

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

World Bank East Asia and Pacific Regional Report

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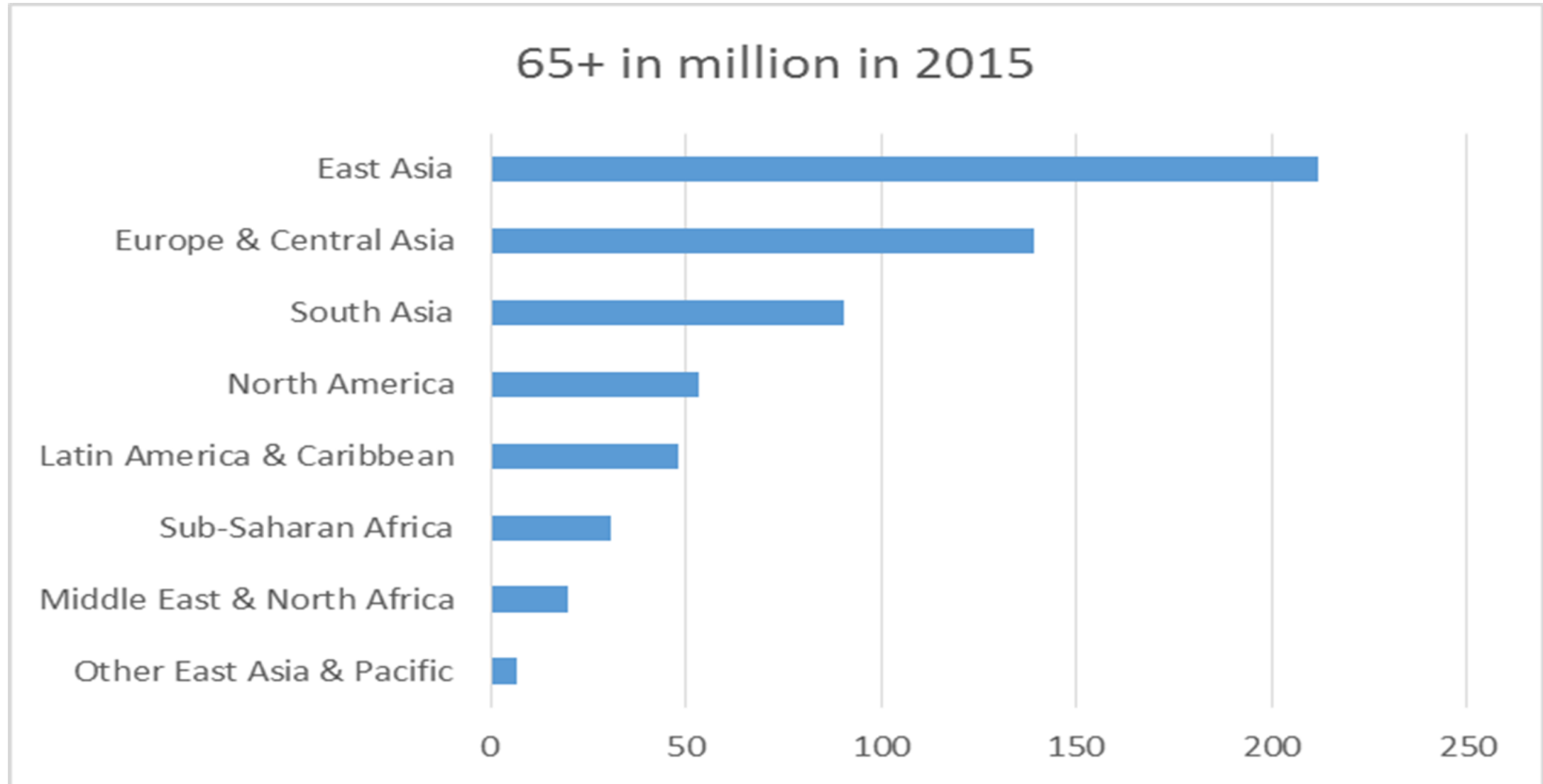
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Seoul, December 15, 2015

# Key Messages of the Report

- EAP already has more old people than any other region globally and is aging at an unprecedented pace – though there is also major diversity in stage of aging
- The challenges posed by rapid aging are real, but public policy and behavioral responses by households and employers can promote healthy and productive aging – and EAP is better placed than most regions to manage rapid aging
- The policy responses needed to manage rapid aging are not just about old people – policy reforms are needed across the life cycle
- The most pressing risks from rapid aging are fiscal and 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 and behavioral change will require shifts in socio-cultural norms that take time

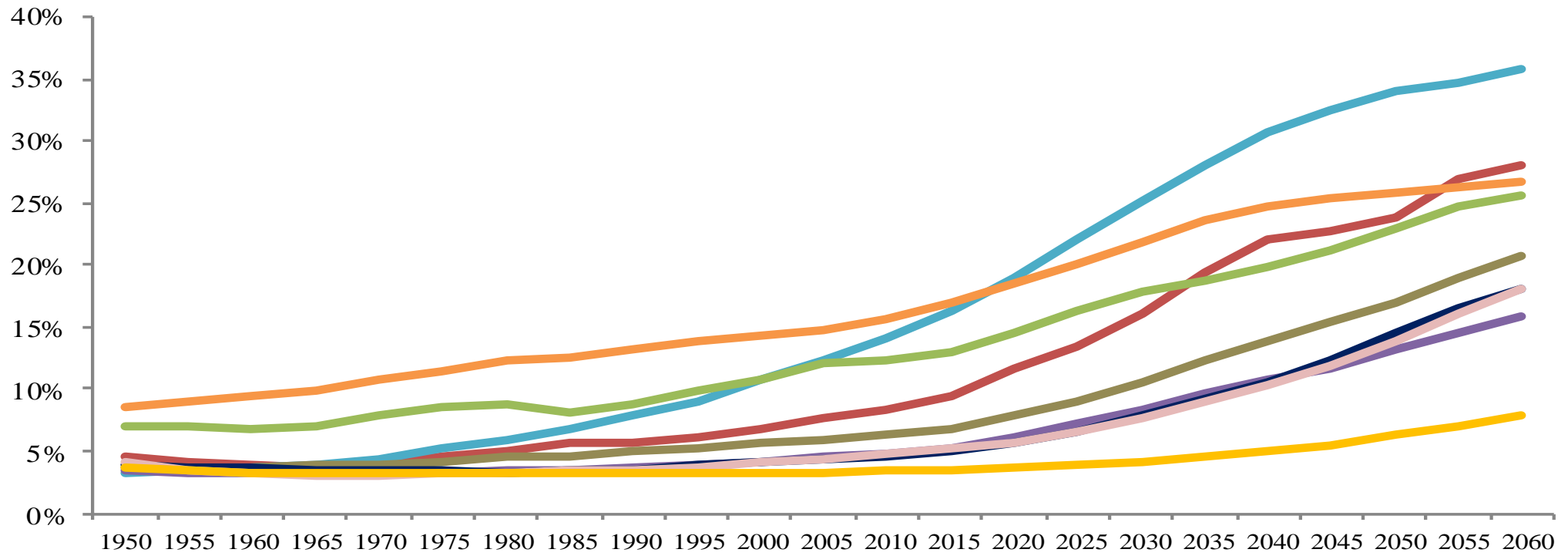


# East Asia Has More Older People Than Any Other Region



# And It Is Aging Faster Than Any Other Region

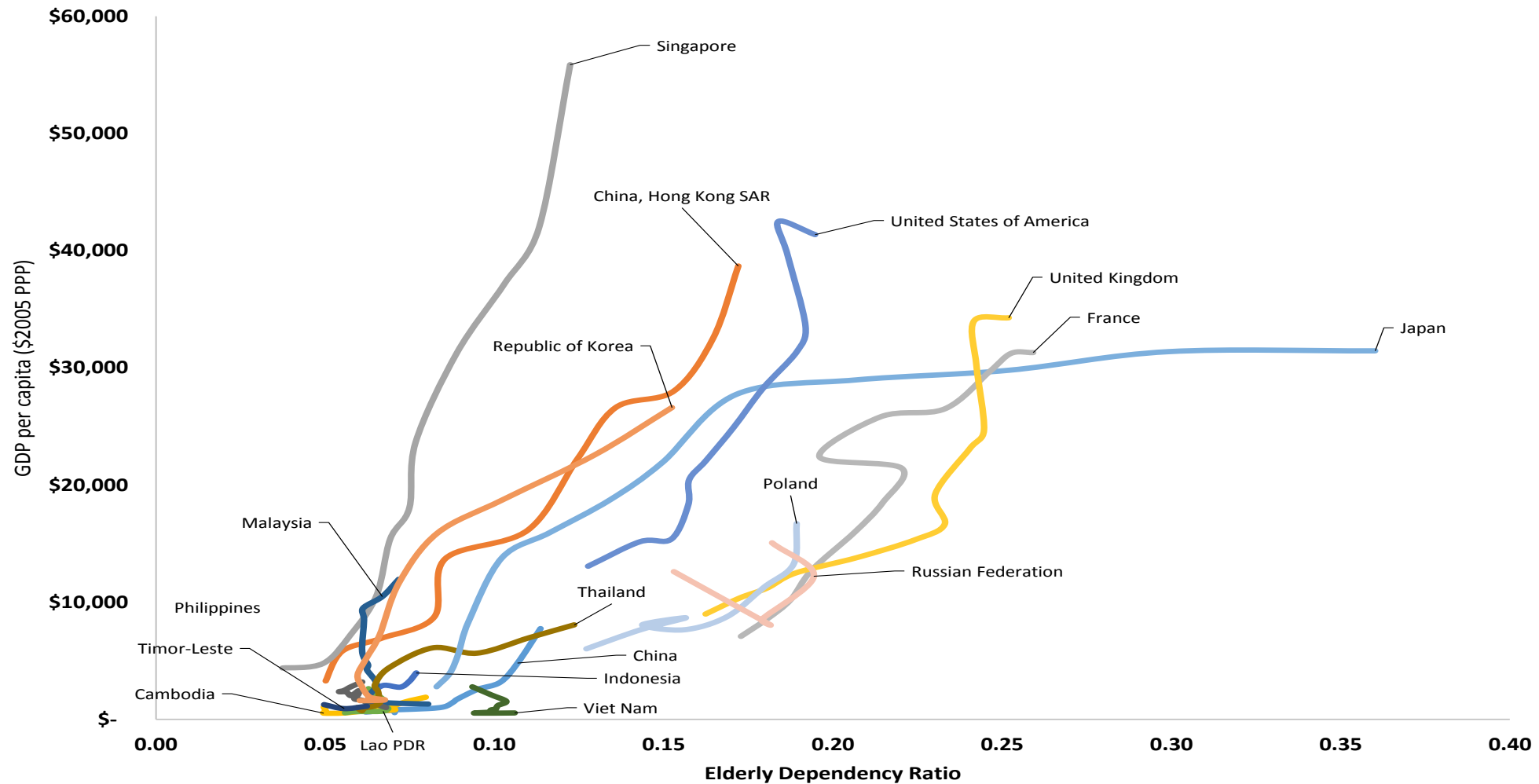
(percent of population 65+, 1950-2060)



- China
- EAP High-Income
- EAP Developing
- ECA Emerging
- LAC Developing
- MENA Developing
- OECD
- South Asia
- SSA

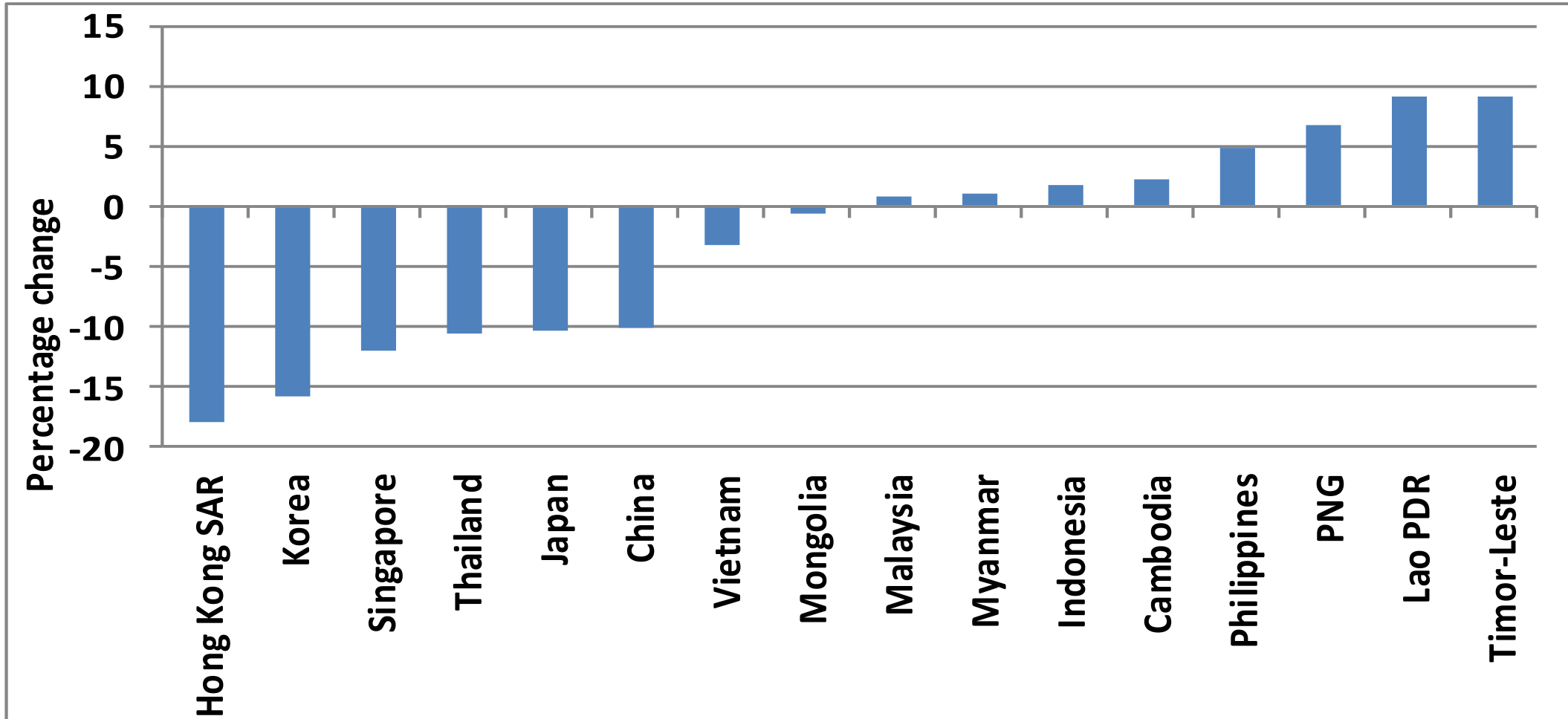
# Developing Countries in EAP Are Also Likely to Get Old Before They Get Rich

(GDP pc 2005 PPP and elderly dependency rate)



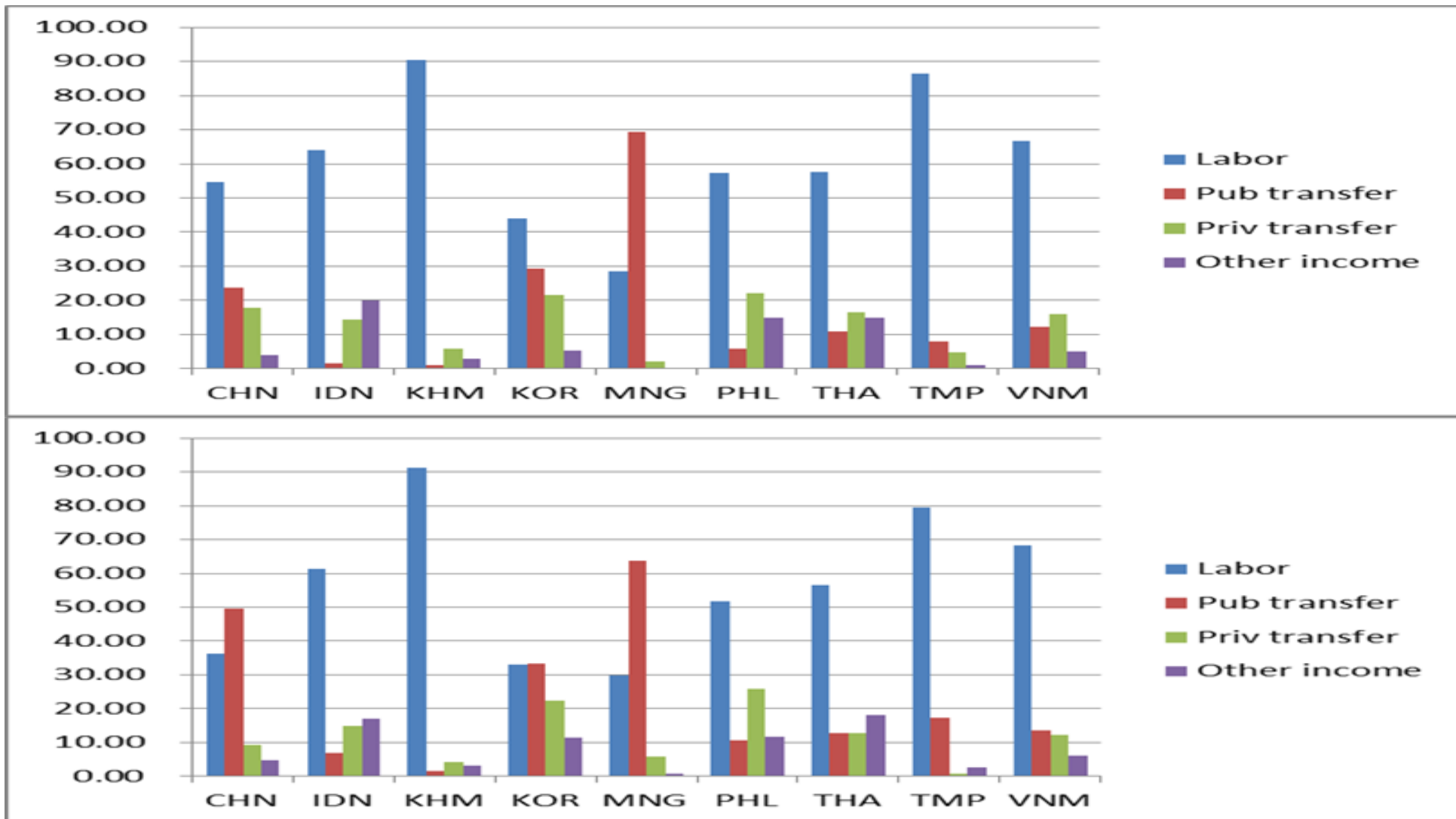
# Working Age Population Trends Also Diverge in Coming Decades

(Projected percent change, population aged 15–64, 2010-2040)



# People in EAP Rely Mainly On Their Work Rather Than The State Or Family For Financial Support...

(primary source of support 60 years and over – rural: top panel; urban: bottom panel)





# Challenges And Policy Priorities For Healthy and Productive Aging in EAP





# Key Policy Issues That Arise From Rapid Aging

- 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
- Addressing the impacts of aging on **pension systems** and reform priorities
- Implications of aging for the delivery and financing of **healthcare and long-term care**



# The Impact of Aging on Growth

- Demographic dividend contributed significantly to East Asia's growth – around one third in several estimates and possible as high as 44% for 1960-90. This raises fears of a “demographic tax” as populations age and working age populations decline.
- 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.
  - *Savings rates* are generally high & people save till later in life – though Korea and Japan exceptions
  - The dramatic increase in educational attainment in EAP means that the *quality* of future workers will be higher, even if there are fewer workers
  - There is significant scope to *mitigate the shrinking working age population* through reforms in areas like childcare, pensions, migration policies and 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.



# The Labor Market & Aging

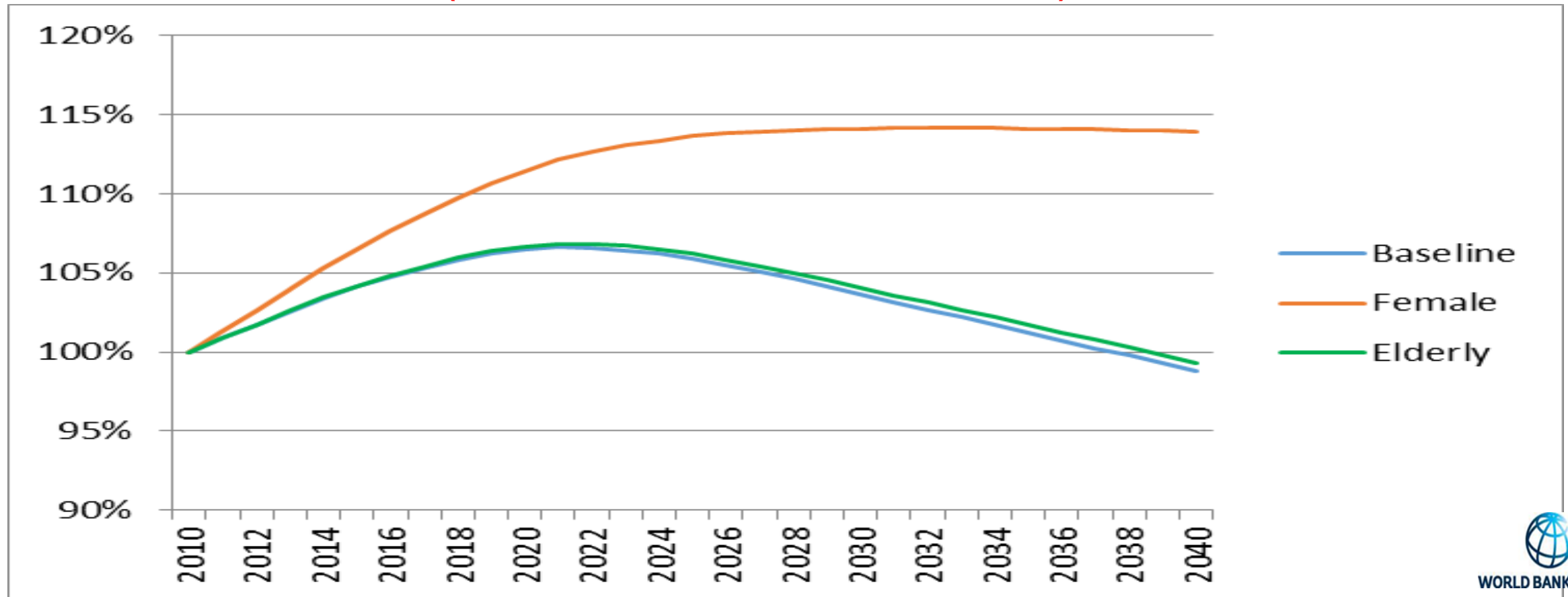
While a decline in population 15-64 is already happening or inevitable across the region, there is a range of channels to offset the demographic effect, including:

- 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 and reducing 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 and adapted workplaces
- For some countries, promoting *more immigration* to inject younger workers into the labor force



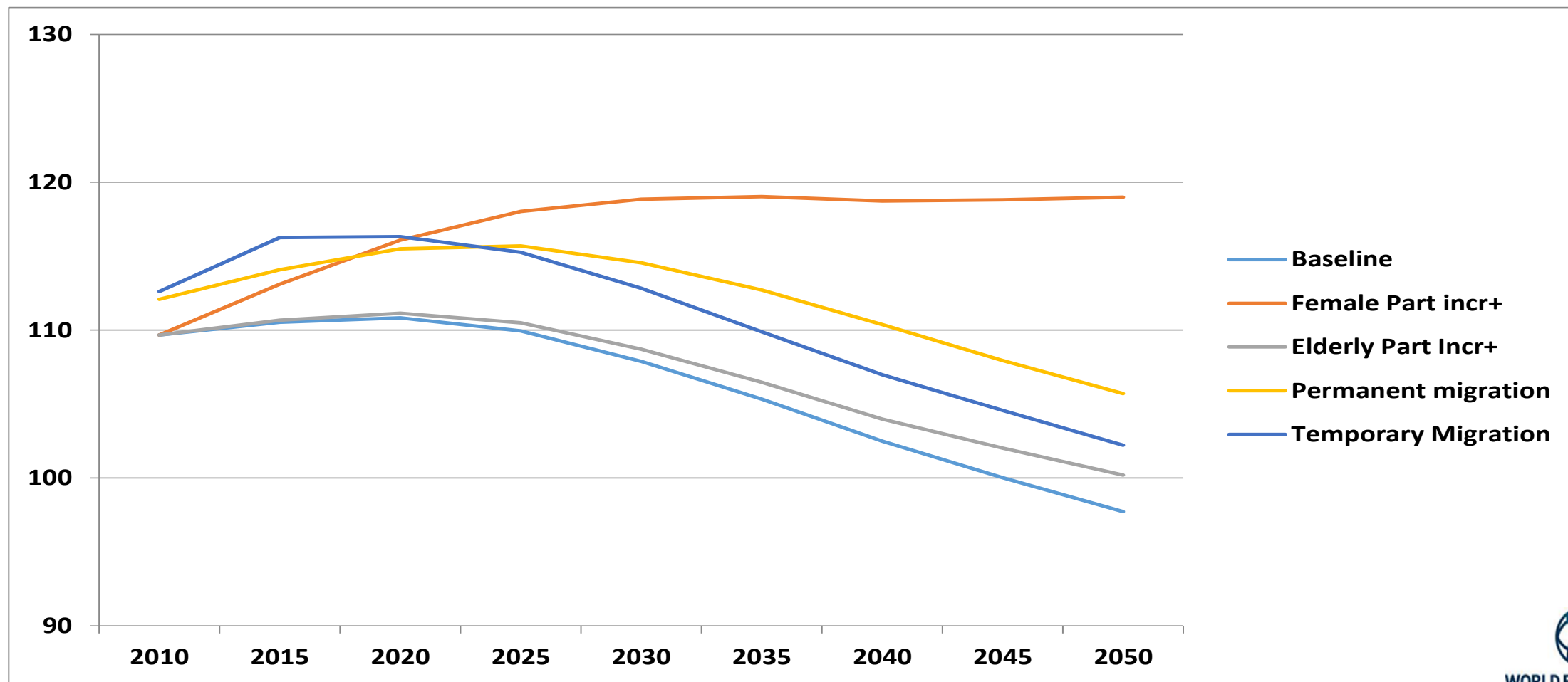
# For Korea, largest potential lies in increasing female labor force participation

Korean labor force relative to 2010 with converging female labor force participation  
(Ozden & Testaverde for World Bank, 2014)



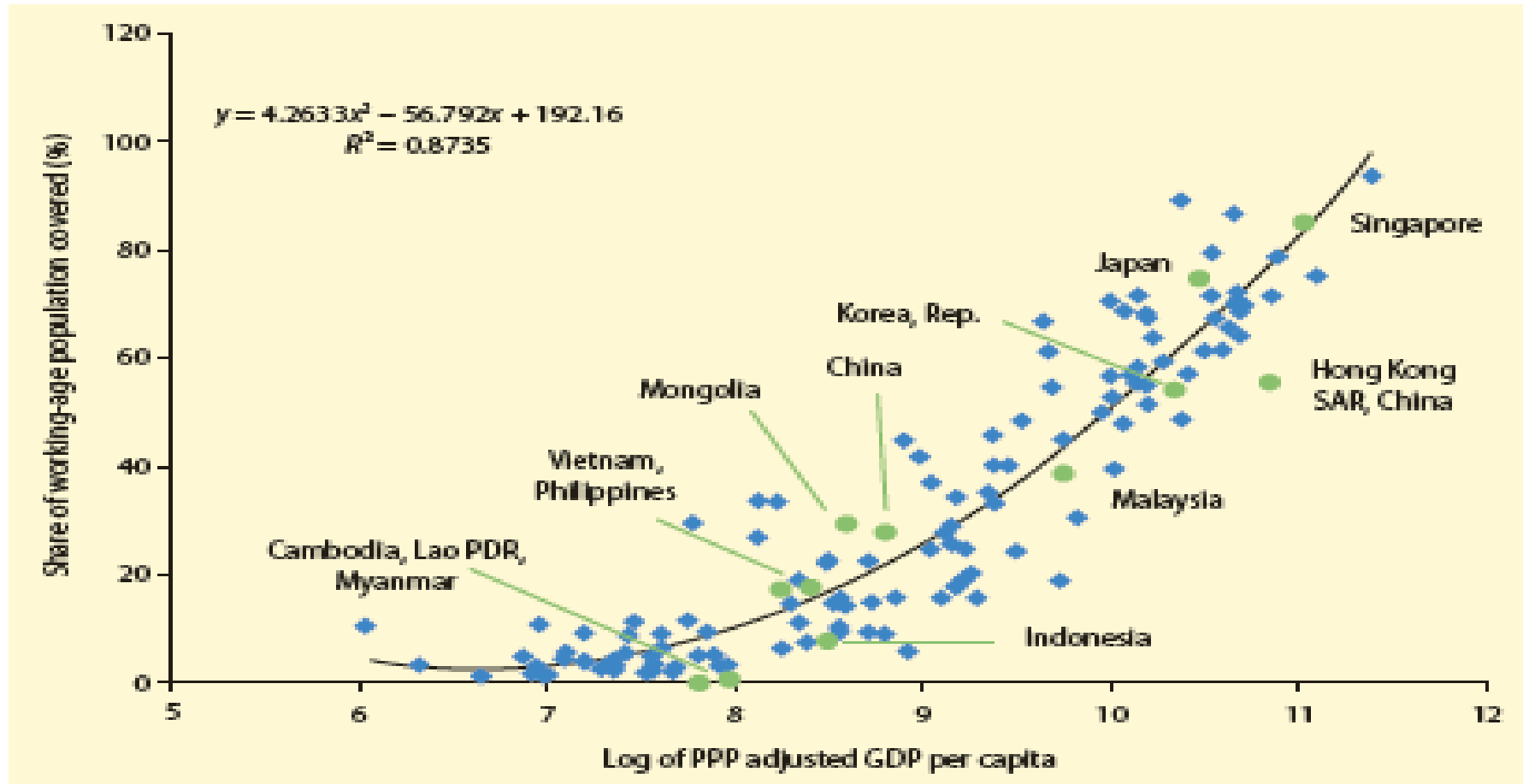
# And for richer EAP countries, higher immigration offers another channel for mitigating LF decline

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



# The Majority of People in EAP Do Not Have A Pension In Old Age

(contributory pension coverage/working age population, most recent)

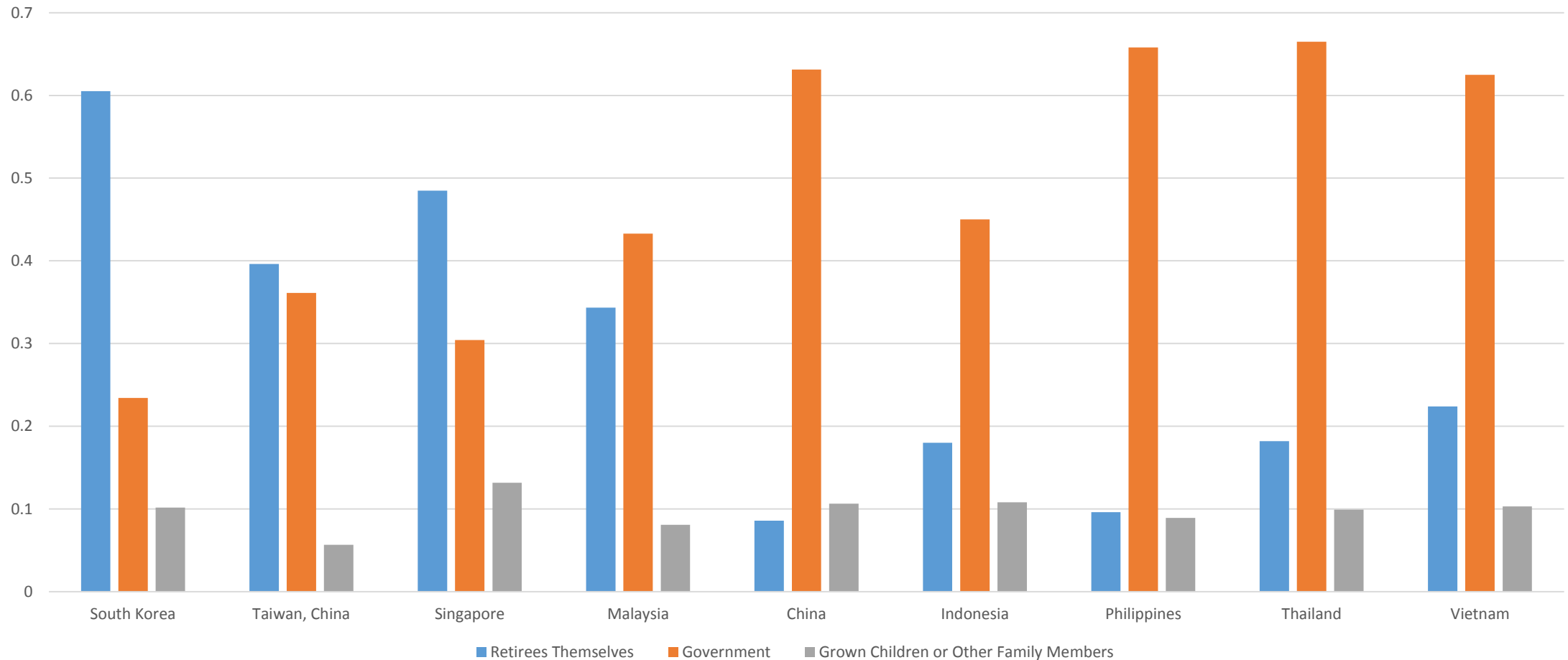


Source: World Bank pensions database, <http://www.worldbank.org/pensions>.

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

# Despite that Expectations Of The State Are High For Old Age Financial Support

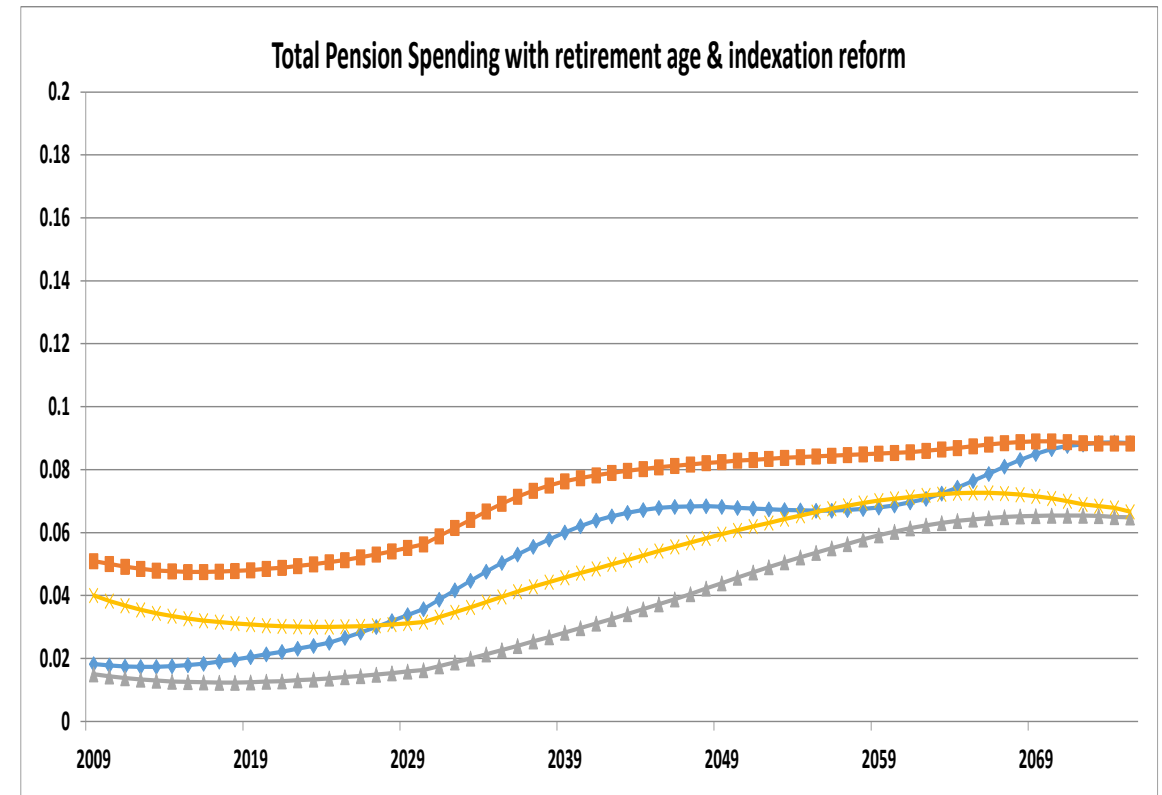
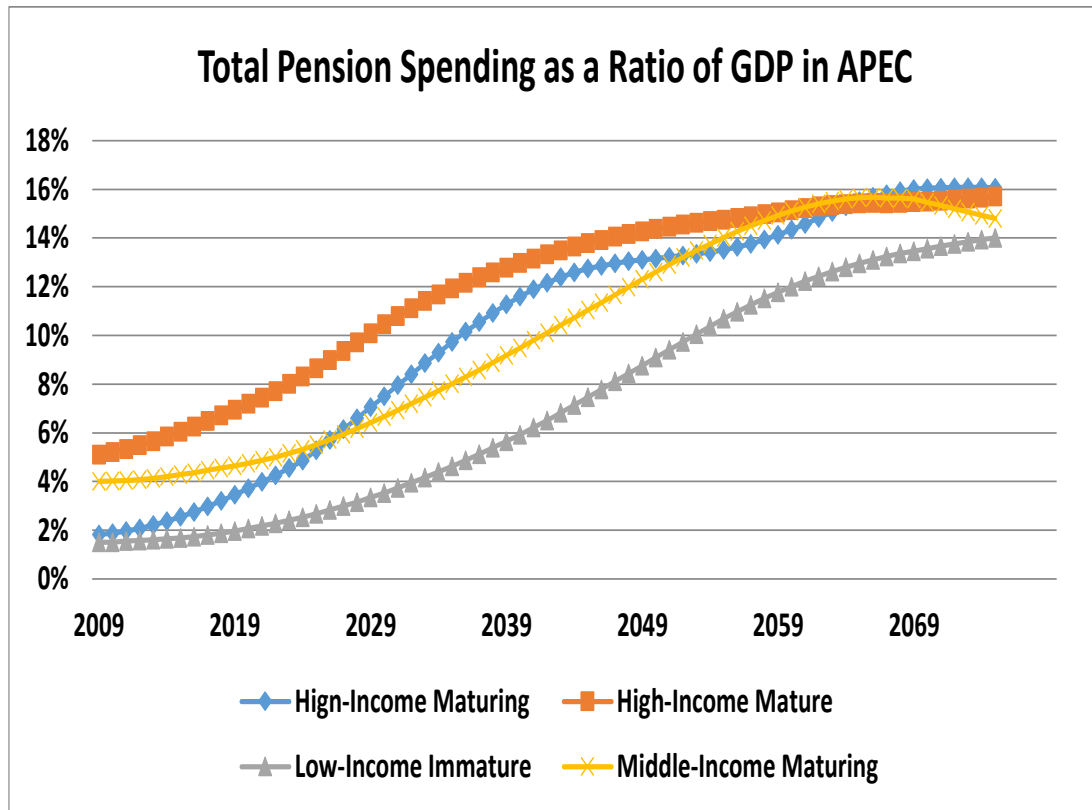
(expected primary source of support in old age – proportion of total)





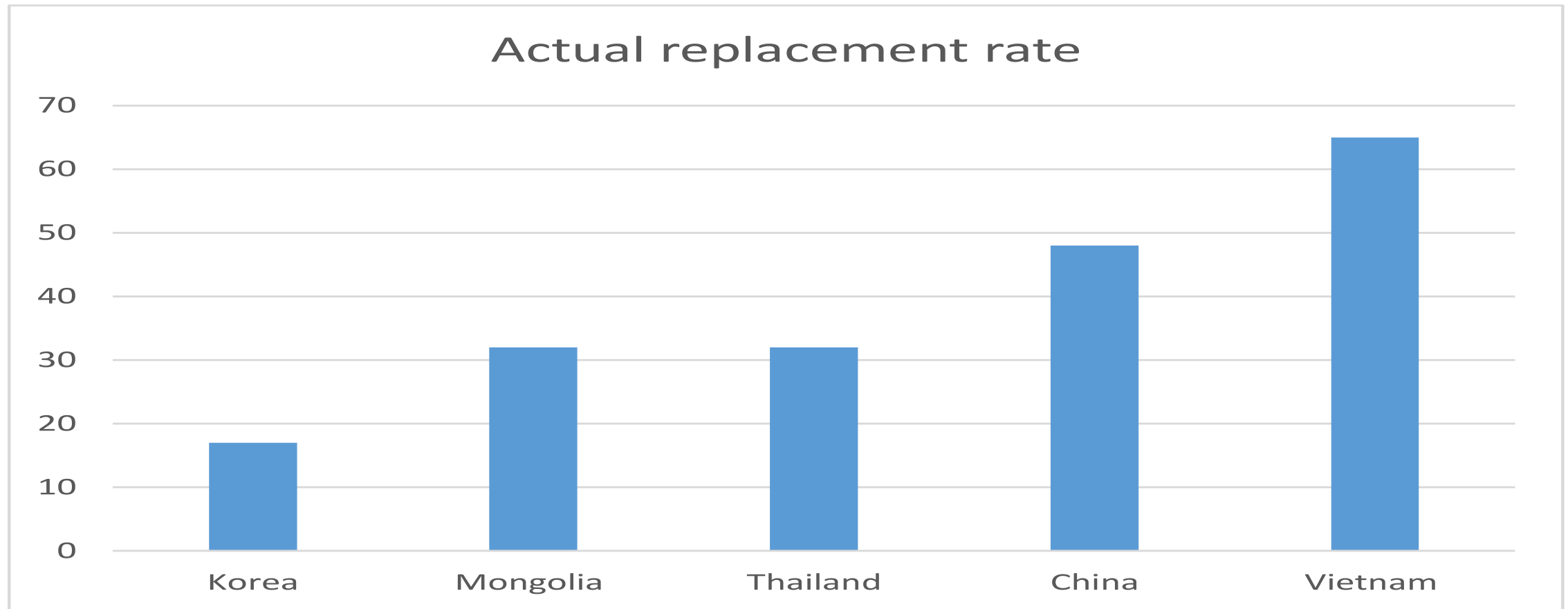
# Pension Systems And Aging

Without reforms, fiscal risks to pension systems from aging are high... in developing EAP, further reforms are a priority...also to create fiscal space for coverage expansion



# Korea's pension challenge is one of adequacy as replacement rates still low as system matures...

(Average replacement rate, latest year. Palacios 2015 for World Bank)



# Health Systems And Aging

**Aging is likely to account for a third or more of health spending increases across EAP**

Aging and non-communicable diseases require a whole of health system response, including:

- **Reducing exposure to risks** in adulthood (e.g. tobacco) and earlier in life (malnutrition)
- **Managing key risks better** (CVD risk factors; cancer), including improved self-management and medication adherence
- **Transforming 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)
- **Getting better value for money from health systems** – reforming provider payment mechanisms; get better value for pharmaceutical procurement; prioritizing new drugs & technologies

# 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?

