

# Live Long and Prosper: Aging in East Asia and Pacific

World Bank EAP regional flagship report  
Tokyo, May 2016

# Outline of presentation

- Key messages
- The basic demographics
- The situation of older people in EAP
- Challenges and policy priorities to promote healthy & productive aging
- Some lessons from Japan for developing & aging EAP



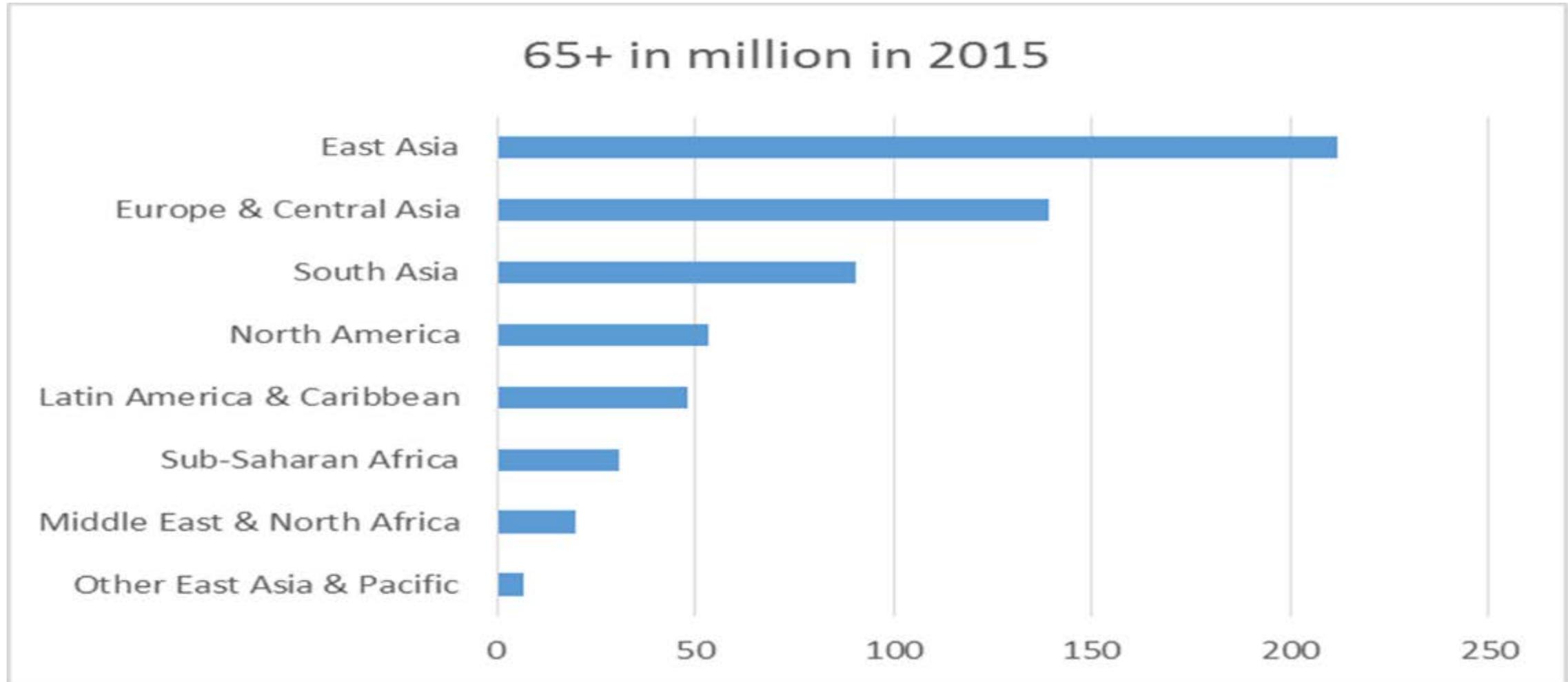
# Key messages of the report

- EAP already has more old people than any other region globally & is aging at an unprecedented pace
- The challenges posed by rapid aging are real, but public policy & behavioral responses by households and employers can promote healthy & productive aging – and EAP is (mostly) better placed than most regions to manage rapid aging
- The policy responses needed to manage rapid aging are not just about old people – it requires policy reforms across the life cycle
- The most pressing risks from rapid aging are fiscal & require urgent reforms in some EAP countries of pensions, healthcare, and long-term care systems
- But many of the policies to manage aging are politically challenging & behavioral change will require shifts in socio-cultural norms that take time



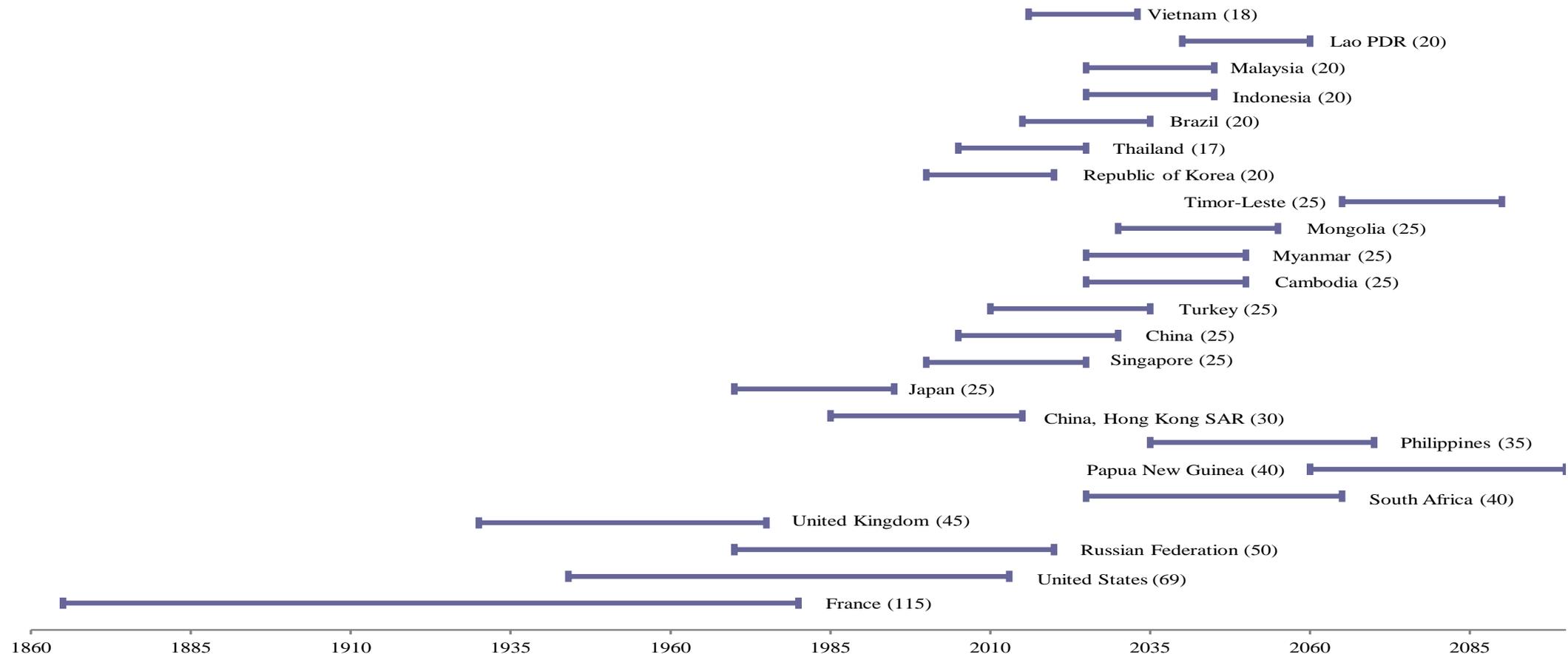
# East Asia, led by China, has more older people than any other region – and will rise to c. half billion by 2040

(mlns of people 65+ by region – UN 2015 & WB estimates)



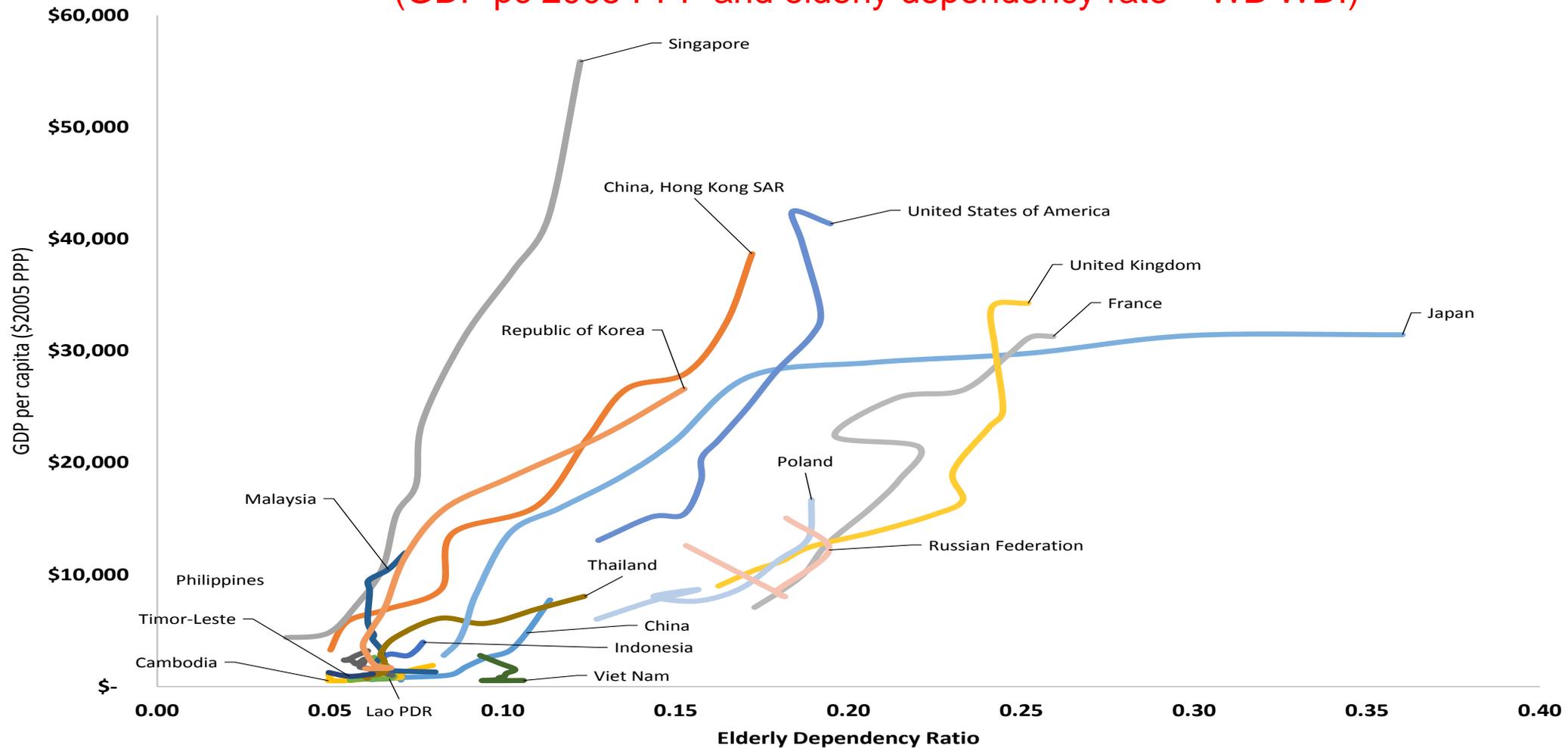
# The transition from aging to aged societies is faster in EAP than seen previously in history...

(years to move from 7 to 14 percent population 65+, 5 year rounded)



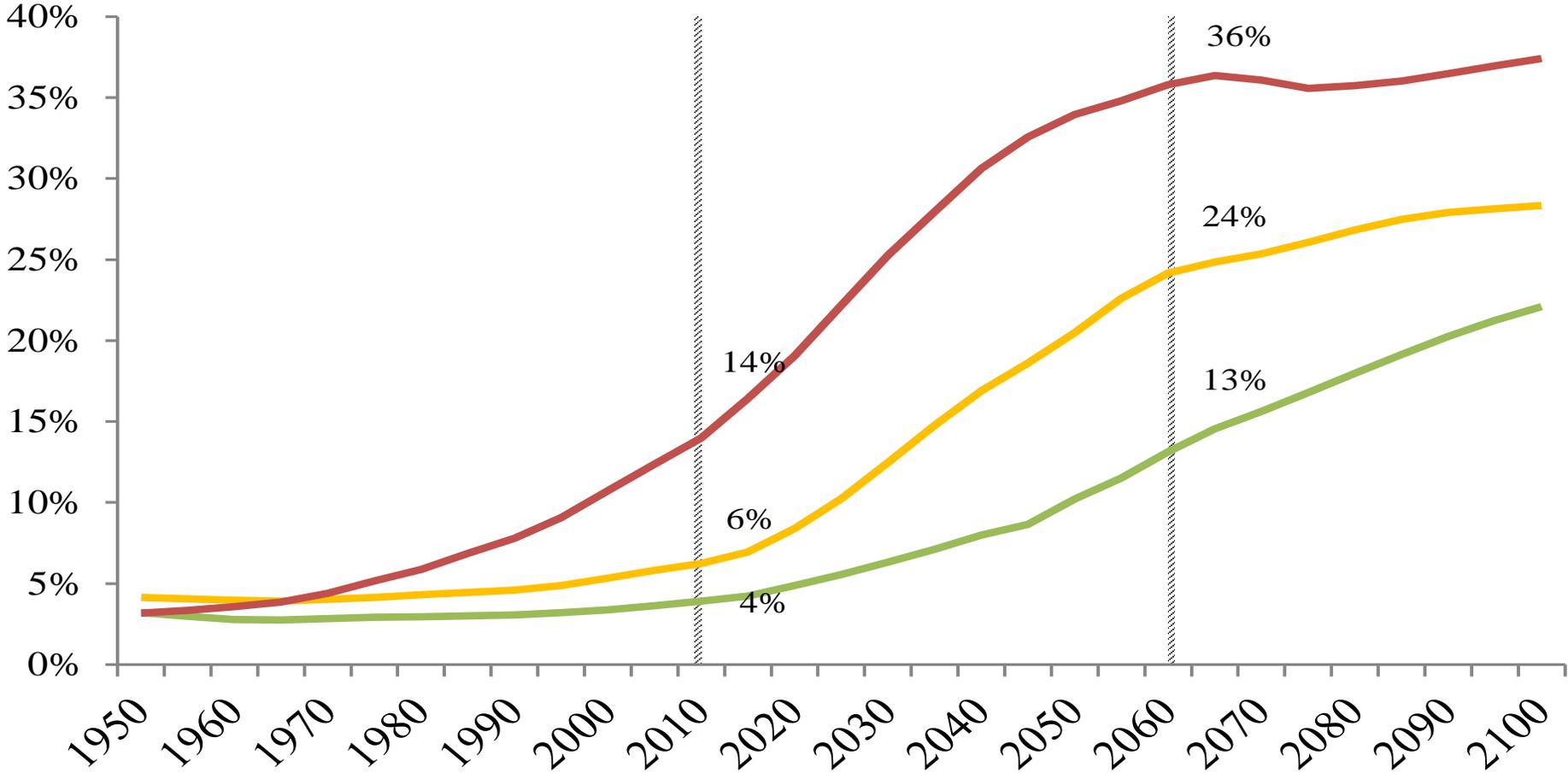
# As a result developing EAP countries are getting old before getting rich...

(GDP pc 2005 PPP and elderly dependency rate – WB WDI)



# But there is also considerable diversity in the stage of aging across country groupings - and lessons

(share of population 65+. 1950-2100)



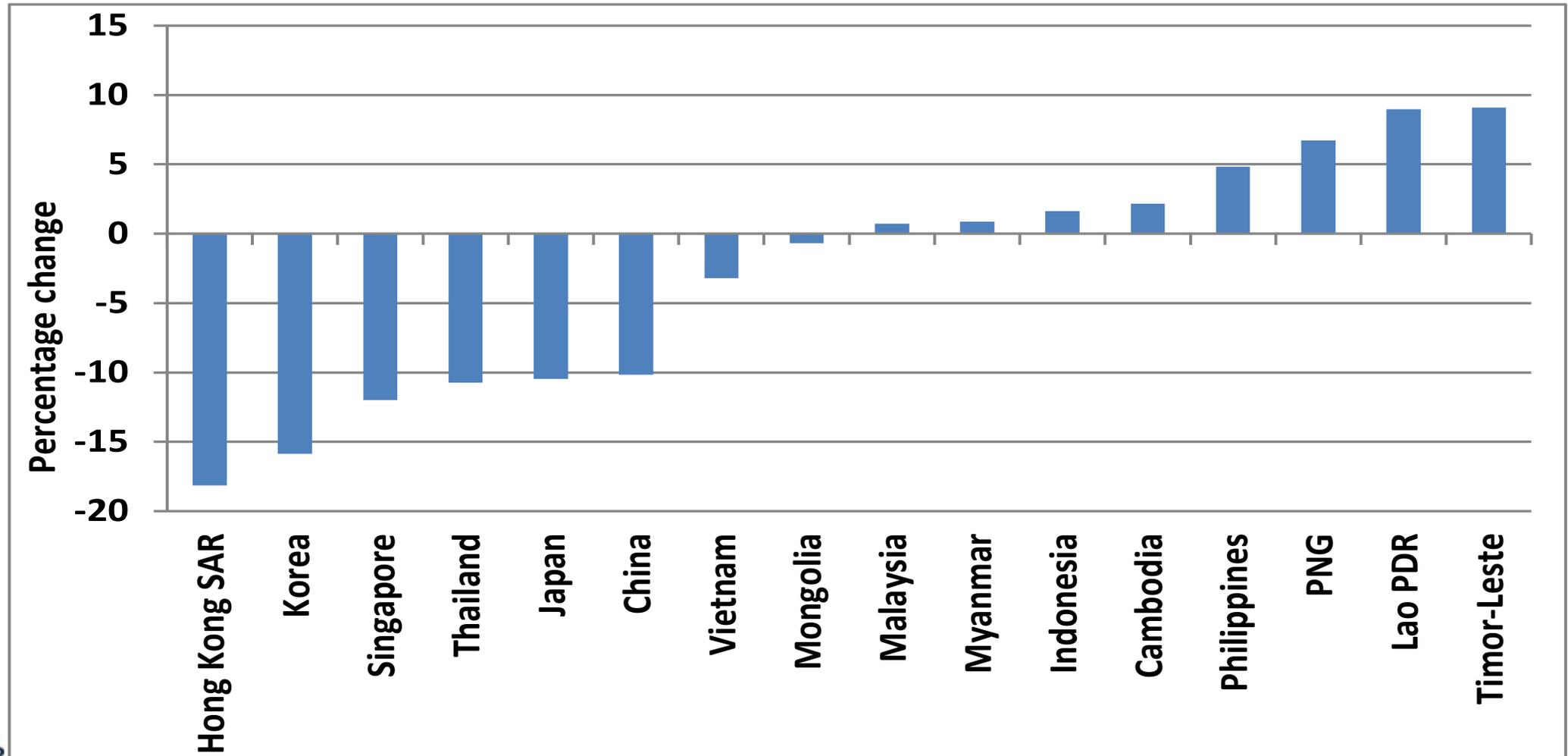
**Red**= JP, KOR, SIN, HK SAR CN.

**Yellow**= CN, TH, VN, INDO, MY, MONG.

**Green**= PH, LAO, CAM, MM, PNG, T-L.

# Which results in divergent trends in working age population of EAP countries...

(Projected % change in population share, 15–64 Years, 2010-2040. WB based on UN)



# In terms of health status, there is good and not-so-good news...

## The good news

- EAP people are living longer, especially in low-income countries
- They also have more years of healthy life expectancy
- In much of EAP, communicable diseases are no longer the primary cause of death and morbidity

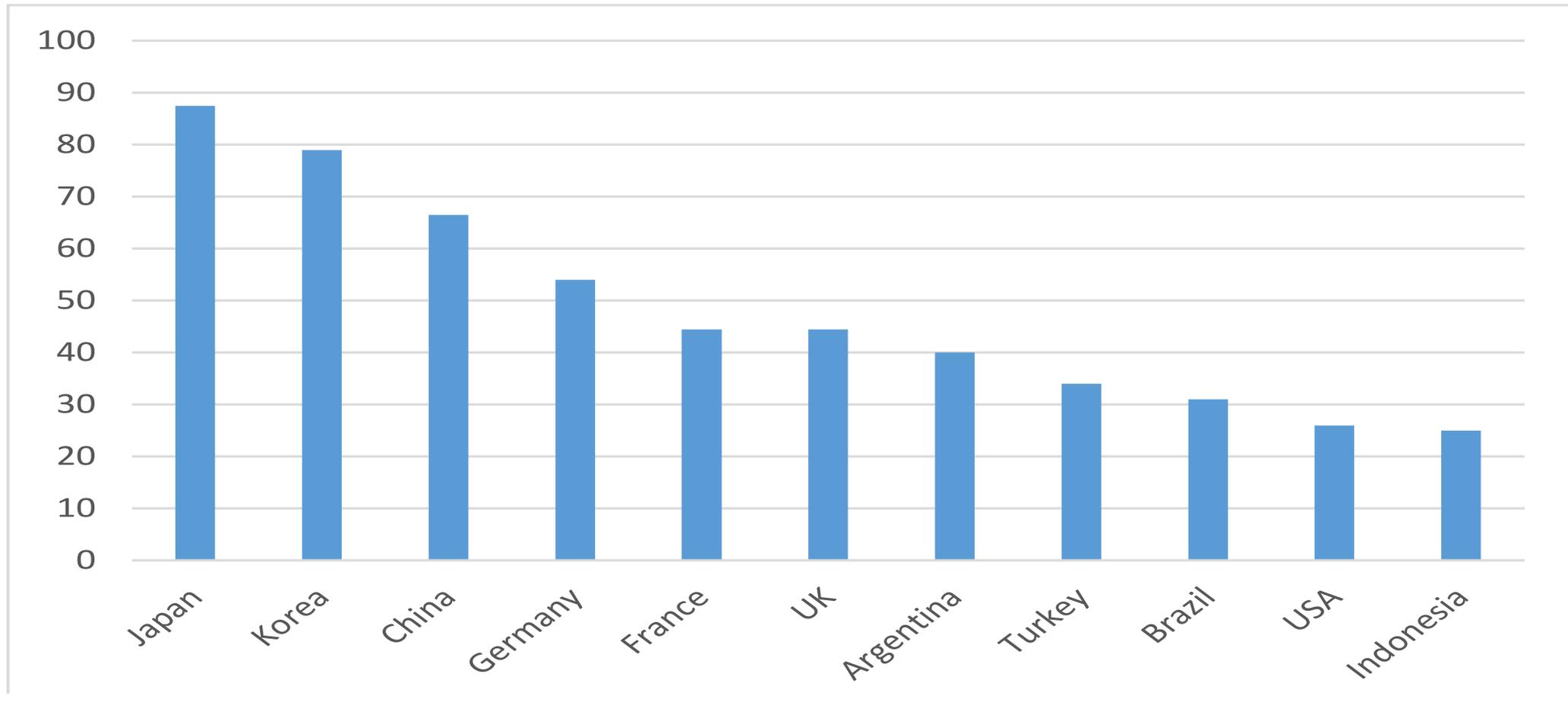
## The not-so-good news

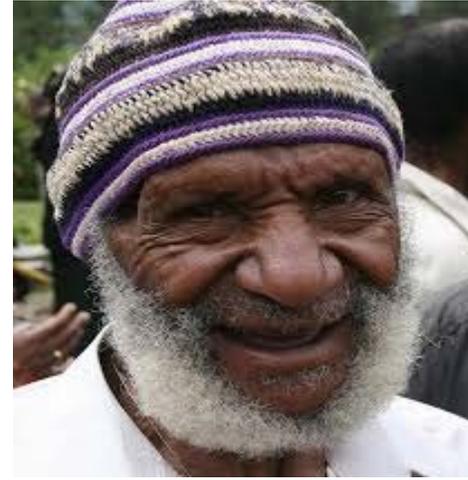
- Non-communicable diseases are exploding: more middle aged people have them & older people have multiple NCD – often undiagnosed and/or untreated
- Years of living with disability are rising as healthy life expectancy increase lags total life expectancy increase
- In much of EAP, unhealthy behaviors are high, including smoking, salt intake and alcohol consumption
- Aging is leading to new health challenges such as dementia



# Overall, a growing number of countries in Asia see aging as one of their major challenges

(% rating aging a “major problem” for their country, Pew Research 2014)



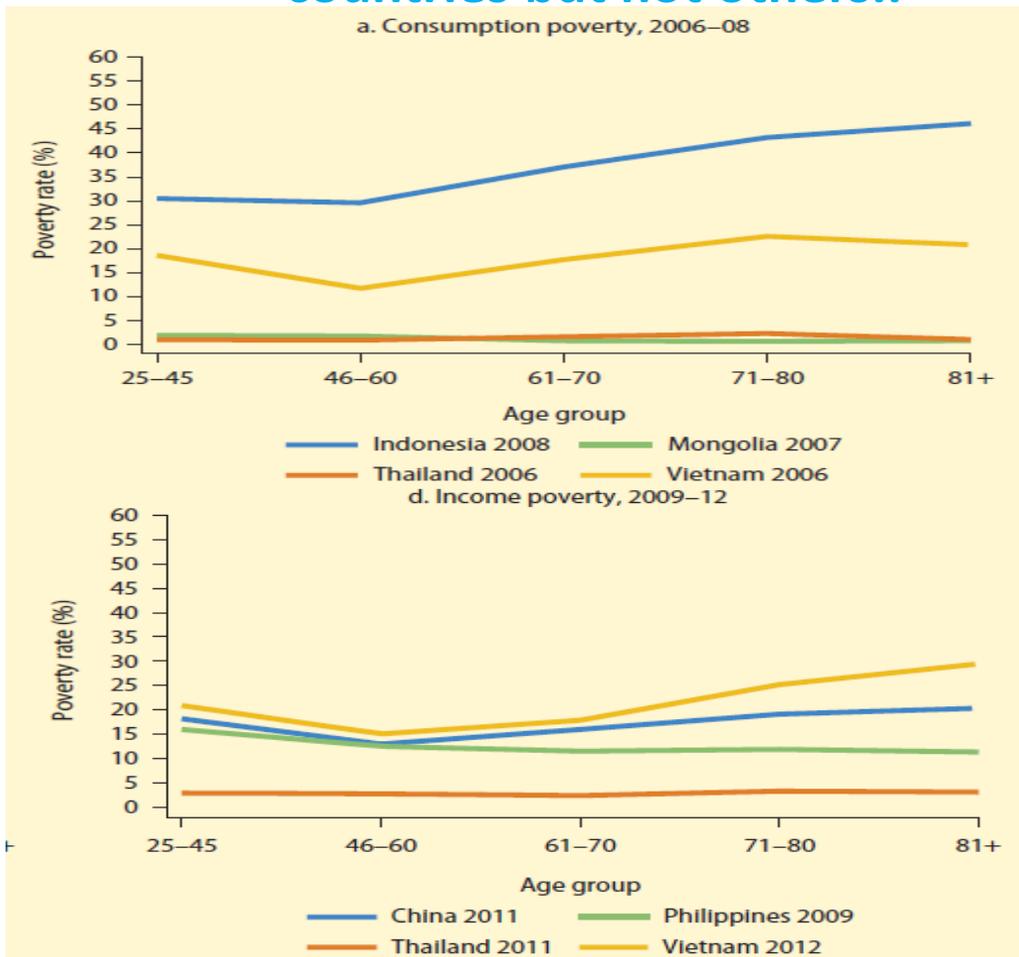


# The situation of older people in EAP

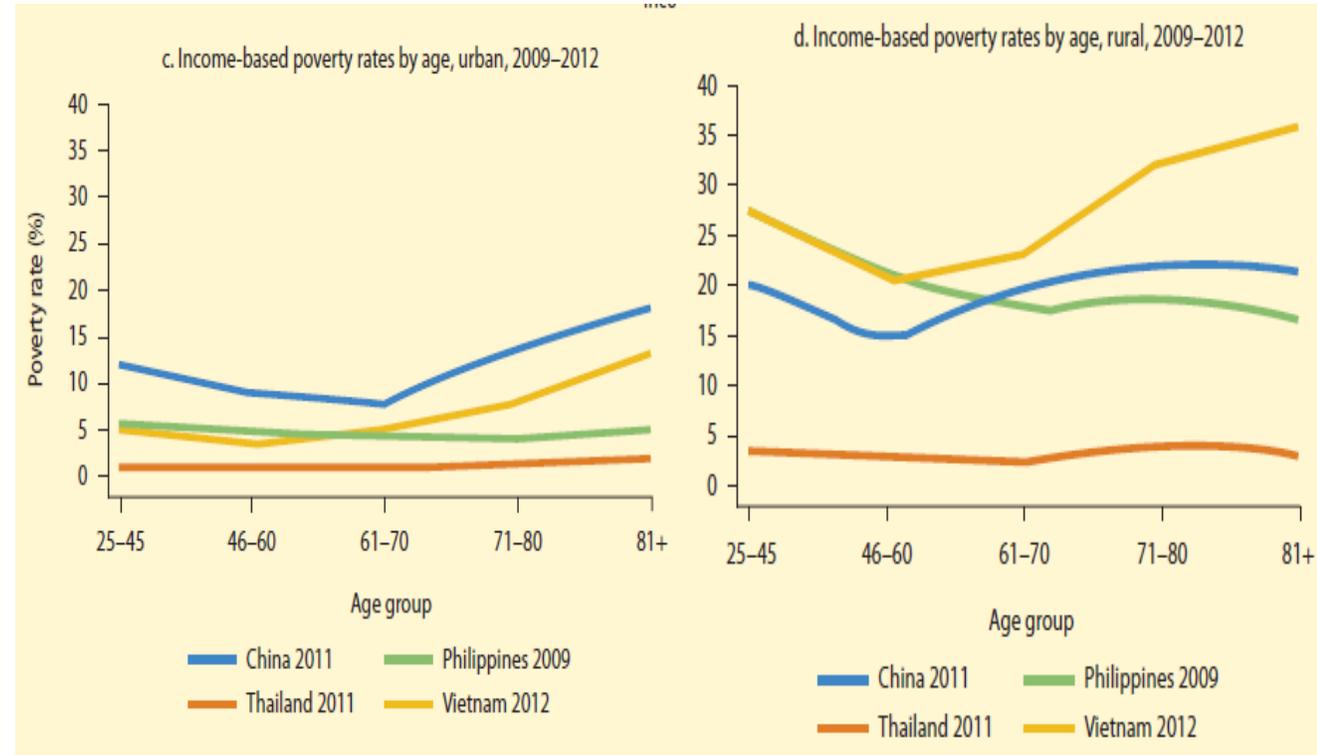


# Elderly poverty has fallen with economic growth but in some countries the elderly remain poorer...

Older people tend to be poorer in some EAP countries but not others..

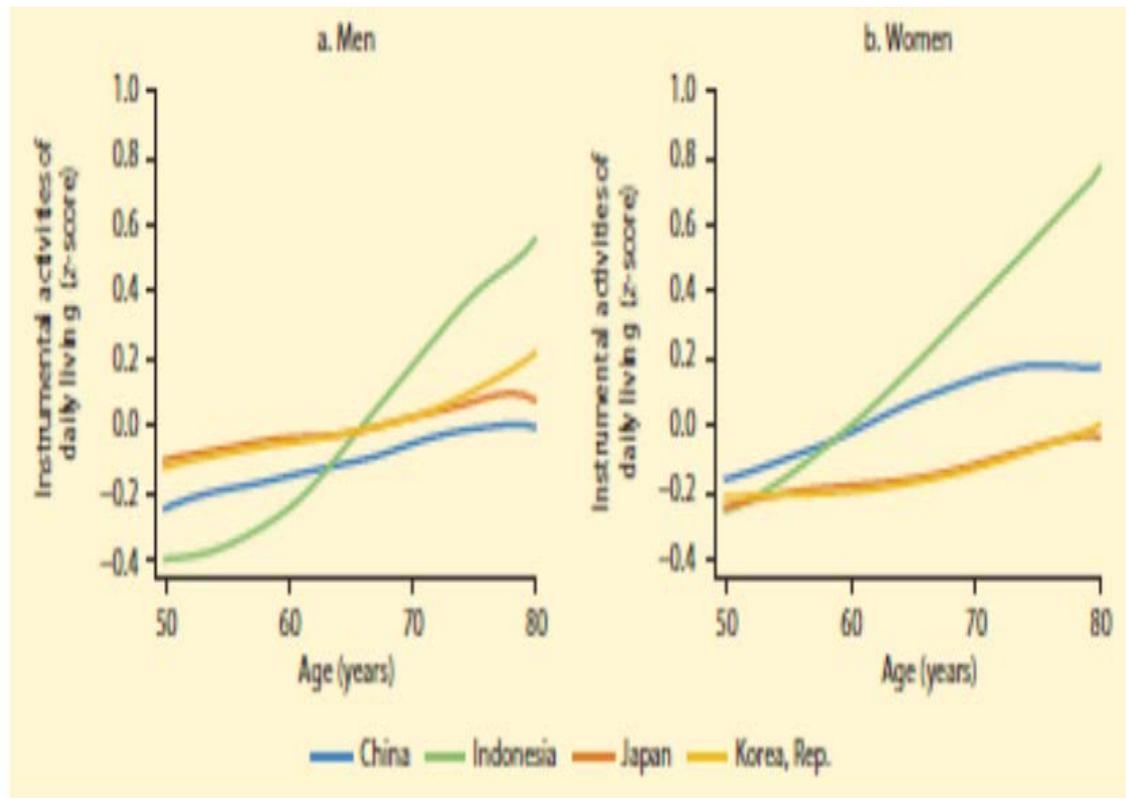


And rural elderly are in most cases significantly poorer than urban...

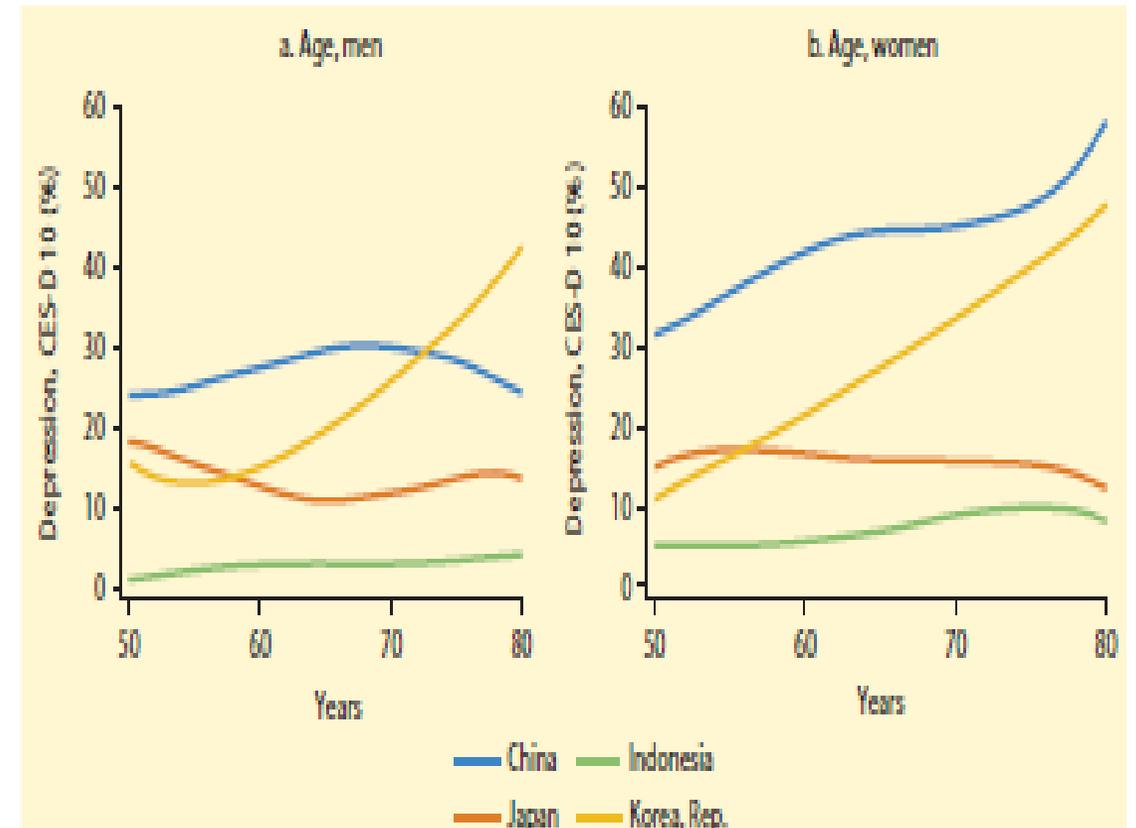


# And non-income welfare indicators often deteriorate with age

IADL z-scores by age, early 2010s

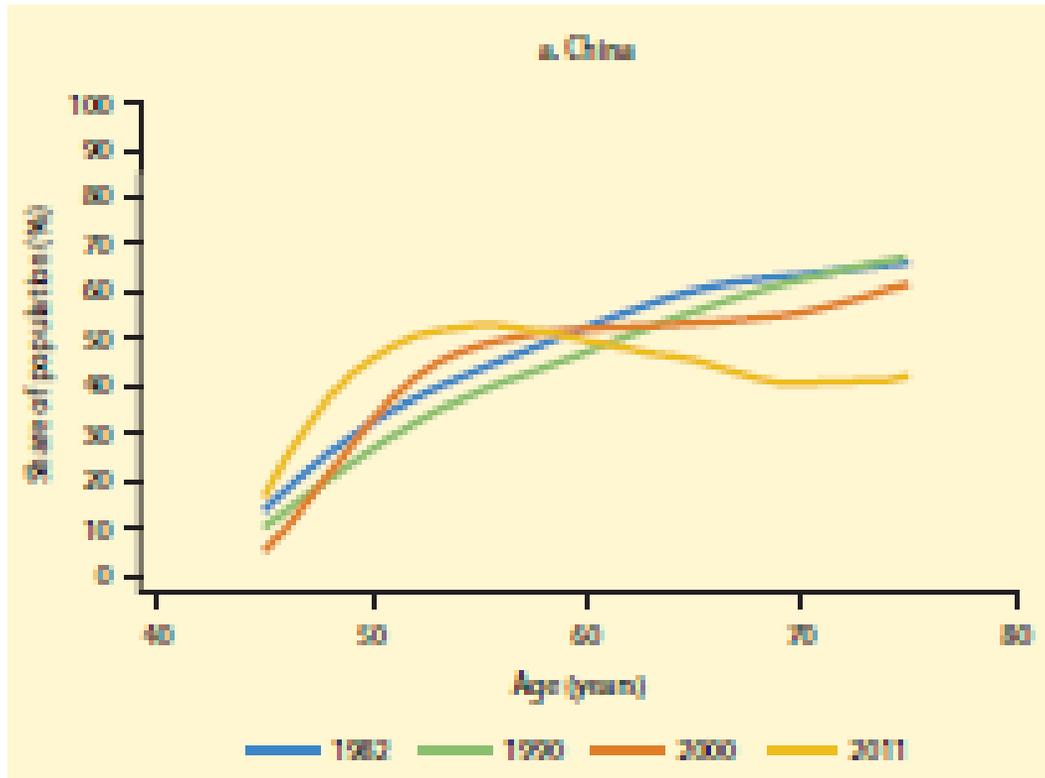


Depression rates by age, early 2010s (CES-D 10)



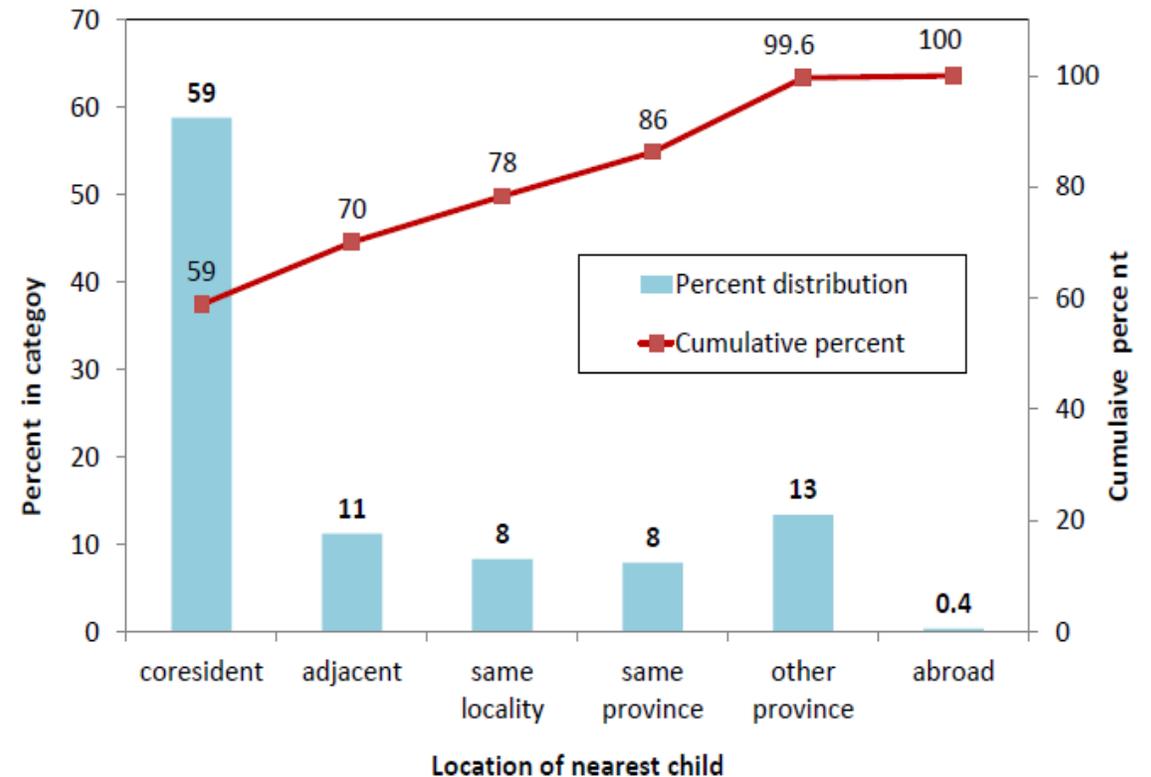
# While elderly co-residence remains high in most countries, it is falling rapidly in some – but need to look more closely also...

## China elderly co-residence with adult children, various years



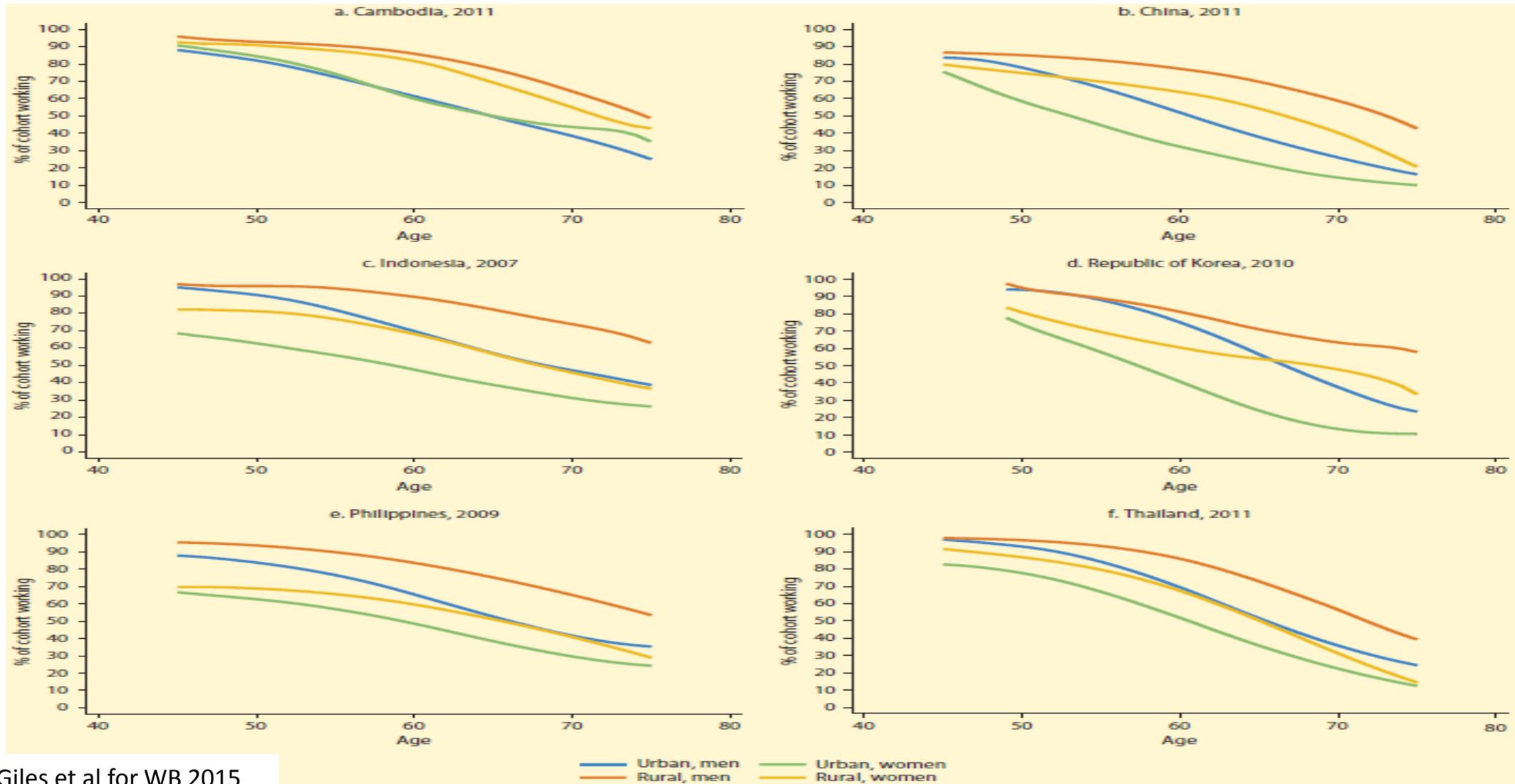
Source: Giles et al for WB 2015

## Thailand, patterns of elderly residence – a closer look...



Source: Knodel et al, 2014

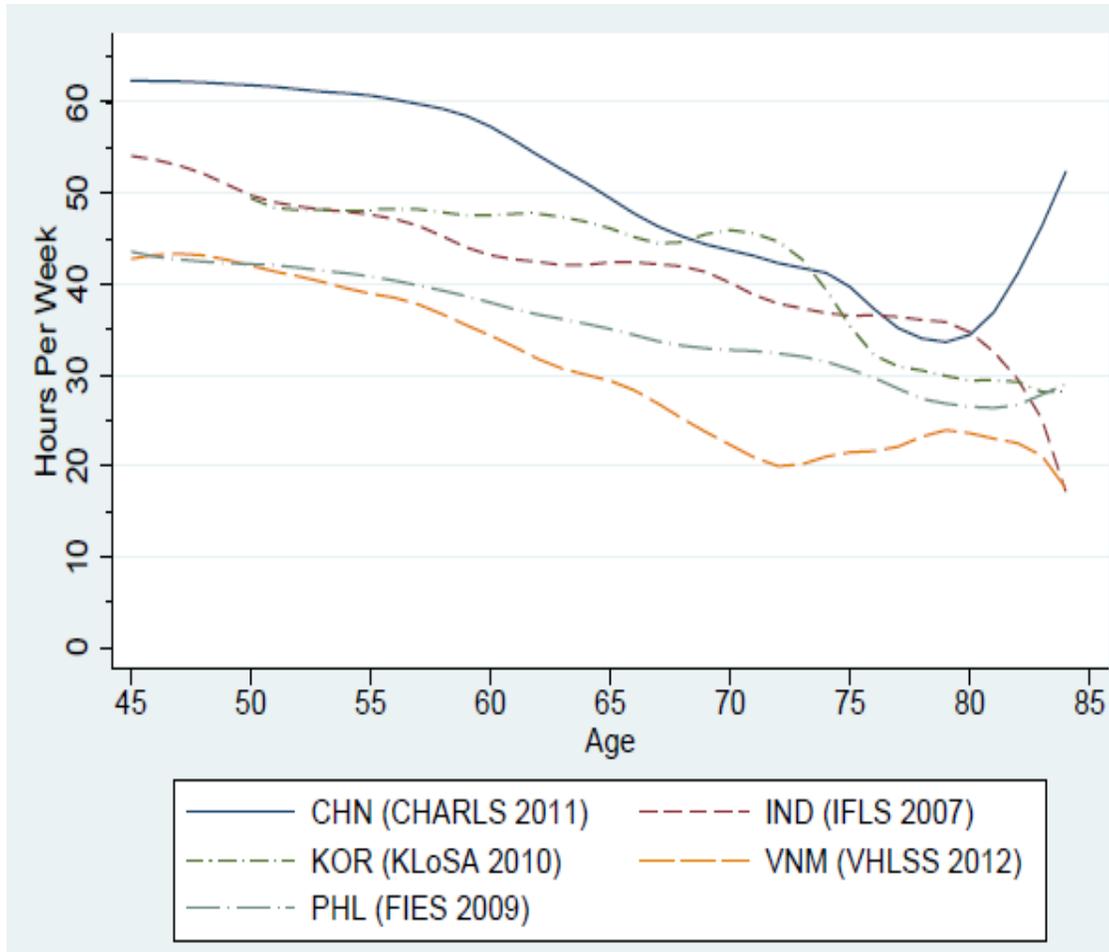
People in EAP work to advanced ages, especially in rural areas...but better educated people are leaving work earlier, especially women



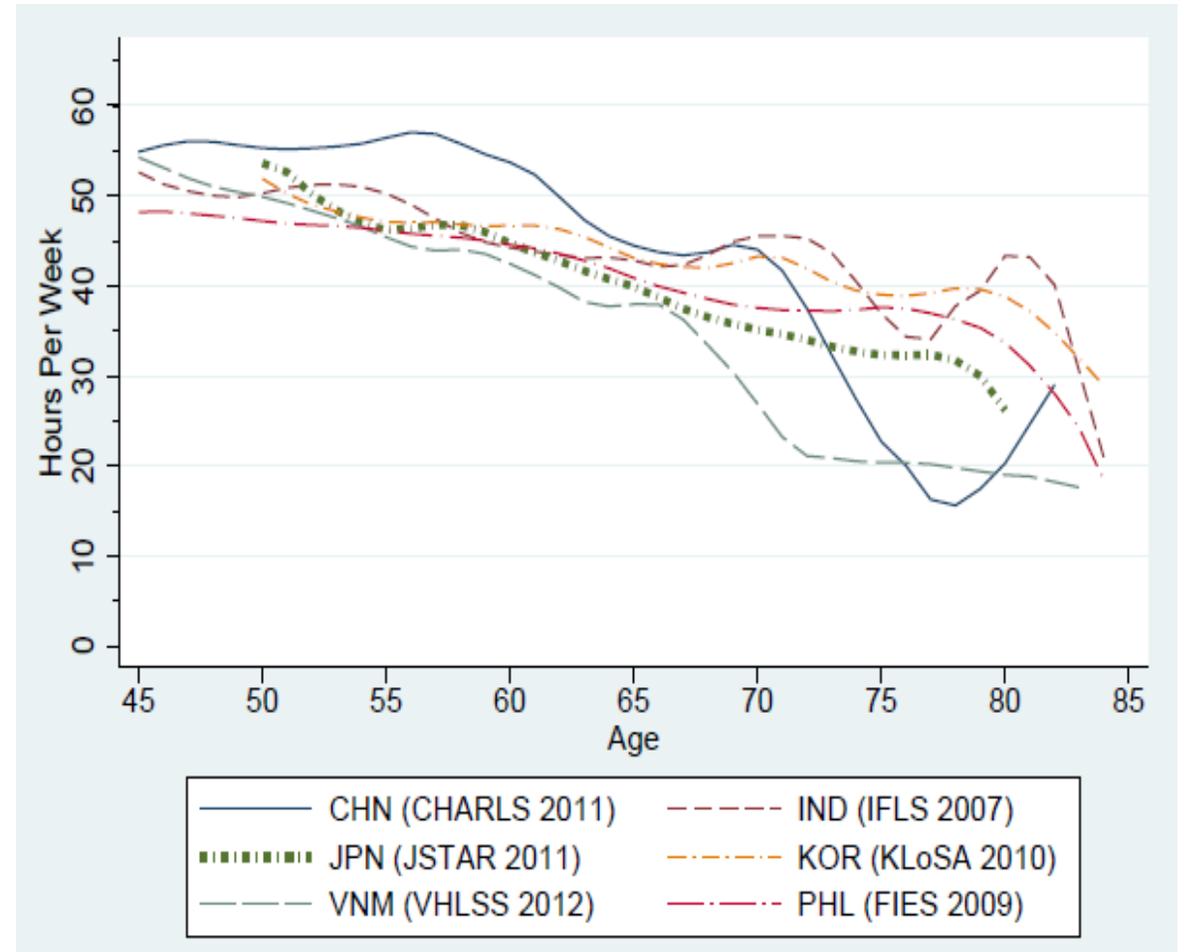
Source: Giles et al for WB 2015

# And those who work in old age keep working hard across Asia

## Hours worked among rural men working by age

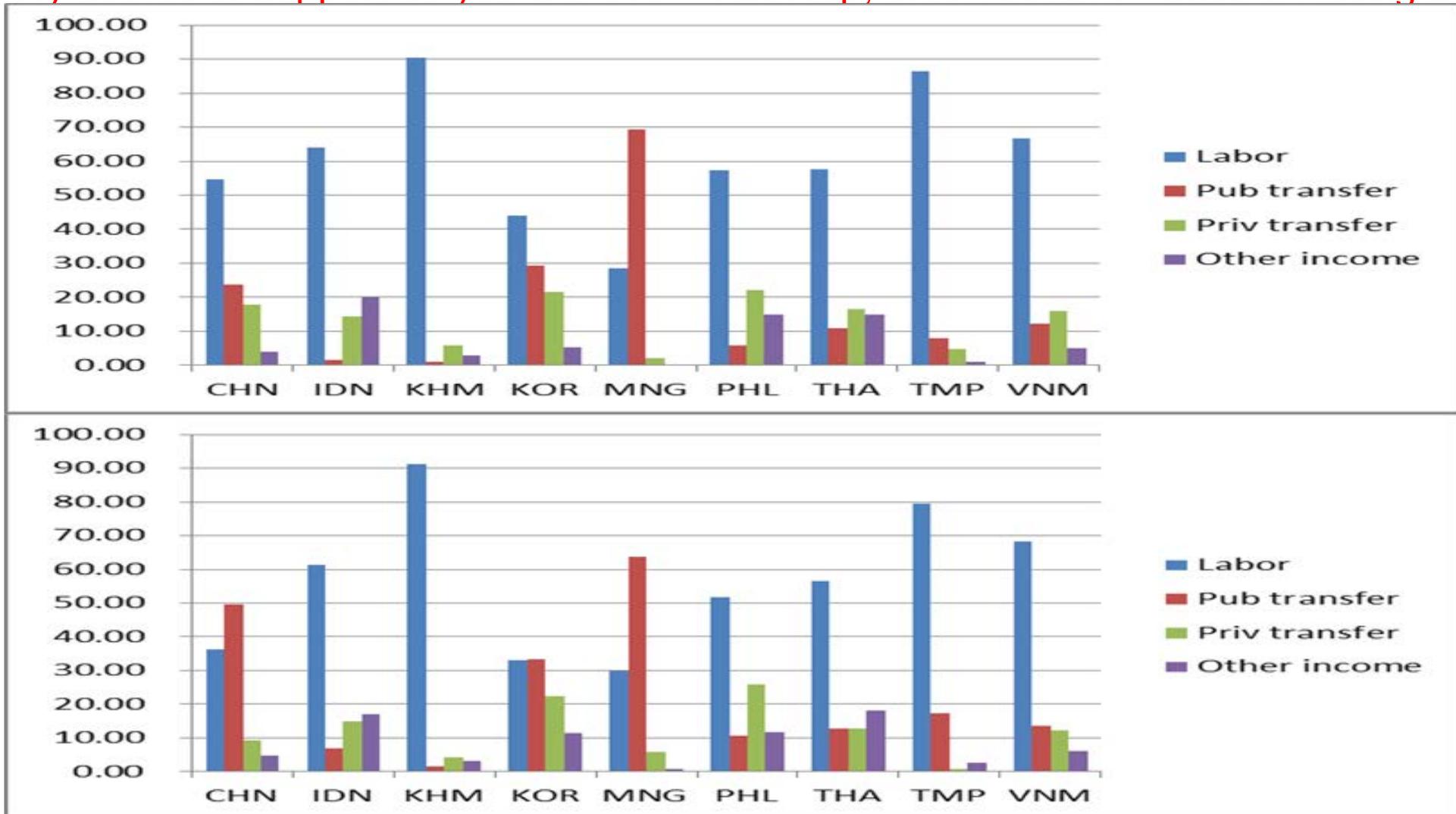


## Hours worked among urban men working by age

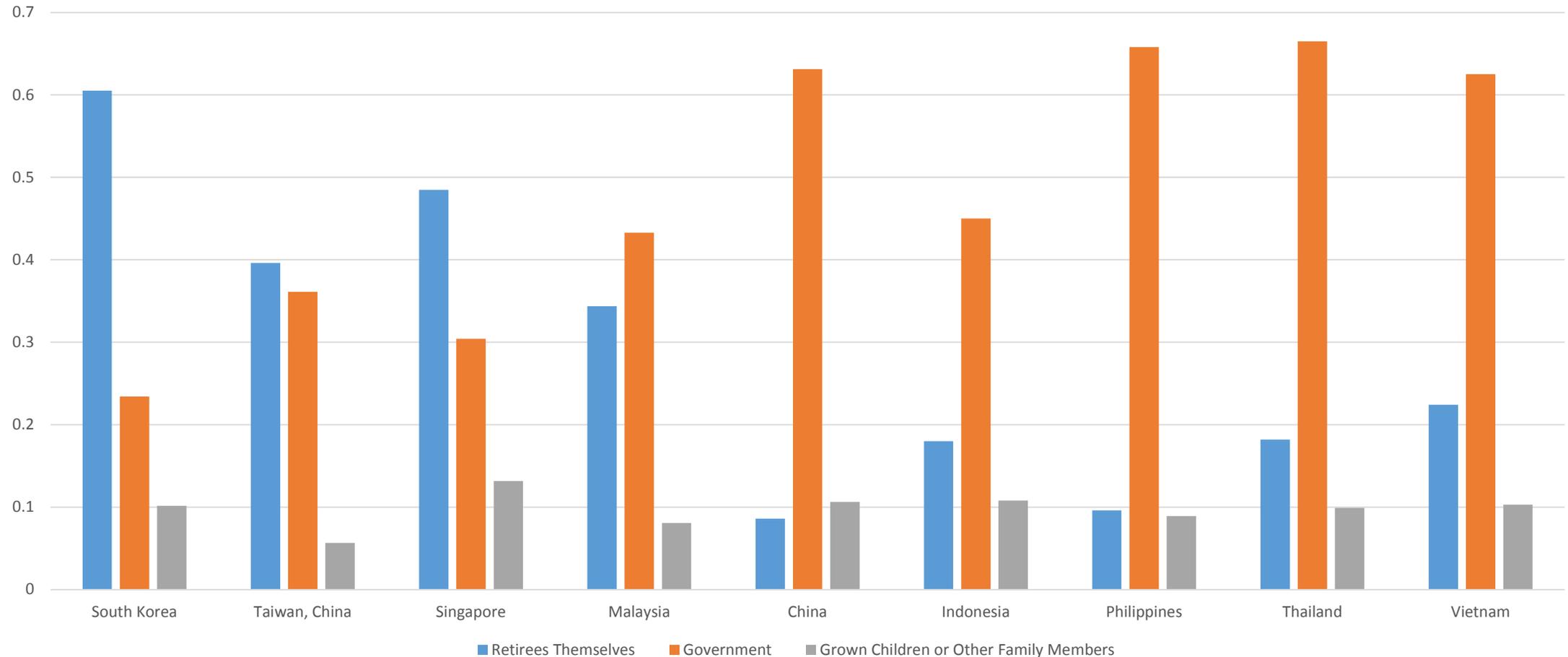


# People in much of EAP rely primarily on their work rather than the state or family for financial support...

(primary source of support 60 years & over - rural top; urban bottom - Giles & Huang 2015)



# Despite this, in developing EAP expectations of the state are high for old age financial support... (ideal primary source of support in old age - Jackson & Peter, 2015)



# Challenges & policy priorities to promote healthy and productive aging in EAP



## Economic & policy issues which rapid aging raises...and potential for policy & behavioral responses

- Potential impacts on the drivers of economic growth – and why EAP is better prepared than most regions to manage them
- Mitigating the labor market impact of an aging workforce with action across the life cycle
- Impacts of aging on pension systems & reform priorities
- Implications of aging for healthcare and long-term care delivery & financing

# 1. The macro-economy and aging...

Demographic dividend made a clear contribution to growth in East Asia – around one third in several estimates & as high as 44% for 1960-90. This raises fears of a “demographic tax” as populations age & working age population declines.

While such concerns are valid, the reports argues that potential impacts on growth from rapid aging in EAP is better placed than most to manage to the growth impacts. **Why?**

- *Savings rates* are generally high & people save till later in life
- There is major potential in developing EAP to improve *intermediation of savings into investment* through financial & capital market reforms
- The dramatic increase in educational attainment in EAP means that the *quality* of future workers will be higher, even if their quantity is less
- There is significant scope to *mitigate the shrinking working age population* through reforms in areas like childcare, pensions, migration policies & measures to extend working lives
- Older people provide a new channel to stimulate *domestic consumption*, provided they can over time reduce overly high precautionary savings.



## 2. The labor market and aging

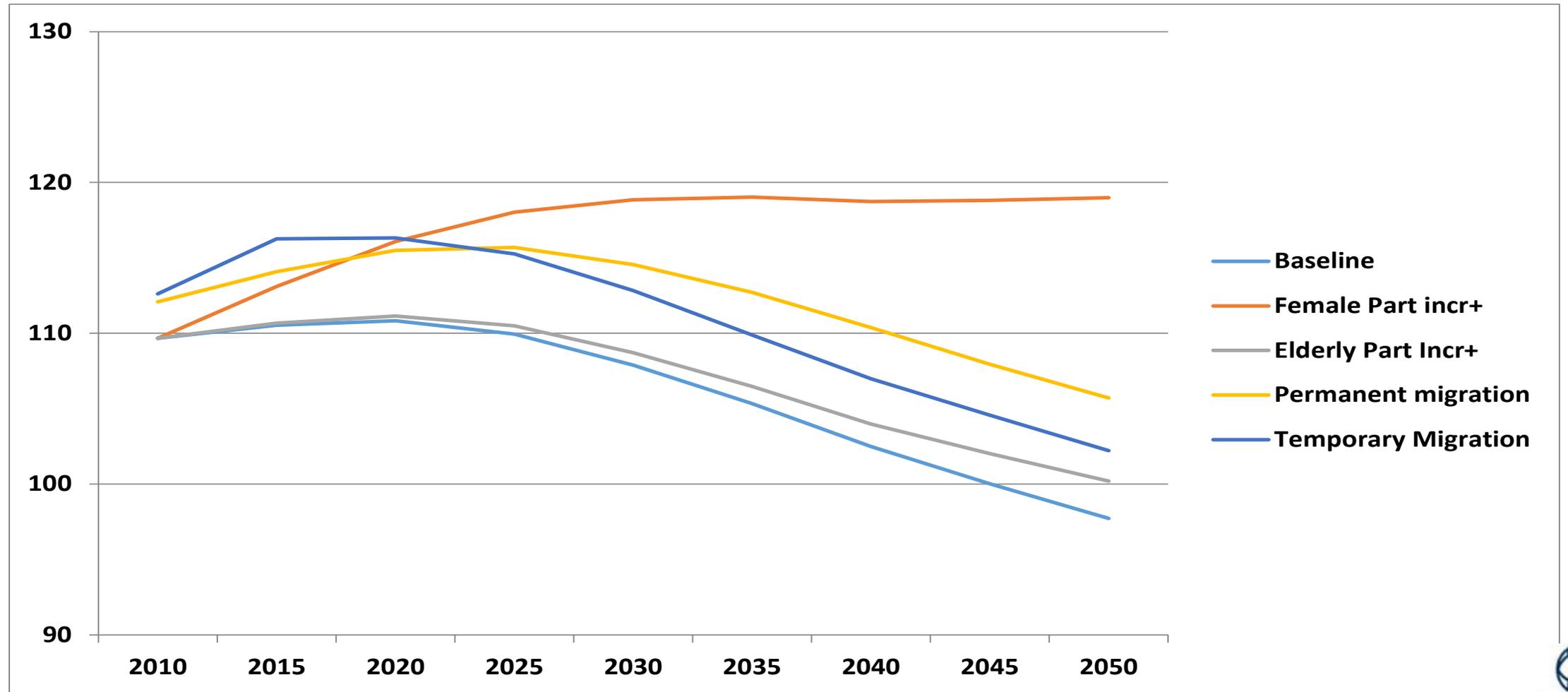
**While a decline in population 15-64 is already happening or inevitable in EAP countries, there is a range of channels to offset the demographic effect, including:**

- Deepen reforms of childcare & tax/other policies to ***stimulate female labor force participation***, especially after childbirth
- ***Extend working lives*** through reforms of pension and tax systems & removing policy barriers to work of older urban people (e.g. seniority wages)
- ***Changing work arrangements*** to accommodate the needs of older workers through flexible employment & adapted workplaces
- For some countries, promoting ***more immigration*** to inject younger workers into the labor force

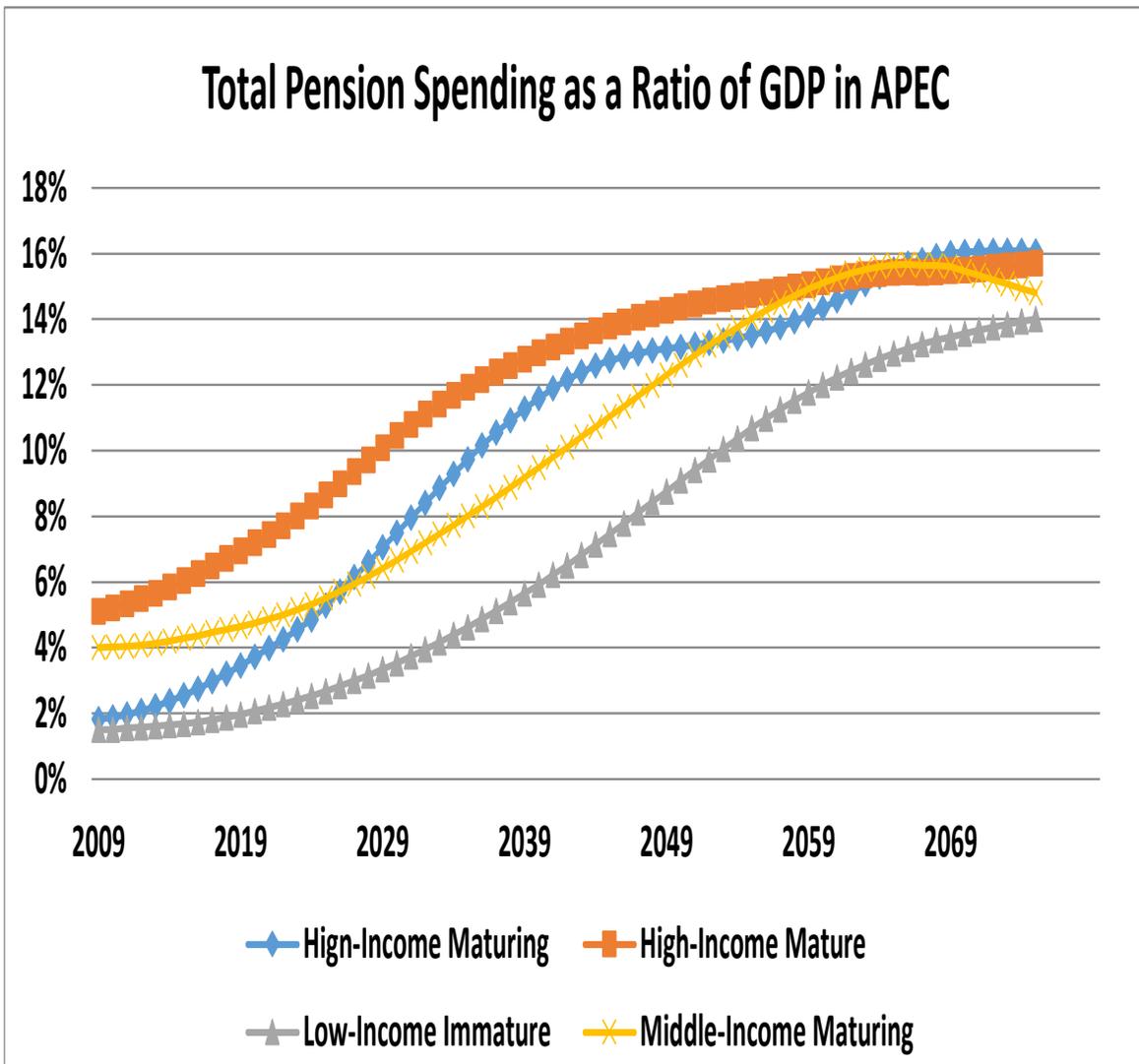


# Potential from various labor measures in richer EAP countries...

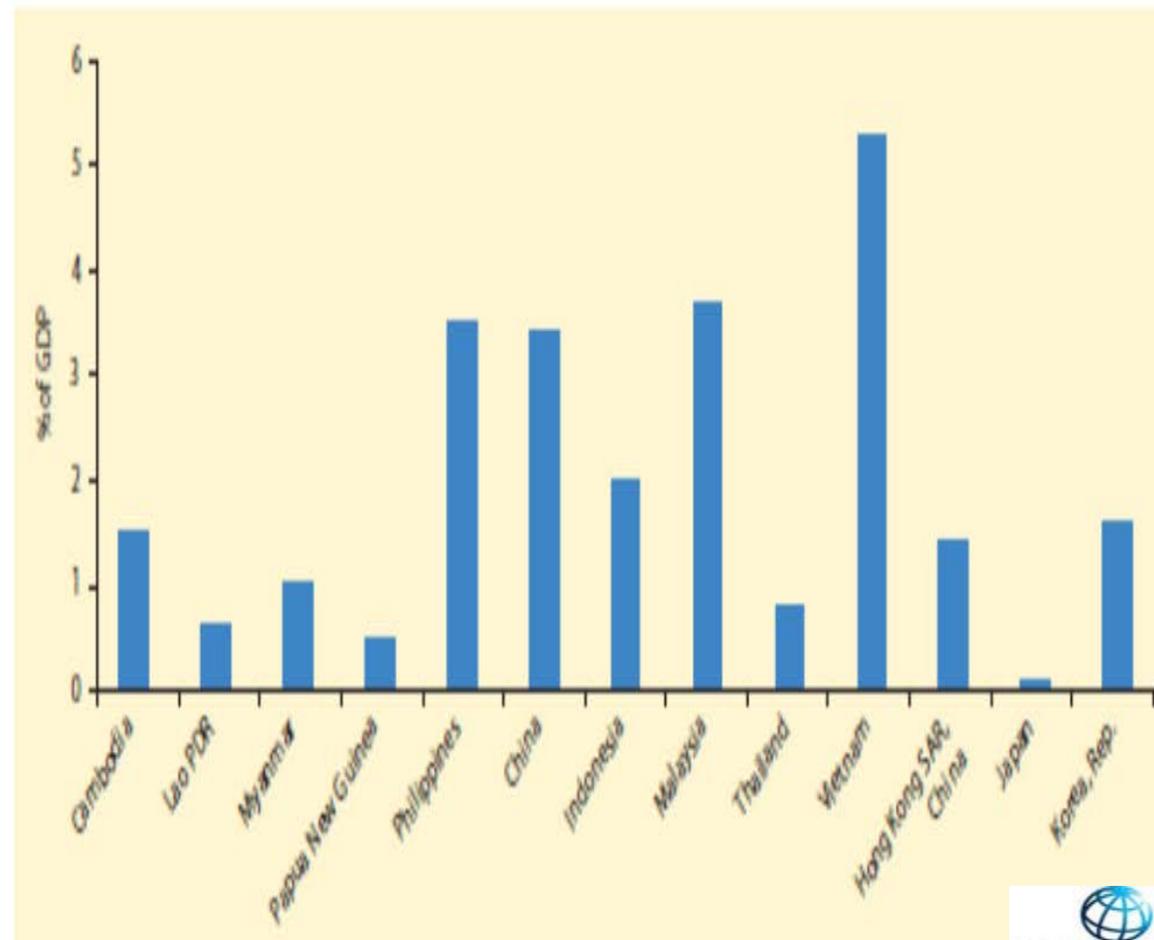
(projected change in labor force size (mln) for richer EAP. Ozden & Testaverde for WB 2014)



### 3. Pension systems and aging...while current spending is low, fiscal risks of formal pension systems are high

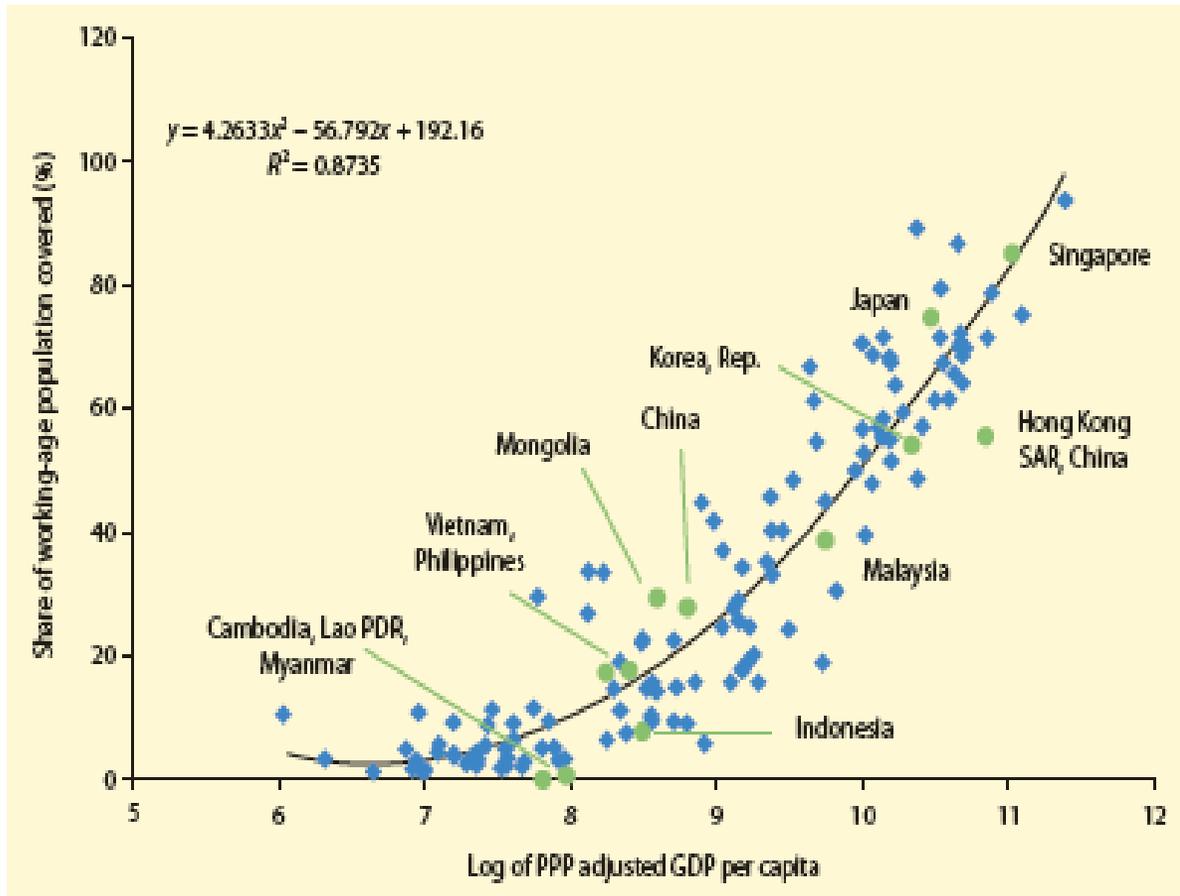


#### Projected increase in pension spending, 2014-2050

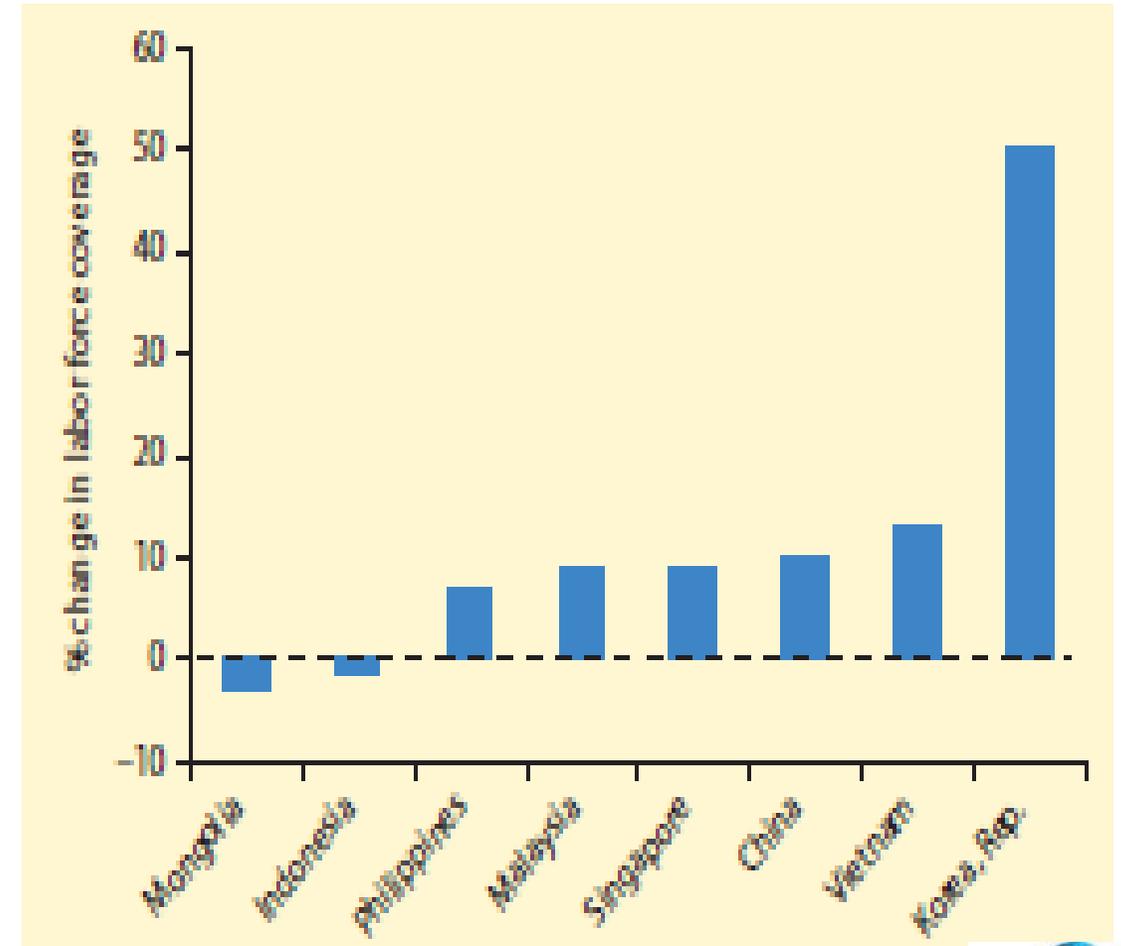


# At the same time, coverage expansion remains a major challenge in contributory systems

Coverage of contributory as % of working age population, 2010s



Change in contributory system coverage, 1990-c.2010

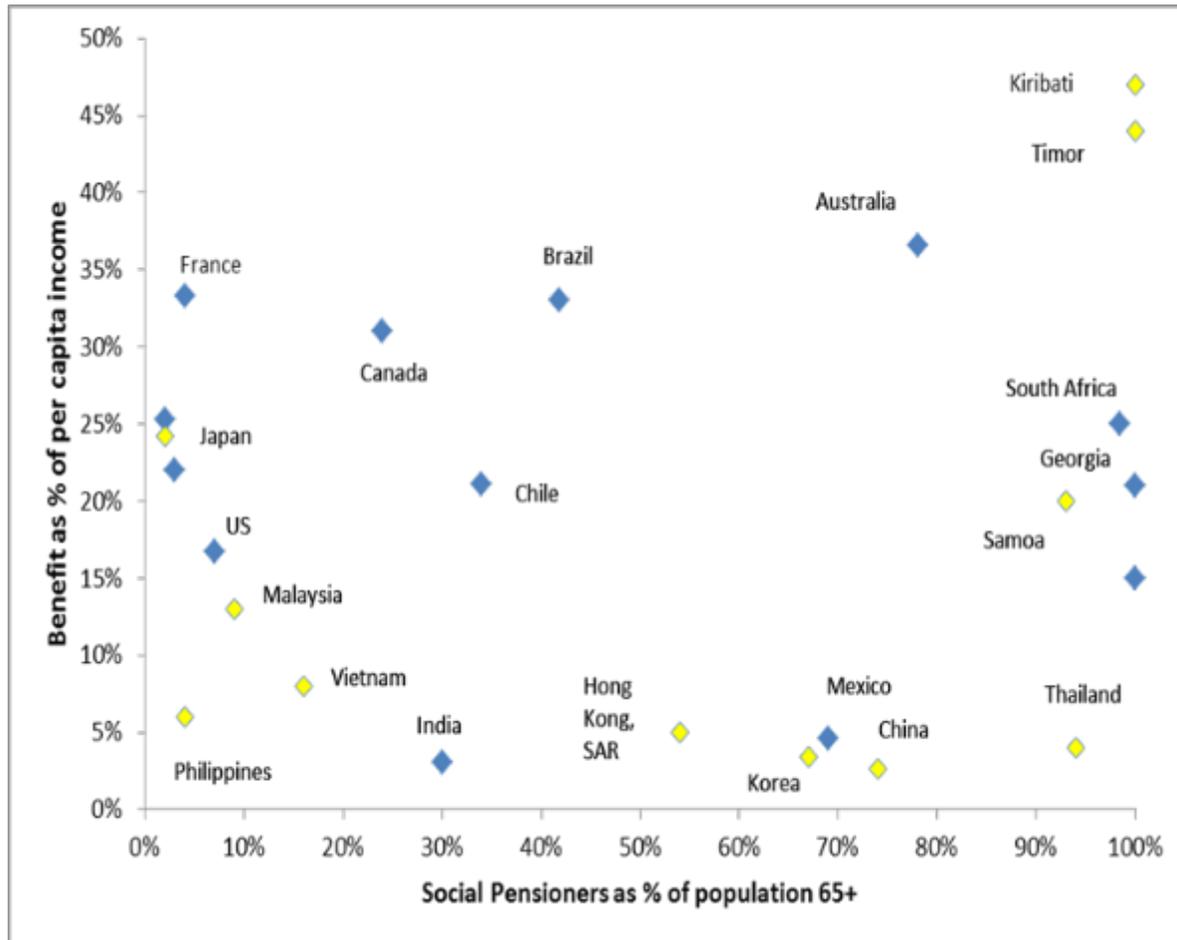


Source: World Bank pensions database, <http://www.worldbank.org/pensions>.

Note: PPP = purchasing power parity. Data are from most recent year and refer to mandated contributory coverage only.

# One response has been rapid increase in social pensions

## Social pension coverage and adequacy, early 2010s



## Some questions:

- What are the poverty and political benefits of social pension vs. generalized social assistance approach, partic. in LICs?
- Universal (or pension-tested) vs. targeted social pensions?
- What are the potential impacts on formality and LM behavior ?
- How to strike the coverage vs. adequacy balance?
- How to align with design of formal schemes to ensure right incentives?

# The challenges to balance coverage, sustainability and adequacy vary across countries, but include...

## For formal sector schemes:

- Overly early official and/or effective retirement ages
- Overly generous & fragmented civil service schemes
- Low real rates of return in DC schemes or pillars
- Major sustainability challenges in several major DB systems
- Low or no coverage beyond civil service/small formal sector in LICs & PICs
- Rigid design and lack of incentives for informal workers to participate in formal schemes

## And suggested responses:

- Gradually raise retirement ages to 65 for men and women, link to life expectancy at retirement & remove early retirement incentives
- Merge civil service and core schemes with occupational supplements for transition
- Parametric reforms of accrual rates/patterns, indexation, lifetime salary for pension calculation, vesting periods, special pension categories
- In some countries, cautiously adjust portfolio rules for accumulation investment
- Experiment with subsidized MDC schemes for informal workers – but keep expectations modest
- Expansion of pensions through purely contributory route unlikely to achieve wide coverage – the role of general revenues through MDC and/or social pensions will be vital

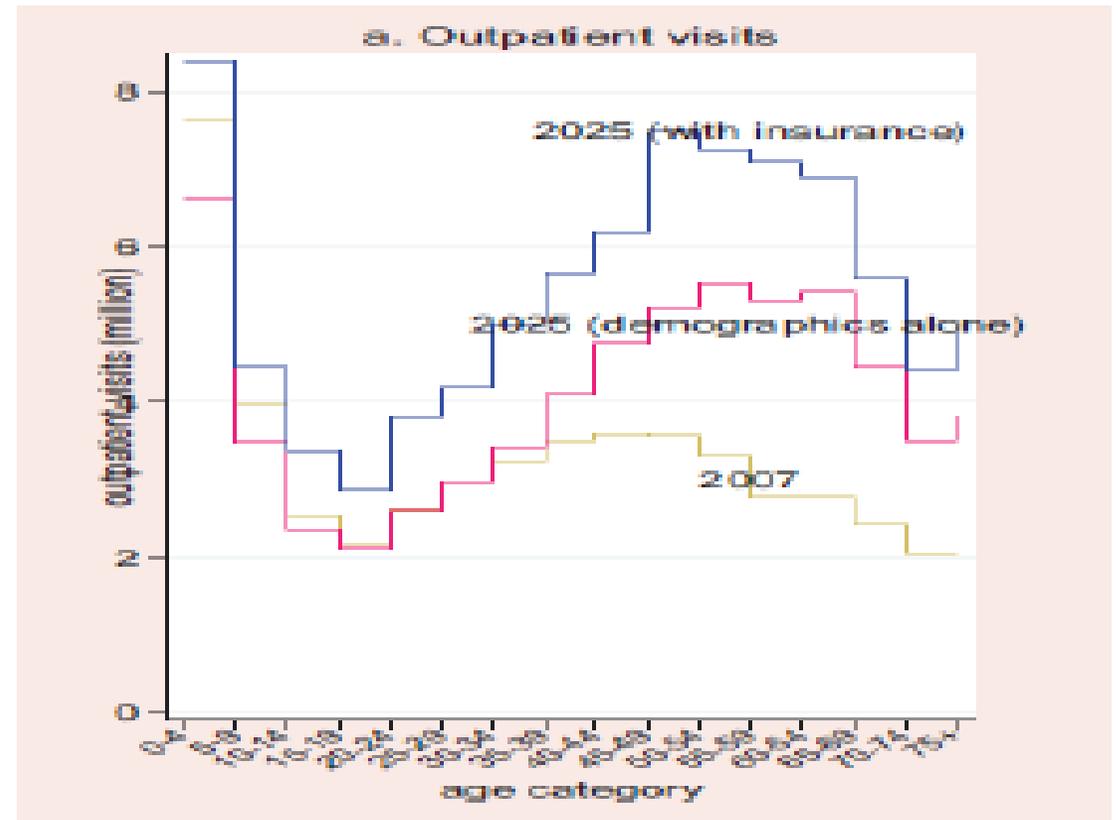


## 4. Aging will put significant cost pressures on health systems, but policy choices remain crucial

OECD + China, Hong Kong SAR  
China, Indonesia, Malaysia,  
Philippines, and Thailand findings:

- ageing per se - accounts for around one third of the increase in health spending even in older countries
- excess cost growth, (technological change and policy choices) - most critical factor for health expenditure growth.

### Indonesia projected outpatient utilization + demographic and insurance effects



# Aging & NCDs require a whole of health system response

- **Reduce exposure to risks** in adulthood (e.g. higher tobacco taxation as in Philippines) and earlier in life (malnutrition), and promote healthier lifestyles
- **Manage key risks better** (CVD risk factors; cancer), including improved self-management and medication adherence
- **Transform delivery systems** – in particular reducing over-reliance on hospital care & putting primary care in the driver's seat and emphasizing coordination of care
- **Preparing for the specific challenges of ageing** – bridging health and long-term care; increasing community-based care; preparing for functional & cognitive decline among elderly (e.g. dementia care)
- **Get better value for money from health systems** – reforming provider payment mechanisms; get better value for pharmaceutical procurement; prioritizing new drugs & technologies transparently (e.g., Korea and Thailand)

## Long-term care and aging...

- Public sector support for long-term care remains nascent in developing EAP, though health systems are taking some of the brunt at high cost
- With the strains on traditional networks, there is a need for proactive policy measures from governments in developing MICs in EAP – but government cannot do it all, and needs markets, families & individuals to play a role
- **Aging in place** should be the guiding approach, with a strong reliance on home- and community-based care – both more affordable & giving higher quality of life
- **Financing LTC** will be a challenge, with no definitive model – who should the state prioritize for public subsidies & how to finance those?

# Some lessons from Japan for aging, developing EAP

## Labor markets:

- Proactive policies and program to promote LF participation of older workers are important – but it takes time for employers to adapt their behavior
- Without significant levels of female labor force participation, it is hard to mitigate the labor market impacts of aging – which requires public investments in childcare and family friendly tax and workplace policies to balance work & family life
- Immigration is a challenging area to reform but holds significant promise as a labor market policy in aging societies (e.g. Singapore)

## Pensions:

- With rapid aging, a role for general revenues in financing pension systems is highly likely to be needed
- Raising retirement ages should aim to start early in demographic transition
- Automatic fiscal adjustment mechanisms such as Japan's 2004 reform provide useful lessons for others, including the link between benefits and life expectancy



# Lessons from Japan for aging, developing EAP

## Health care:

- Japan's strong discipline in healthcare cost containment through the Fee Schedule (FS), but balancing roles of FS, provider payment mechanisms and co-payment schedules to promote more rational utilization by populations remains a complex challenge
- Strengthening the gatekeeping function of primary care to control over-utilization of hospital care & improve cost-effectiveness is important to managing aging
- Building a large and good quality cohort of general practitioners & geriatricians to manage NCDs and aging takes time & should start early in demographic transition

## Long-term/aged care:

- Well-defined financing sources for LTC/aged care are critical and important contributors to developing the LTC sector
- Defining what parts of the continuum of aged care should be publicly financed & what part by families and individuals takes time & experimentation

**For further comments or questions, please contact  
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