

A Generational Perspective on Aging and Policy

Workshop on Effective Use of Data for Policy Making on Ageing
5-6 December 2017, Chiang Mai, Thailand

Andrew Mason

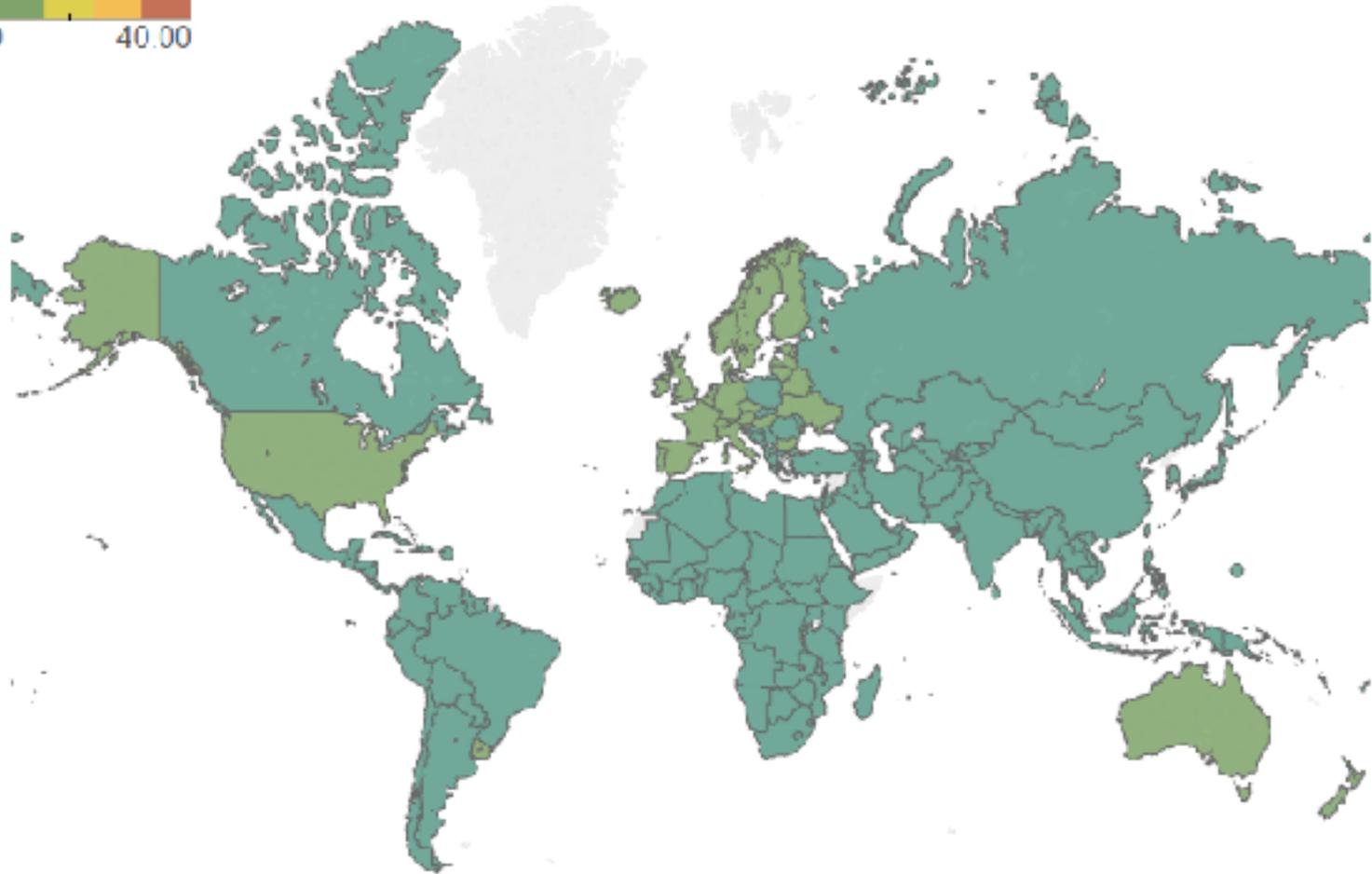
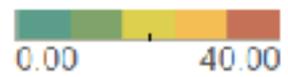
University of Hawaii - Manoa and
East-West Center

Four Broad Issues

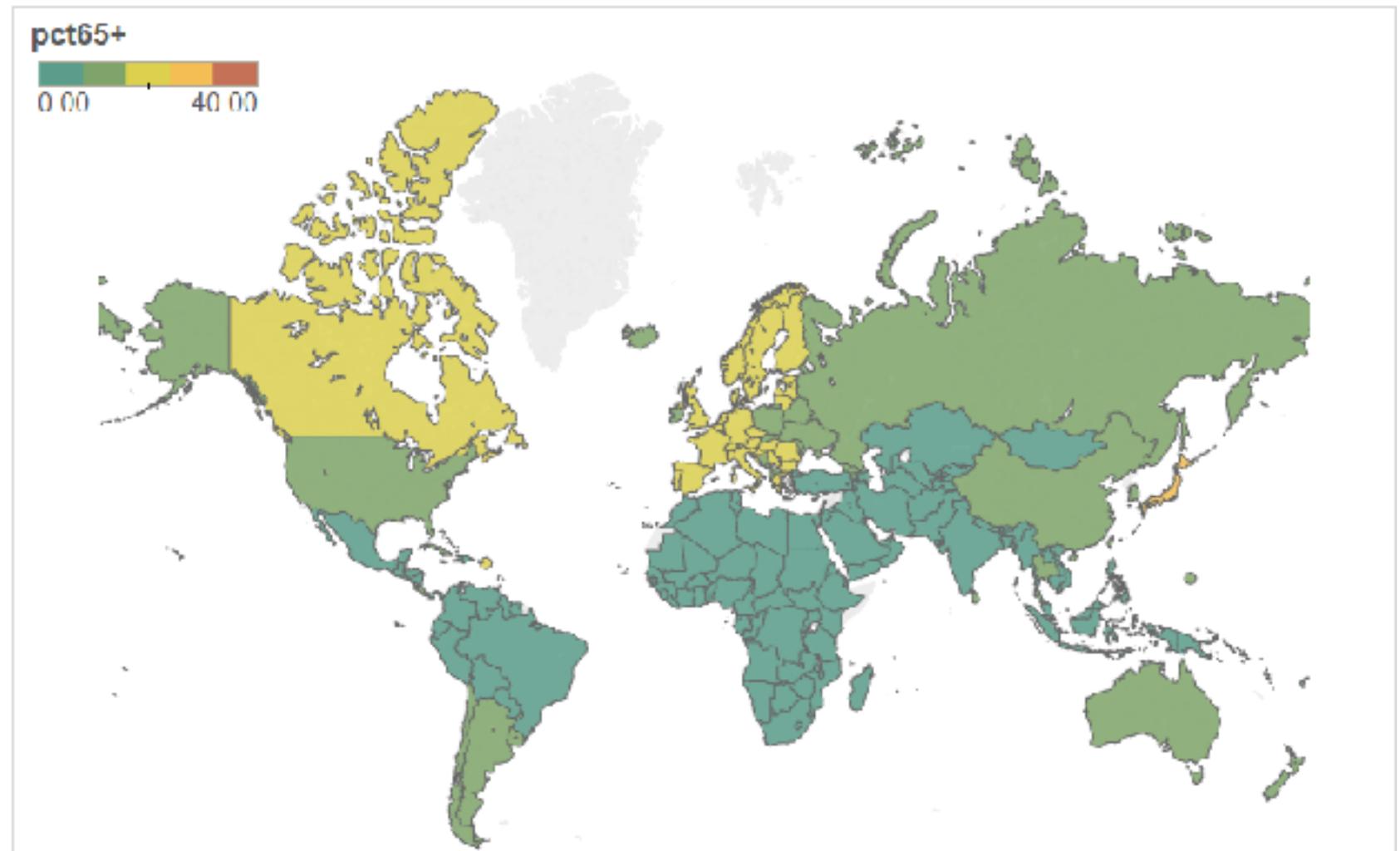
- What are the effects, good and bad, of population aging?
- How do the effects vary with the severity of aging?
- What policies will enhance the benefits of aging?
- What policies will mitigate the adverse effects of aging?

Percent 65 or older - 1965

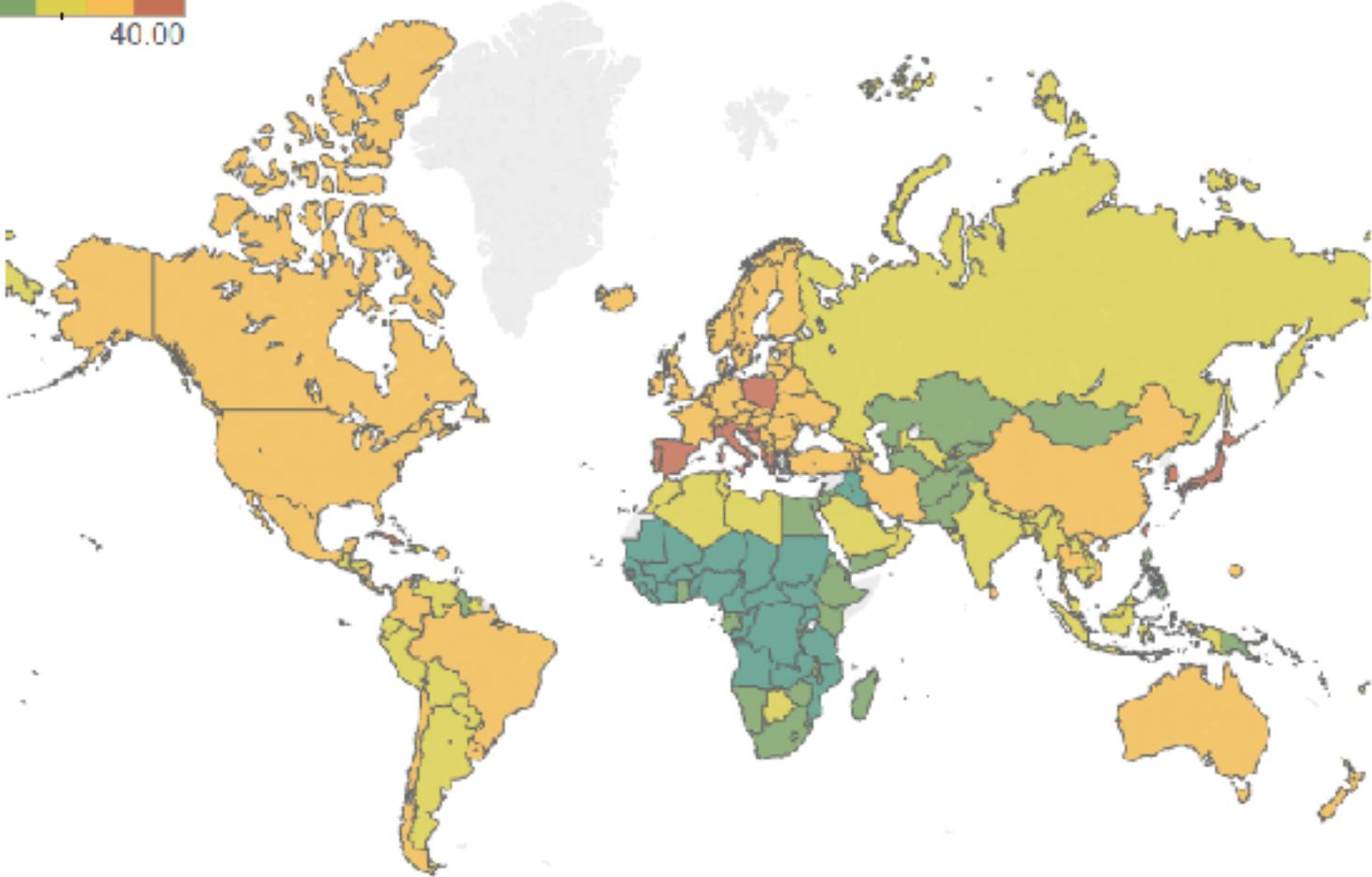
pct65+



Percent 65 or older - 2015



Percent 65 or older - 2065



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”

Lee, Mason, and members of the NTA Network, 2014) Science.

Severe Aging: Population Policies

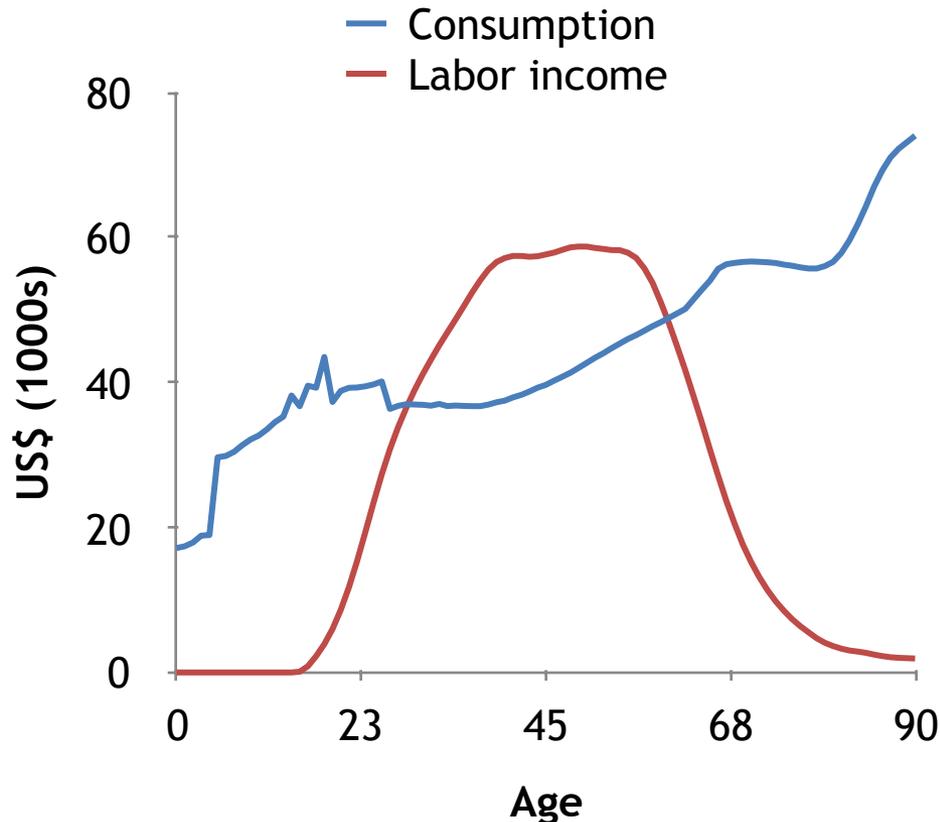
- Fertility
 - Very low fertility is a key driver of population aging
 - Some young people are having fewer children, but investing more in the health and education of each child
 - Some young people are having no children, and investing nothing in the next generation
- Importance of increasing healthy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

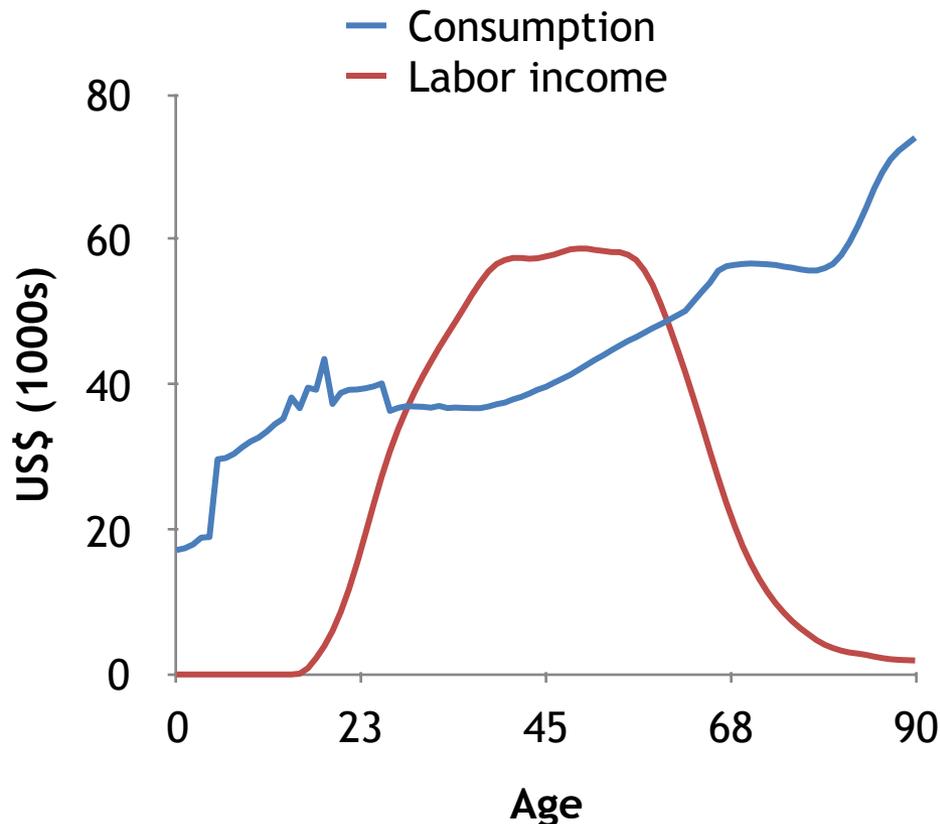


Source: Lee and Donehower 2017.

- Labor income
 - Incorporates age variation in labor force participation, hours workers, 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:
 - Lee and Mason (2011) Population Aging and the Generational Economy.
 - UN (2013) National Transfer Account Manual, Measuring and Analysing the Generational Economy.

Resources and Old-age Costs, US, 2011

US 2011, per capita values.

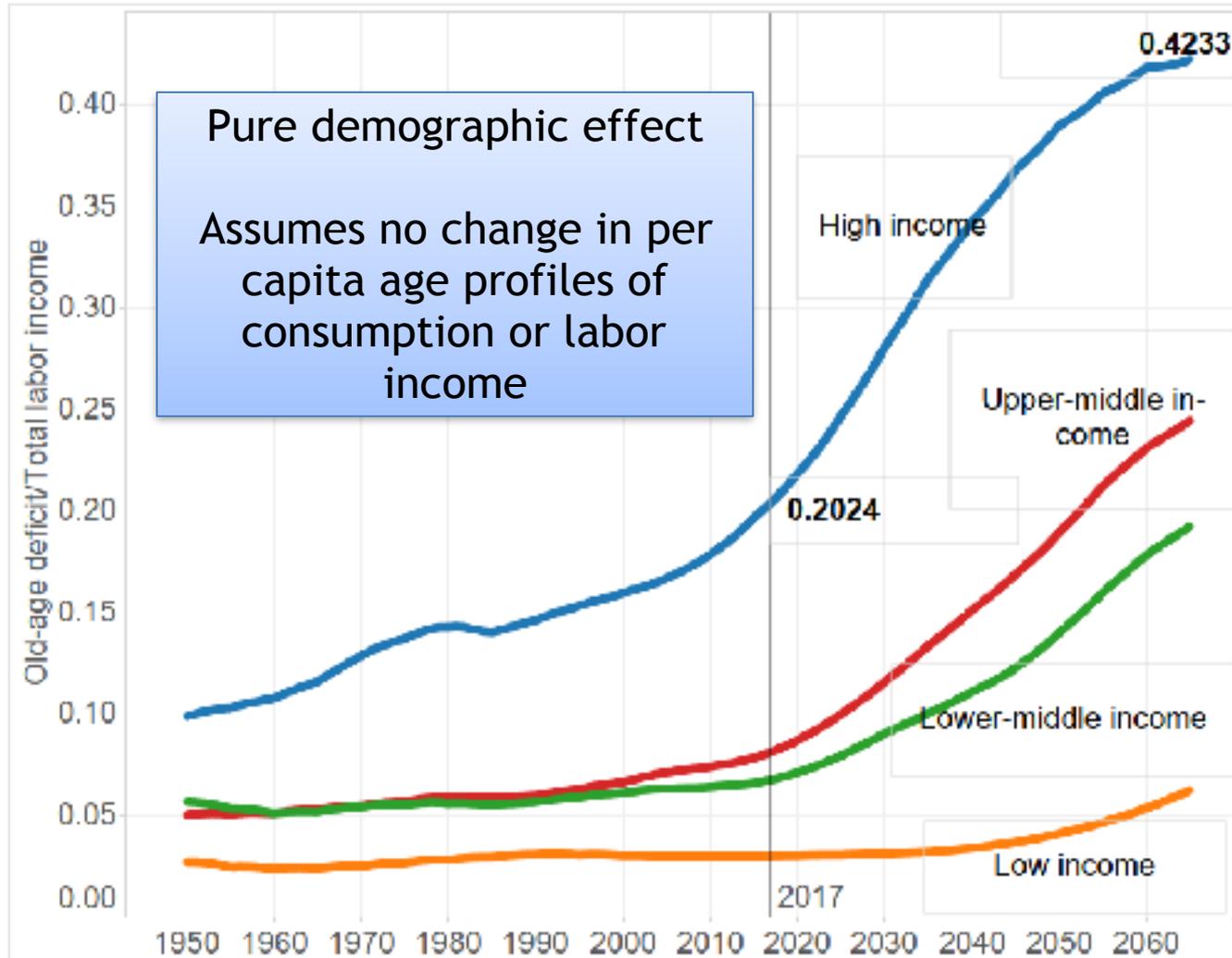


Source: Lee and Donehower 2017.

Summary of flows to 65+

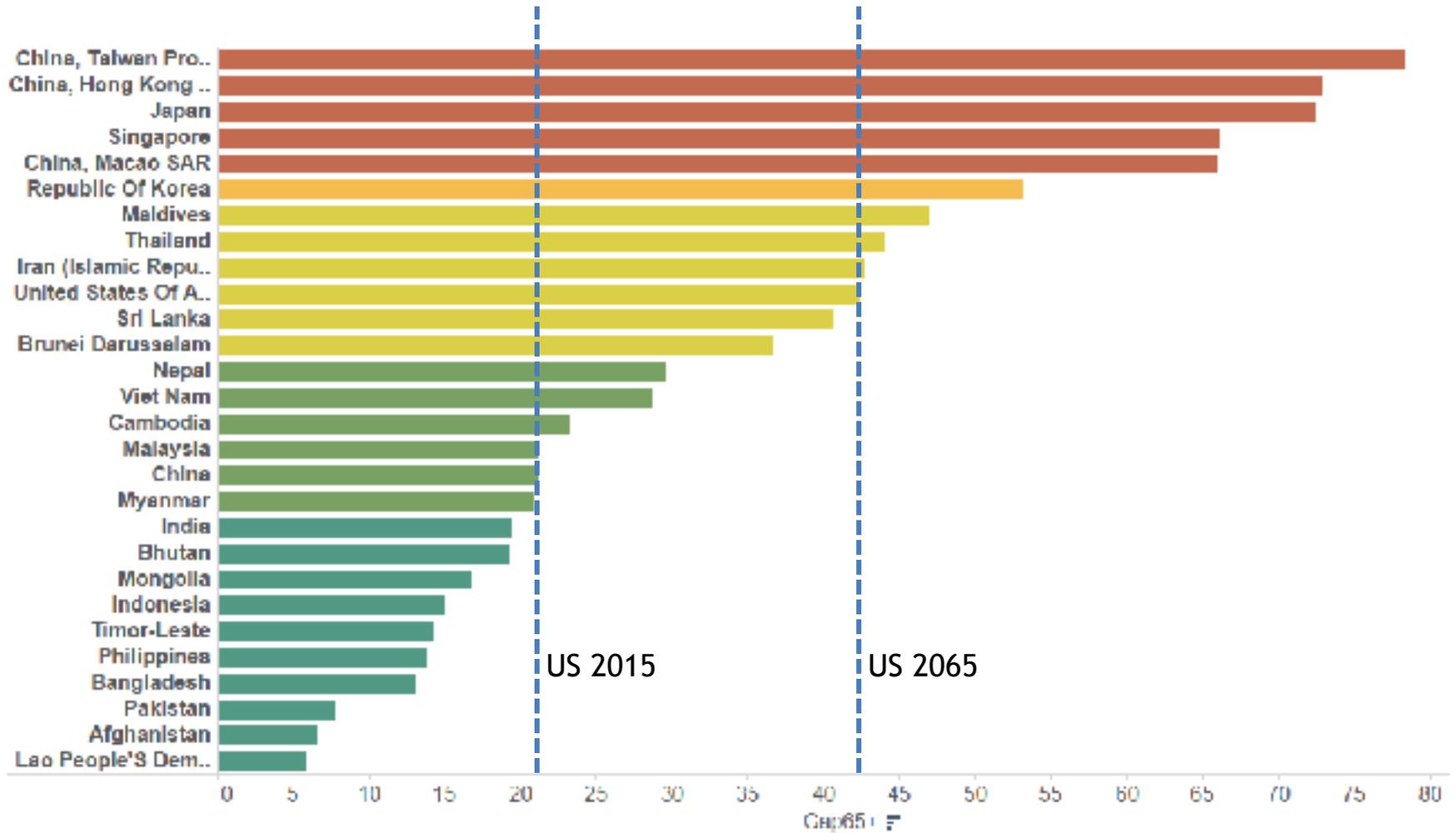
- Flow per person 65+
 - Consumption: \$58,700
 - Labor income: \$12,000
 - Lifecycle gap: \$46,700
- Aggregate flows:
 - Old-age Gap: \$1.9T
 - Labor income (all): \$9.3T
- GAP Ratio
 - GAP/Labor income: 20.8%

Projected GAP Ratio

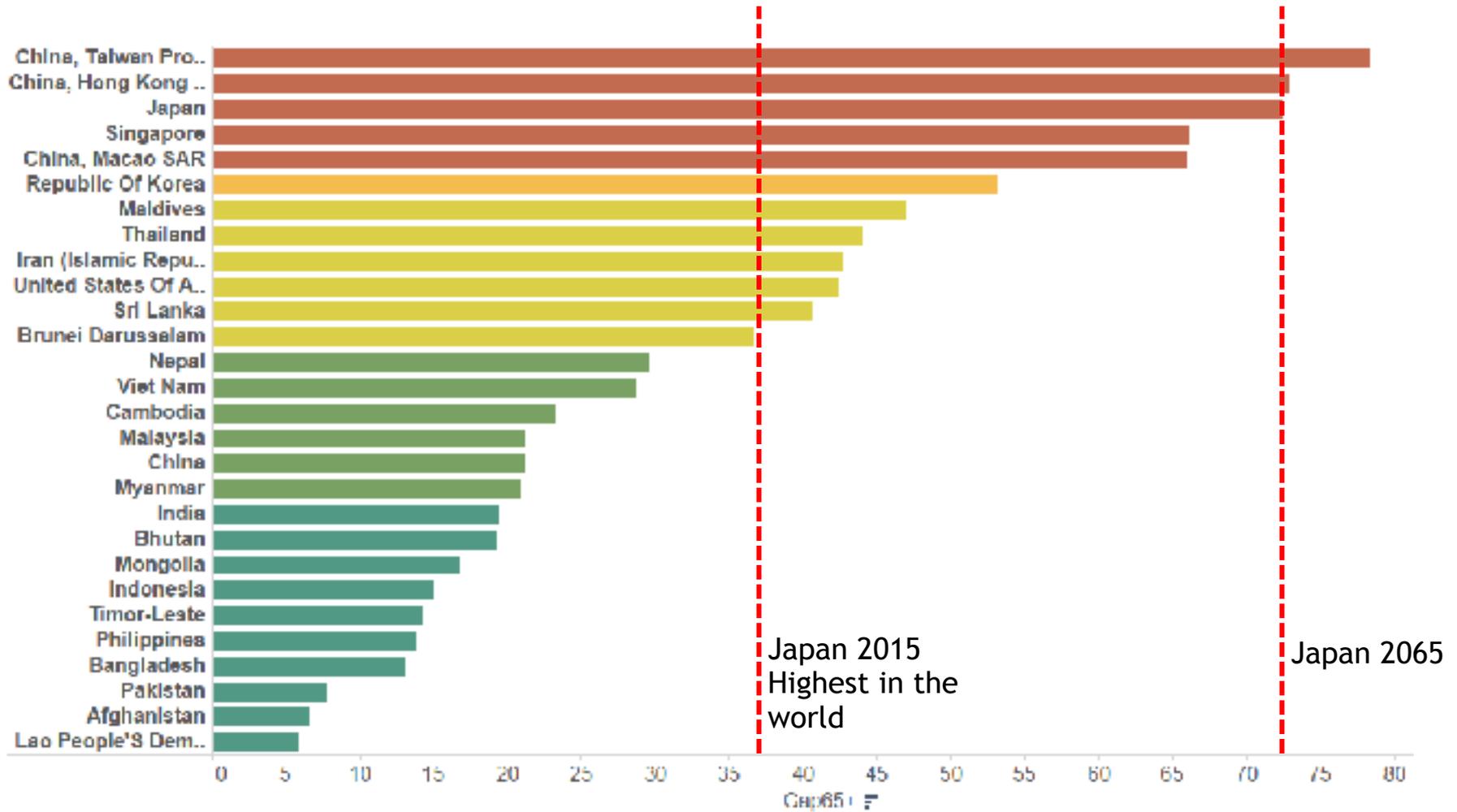


Andrew Mason, University of Hawaii and EWC

Projected Resource Gap for 65+ as a Percent of Total Labor Income, 2065, Asia and the United States



Projected Resource Gap for 65+ as a Percent of Total Labor Income, 2065, Asia and the United States



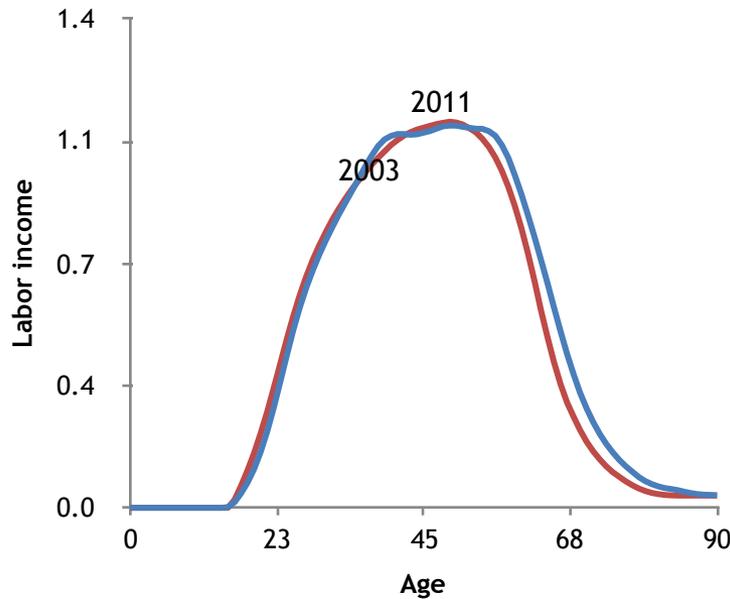
Observations

- 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

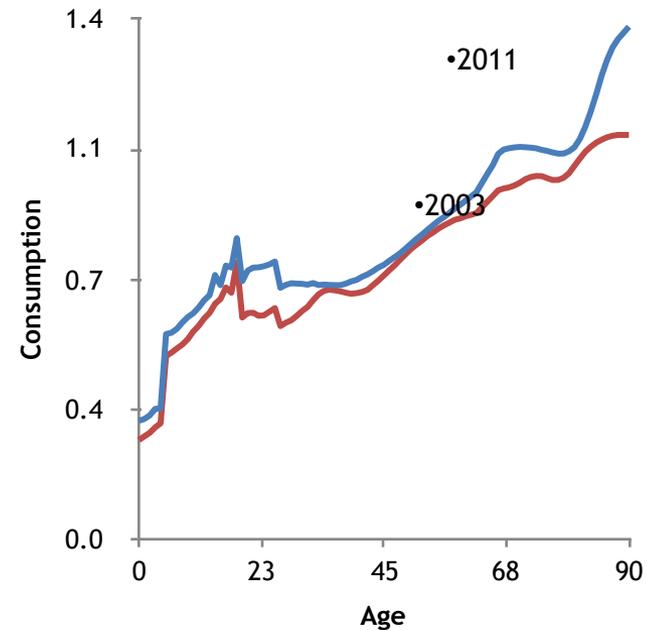
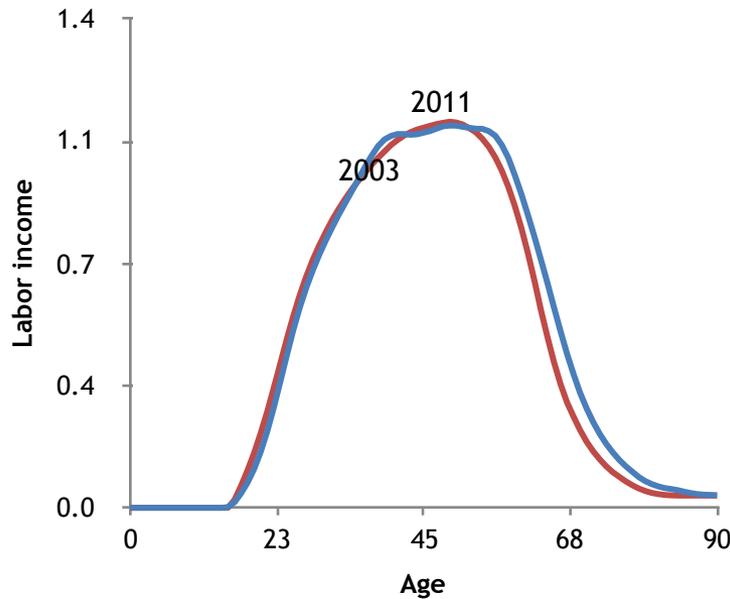
- Population policies
- Labor reform
 - Mandatory retirement age
 - Other forms of age discrimination
 - Lifelong learning
- Consumption policy
 - Health care
 - Long-term care

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



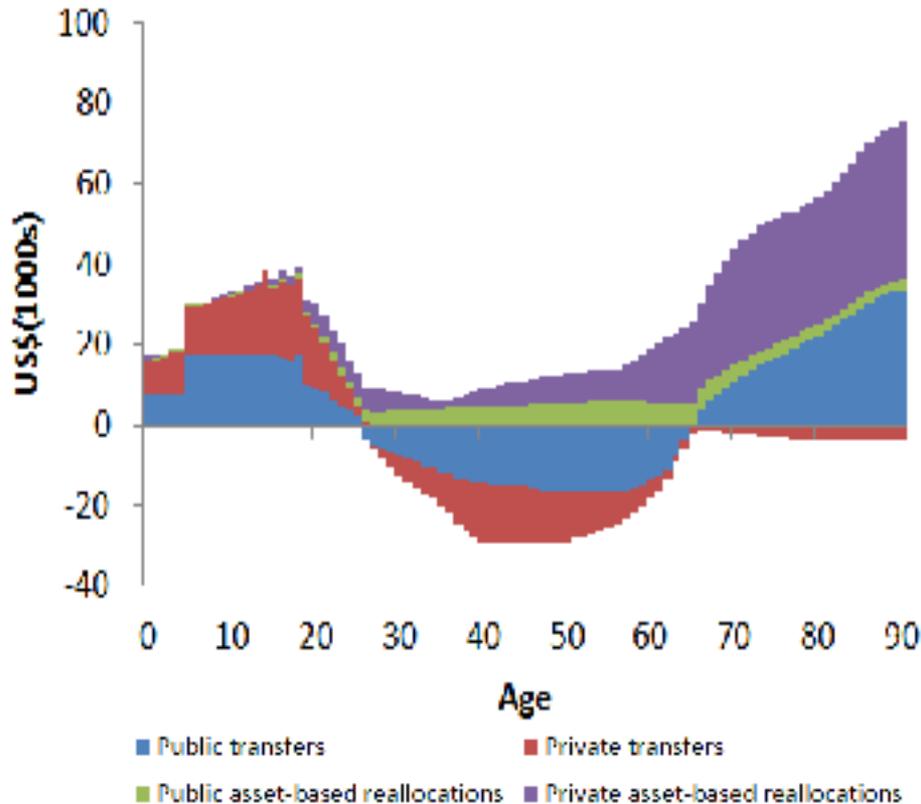
- Consumption at older ages rising due to higher spending on health care and long-term care.
- Gap between consumption and labor income increased for 65 and older between 2003 and 2011 because of aging and shifts in lifecycle patterns.

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

US 2011, per capita values.



Source: Lee and Donehower 2017.

Summary of flows to 65+

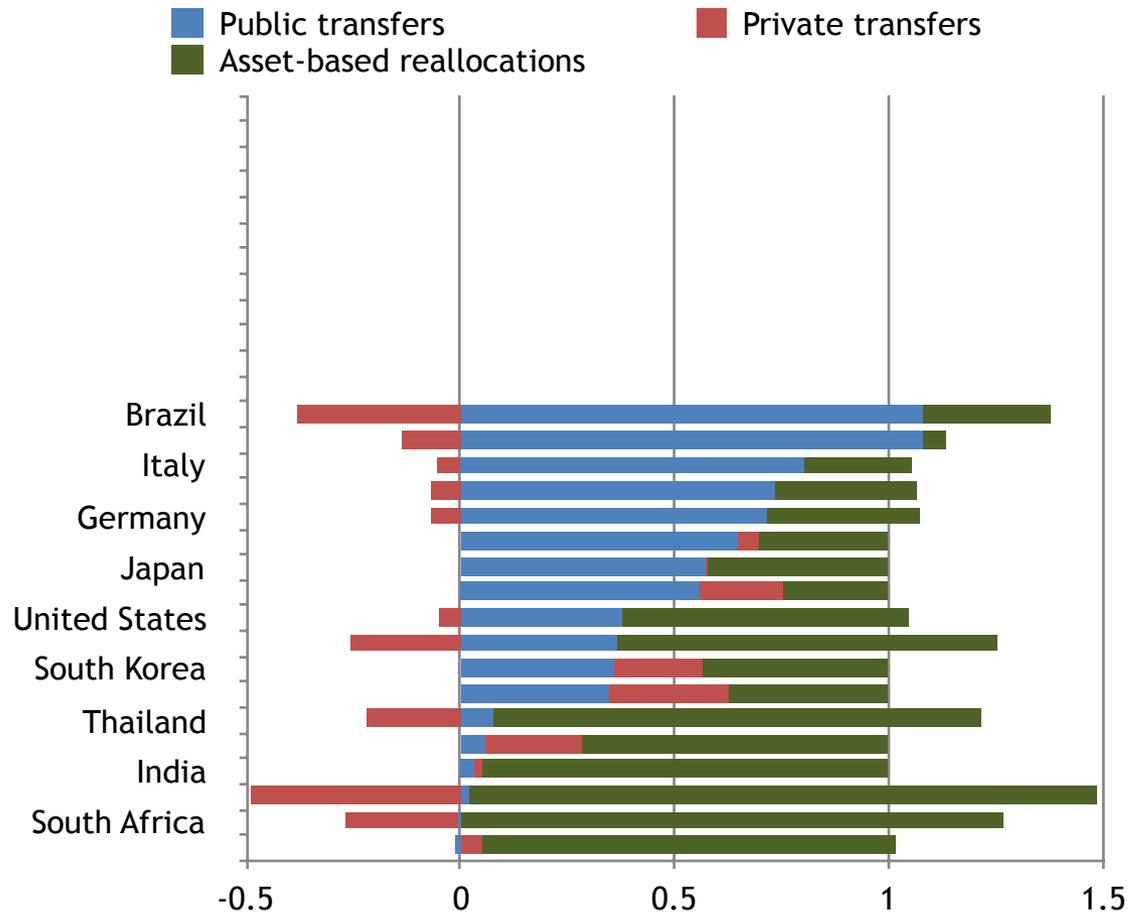
- Flows per person 65 and older
 - Public transfers: \$15,900
 - Private transfers: -\$2,600
 - Asset-based Re: \$33,400
 - TOTAL GAP: \$46,700
- Aggregate flows (percent of total labor income):
 - Public transfers: 7.1%
 - Private transfers: -1.2%
 - Asset-based Re: 14.9%
 - TOTAL GAP: 20.8%

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