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CHALLENGES and OPPORTUNITIES of AGING POPULATIONS



David M. Walker
Comptroller General of the United States

April 24, 2003



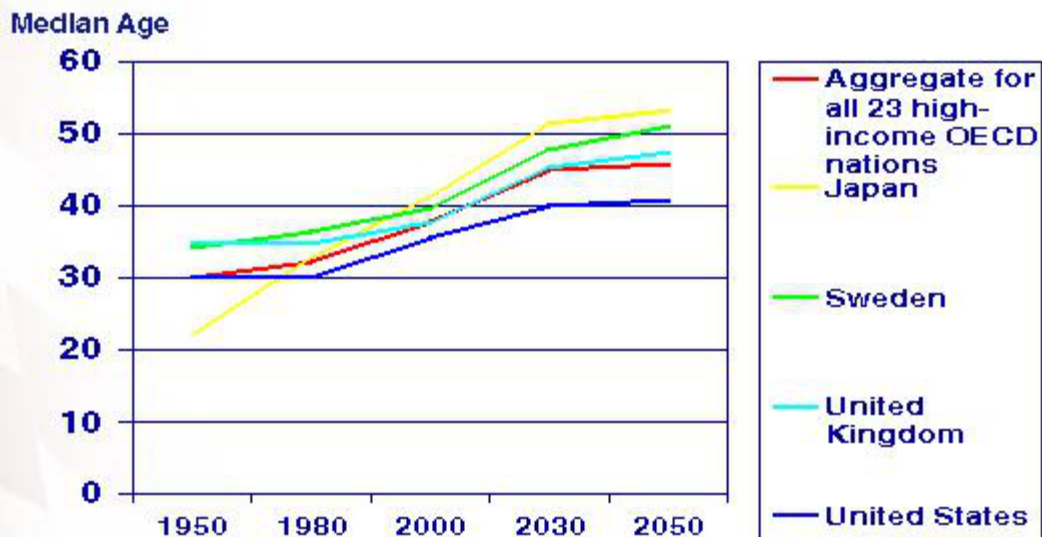


Longevity is a Challenge and Opportunity For Many Nations, Including The United States

- Population aging trends in other high-income nations are generally more pronounced than in the United States
- To address the challenges of aging populations, other nations are seeking to increase older worker labor force participation
- The United States can learn valuable lessons from other nations' recent reform experiences



Most Other High-Income Nations Aging More Rapidly Than the United States



Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: 2000 Revision and World Urbanization Prospects: 2001 Revision. Data for 2030 - 2050 are projected. ³



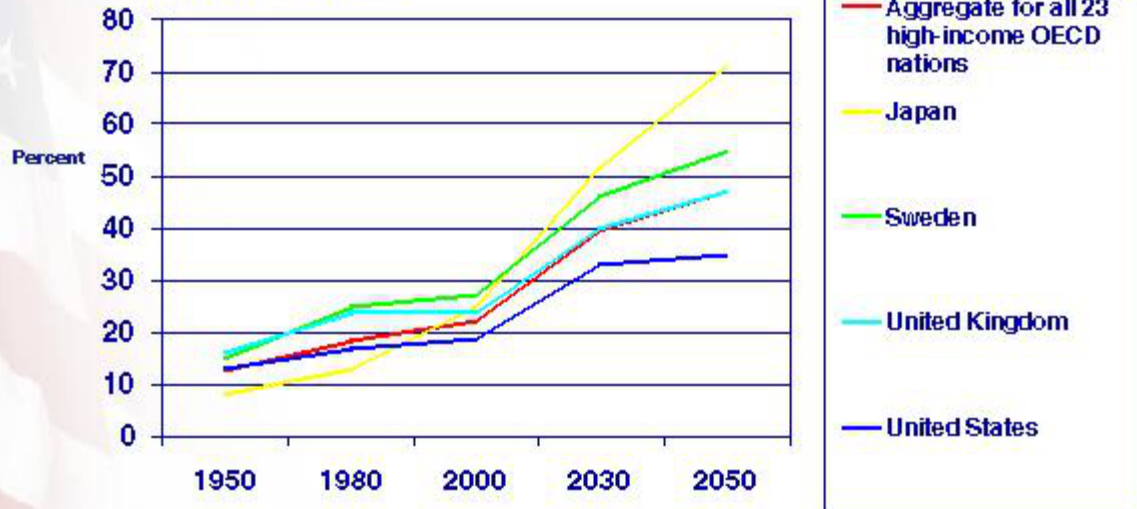
Age Demographics of Other High-Income Nations Generally More Pronounced Than The United States

- The United States has had higher fertility rates, increasing from 1.8 to 2.0 between 1980 and 2000
- The United States has also had higher immigration rates than many other nations



Elderly Dependency Ratio Expected to Increase Faster in Most Other High-Income Nations

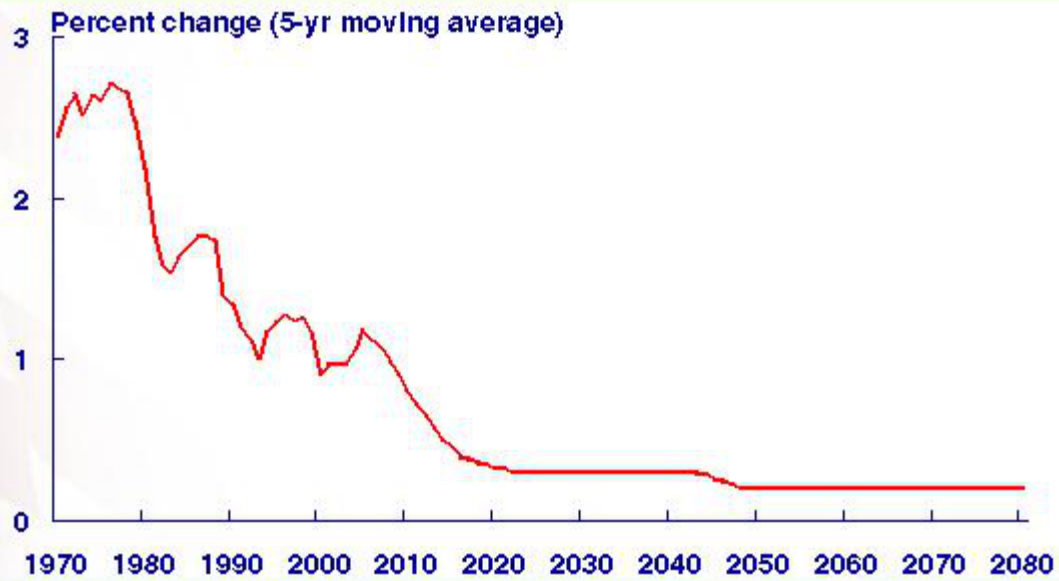
Elderly Dependency Ratio



Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: 2000 Revision and World Urbanization Prospects: 2001 Revision. Data for 2030 - 2050 are projected.



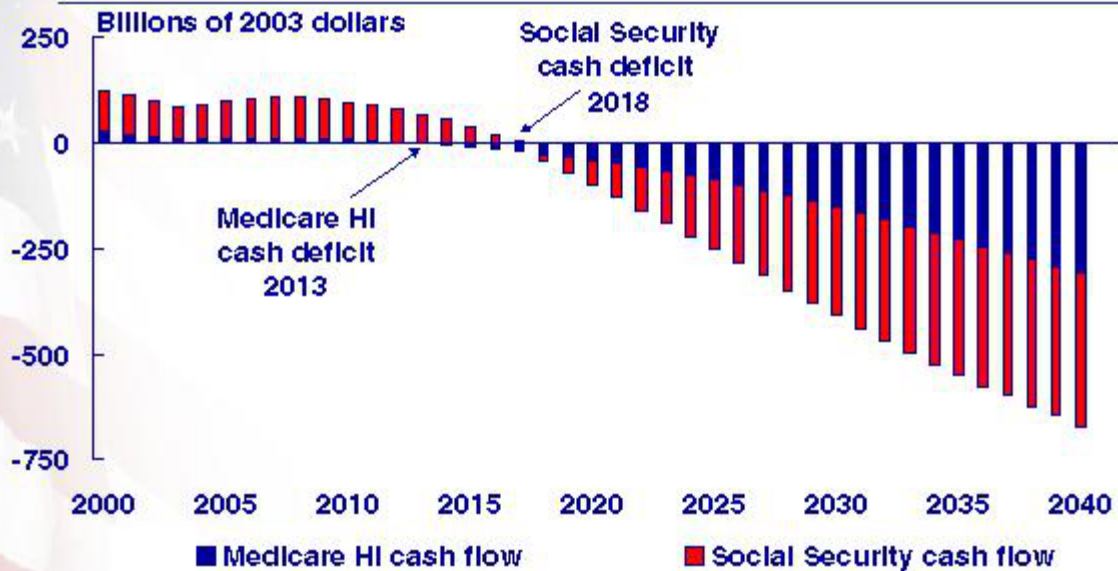
U.S. Labor Force Growth Will Continue to Decline



Note: Percent change is calculated as a centered 5-yr moving average. Data from 2003 through 2080 are projections.
Source: GAO analysis based on the intermediate assumptions of *The 2003 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and the Federal Disability Insurance Trust Funds*. 6



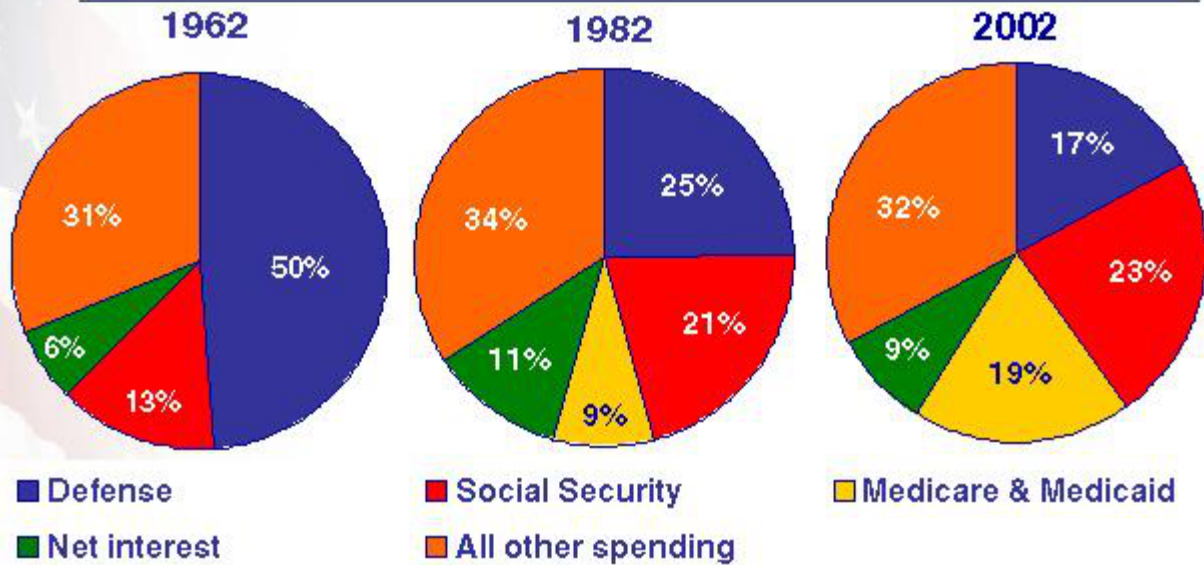
Social Security and Medicare's Hospital Insurance Trust Funds Face Projected Cash Deficits As Population Ages



Source: GAO analysis based on the intermediate assumptions of *The 2003 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and the Federal Disability Insurance Trust Funds* and *The 2003 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds*.



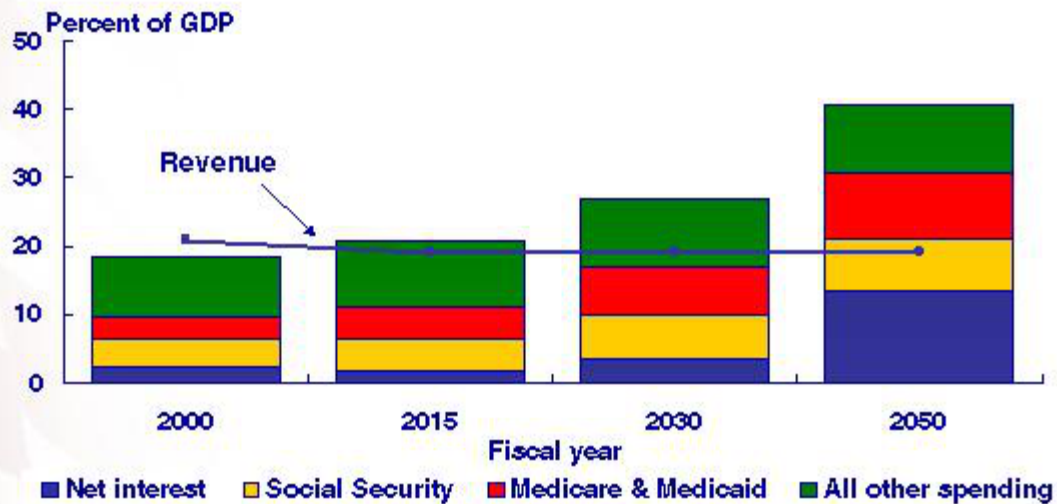
Composition of Federal Spending by Budget Function



Source: *Budget of the United States Government, FY2004*, Office of Management and Budget



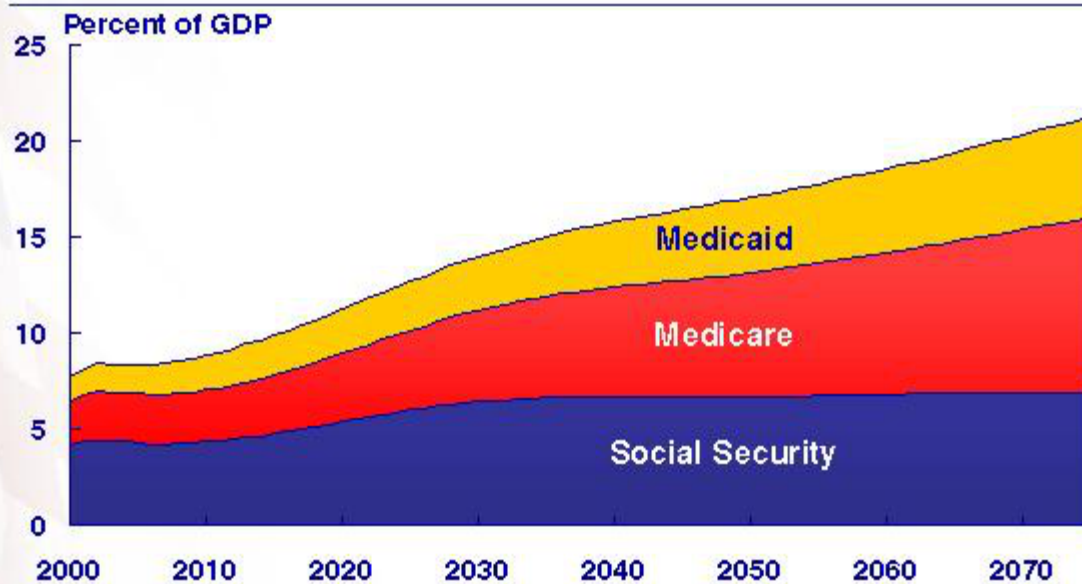
Composition of Spending as a Share of GDP (Assuming Discretionary Spending Grows with GDP after 2003 and the 2001 Tax Cuts Do Not Sunset)



Note: Assumes currently scheduled Social Security benefits are paid in full throughout the simulation period.
Source: GAO's March 2003 analysis.



Social Security, Medicare, and Medicaid Spending Are Projected to Grow as a Percent of GDP



Source: Projections based on the intermediate assumptions of the 2003 Trustees' Reports, CBO's March 2003 short-term Medicaid estimates, and CBO's June 2002 Medicaid long-term projections under midrange assumptions.



Older Worker Labor Force Participation Often Part of Other Nations' Policy Response to Aging Challenges

- Other high-income nations are including policies affecting older worker labor force participation as reform element
 - Reduce fiscal pressures on national pension systems, budgets
 - Bolster labor supply, help avoid occupational bottlenecks, contribute to greater economic growth
- GAO reviewed policies of three nations-Japan, Sweden, and the United Kingdom



Other Nations' Reforms Seek to Increase Labor Force Participation Of Older Workers In Variety of Ways

- National pension systems
- National/employer provided pension systems
- Disability insurance
- Labor market policy



National Pension System Reforms Included Policies That Enhance Work Incentives

- Expanded flexibility in when and how pension benefits are taken (Sweden)
- Increase in the age of worker eligibility for benefits (UK and Japan)
- Revised benefit calculation formulas to encourage continued work or discourage early retirement (Sweden, Japan and UK)



National/Employer Provided Pension Systems Revised to Include Defined Contribution Features

- Defined contribution (DC) features included in the national pension system (Sweden and UK)
- DC features included in employer provided pension system (Sweden, U.K and Japan)
- DC features can encourage greater labor force participation of older workers
 - More “age neutral” than traditional defined benefit pension plans
 - More transparent linkage between contributions and benefits



Disability Insurance Program Will Have Reduced Role As a Path to Early Retirement

Reform efforts include:

- Tightening eligibility requirements (Sweden and UK)
- Reducing paid benefits (UK)
- Providing more support to return to the workforce after an absence (Sweden and UK)



Labor Market Policies Introduced to Reduce Existing Employment Barriers to Older Workers

- Increasing mandatory retirement ages (Sweden)
- Encouraging the elimination of employment age discrimination (Sweden and UK)
- Improving older worker training (UK, Japan and Sweden)
- Providing job search assistance, employment earnings incentives to workers and employers (UK and Japan)
- Exploring “quality of worklife” issues (Sweden and UK)



Lessons Learned from Other Nations' Efforts to Increase Older Worker Labor Force Participation

- Enact reforms that are comprehensive and complementary
- Ensure the transparency and availability of information on reforms
- Emphasize policies to foster a strong national economy



Enact Reforms That Are Comprehensive and Complementary

- Reforms in the national pension system should be comprehensive and accompanied by reforms in:
 - Employer-provided pension systems,
 - Related social insurance programs (such as disability insurance), and
 - Labor market policies
- Reforms should be complementary to reinforce new work incentives in other areas
- In the U.S. context, complementary reform would also include health care and long term care issues



Ensure the Transparency and Availability of Information on Reforms

- Workers need to understand the nature of newly enacted reforms and implications for decisions regarding work, savings, and retirement
- Lack of clear information can lead to loss of public confidence in reform efforts, other unintended consequences



Strong National Economy Needed to Provide Employment Opportunities to All Workers

- High unemployment and low economic growth serves to limit older workers' ability to remain employed, forcing them out of the labor force
- A strong economy can:
 - ease the implementation of pension reform and work incentives by offering increased job opportunities for older workers
 - enhance budgetary flexibility, thus expanding the range of reform options



U.S. Has Made Progress in Some Areas

- Some efforts to improve work incentives in national pension system
 - Employer-provided pensions with well-established DC plans cover half the labor force
 - Disability insurance more of a path to early retirement in other nations compared to the U.S.
 - Broad prohibition of mandatory retirement ages and age discrimination in employment
-



But More Remains to Be Done

- No comprehensive reform of Social Security or Medicare
- Current national policy largely driven by a “binary” notion of retirement - that one is either completely retired or working full time
 - Few employers now taking action to provide phased retirement, flexible employment options
 - Concepts of lifelong learning, quality of work-life still to be fully embraced by government, industry and the public



Older Workers As An Increasingly Important Human Resource For the National Economy

- U.S. workers are living longer, healthier lives
- Opinion polls suggest that some older workers want to extend their careers
- Evidence shows that staying mentally and physically active can increase life spans
- Older workers have experience, key skills that are not always quickly replaced, leaving potential for occupational bottlenecks (Some occupations already affected, e.g., teachers, public safety workers, nurses)
- Projected slow workforce growth and long-range fiscal imbalances serve to reinforce the need to provide individual opportunities for older workers
- Meeting policy challenges of extending employment lives of older workers can lead to budgetary, economic, and other benefits for this nation and others
- We need to review and reconsider existing incentives and barriers both in the public and private sectors