

As Asia's Population Ages, Worries Grow about the Future

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I S S U E S

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SUMMARY Asia, a region whose population has long been dominated by children, is seeing the proportion of its elderly rise rapidly. The U.N. projects the population 65 and older will more than quadruple by 2050, while the population under age 15 will decline. Though Asia's population is still younger than the West's, dramatic declines in childbearing and significant improvements in life expectancy are causing it to age faster. The result will be growing demand for health care, retirement systems, and old-age support—particularly if the traditional family support system continues to erode. The challenge to countries with large elderly populations and relatively underdeveloped economies will be especially great. Throughout Asia, population aging could slow economic growth. If governments are to meet the challenges posed by aging populations, they must start soon to adopt policies that encourage saving and investment, develop effective social and economic institutions, and find new ways to tap the productive potential of older people.

In the next 25 years 99% of Asia's population growth will be among the population age 30 and older

Asia is aging. In the next 25 years virtually all of Asia's population growth—99 percent—will be among the population age 30 and older. The fastest growing group of all, now and in the future, is the population age 65 and older.ⁱ

Today, about one-third of Asia's population is under age 15. By 2050 the under-15 group will drop to about one-fifth of the population. In contrast, the percentage 65 and older will grow from 6 percent to 18 percent by 2050. The share of the working-age population, those ages 15 to 64, will change little during this period, at about two-thirds of the total population (Figure 1).

Behind this historic shift are rapid declines in childbearing and substantial improvements in life expectancy. Declines in birth rates came first to East Asia, where the average number of births per woman dropped in a single generation from six births or more to two births or fewer. Meanwhile, life expectancy at birth has increased dramatically—by 25 years since the early 1950s. In only two countries in the world has life expectancy at birth reached 80 years—Japan and Singapore.ⁱⁱ

Rapid population aging makes new demands on a region that has been dominated by children. Yet preparedness varies widely. Japan and Singapore, which are relatively far along in the aging process, have adopted comprehensive health care and pension systems. In most Asian countries, however, where

the shift to an older population is just beginning, policy responses have been slower. Even where policies exist to cope with population aging, they often are unsustainable or ill-suited to the needs of aging societies.ⁱⁱⁱ

Population aging presents many challenges to societies and economies, but three are especially important. The first challenge is health care for the elderly, whose health care needs are not only greater but also quite different than those of the young. How should countries reform their health care systems to insure that sufficient resources are available and that they are used equitably and efficiently to meet the needs of the elderly?

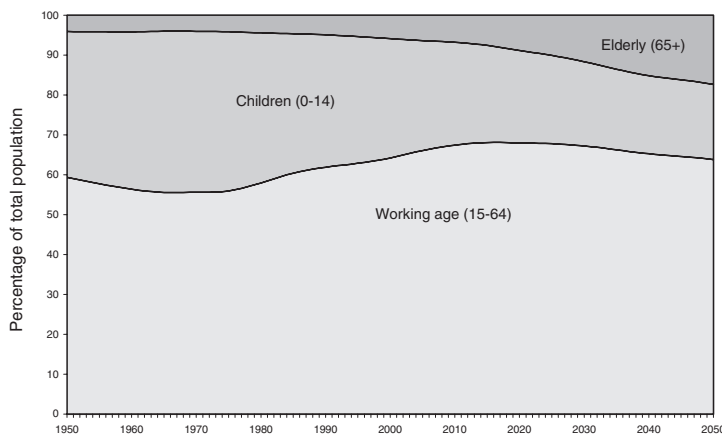
The second challenge is assuring economic security for the elderly. What are the respective responsibilities of the family, the state, and the elderly themselves to meet the financial burdens of extended periods of retirement?

The third challenge is sustaining economic growth. The demographic trends of recent decades have favored economic growth in most Asian countries. Now, will population aging slow economic growth? What policies can assure that growth continues?

Implications for Health Care

Population aging will require major reform of national health care systems. The elderly require more health care and different kinds of health care services than the young. As countries respond to population aging, they will find it difficult to balance health needs against other urgent public programs. Equally difficult will be prioritizing the needs of the elderly against continuing demand for health care services especially by children, women of reproductive age, and people who have contracted communicable diseases, including HIV/AIDS and tuberculosis.

In developed countries spending on health care already has risen, in part because of population aging. In Japan, for example, health care spending more than doubled as a percentage of gross domestic product (GDP) between 1960 and 1997. Other factors are contributing besides aging. People who are better off spend more on health care. New technologies are



Source: United Nations. 2001. *World Population Prospects: The 2000 Revision*. New York: United Nations.

Fig. 1. Asia's age transition

making a wide range of new, but expensive, health services available. Current approaches to providing health care may be unnecessarily costly.

Individual health care expenditures increase substantially in the last two years of a person's life. In the United States in 1996, for example, Medicare beneficiaries in the last year of life comprised just 6 percent of all beneficiaries but accounted for 21 percent of program payments. Thus, even if older people are healthier than in the past and live longer, spending on health care will rise because the proportion of the population in the last few years of life will rise.^{iv}

As Asians live longer, demand will grow especially for care related to acute and chronic conditions, including cardiovascular diseases, cancer, obstructive pulmonary disease, and osteoporosis. Similarly, the demand for long-term care associated with disability rises when the elderly population grows. At the same time, general public health issues will remain important, and new and resurgent infectious diseases are increasingly emerging in Asia and elsewhere. Rising demand for treatment of both communicable and noncommunicable diseases is likely to place increasing claims on national resources.^v

Demand for health care increases as countries develop and per capita income rises, reflecting the increased resources available and rising expectations. Whatever the level of development, however, population aging presents challenges in financing and delivering health care. Asian countries increasingly will be faced with decisions about what type of health care to provide, for whom, and how to do so most effectively and efficiently.

In countries that have yet to achieve primary care for all, and where aging has not yet emerged as an important issue, paying for long-term care of the elderly is not a high priority. Many developing countries, including India, Indonesia, and the Philippines, currently focus on maternal and child health relying primarily on public health care systems. Even in these countries, however, the elderly is the fastest growing demographic group, and their needs are becoming increasingly important.

The more developed countries of the region—Japan, Korea, Taiwan—have opted for employment-

based health insurance schemes with government subsidies for the poor, disabled, and elderly. These countries have followed similar historical patterns of health insurance development to achieve universal coverage of the population. First, government as employer covers public sector employees with health insurance financed through tax revenues and receipts from public enterprises. Second, private employees in the formal sector are covered through government-mandated employment-based health insurance. Third, agricultural workers, the self-employed, and workers in the informal sector are covered through government sponsored insurance groups financed through a combination of taxes and premiums. This incremental pattern is being largely replicated by the Philippines and Thailand. These national systems ultimately achieve universal coverage of their populations but at high expenditure levels. In the final step, price controls and other government regulations attempt to restrain health care expenditures. These employment-based systems are costly because they encourage employers to cut jobs, particularly among older workers, and because they encourage over-use of the health care system.^{vi} As populations age these costs and the need for reform will become more apparent.

Economic and Social Security for the Elderly

In Asia, maintaining economic and social security for the elderly has been primarily the responsibility of individuals and their families. To a greater extent than in the West, the elderly in Asia continue to work, to rely on accumulated assets, and to obtain help from their children and extended families. In most Asian countries public pensions and government welfare programs are relatively modest.

By and large, the private approach has been remarkably successful. Asia's elderly appear to have maintained standards of living comparable to younger generations. By relying less on public transfer schemes, Asian countries have maintained incentives to work and to save, and have kept family support systems stronger than Western countries, where old-age support is more and more a responsibility of government.

Funding for the elderly will compete with general public health issues and the fight against infectious diseases

Nevertheless, Asia's successful reliance on the family is likely to erode. As birth rates decline and life expectancy is extended, countries will be increasingly caught in a "demographic squeeze." The elderly will find themselves providing care and support to their still-surviving parents, yet they will have fewer children upon whom they can rely. In addition to the demographic pressure, young people increasingly are leaving home to seek opportunities elsewhere, leading to more separation between parents and children. More women are entering the workforce, reducing the time available to provide support to their parents. New ideas about marriage, family, and individualism are emerging in Asia, as in many parts of the world.

Indeed, in Asia's most economically advanced countries the multigenerational extended family is clearly on the decline. In 1950, for example, 65 percent of Japanese young women said that they expected to depend on their children in old age, but in 1990 only 18 percent expected to do so. In South Korea only 8 percent of women surveyed in 1997 said they wanted to live with their children in old age, while 70 percent did not want to.^{vii}

Several governments have adopted pro-family policies in an effort to fight the decline in the family support system. In Singapore, for example, children are legally required to provide financial support to needy parents. If these efforts prove successful, the elderly will no doubt benefit from the personal care and attention that families can provide much more effectively than institutions. The family, however, is poorly equipped to deal with many of the financial risks associated with aging. Moreover, family support systems may undermine incentives to accumulate pension wealth. If so, a more individualistic and self-reliant approach to financing retirement would promote more rapid economic growth.

Retirement and labor force policies. As populations age, the labor force decisions made by older workers will become increasingly important to the workers and their families, to employers, and to governments. For some older workers, continued employment will be crucial to maintaining an adequate

standard of living. Many will be supporting not only themselves, but their aging parents. Employers' need for older workers will grow as labor shortages emerge, because the working-age population will not be growing as in the past. Governments will depend on the taxes paid by older workers as tax revenues fall short of the resources required to fund public pension programs, health care programs, and other public services.

Throughout Asia and much of the world, however, older workers are withdrawing from the labor force at a younger and younger age. For some, deteriorating health may dictate early retirement but, in general, the elderly are healthier and have lower rates of disability than in the past. Why then are they withdrawing, just when they are needed most? What, if anything, can be done to reverse this trend?

The trend toward earlier retirement is a persistent feature of economic development. Fifty years ago, the great majority of Asia's workers were self-employed, mostly in agriculture. The decision to work or not to work was dictated by personal circumstances—wealth, health, responsibilities, preferences, etc. As economies have industrialized, more and more workers have become employees of governments and private firms. Decisions to work are increasingly governed by public and corporate policies that often discourage or, in some instances, virtually prohibit continued employment by older workers.

Many people are retiring at a younger age because they can afford to do so as economies develop. Retirement may not even be an option where levels of development are low, because most people have no choice but to work as long as they are able. At the same time, the development of modern financial institutions and public and private pension programs allow the accumulation of personal wealth that can support an extended period of retirement.

Early retirement is increasingly the norm in Asia, although older Asian men are much more likely to be working than are men in the West (Figure 2). The picture is more complex for women. In most Asian countries, the percentage of older women working is generally low and the situation has not changed in any systematic fashion despite development. It is likely to change dramatically in the future, however.

In South Korea only 8% of women surveyed said they wanted to live with their children in old age

Many Asian governments allow firms to force older workers into early retirement

Younger women are far more likely to work than were women of earlier generations and, increasingly, they will face career choices similar to those faced by men today.

Most Asian governments impose a statutory retirement age below 65—for example, 60 in the Philippines and Korea, and 55 in Indonesia and India.^{viii} Countries have generally been slow to adjust mandatory retirement ages upward despite rapid improvements in health and life expectancy that enable people to continue to be productive longer than in the past. Workers today increasingly want to postpone retirement longer than laws permit them to. In the United States the elimination of a mandatory retirement age several years ago reversed the downward trend in employment rates for older workers, and it did not reduce employment among younger workers. Many Asian governments allow firms to force older workers into early retirement when there are general downturns in the economy, when particular sectors or firms decline, or when firms restructure their production processes. Despite evidence to the contrary, dismissing older workers is thought to help job prospects for young employed men, who are viewed as the primary family breadwinners.

Older women may be especially vulnerable to such policies if they are viewed as secondary rather than primary breadwinners in the family. During Korea's recent economic crisis, for example, female employment declined more rapidly than male employment, unemployed female workers were more likely to with-

draw from the labor force, and when women were re-employed they were less likely to obtain regular positions than their male counterparts.

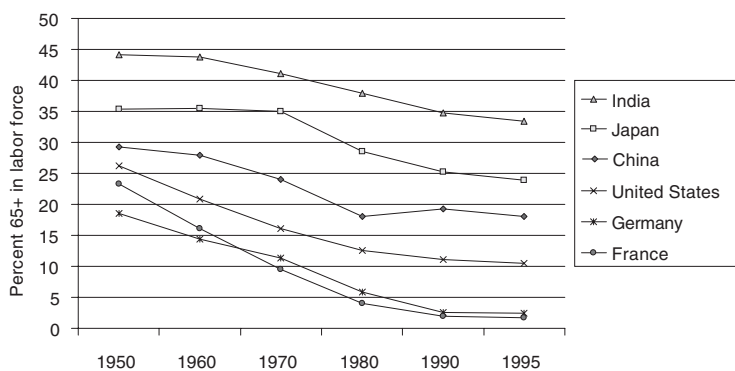
There is little reason, however, for governments to encourage early retirement. In fact, the practice can reduce employment and income and dampen economic welfare in general. Cutting the number of older workers does not increase employment among young workers. Older and younger workers frequently have different skills, and labor markets rarely shrink and grow in the same sectors or occupations. In well-functioning economies the number of jobs is not fixed but changes with the number willing to work.^{ix}

Public policies are not entirely to blame for job losses among the elderly. The wage system in some Asian countries, Japan and Korea in particular, is based on seniority rather than on performance. Firms find themselves paying older workers far more than they are contributing to the bottom line. Efforts, some of which are underway, to tie wages more closely to performance and to increase flexibility in job assignments and hours worked could greatly ease pressures to force older workers into retirement.

Particularly in aging societies, policies are damaging when they discourage people from working or dictate early retirement. Such policies often force older workers who are not yet prepared for retirement to accept a lower standard of living during their retirement years.

Public pension programs. While national governments throughout the world have come to play an increasingly important role in providing for the social security of their elderly, many Asian governments have taken a more cautious approach. Malaysia, Singapore, and Japan provide close to universal coverage, but other countries do not. In 1992, for example, the percentage of workers in India covered by old-age benefits was only 1 percent, in Indonesia 7 percent, and in Korea 26 percent. Most Asian countries are spending less than 2 percent of GDP on pension benefits compared with 6 percent in the United States and 18 percent in Sweden.^x

As populations age and as social security programs mature, the share of public resources devoted to



Source: International Labour Office (ILO). 1996. *Economically Active Population 1950-2010*. Geneva: ILO.

Fig. 2. Trend is toward early retirement

pensions will rise. Whether or not they will rise to the levels in Western countries will depend on the public policy choices that are currently being made.

In countries that do provide extensive old-age support by taxing workers, population aging will present enormous difficulties. The problems are especially imminent in Japan. Japan has a large-scale program that is similar in some respects to the U.S. system, including heavy reliance on a pay-as-you-go financing system. Benefits for retirees are paid out of taxes imposed on those who are currently working. As the number of retirees rises relative to the number of workers during the coming decades, either taxes must be raised to very high levels, benefits reduced to very low levels, or some combination of the two. As in the United States, the current public pension system is unsustainable for demographic reasons, but reform is much more urgent in Japan because their aging is so much more rapid.

In contrast, Singapore has pre-funded its future pension needs by accumulating large funds built from the mandatory contributions of workers and their employers. As its population ages, rising pension payments will be met from pension fund earnings and by drawing down the assets in each retiree's individual account. Aging will have no direct influence on either the taxes paid or retirement benefits received by Singapore's workers.

That public pension programs are relatively new and not fully developed in most of Asia is an advantage. Countries have a relatively clean slate and have only modest unfunded pension liabilities compared to many countries elsewhere. Thus they can learn from both the successes and the failures of others.

Given the pace of aging in Asia, the region has a relatively small window of opportunity in which to adopt the programs and policies that can adequately support the elderly. In many countries the necessary preconditions for establishing sound public and private pension systems have not been met. Many lack the necessary legal structure, financial institutions and markets, and administrative capacity to provide economic security for the elderly. Indeed, some have barely begun to address the issue at all.

Implications for Economic Growth

During the past few decades, demographic changes have favored economic growth in many Asian countries. As fertility declined, a smaller percentage of the population consisted of dependent children, while the labor force continued to grow, boosting saving and investment rates and per capita income. Demographic conditions will continue to favor economic growth for several decades or more except in Japan, where labor force growth has turned negative and population aging may begin to depress saving rates.

The impact of demographics on saving and investment have been especially important in East and Southeast Asia. For the most part saving and investment rates were very low in 1960—near zero or even negative in Indonesia, Thailand, South Korea, Singapore, and Taiwan. By 1990, saving and investment rates ranked among the highest in the world. The rapid accumulation of wealth caused in part by demographic change has been crucial to rapid economic growth.^{xi}

The concentration of population at the working ages should continue to support economic growth in most countries. Eventually, however, conditions will turn less favorable because the working-age population is beginning to decline relative to the retired population, a trend that will continue in the future. In many countries the period of extraordinarily high rates of saving and investment may give way to an era of lower rates of saving and investment and thus slower economic growth.

To the extent that economic growth slows because of aging, rather than poor economic policy, it should not be viewed with undue alarm, especially among Asia's most successful economies. The extremely high rates of economic growth that some countries have achieved in recent decades have been inherently transitory—in part, catching up with the West and, in part, a consequence of the transition from high to low fertility and improvements in life expectancy and health. Countries that have successfully seized the economic opportunities presented by these trends have been able to reach higher standards of living that

Asian countries can learn from both the successes and failures of others

will enable them to cope better with the challenges of population aging. In the future, as their populations age, their economic growth is likely to slow to the levels in the world's mature economies.^{xii}

Prospects are much less promising for countries that are struggling with their development efforts and are not establishing the economic and political institutions essential to encourage economic growth and to meet the needs of an aging society. The aging process in Asia is happening so fast that countries have little time left to respond.

The Future

Asia's demographic circumstances could change in unexpected ways that would either slow or accelerate population aging.

Many countries are becoming more interested in promoting childbearing as fertility levels have continued to decline. In Singapore, the government offers financial incentives to couples who have three or four children. Japan heavily subsidizes child-care services. The experience with such policies has been disappointing to governments trying to change people's reproductive behavior, however. Young adults seem immune to the entreaties and incentives.

The pace of population aging could also slow if the impressive gains in life expectancy were to slow or even be reversed. Until recently, steady gains in life expectancy were almost a certainty throughout the world. The AIDS epidemic, especially in Africa, and the economic and social collapse in Eastern Europe have produced catastrophic increases in mortality and raise the possibility of similar crises in Asia. In addition, the recent re-emergence of malaria and tuberculosis and the emergence of new infectious diseases could increase mortality and affect rates of population growth. No one can predict how increases in mortality in Asia, if a crisis were to occur, would change population growth or the size of various age groups because the effects would depend on the nature of the health crisis.

The one demographic variable that is readily subject to control is migration. If Asia's more developed countries, such as Japan, South Korea, and Singapore,

choose to do so, they can rely on immigration to fuel growth in the labor force and to slow the pace of population aging. The region's countries with young populations—India, Bangladesh, and Pakistan—are sufficiently large to supply a steady stream of migrant workers. The situation will be entirely different when China and India begin to experience substantial population aging. With populations each exceeding 1 billion, neither country will be able to rely on immigration from the rest of the world to reverse domestic population trends.

Restrictive immigration policies exist throughout much of Asia. Even in the face of severe labor shortages, for example, Japan has admitted few foreign workers, many on only a temporary basis. Instead, Japanese firms have shifted industrial production to countries with ample labor forces and have relied heavily on robotics to reduce their dependence on labor. As the size of its older population continues to increase and its workforce declines, however, pressures to relax immigration policies are intensifying.^{xiii}

Most Asian countries will have to depend on economic and social policies, not possible shifts in today's demographic trends, to meet the needs of the elderly and to promote economic performance. As their populations age, what societies lose in sheer numbers of workers they can gain back through more productive economies. A top priority is to tap the productive potential of older workers by eliminating mandatory retirement ages and other labor market policies that hurt both older workers and the firms that employ them.

Public pension reform must pay close attention to potentially adverse effects on incentives to work and save. A favorable investment environment and efficient financial institutions are essential to ensuring that older workers can earn an adequate return on their retirement savings and can protect themselves against the uncertainties of old age. Health care policies must provide high-quality health care for the elderly without undercutting other health measures, such as maternal and child health, disease prevention, and reproductive health. Waste and inefficiency within health care systems virtually guarantee failure at meeting these competing goals.

As their populations age, what societies lose in sheer numbers of workers they can gain back through more productive economies

Asian nations can cope if they begin to prepare now

Countries in Asia can cope with the sweeping demographic changes ahead, but only if they begin to prepare now. Governments must develop strategies

that will help the elderly and will promote economic development. A longer and better quality of life are within reach of Asia's people.

Notes

ⁱ United Nations. 2001. *World Population Prospects: The 2000 Revision*. New York: United Nations.

ⁱⁱ Kinsella, Kevin and Victoria A. Velkoff, U.S. Census Bureau. 2001. *An Aging World: 2001*, Series P95/01-1. Washington, D.C.: U.S. Government Printing Office.

ⁱⁱⁱ World Bank. 1994. *Averting the Old Age Crisis*. Washington, D.C.: World Bank.

^{iv} Mason, Andrew, Sang-Hyop Lee, and Gerard Russo. February 2001. "Population Momentum and Population Aging in Asia and Near-East Countries," East-West Center Working Papers, Population Series 107.

^v Kinsella and Velkoff, op. cit.; Ibid.

^{vi} Mason et al., op. cit.

^{vii} Ibid.

^{viii} U.S. Social Security Administration. 1999. *Social Security Programs Throughout the World*. Washington D.C.: SSA.

^{ix} Mason et al., op. cit.

^x U.S. Social Security Administration, op. cit.

^{xi} Williamson, Jeffrey, and Matthew Higgins. 2001. "The Accumulation and Demography Connection in East Asia," *Population Change and Economic Development in East Asia: Challenges Met, Opportunities Seized*, Andrew Mason, ed. Stanford: Stanford University Press, 123–154; Lee, Ronald, Andrew Mason, and Tim Miller. 2001. "Saving, Wealth, and the Demographic Transition in East Asia," *Population Change and Economic Development in East Asia: Challenges Met, Opportunities Seized*, Andrew Mason, ed. Stanford: Stanford University Press, 155–184.

^{xii} Mason, Andrew, ed. 2001. *Population Change and Economic Development in East Asia: Challenges Met, Opportunities Seized*. Stanford: Stanford University Press.

^{xiii} Martin, Philip L. 2001. "The Role Played by Labor Migration in the Asian Economic Miracle," *Population Change and Economic Development in East Asia: Challenges Met, Opportunities Seized*, Andrew Mason, ed. Stanford: Stanford University Press, 332–355.

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