



# The Demographic Transition and Social Policy in LAC

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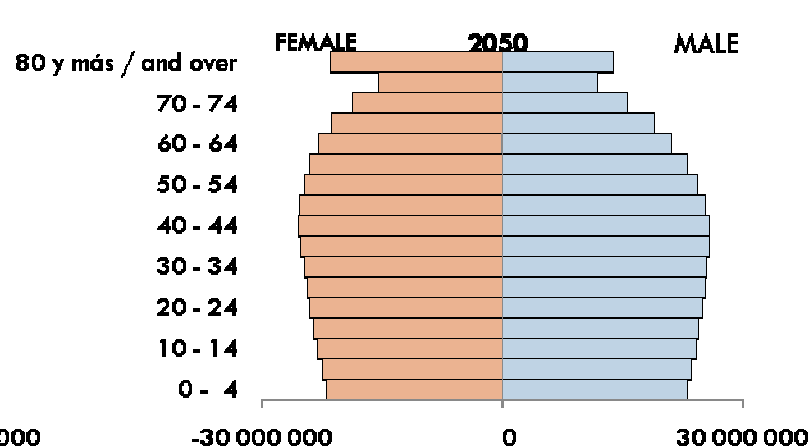
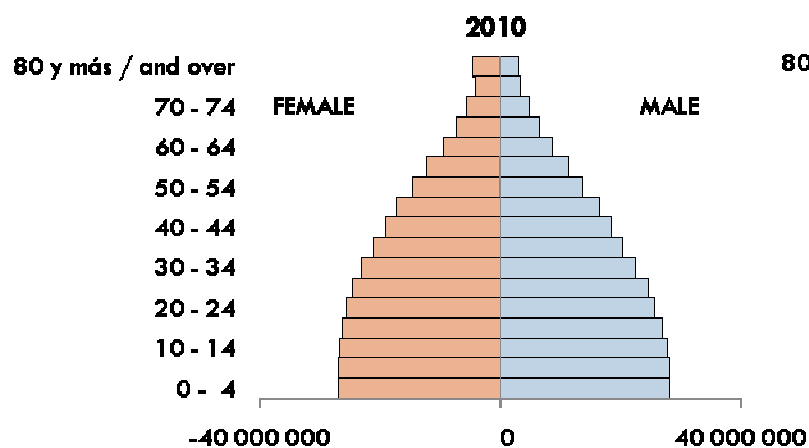
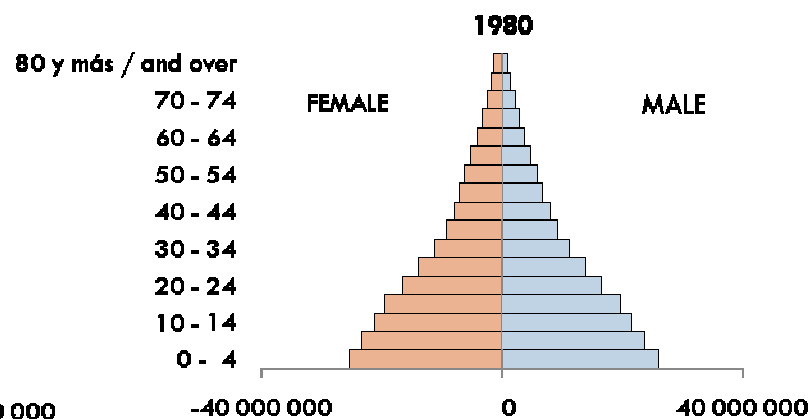
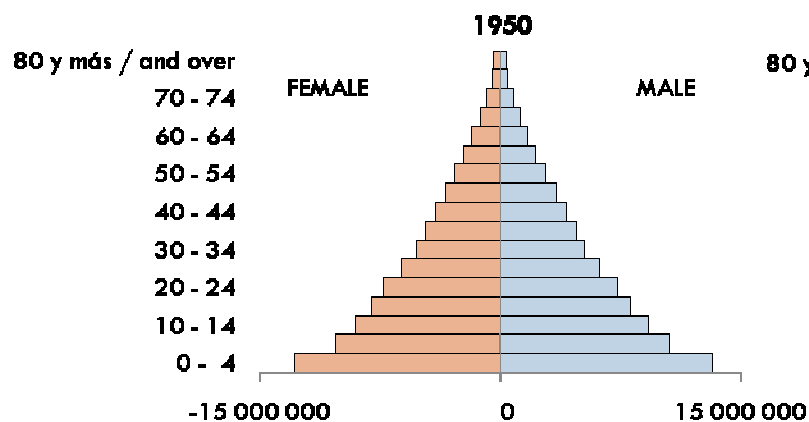
- Book, contributors, expected impact
- Introduction
- Support for the elderly & poverty in the lifecycle
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- Fiscal impacts
- Conclusions
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# Introduction

- Demography produces tectonic shifts. First phase of demographic transition framed the history of 20<sup>th</sup> Century. Second phase will strongly impact 21<sup>st</sup> C. It is happening very fast
- Young and Old countries in LAC
- Why is population aging a special source of concern in MICs and LICs?
- Economic life cycle in LAC. Short period of surplus. Education and health are significant. Private consumption is flat but total is higher for the elderly. Brings out trade-offs (slide 4)
- Pension reform. Fiscal success, but coverage failure. (Slide 5)
- Countries react creating Social Pensions
  - ▣ Fully developed in high coverage countries. Growing in low coverage countries
  - ▣ Fiscal implications – Regionally 1 to 3% of GDP; by country small to very high...
  - ▣ Incentive effects in labor, savings, family arrangements
  - ▣ Horizontal equity concern

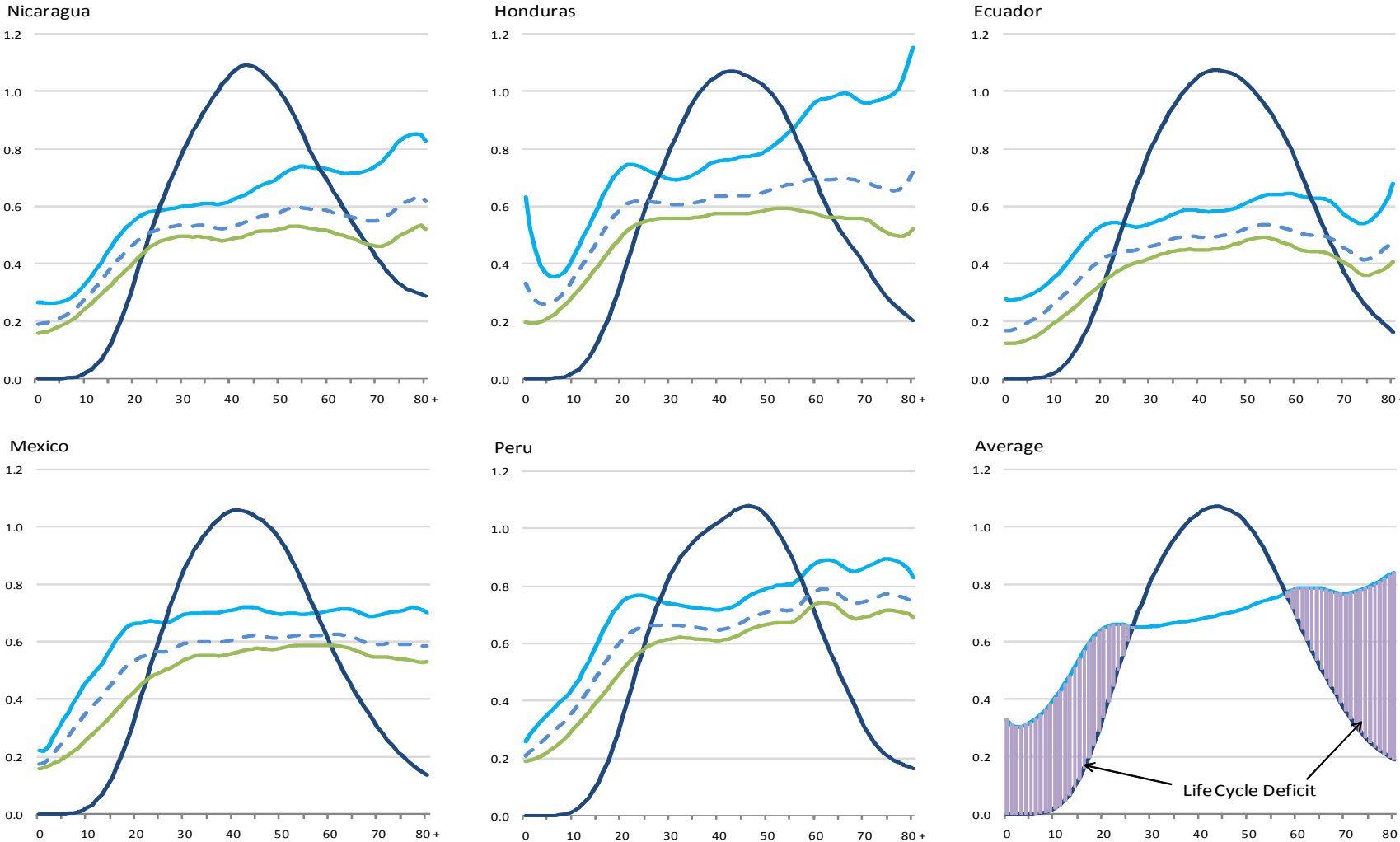
# A Century of Change in the LAC Population Structure

## Structure



# The Economic Life Cycle In LAC – short surplus period, education and health are significant

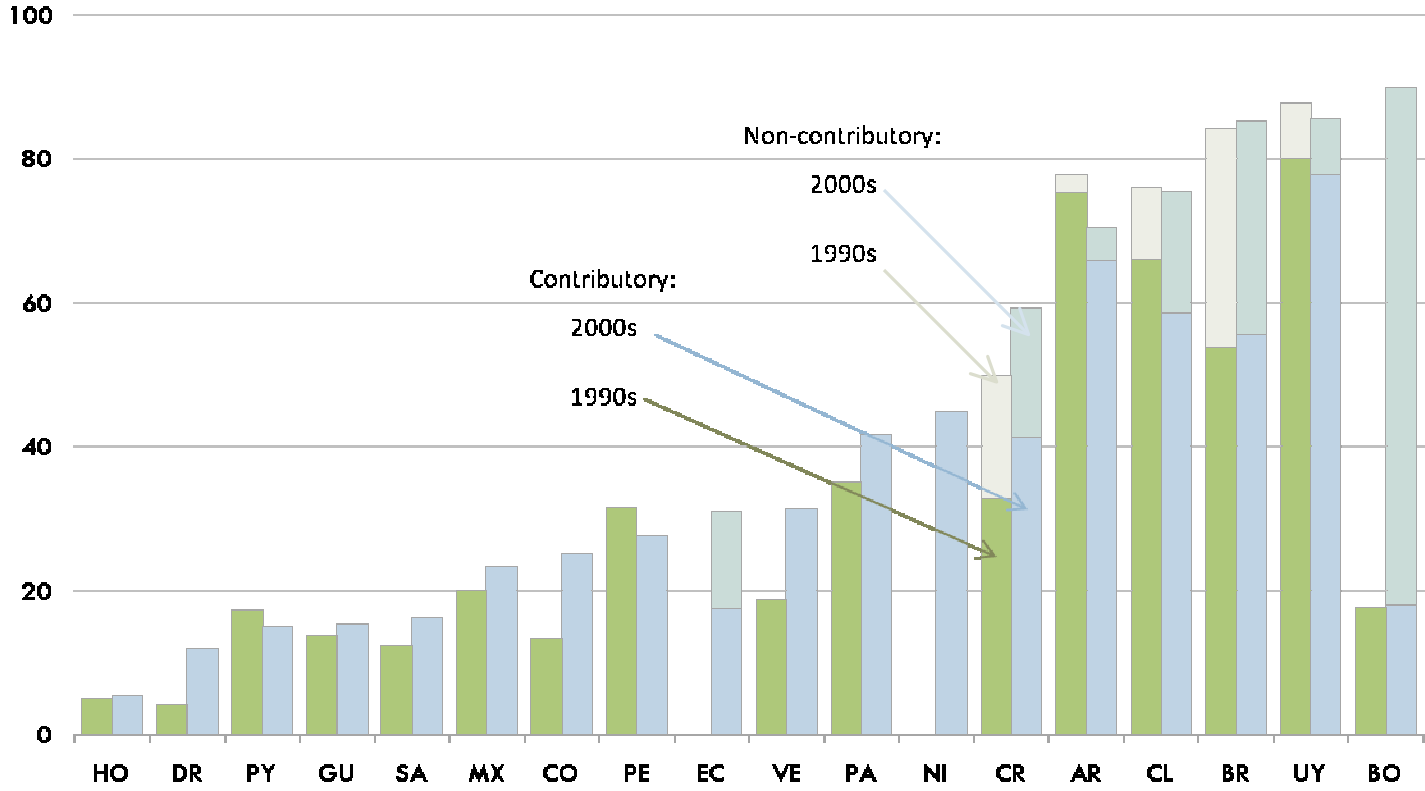
— Income   
 — Private Consumption (Excluding Education and Health)   
 - - - Private Consumption (Including Privately Funded Education and Health)   
 — Total Consumption (Including Publicly Funded Education and Health)



Source: Battiston, Conconi and Tornarolli

Note: See text for methodology

# Despite reforms, no progress in coverage of old-age contributory pensions



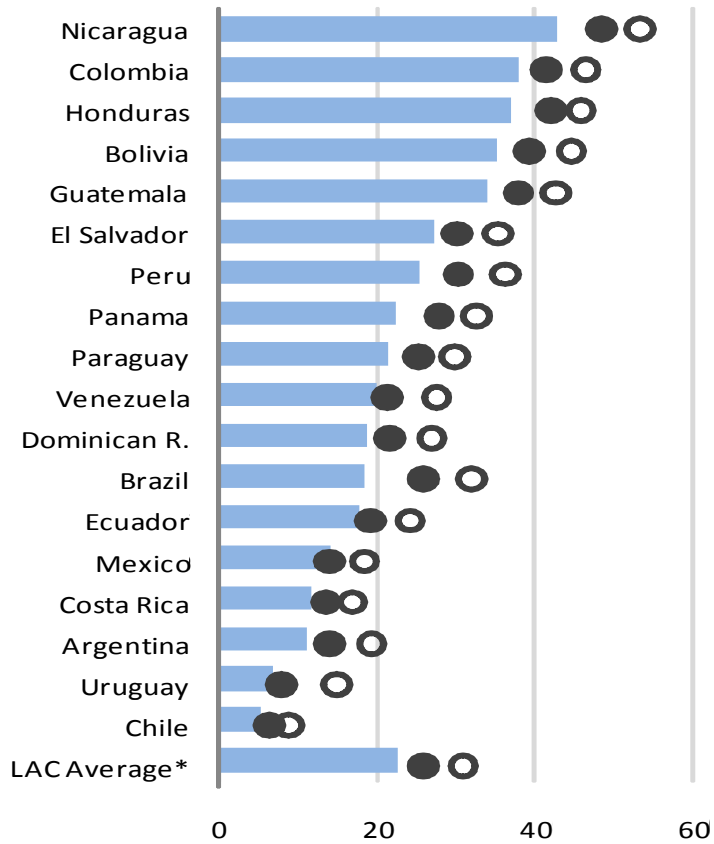
Source: Rofman, Luchetti and Ourens

# Support for the Elderly and poverty in the life cycle

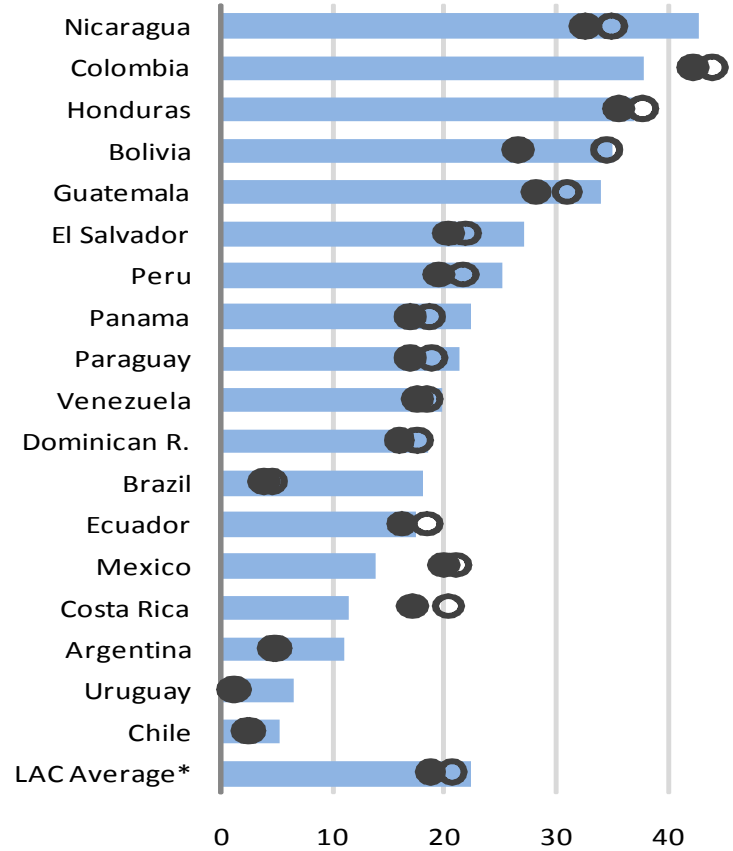
- What age group is poorest in LAC? (figure)
  - ▣ Children or the elderly?
  - ▣ Three groups of countries: (i) Elderly-friendly; (ii) Elderly unfriendly; (iii) neutral
- How do the elderly support themselves? (figure)
  - ▣ Great weight of labor incomes
  - ▣ Changes by age and gender : Labor is smaller for the old-old & women
  - ▣ Huge country by country differences – people adjust!!!
- Living arrangements also respond to incentives
  - ▣ Elderly live in smaller households – at very old age they re-join larger family
  - ▣ Higher incomes lead to living on their own; lower incomes to multigenerational households
  - ▣ Countries w/wide pension systems have greater family fragmentation, lower private transfers

# Children are the poorer age group

National and Child Poverty Headcount Rates, %



National and Old-age Poverty Headcount Rates, %



● Poverty Rate, Minimum Estimate

○ Poverty Rate, Maximum Estimate

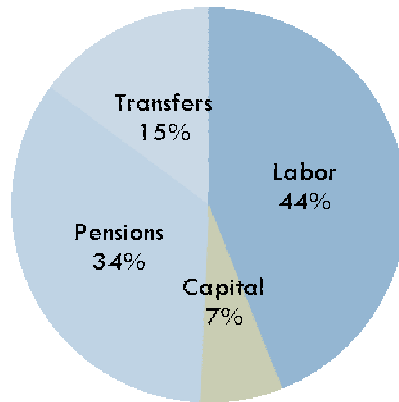
■ National Poverty Rate

\*Unweighted

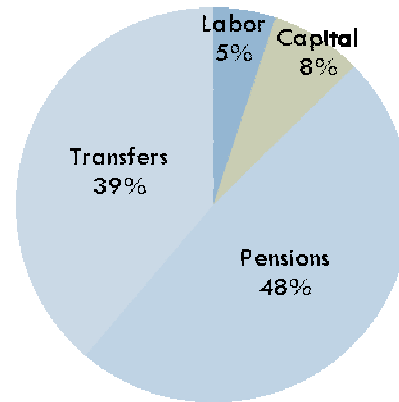
Note: Minimum and maximum poverty estimates for both young people and old-age individuals are estimated using different equivalence values and measures of economies of scale

# Sources of income of the aging

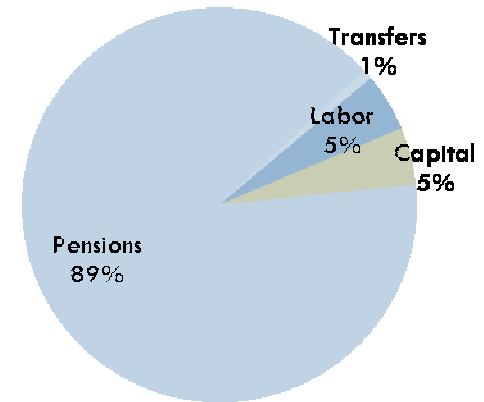
60+ Total



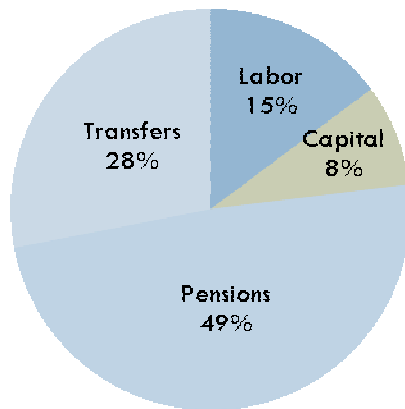
80+ females



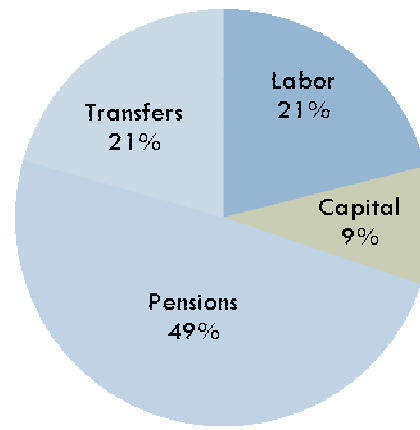
80+ Brazil



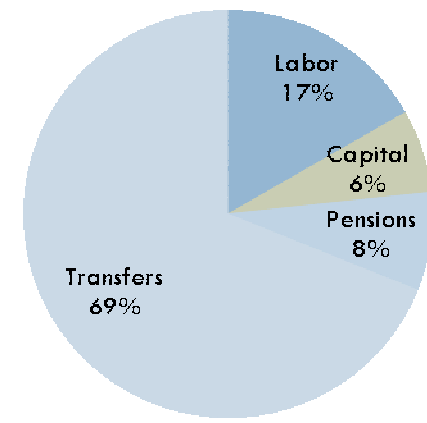
80+ Total



80+ males



80+ Dominican Republic

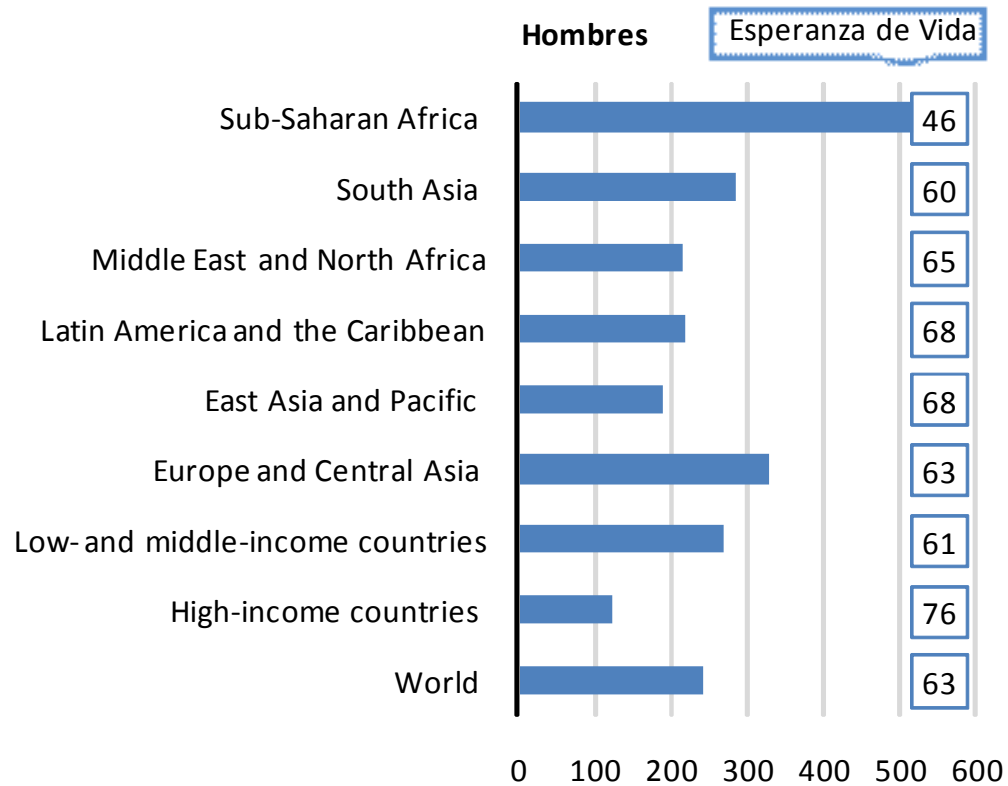


# The Health Transition

- Defined: From communicable and MCH to non-communicable disease; from infants to older people
- LAC closer to OECD than to AFR; has reached a point where non communicable disease (NCDs) is the main problem of the rich and the poor – health systems have not yet adjusted
- Less progress in reducing adult mortality – mostly a shortcoming of the health system (slide)
- Huge unknowns: Is longer life lived in good health or in bad health? Is disability growing? How much higher is the mortality of the poor compared to the rest?

# High adult mortality

Probabilidad de morir entre los 15-60 años, por 1,000, (2001)



Source: Disease Control Priorities Project 2

# Pressure to expand health care

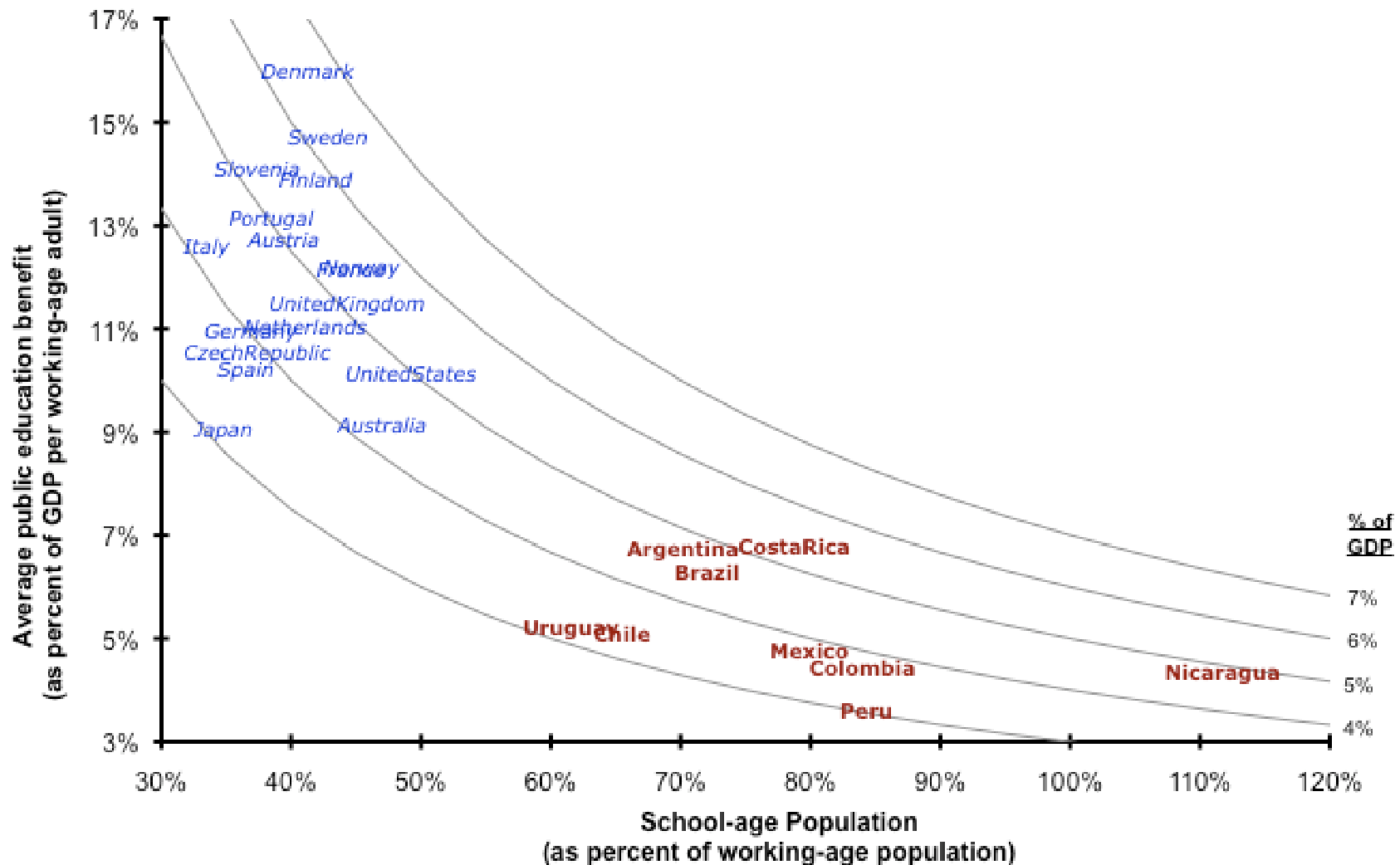


- Three authors, three routes, same conclusion
- History shows high income elasticity of demand for health care
- Micro comparisons suggest
  - ▣ Increasing consumption of care by age
  - ▣ Large needs/use gap for the poor
- Happiness study shows importance of norms. The poor in Guatemala compare themselves with other poor, in Chile with society at large

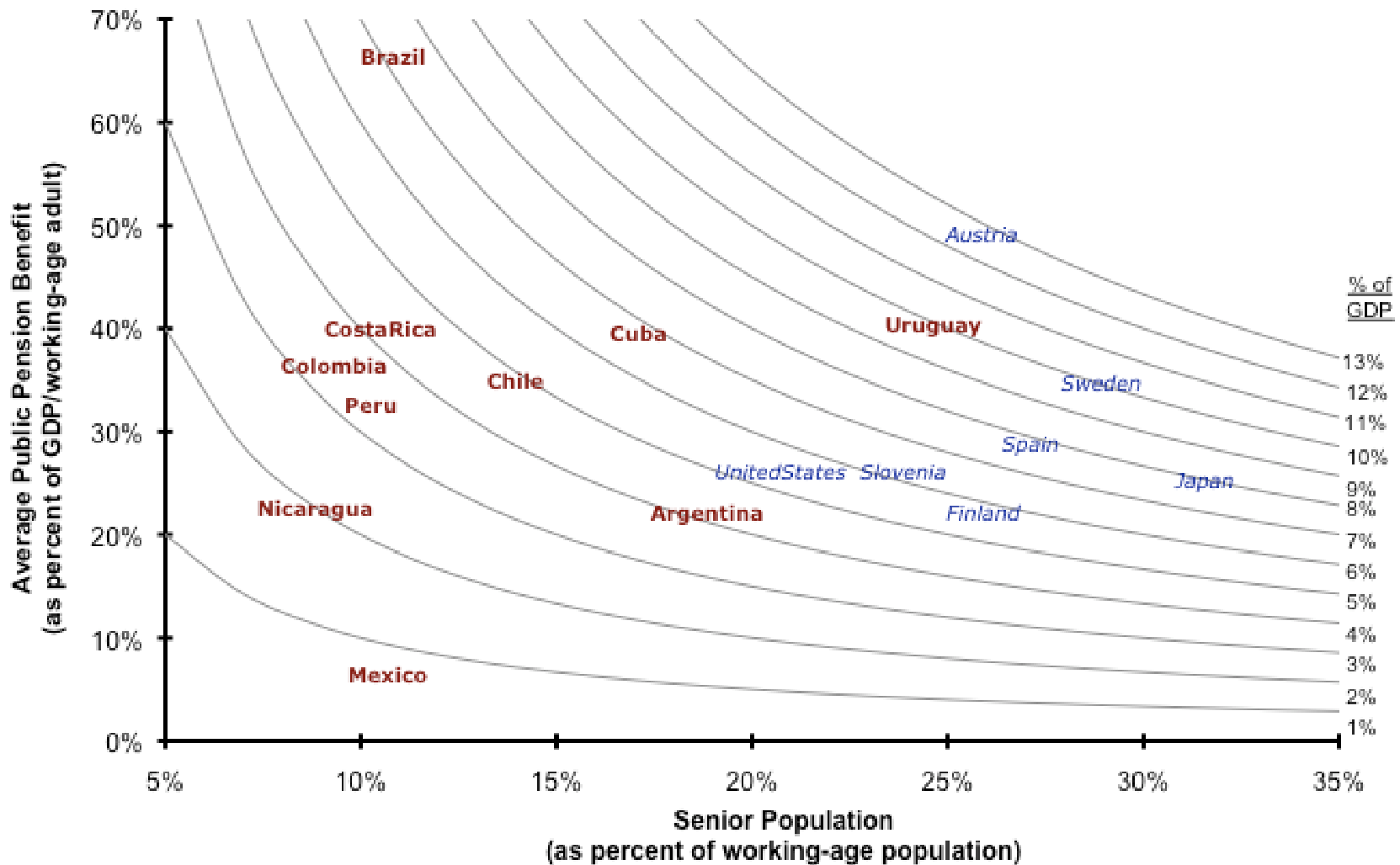
# Fiscal Impacts

- Simple model: effort and generosity; policy: frozen vs. OECD convergence
- PER results: (next 3 slides)
  - Education: LAC and OECD spend 5% of GDP in Education, but this implies different BGR
  - Pension: LAC (5%) OECD 8%; but LAC has greater BGR
  - Health: BGR is slightly lower in LAC
  - Huge differences in all these within LAC
- Projections
  - Education: Student population to fall as a proportion; potential savings (about 2% of GDP). Plenty of opportunity for OECD convergence
  - Pensions: In a frozen policy scenario, because of pension reform only 2 of 10 countries would have large increases. In OECD convergence the fiscal cost would be SMALLER than with frozen policy!!!
  - Health: With frozen policy, small impact. In OECD convergence huge increases.
- Conclusions
  - Policy will have greater impact than demography on fiscal position. If policies could be frozen, social expenditures to increase by only 1-2% of GDP by 2050 in countries that reformed pensions
  - If policies converge to OECD, total may increase by over 6% of GDP – mostly due to 4.3% in health.

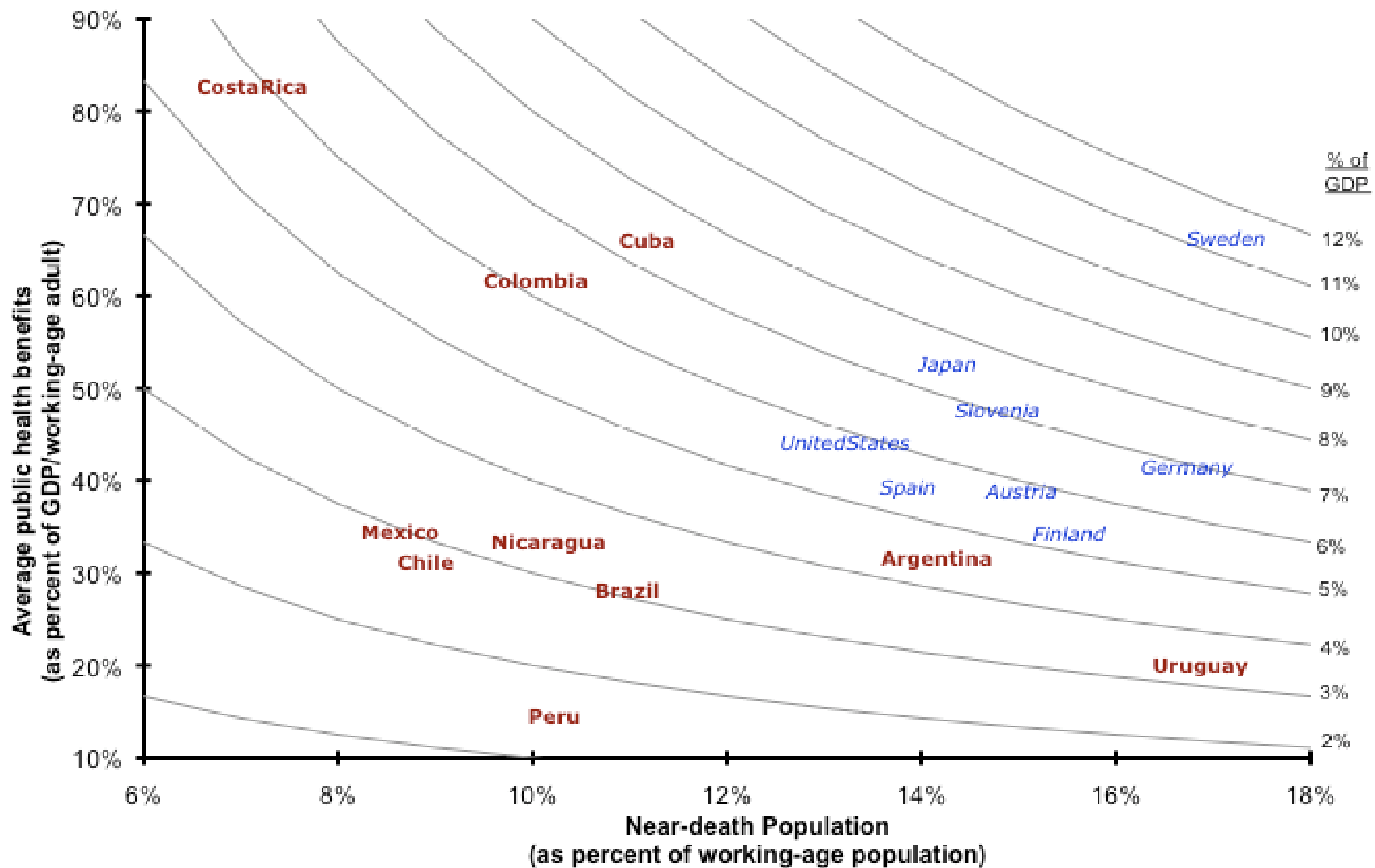
# Percent of GDP Spent on Public Education, Disaggregated by Education Dependency Ratio and Benefit Generosity Ratio



# Percent of GDP Spent on Public Pensions, Disaggregated by Pension Dependency Ratio and Benefit Generosity Ratio



# Percent of GDP Spent on Public Health, Disaggregated by Near-death Dependency Ratio and Benefit Generosity Ratio



# Projected change in Public Spending by 2050 (Median for 10 LAC Countries)

Public social expenditures in 10 LAC countries (% of GDP) - 2050

Item	2010	Frozen policy	OECD policy
Total	13.2	18.1	19.6
Education	4.7	2.8	4.4
Health	4.1	5.6	8.4
Pensions	4.4	9.7	6.8

# A summary for policy makers

- Demographically don't expect more of the same; expect rapid aging but no "time bomb", seek opportunities.
- Public expenditure analysis needs additional tools (involving demographics, multi-sectoriality, long term projections, history). Finance officials understand risks of PAYGO pensions, but sometimes not risk of PAYGO health care, or the way the demographic bonus has helped finance the expansion of education coverage.
- Fiscal impact of aging will depend more on policy than on demographics; decisions will happen in a new "generational environment".
- "Pensions or poverty" are not the only options – need to understand the economic life cycle, elderly work and incomes, family support, gender; also the cost of health care in old age. In the long run, pension coverage needs to expand.
- Families and culture mutate responding to incentives. Policy will affect living arrangements, early retirement, family care and support, possibly savings.
- The main health challenge in LAC is now NCDs, including for the poor. Pressures for expansion of health care are likely. Policy makers need to learn how to engage in this complicated sector.
- Discussions of "equity" need to incorporate a generational dimension

# Policy implications (for discussion)

- Extend the productive life of workers as life expectancy grows:
  - Labor policies for 50+ in formal and informal sectors
  - Life Long learning directed to over 50s
  - *First do no harm* (with wrong incentives)
  - Promote women's labor force participation
- Develop universal health policies for Non Communicable Diseases (including surveillance); preempt inefficient pressures with proactive policy;
- Continue reforming pensions systems to reach greater coverage and savings. Involve international migrants;
- Social pensions? Justification greater for old-old. Conditioned following CCTs?
- Public expenditure analysis should incorporate demographics, long term, joint consideration of human capital investments and support for the elderly
- Invest in data and analysis on population aging

# Some topics for future study



- Impact of aging on savings, investment and growth
- Emerging trends in long term care
- Labor market transitions for older workers not covered by pensions (including impact of programs such as microfinance, life long learning)
- Household dynamics (family mutations, intra-household sharing, gender, child and elder care)
- Prevalence of disability and NCD. Social differentials in adult mortality
- Relative effectiveness of anti poverty programs for the old; health care or income transfers?