the policy challenges associated with an aging population

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August 18, 2012
Topics

- Disentangling the resource challenges of an aged society
- The difficulty of changing the terms of the intergenerational contract
- Approaches to thinking about strategy for an “aging” and “aged population”
- Policy innovations addressed to the particular challenges of an aged society
Disentangling the resource challenges associated with an Aged Society

- **The obvious budgetary challenges of an aged society**
  - Particularly confronted by most industrial countries with well-developed social insurance systems
  - In part, created by pure demographics: the rising share of the elderly in the population and a rising elderly dependency rate
  - Also a rising share of the very elderly, with an increased proportion requiring long-term care assistance
  - Also challenged by weak (maybe negative) growth of the labor force and slow economic growth
  - But in part, also due to non-demographic pressures, such as excess cost growth of medical costs that are linked to spending on the aged
Illustrating the budgetary pressures from aging in the industrial world (IMF Fiscal Monitor 2011)

<table>
<thead>
<tr>
<th>Country</th>
<th>Pension Spending Change 2010-2030</th>
<th>Health Spending Change 2010-2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>1.2</td>
<td>2.1</td>
</tr>
<tr>
<td>Canada</td>
<td>1.6</td>
<td>2.0</td>
</tr>
<tr>
<td>France</td>
<td>0.7</td>
<td>1.5</td>
</tr>
<tr>
<td>Germany</td>
<td>1.3</td>
<td>0.9</td>
</tr>
<tr>
<td>Italy</td>
<td>0.8</td>
<td>0.6</td>
</tr>
<tr>
<td>Japan</td>
<td>-0.2</td>
<td>1.0</td>
</tr>
<tr>
<td>Korea</td>
<td>1.7</td>
<td>3.2</td>
</tr>
<tr>
<td>Netherlands</td>
<td>2.8</td>
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<td>New Zealand</td>
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</tr>
<tr>
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</tr>
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<td>0.9</td>
<td>3.3</td>
</tr>
<tr>
<td>United States</td>
<td>1.1</td>
<td>5.1</td>
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</table>
These projections are an amalgam of the effects of aging, policy reforms, medical spending pressures, and the social insurance system of a country.

<table>
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<tr>
<td>The projections indicate the expected increase in government spending on pensions and health care spending pressures.</td>
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<td>In the case of health, a composite of both age related and technology related spending increases.</td>
</tr>
<tr>
<td>Recent S&amp;P study: for advanced economies, the demographics alone contribute to a 1.5% increase in GDP share by 2050; including technology scenario, the increase rises to 5.5% of GDP.</td>
</tr>
<tr>
<td>Does not include LT care: S&amp;P estimates through 2050, another 1.3% of GDP increase for typical advanced economy.</td>
</tr>
</tbody>
</table>
What do these projections not capture?

- Does **not** represent the change in the overall “financing needs” of the elderly population (over and above whatever wage income they earn).

- Such a measure would reflect how much resources the elderly population in a country would need to obtain from govt, family, and previous savings to meet their needs during their elderly years.

- This latter measure would illustrate the change in the share of GDP that would need to be devoted to meeting the needs of elderly who are no longer working.
Put another way, suppose policy reforms removed any budgetary challenge?

- The resource challenges of an aged population would still remain!
- Most approaches adopted to eliminate the budgetary deficit projected due to aging will not change the fact that an increase in the share of the elderly will increase the share of the population whose consumption is not funded by their wage income, but must derive from other sources (intra-familial transfers, govt transfers, own assets from prior savings)
Govt policy reforms have typically involved:

- **Benefit cuts** (either reduced benefits or pushing back the age of eligibility)
- **Increased taxes or charges** that affect the elderly (higher copays; increased VAT rates)

  and/or

- **Tax rate increases** on the working age population

- Possibly a strengthening in the social safety net (via targeting or means testing) so as to limit elderly destitution
First pair of policy approaches

- Does not affect the “consumption needs” of the elderly
  - Recognizing the potential endogeneity of medical outlays and other elderly consumption to the availability of government insurance programs
- Rather, cuts in benefits or higher copays and taxes raises the “unfinanced financing gap” of elderly.
  - How will this gap be financed? If not—implies a reduced standard of living for elderly
- Unless policy options are developed that also improve the efficiency of elderly consumption
  - Approaches adopted by some countries worth examining—to discuss later
The second pair of policy approaches

- Higher taxes on working age population
  - Will weaken their capacity to support elderly relations
  - May jeopardize the economic growth necessary for the affordability of any policy options
    - Disincentives to work, invest, and grow
  - May reduce the capacity of working age population to build up assets for their future retirement years
  - Though it does reduce the burden of future taxation (by reducing growth of government debt)
Note: the concept of “The Elderly deficit”: from the National Transfer Accounts
The elderly financing deficit: how can it be met?

A COMBINATION OF:

-- Government transfers
-- Intra-familial transfers
-- Drawing down of savings

-- An INCREASE IN THE EFFICIENCY OF CONSUMPTION

-- DELAYED RETIREMENT—EXTENDING WORKING YEARS AND THE RECEIPT OF WAGE INCOME

OR

-- REDUCED CONSUMPTION IN ELDERLY YEARS
  -- IMMISERATION
  -- REDUCED MEDICAL CARE AVAILABILITY
How policies may affect the elderly deficit.
AN IMPORTANT PART OF THE CONSUMPTION (C) CURVE RELATES TO MEDICAL CARE FOR ELDERLY

- Medical C affects longevity
- Quality of life—the extent of dependency
- The quality of C in working years affects likelihood of chronic diseases and nature of medical consumption in elderly years

Prospectively, hard to project the medical C curve—nature of future technological progress in medicine
Looking ahead: Aging is **not the only factor** that will impinge on government AND societal/household budgets

- **Climate change**—changes in weather patterns—pressures for adaptation
- Keeping competitive **and sustaining growth**—infrastructure needs: R&D spending; education
- Restructuring the **energy** plant
- **Inevitable contingencies**—the next financial crisis requiring fiscal support
- Burdens of high current household and Government debt ratios
These issues are also important and need to be addressed

- Most of these issues have their own effects on aged populations (climate change; technological change)
- And addressing them will impinge on the capacity of government to address the budgetary challenges of an aged population
The combination of pressures—aging and non-aging-related suggests three issues:

1. **What is fair in terms of intergenerational burden sharing?**
2. **How to develop policies tailored to an aging and future aged society?**
3. **How to achieve greater efficiency in meeting the needs of an aged society WITHOUT increased spending?**

   1. identifying WIN-WIN policies;
   2. identifying policies that are better suited to the new reality of greater longevity and the significant period of dependency experienced by many elderly (particularly those with dementia).
1. What does society see as fair in intergenerational burden-sharing?

- **Expectations matter**: longstanding understandings of what is a fair intergenerational contract have significant durability;

- But when the terms of the contract have to be revised, such changes may be difficult to accept or conflict with well-established institutions.

- For most well-developed social insurance systems, existing intergenerational contract will break down with a rising elderly dependency rate.
Challenges to the intergenerational contract

- Resistance to an increased tax burden on the working age population is inevitable.
- Countries find it difficult to breach their particular tax rate thresholds—limited capacity to raise tax burden to finance higher costs associated with an aged population.
- Limits on tax increases will inevitably force cutbacks in benefit levels; pressure for delayed retirement under pension programs.
- Will force rethinking of what obligations are to the elderly “generation” in terms of social safety net.
- Accentuates the importance/challenge of developing approaches for a social safety net for the elderly poor, recognizing problem of moral hazard.
Intergenerational fairness

- Hard on the **transition** generation forced to accept a reality different from its long-held expectations
- Hard on the **following generations** that now have to accept the future retirement prospects differ from preceding generations—a different bargain
- Particularly hard for countries with well-developed social insurance systems as opposed to those countries (e.g., in Asia) lacking such systems
Intergenerational fairness (continued)

- Judging what is an intergenerationally fair burden to impose on working age population and fair benefit for elderly raises difficult conceptual and empirical issues (see recent paper by Bommier et al (2010))
- Dealing with inconsistencies between expectations concerning family support of elderly relations and the likely reality
2. Critical question: what are the objectives a society seeks in looking towards the future of an “aged” society?

- Obviously, considers the range of policies required to adapt to having a higher share of elderly and very elderly—in terms of labor market policies, health care, LT care, housing, transportation, etc.

- But beyond this, sustainable positive per capita income growth arising from productivity growth: a capacity to compete internationally.

- A capacity to respond to policy challenges to growth and welfare (climate change; political and security threats).

- Responding to the needs of the non-aged groups in society (education).

- Addressing the role of immigration.
2. Critical question: what are the objectives a society seeks in looking towards a future of an “aged” society?

- **Likely** objectives (continued)
  - Access to basic medical care and pharmaceuticals. But with significant limits relative to what may be technologically possible
  - Ensuring that working age population has adequate incentives to finance their retirement years
  - Mechanisms to limit elderly destitution

**Footnote**: is a country moving to a new aged equilibrium, with stable population size? Or, will low fertility rates continue with population shrinking?

- Few countries appear to assume/accept continuous decline in their population size
Observed strategies towards aging-I

- **Activist policies** (best examples: Singapore, New Zealand, Australia, Hong Kong, Netherlands)
- A **forward-looking** perspective on the problem of an aged population: thinking ahead, anticipating challenges, developing long-term policies; enhancing the focus of research to address obvious issues
- **Keyed to long-term budget sustainability**
- **Multi-sectoral** in focus: with active coordination from the center of sectoral policies dealing with the aged
- **Not necessarily synonymous with heavy government funding or substantial social insurance programs**
Observed strategies towards aging-I

- Recognizes the need for flexibility:
  - Specifics of future are unpredictable
  - Recognize the fact of **surprises**:
    - Medical technological gains that may increase longevity
    - Exogenous shocks that may tighten fiscal position or create unanticipated societal pressures
- Considers the challenges associated with addressing problems of those elderly who will lack resources or family support.
- Credit to the European Commission for at least considering and commissioning studies on the range of issues. Ditto the OECD
## Observed strategies towards aging-II

- **Contrast:** Countries with ad hoc, relatively short-term fixes for specific programs that “kick the can down the road” until the next fix.

  - Typically uncoordinated across sectors.
  - Sector by sector fixes: pensions or health sector reforms.
  - Sectors operate in uncoordinated way to the extent they focus on the issue of the future aging of the population.

- Characteristic of most industrial countries—many examples of pension reform; health care reform;
Some best practices—exemplified

- **Singapore**
  - Inter-Ministerial Committee on Aging
  - Wellness program—for 50+ population re healthy aging; sources of chronic disease

- **Australia: National Strategy for an Ageing Australia**
  - Means-tested taxpayer-funded, age pension

- **New Zealand**
  - Minister of Senior Citizens
  - Positive aging strategy—elderly mainstreaming
  - Strategies related to income, health, housing, transport, aging in place, cultural diversity, rural, attitudes, employment opportunities

- **Hong Kong: Elderly Commission**—coordinates major policies in health, welfare, and housing

- **Sweden**: development of cooperative strategy among departments and agencies to deal with elderly issues

- **Note**: OECD advocacy for the adoption of national strategic frameworks to coordinate aging and related reforms
Countries without well-developed social insurance systems have greater flexibility systems in fiscal terms

- Can develop own systems of addressing move to an aged population unencumbered by existing obligations
- But still will be difficult: China as key example to watch
- Singapore’s approach
  - Successful in that it is built on a self-financing model
  - But may equally be challenged: percentage of elderly population with adequate resources not as large as desired
- Will be challenged in dealing with the destitute
3. Developing policies tailored to an aging and future aged society requires a change in policy in many different spheres

- Provision of medical care
- Preventive pro-health care among working age population
- Provision of long term care
- Housing for elderly
- Transportation alternatives
- Social support systems; social interconnectedness
- Addressing particular issues associated with high share of females among elderly and very elderly (greater problems of multiple chronic illnesses)
- The design of a social safety net to prevent destitution among the elderly.
In all these spheres, beginning to see new models developed

- Innovations—a rethinking, under the new reality of what longevity is about—of how to adapt old institutions or develop new approaches to meeting needs in these different areas.
- Recognizing unaffordability of old practices/institutions for old age support
- Recognizing the new reality of what is feasible for the elderly (including longer period of active participation in the labor market)
Examples of specific policies

In labor market practices
- Flexible employment—revising seniority wage systems; flex time for elderly workers; job redesign; mixed age teams; limiting age discrimination
- **France**: extension of legal retirement age for state pensions and enforcement of job seeking efforts for older jobless people
- **Netherlands**: “flexicurity” approach on labor policy for women; raising age for state pensions

In housing policies
- Owner-occupied retirement housing
- **Singapore/Hong Kong**—quasi-public housing aimed at facilitating families to keep living near elderly’s relatives
Examples of specific policies

- **Health-related**
  - Promoting better health during working life—diet, exercise, preventing screening (health checks), health behavior (smoking)
  - Revisiting pharmaceutical regimes—medication reviews
  - **Taiwan**: Healthy People 2020
  - Life course vaccination
  - **Scotland**: shifting from institutional settings for long term care to care at home;
  - **Scandinavia**: patient hotels
  - **Canada**: prefunding of health care
  - **Japan**: long term care insurance system—with focus on shift from institutional to community based care
  - Technological solutions: monitoring patients at home; tele-care
  - **US**: Elder Power different packages of care: mixture of visits and phone calls along with cameras and motion sensors to monitor well being of elderly; plus personal support, including transportation or help with meals and bathing
Examples of specific policies

- **Means testing**
  - **Hong Kong**: Old Age Allowance—asset and income tested benefits for 65+
  - **Hong Kong**: Comprehensive Social Security Assistance Scheme for older persons with some disability
  - **Korea**: minimum living standard for older adults through National Basic Livelihood Law (built on public assistance Law) plus Elder-Respect Pension

- **Transport**
  - **USA** pilot scheme: ITNAmerica: volunteers, vehicles and software to provide subsidized car rides for elderly: match riders and volunteers

- **Social Services**
  - **Boston**: Beacon Hill Village
  - **Mandatory Provident Fund schemes**: Singapore, Malaysia