

The Economics and Politics of Global Aging

World Bank: Global Pension & Saving Conference

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Developed nations are “aging”

- ◆ “Macro Aging”

 - Shift toward more elders, because

 - Slowed growth for younger ages

 - Faster growth for older ages

- ◆ “Micro Aging”

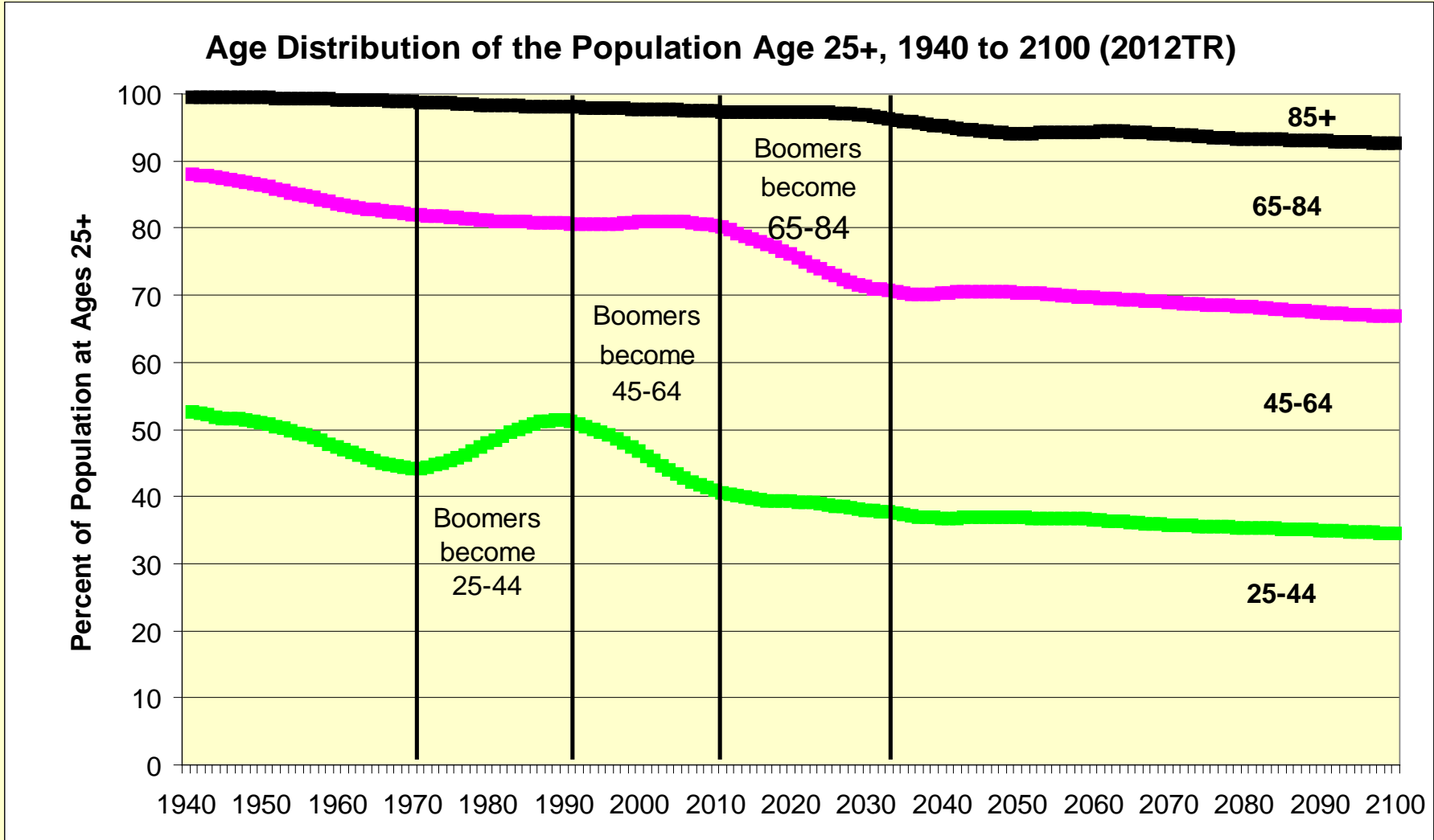
 - People are living longer

 - Lower death rates

 - Higher life expectancy

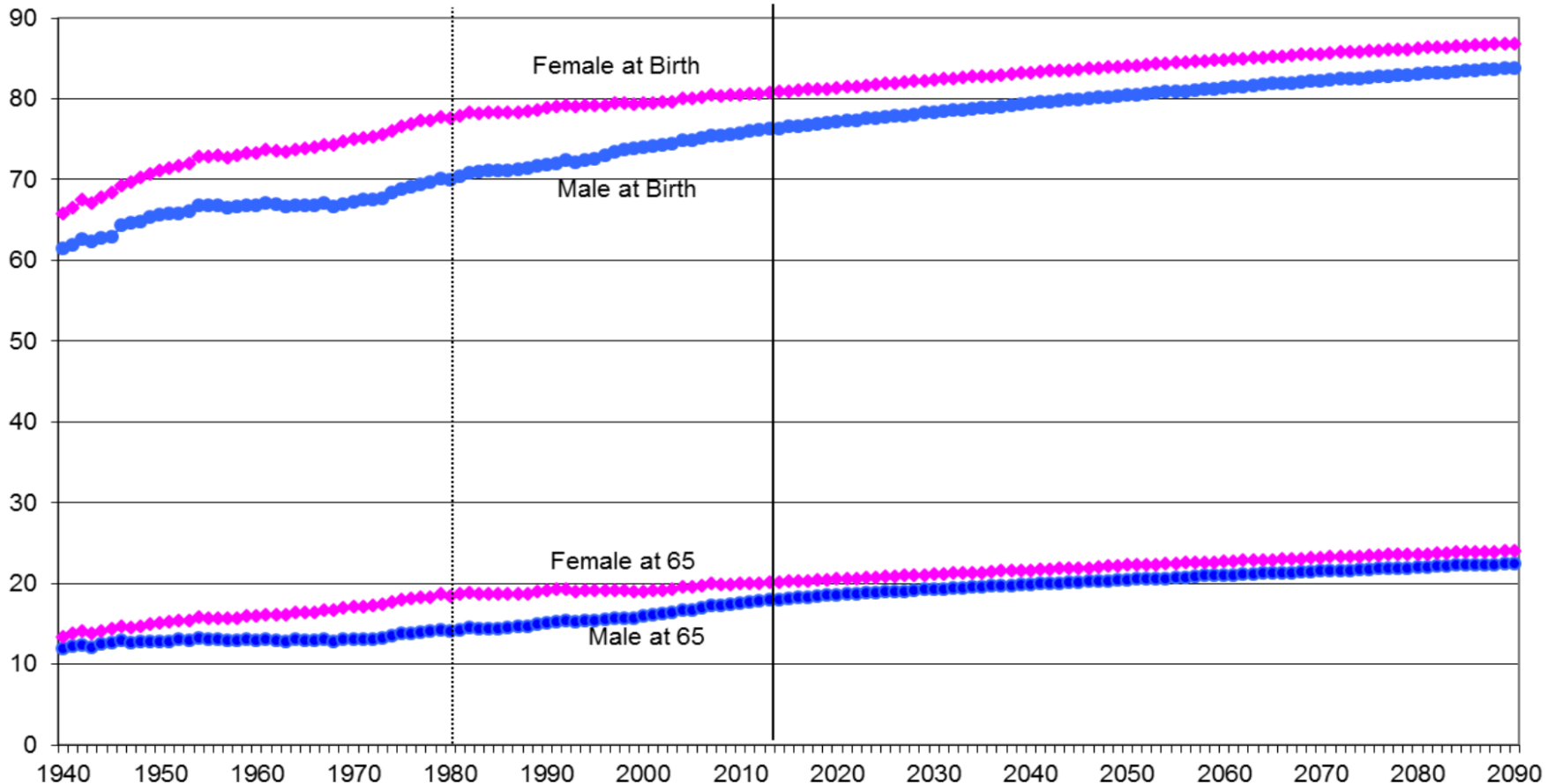
- ◆ Different Challenges—Different Solutions---Consider the U.S.

Changing age distribution over next 20 years mainly due to Macro Aging – a permanent level shift



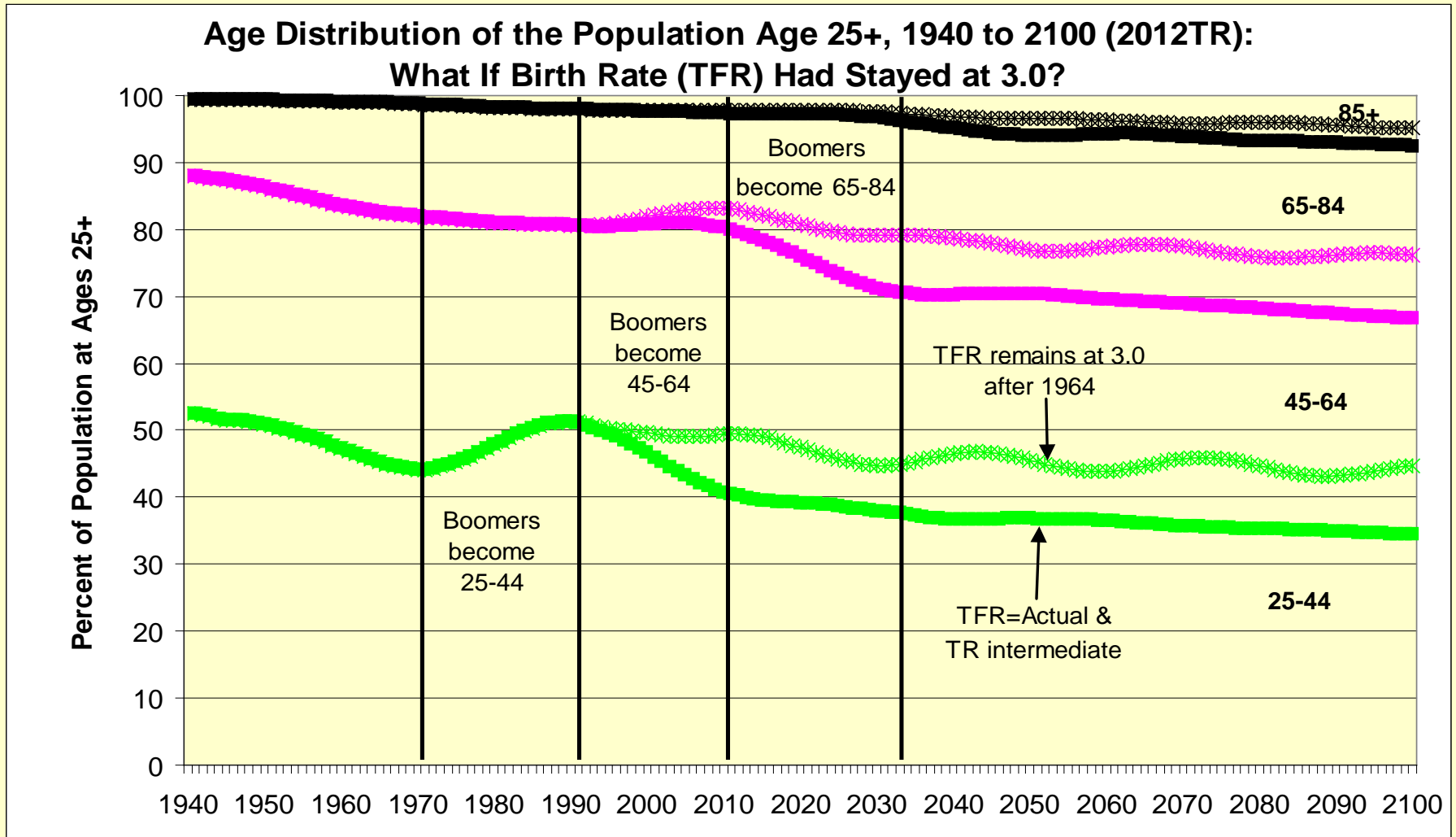
The level shift in age distribution is NOT due to a sudden shift in life expectancy

Life Expectancy at Birth and at 65 (Period)
Projections from 2012 Trustees Report Intermediate

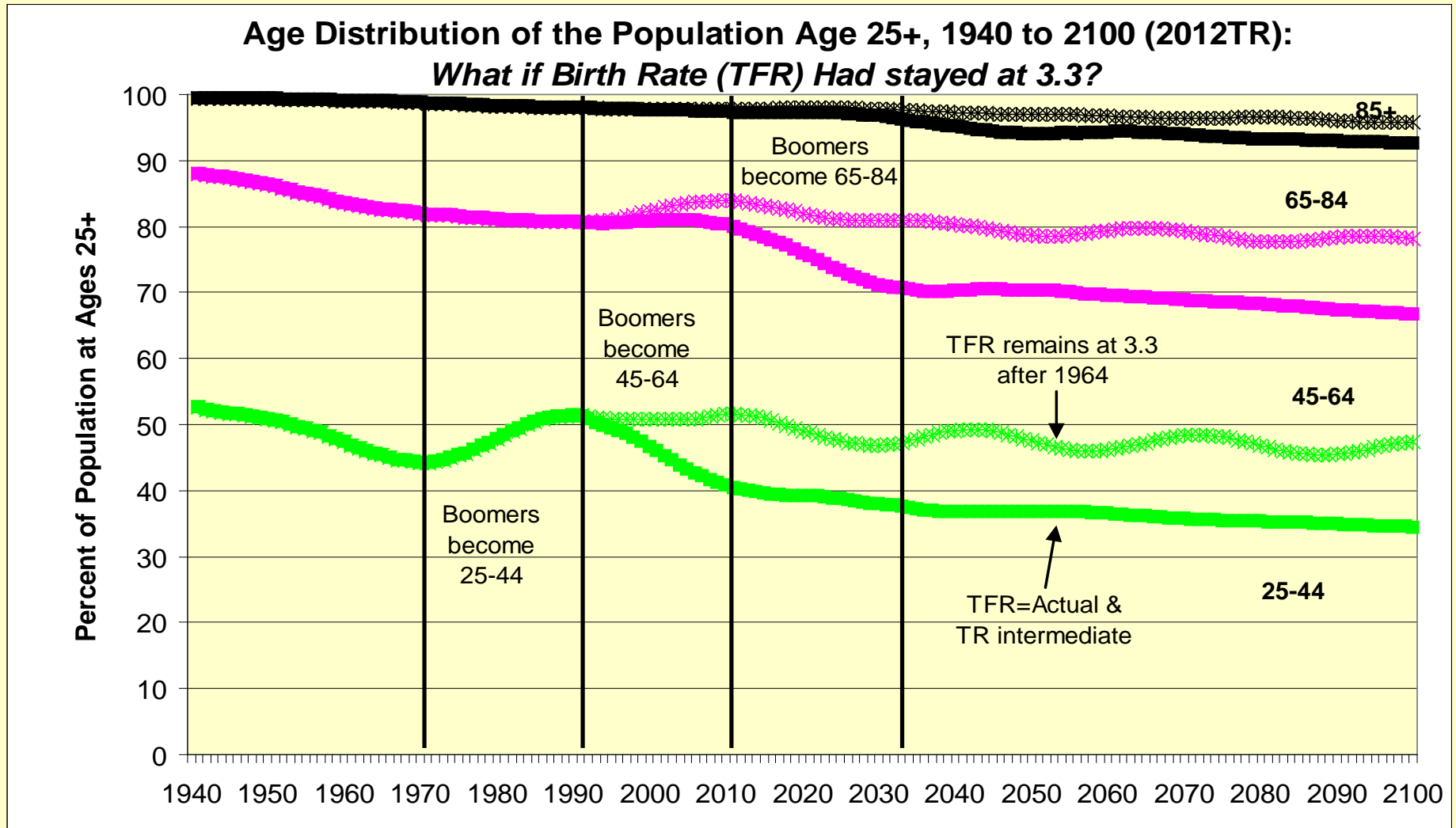


Why so much “Macro Aging”? Birth rates.

If birth rates had stayed at 3.0 per woman after the “boom”?

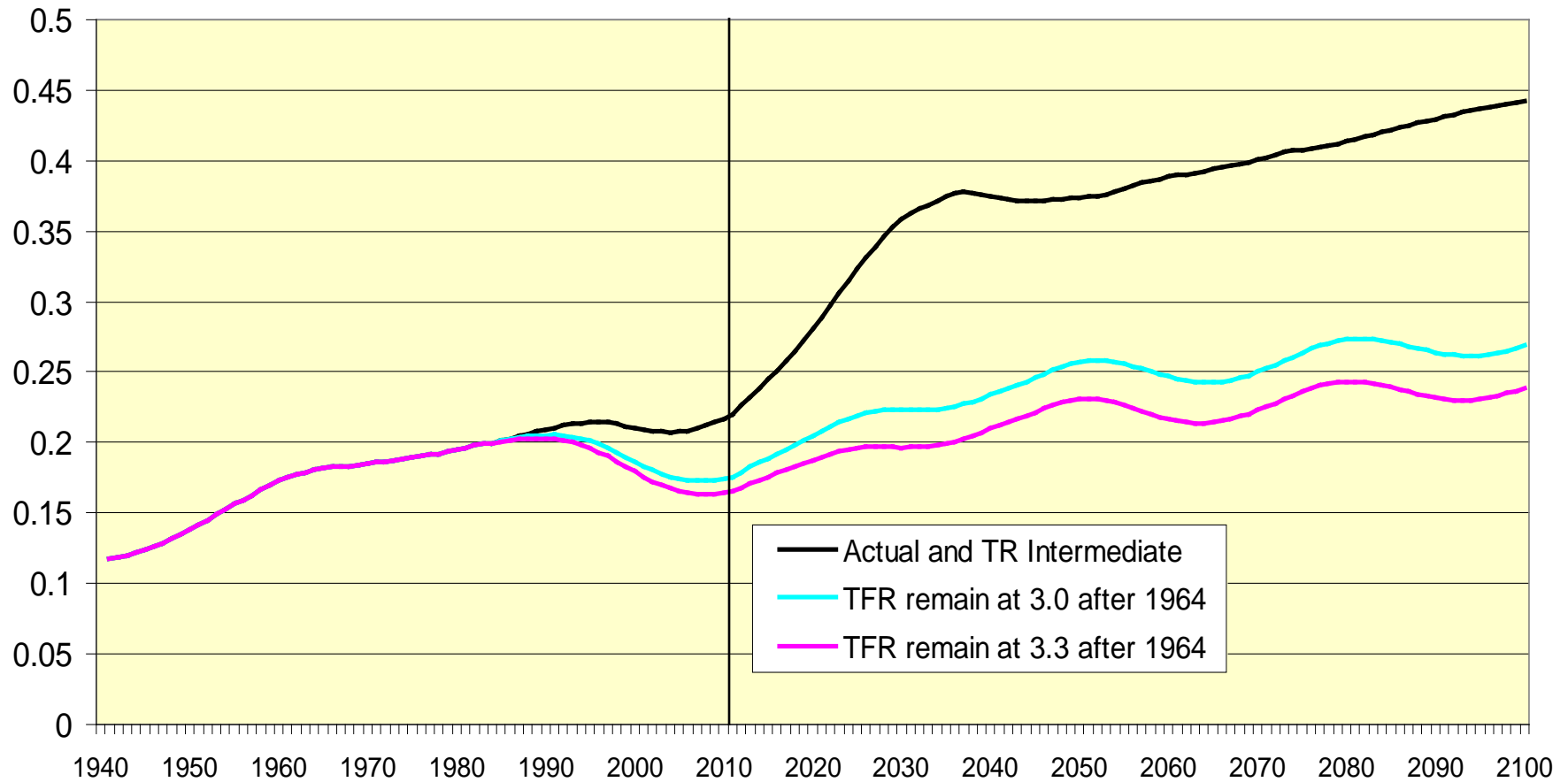


If birth rates had stayed at 3.3 per woman after 1964, the average TFR during our Baby Boom (1946-65)



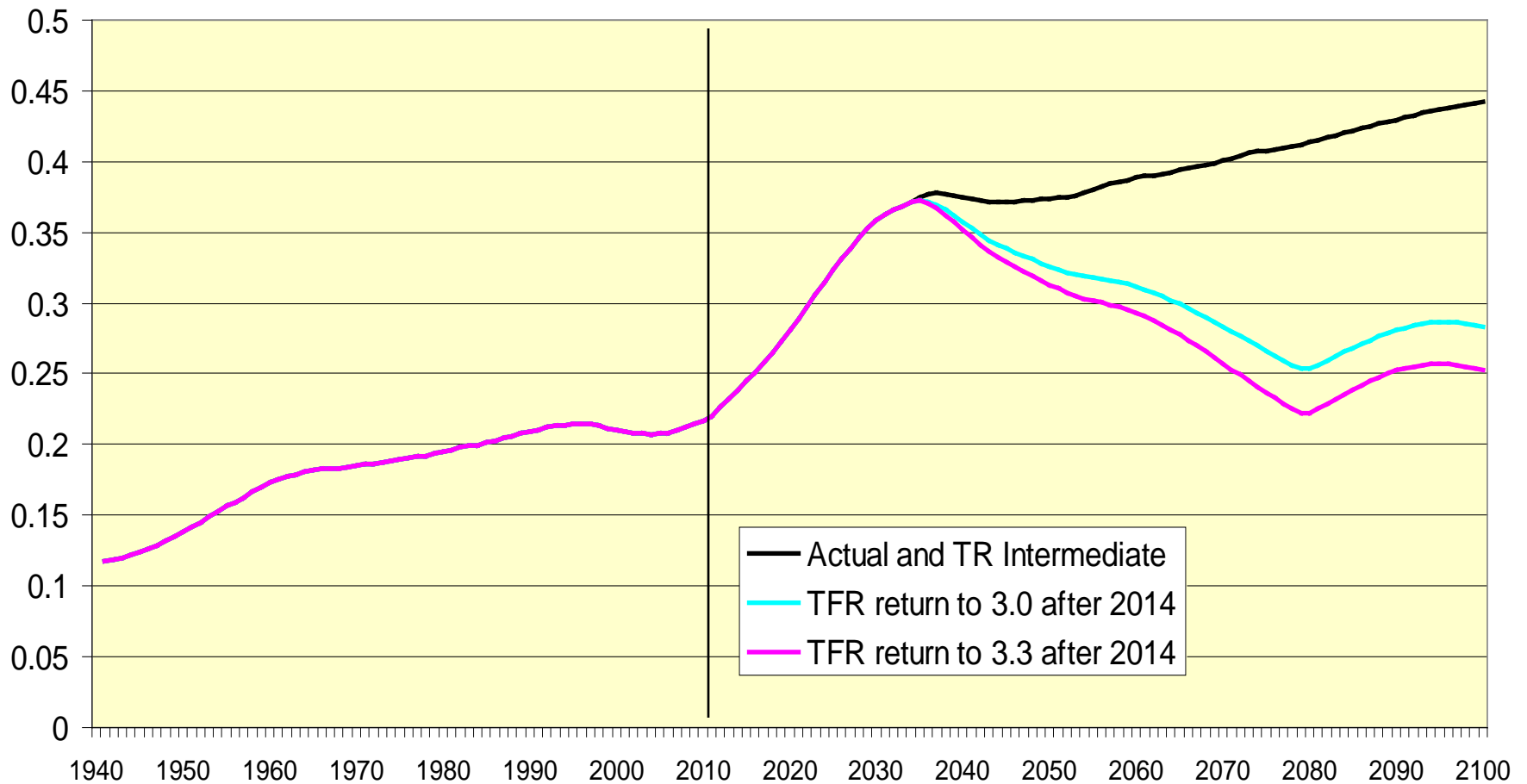
If birth rates had stayed at 3.0 or 3.3 per woman after 1964, our Aged Dependency ratio would not SHIFT

Aged Dependency Ratio (Population 65+/20-64) 2012 TR

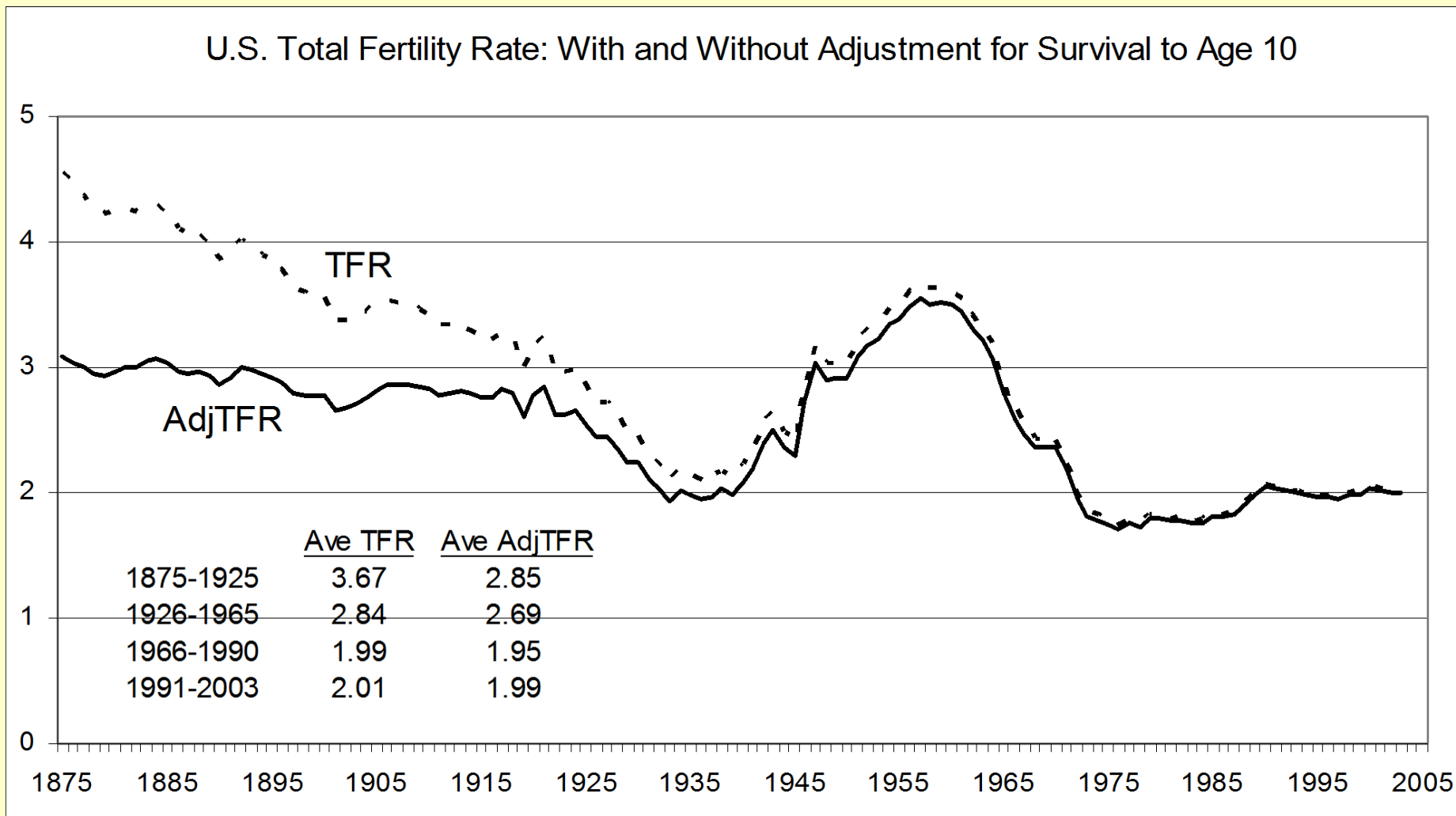


Even if birth rates returned to 3.0 or 3.3 per woman after 2014, our Aged Dependency ratio would come back down

Aged Dependency Ratio (Population 65+/20-64) 2012 TR

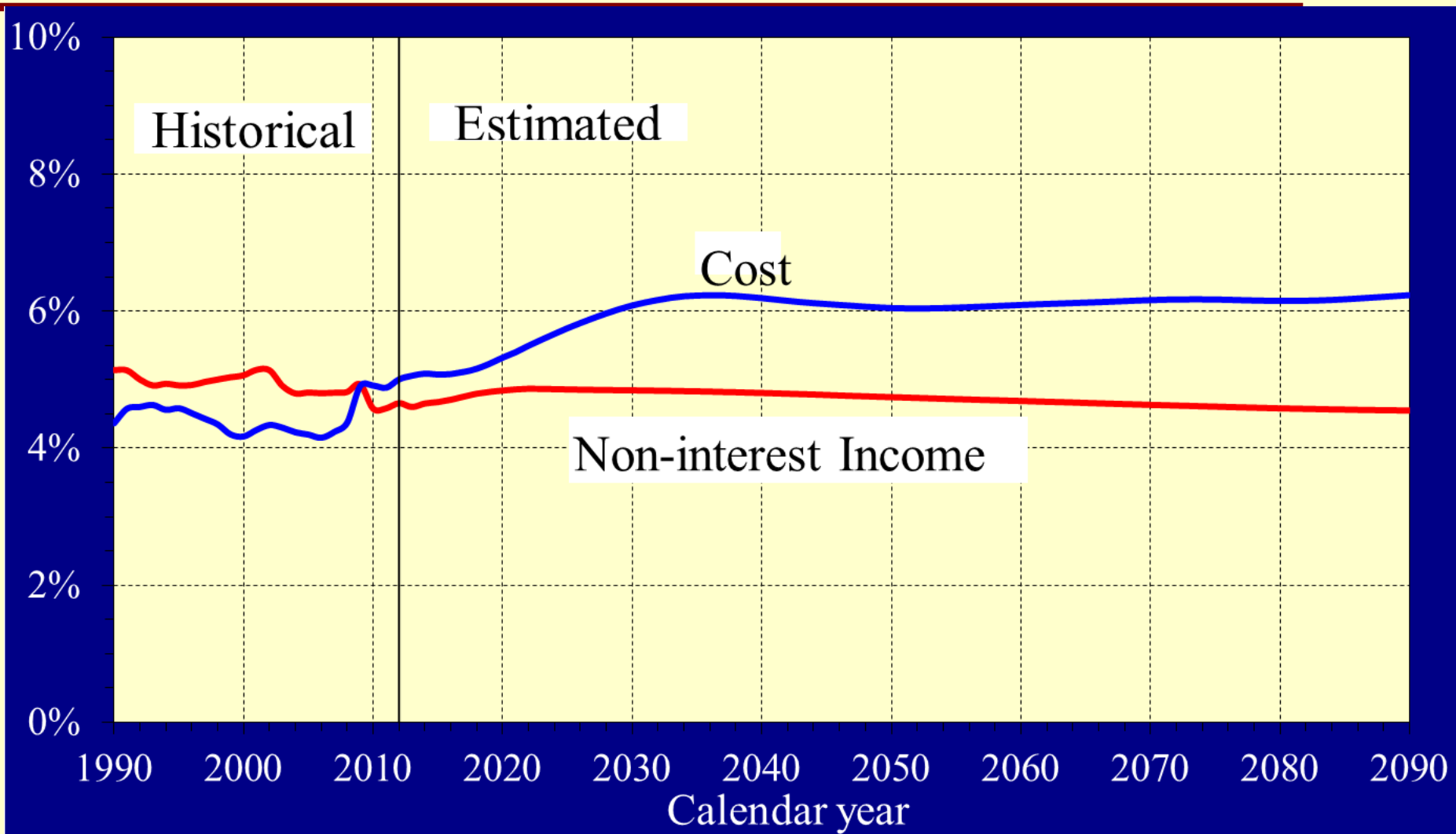


BUT birth rates are not going back up in the U.S. They are staying around 2.0 TFR, high among developed nations



So we need to address a level shift in cost that is mainly due to lower birth rates and not due to greater longevity

U.S. Social Security Cost and income as percent of GDP



Implications of “Macro Aging”

- ◆ It is a Pay-As-You-Go World
 - In the aggregate; *consumption = production*
- ◆ Average consumption will be reduced
 - The only question is how to distribute
- ◆ The old promise of capital deepening ?
 - *We are NOT closed economies*

Implications for Social Security

- ◆ Social Security has exactly the same challenge
 - The older age distribution requires:
 - » Beneficiaries receive less--- 25% less,
 - » Workers pay more--- 33% more,
 - » Increase “Normal Retirement Age”---7+ yrs,
 - » Or some combination

Ways to Lower Social Security Cost

◆ Lower benefits for retirees—not for disabled?

- Increase normal retirement age (*adjust for micro aging*)
- Can exempt long-career low earners
- (Many of whom have much lower life expectancy)

◆ Lower benefits mainly for higher earners?

- Reduce benefit formula above some earnings level
- Like “progressive” indexing
- Means/income testing benefits

◆ Lower benefits mainly for the oldest old?

- Reduce the cost-of-living adjustment

◆ See www.ssa.gov/OACT for proposed changes

Ways to Increase Social Security Revenue

◆ **Raise tax on highest earners**

- Increase maximum taxable amount above \$117,000
- Some tax on all earnings above the maximum

◆ **Tax employer group health insurance premiums?**

- Affects only middle class if taxable maximum remains

◆ **Maintain larger trust fund reserves**

- Added interest/yield can lower needed taxes

◆ See www.ssa.gov/OACT for proposed changes

CONCLUSION

- ◆ **Developed nations are aging rapidly**
- ◆ **Increase in life expectancy is gradual**
- ◆ **Some increase in retirement age is appropriate
— to the extent we are living longer and
healthier**
- ◆ **But the drop in birth rates is causing a
permanent level shift in retirement cost that
will require a more creative solution**