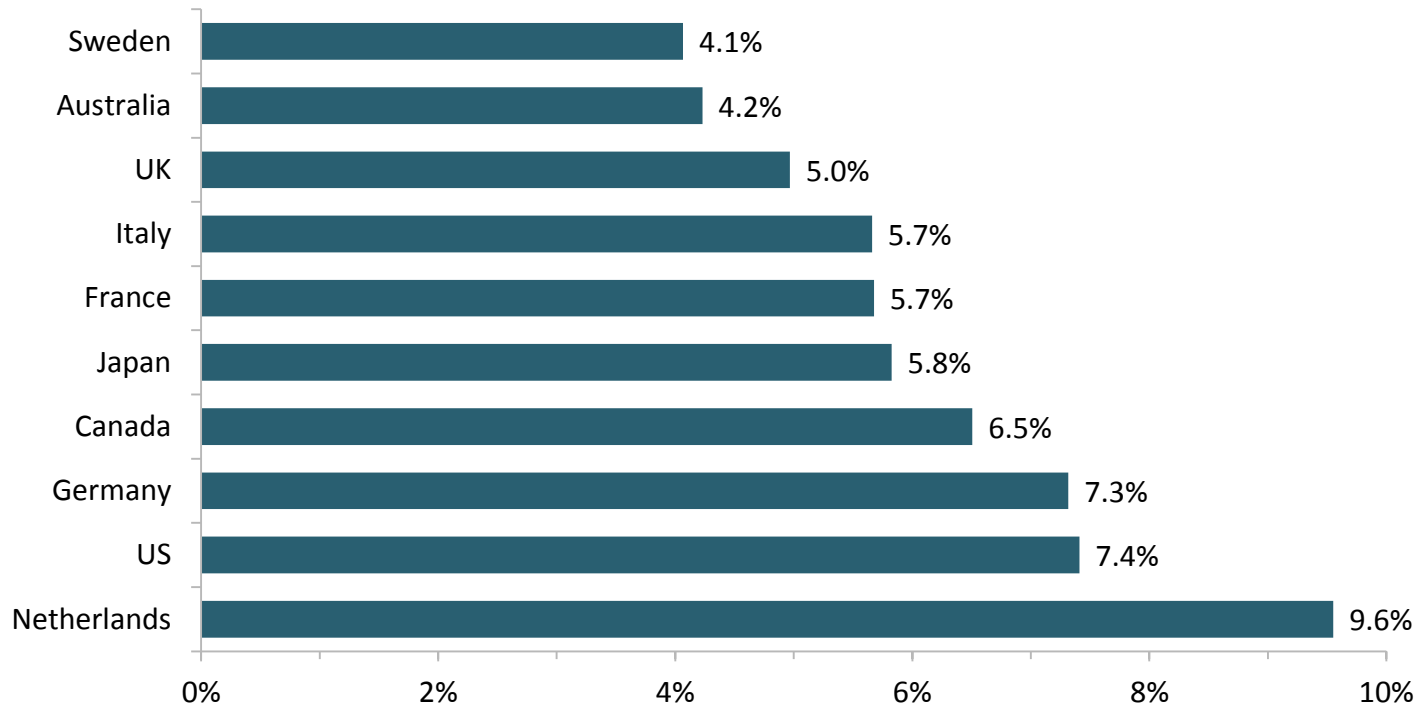
Surveys of retirement expectations suggest that a large additional increase in elderly labor-force participation rates may now be in the pipeline.



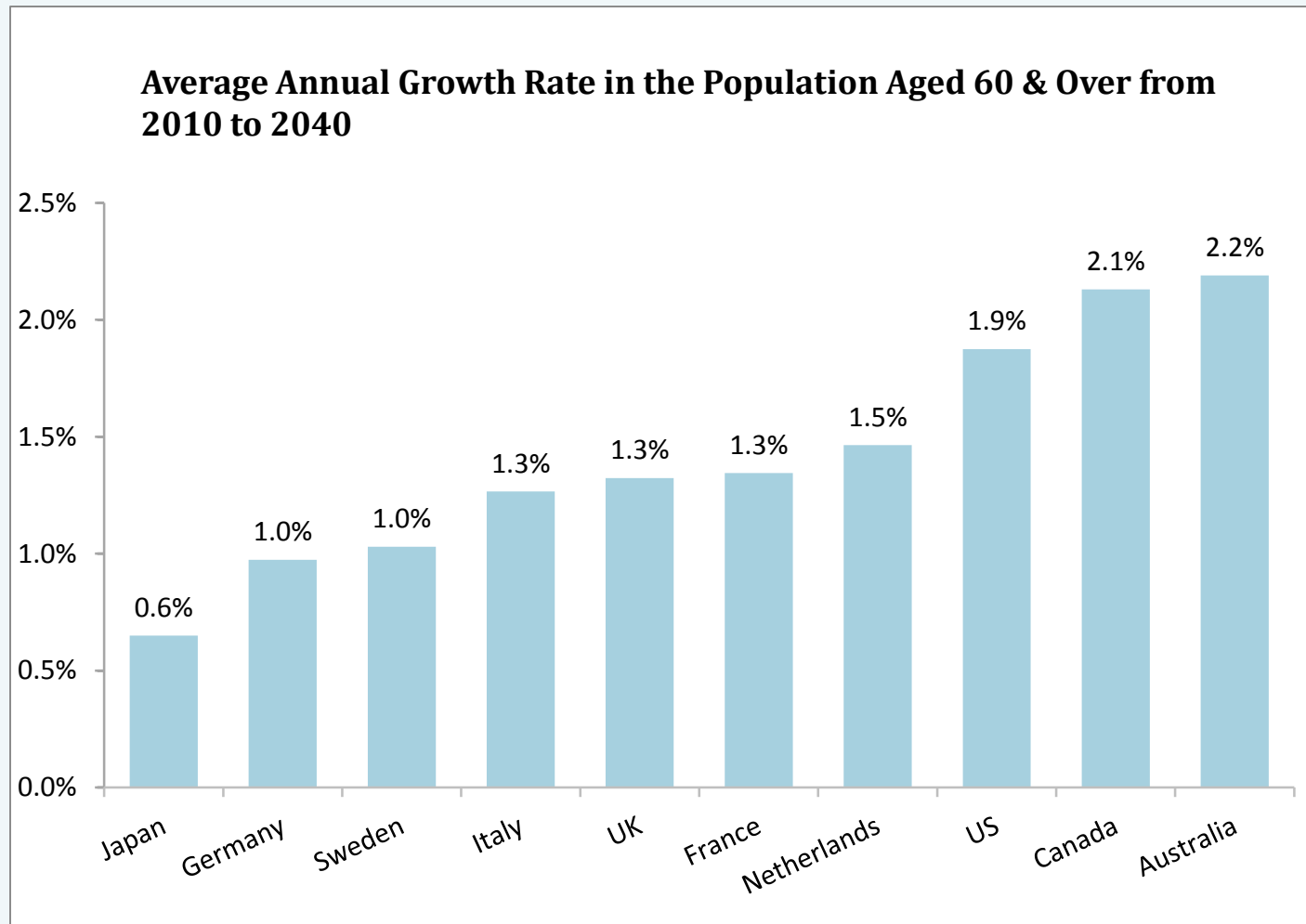
The Bad News

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

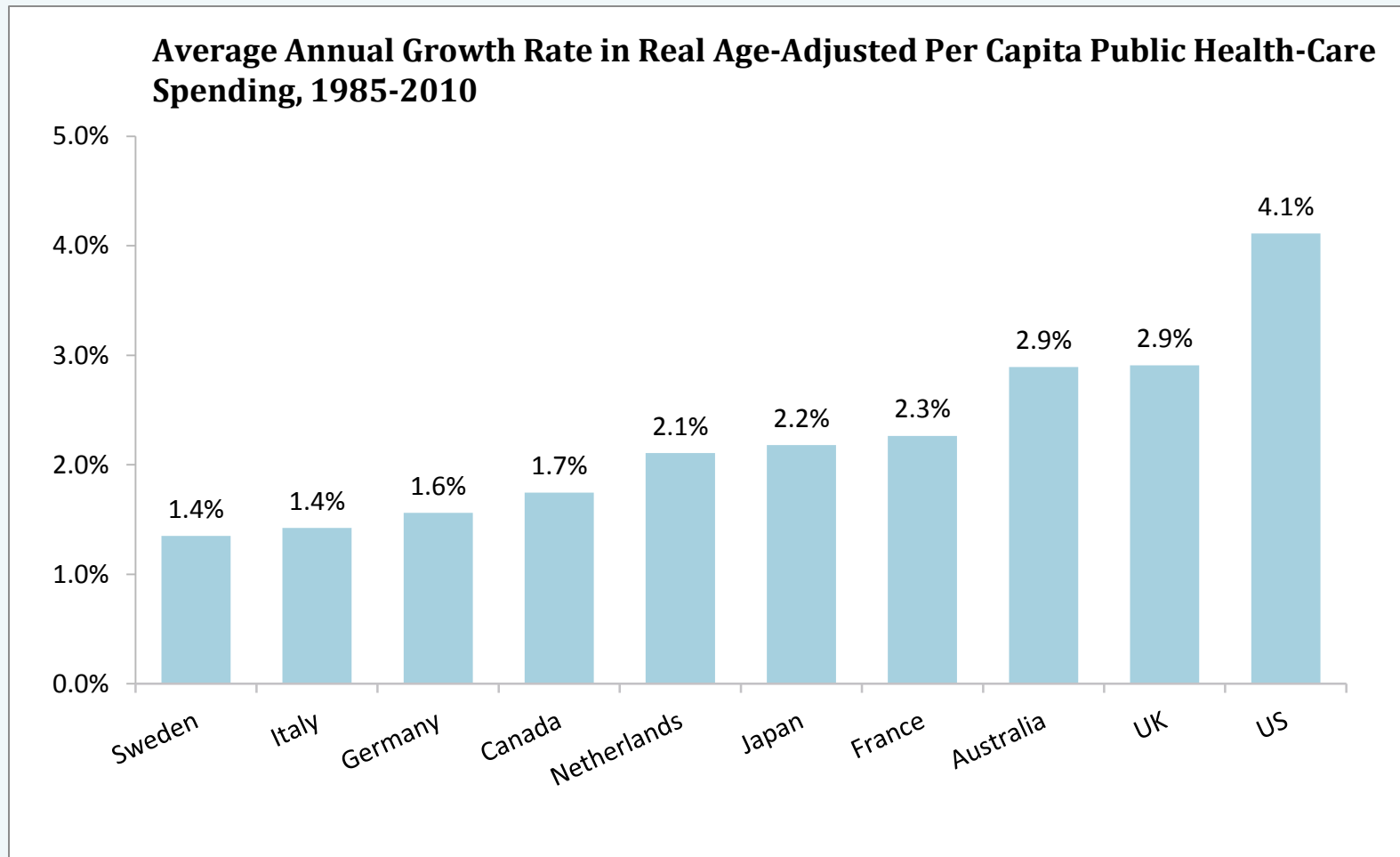
Growth in Total Public Benefits to the Elderly (Aged 60 & Over) as a Percent of GDP from 2010 to 2040



Behind the Growth in Old-Age Benefits: America's Large Baby Boom Generation

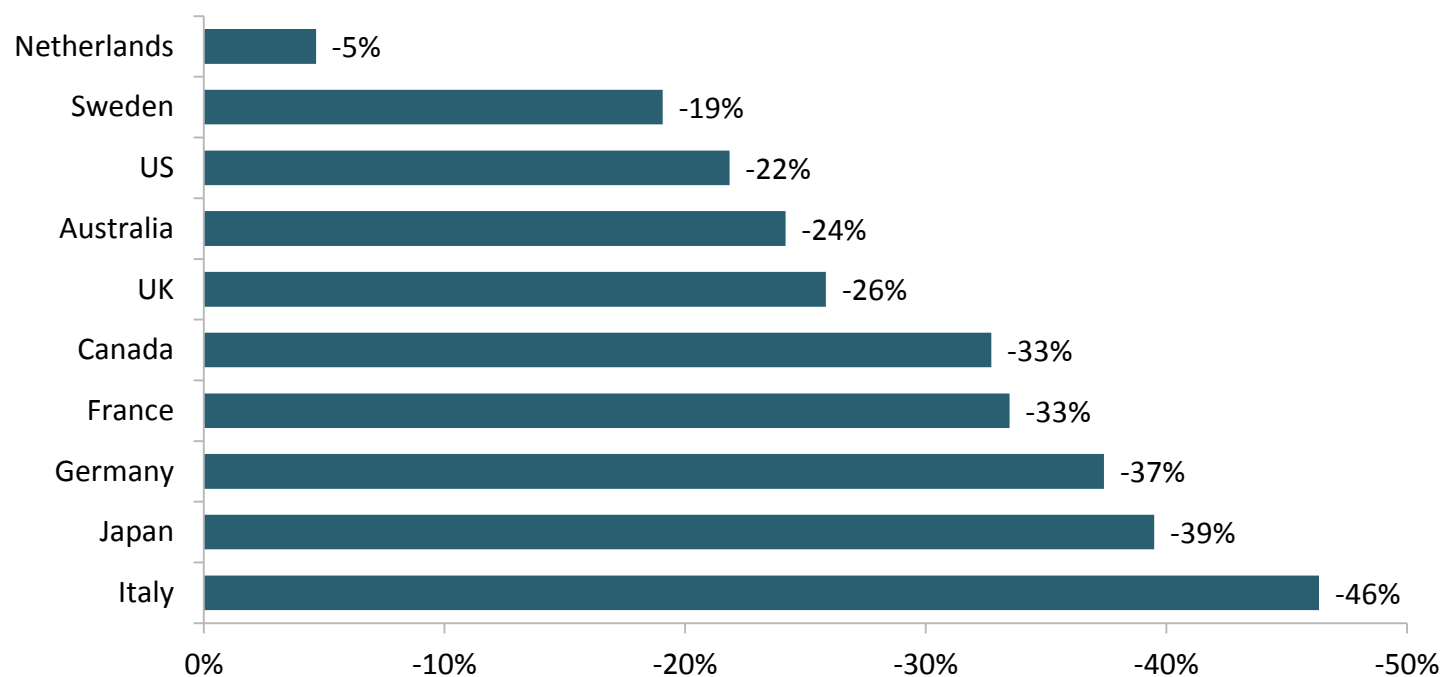


Behind the Growth in Old-Age Benefits: America's High Rate of Health-Care Cost Growth



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*

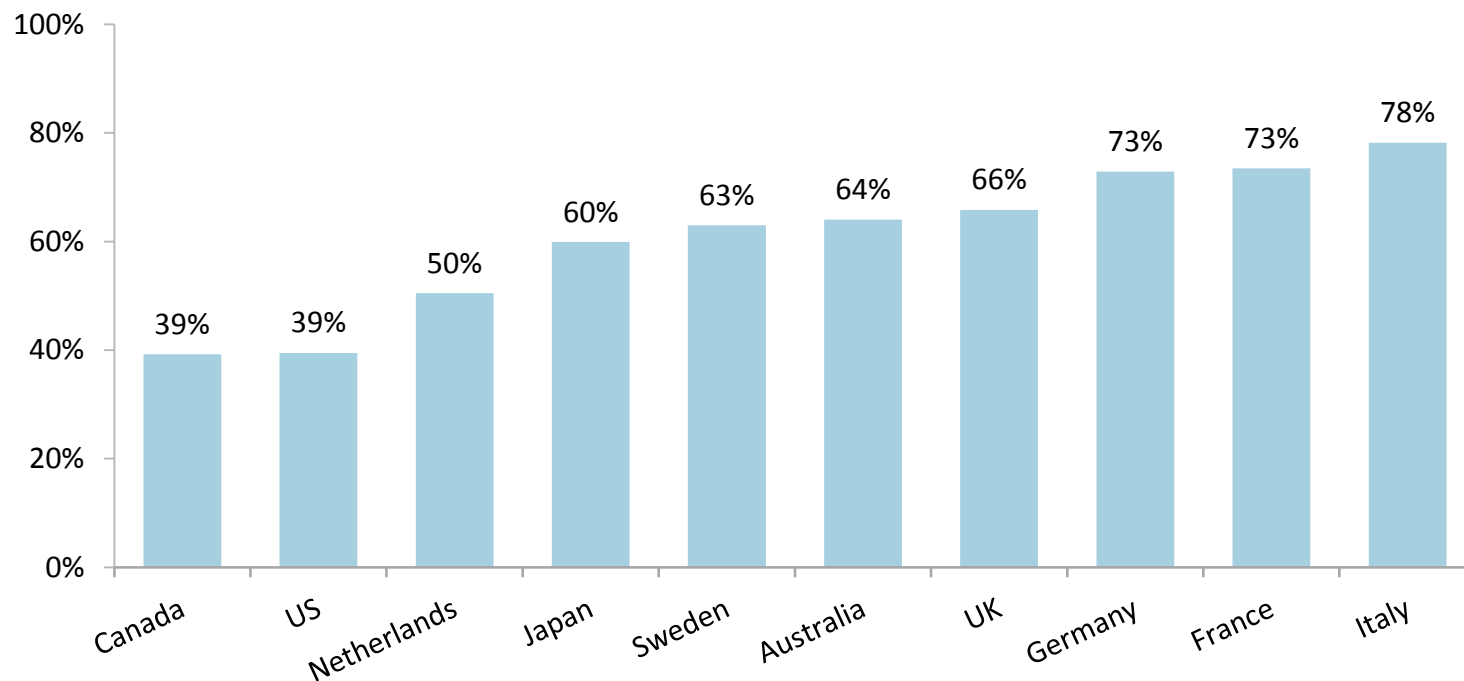


*The "current-deal" projection assumes that retirement ages and replacement rates remain unchanged in the future.

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*

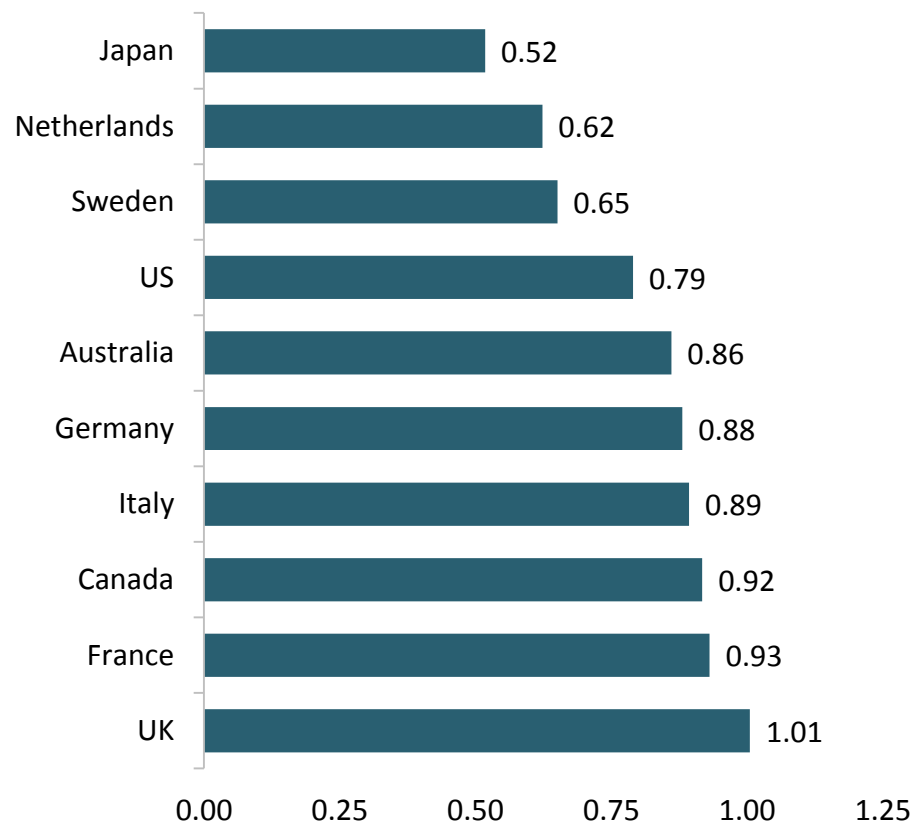


*Income refers to the third quintile of the elderly income distribution.

Some Concluding Thoughts

- Age alone is no longer a reasonable proxy for financial need or inability to work. Therefore, age alone should no longer be a blanket criterion for entitlement to public subsidies.
- As societies age, government benefits will need to serve less as a retirement income floor for all of the elderly and more as an income backstop for the “old elderly.”
- Aging societies must leverage the productive potential of the elderly. Longer work lives are good for the budget, good for the economy, and good for the elderly themselves.
- Aging societies will need to ration health care for the elderly. But aging societies will also need to make new investments in the health of the elderly. How can they strike the right balance between competing priorities?

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



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