A Generational Perspective on Aging and Policy

Workshop on Effective Use of Data for Policy Making on Ageing
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Andrew Mason
University of Hawaii - Manoa and East-West Center
Four Broad Issues

• What are the effects, good and bad, of population aging?
• How do the effects vary with the severity of aging?
• What policies will enhance the benefits of aging?
• What policies will mitigate the adverse effects of aging?
Population Aging is a Great Success Story

- Invaluable gains in life expectancy
- More human capital investment with fewer children
- Slower population growth
“Moderately low fertility, [population aging], and population decline favor standards of living”

Severe Aging: Population Policies

• Fertility
  – Very low fertility is a key driver of population aging
  – Some young people are having fewer children, but investing more in the health and education of each child
  – Some young people are having no children, and investing nothing in the next generation

• Importance of increasing healthy life expectancy
  – Increase in life expectancy leads to aging
  – Healthy aging moderates the impact of aging

• Limited role of immigration policy
Going Beyond Demography: What Does it Mean to be Old?

• Abilities, needs, and wants vary inherently with age
• But the economic contributions and the resources consumed at each age also depend on:
  – Macroeconomic conditions
  – Culture
  – Public policy
  – Private sector practice
  – Behavioral responses
• NTA quantifies how the linkages between age and economic outcomes vary across countries and over time.
An Illustration: the US Lifecycle

US 2011, per capita values.

- **Labor income**
  - Incorporates age variation in labor force participation, hours worked, unemployment and wages
  - Includes imputed wages of unpaid family workers
  - Excludes caregiving and other non-market work

- **Consumption**
  - Private consumption allocated among household members
  - Public consumption based on administrative records

- **Methods:**

Source: Lee and Donehower 2017.
Summary of flows to 65+

- Flow per person 65+
  - Consumption: $58,700
  - Labor income: $12,000
  - Lifecycle gap: $46,700

- Aggregate flows:
  - Old-age Gap: $1.9T
  - Labor income (all): $9.3T

- GAP Ratio
  - GAP/Labor income: 20.8%

Source: Lee and Donehower 2017.
Projected GAP Ratio

Pure demographic effect
Assumes no change in per capita age profiles of consumption or labor income
Projected Resource Gap for 65+ as a Percent of Total Labor Income, 2065, Asia and the United States
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Japan 2015

Highest in the world

Japan 2065
Observations

• Projected old-age gaps are unsustainably high.

• Currently, Japan’s gap is highest in the world at 37% of total labor income. Projected to nearly double by 2065.

• Old-age gaps are low in China and South Korea because per capita consumption at old ages is low relative to labor income.
Policies for Addressing the Old-Age Gap

• Population policies
• Labor reform
  – Mandatory retirement age
  – Other forms of age discrimination
  – Lifelong learning
• Consumption policy
  – Health care
  – Long-term care
Rise in labor income at older ages
US, 2003 to 2011

- Historically, age at retirement has been declining in high income countries.
- Recent reversal in this trend in many countries.
- Rise in US labor income between 2003 and 2011 equivalent to 2-3 year delay in retirement.
But consumption increased by more at older ages, US, 2003 to 2011

- Consumption at older ages rising due to higher spending on health care and long-term care.
- Gap between consumption and labor income increased for 65 and older between 2003 and 2011 because of aging and shifts in lifecycle patterns.
Funding the Old-Age Gap

• Old-age gap can be funded in three ways
  – By relying on government: public transfers
  – By relying on family: private transfers
  – By relying on markets: assets

• Economic impact of aging depends on the importance of these funding mechanisms
  – Government: higher taxes and public debt
  – Family: financial strains and heavy burden on women
  – Assets: higher saving rates, increase in capital, exposure to financial risks
Funding the Gap: US, 2011

Summary of flows to 65+

- Flows per person 65 and older
  - Public transfers: $15,900
  - Private transfers: -$2,600
  - Asset-based Re: $33,400
  - TOTAL GAP: $46,700

- Aggregate flows (percent of total labor income):
  - Public transfers: 7.1%
  - Private transfers: -1.2%
  - Asset-based Re: 14.9%
  - TOTAL GAP: 20.8%

Source: Lee and Donehower 2017.
Funding the Old-Age Gap
Selected Countries

Europe and Latin America rely heavily on public transfers

China, Japan, and the US rely on public transfers and assets

Asia relies heavily on asset-based reallocations

Elderly in only a few Asian countries rely on family transfers: China, S Korea, Taiwan, and Cambodia
Implications of Funding Mechanisms for Public Policy

• Public sector reform in Asia
  – Public transfers have a very important role to play
  – Relatively under-developed in many Asian countries
  – Important to implement programs that are sustainable in light of demographic realities

• Importance of assets
  – Positive development effects
  – Importance of financial education and government attention to financial risks

• Role of the family
  – Unique value
  – Limited means: Support for care-givers