Population aging

Some Economic and Social Consequences of Population Aging

David K. Foot

Comments:

"Population Aging: The Risk of Tunnel Vision"
Peter Hicks

"Population Aging: Better Than the Alternative"
Susan A. McDaniel

EXECUTIVE SUMMARY

Canada, like most developed countries, projects a growing proportion of elderly persons in the population and an increased dependency ratio in the coming decades. Author David Foot observes that "demographic change is gradual, seldom having any major effect in the short term, and is rarely considered in today's important policy decisions." Unless governments overcome their myopic tendencies and adopt a comprehensive, longer-term strategy to address a looming labour shortage and future health care demands, he warns that the consequences of population aging could be deleterious both for seniors and for Canadian society at large.

Foot does not limit himself to three policy proposals, suggesting that many smaller changes and adaptations are warranted in the areas of immigration, labour market and health care policy. Both commentators agreed with Foot's proposals; however, they stressed that while population aging plays an essential role in setting the stage for economic and social policies, it cannot be prevented or reversed by policy changes.

Population aging

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SCOPE OF THE CHALLENGE

Over the past 50 years, the median age of Canadians has risen from 27.2 to 38.8, while the share of those aged 65 and over has increased from 7.7 to 13.2 percent. Statistics Canada predicts that by 2026 – when many of the baby boom generation will be retired – the median age will rise to 43.3 and the share of seniors will be 21.2 percent. By 2051, these figures are projected to rise to 46.8 and 26.4, respectively.

"Demographic momentum" ensures the inevitability of population aging in Canada and indeed in nearly all developed countries. Continued economic development is usually accompanied by better and more widespread education, particularly for females, as well as improved life expectancy. As economic development advances, low death rates and sustained low fertility translate into slower population growth and population aging.

The economic and social consequences of population aging are explained by changes in lifecycle behaviour. An aging workforce means slower labour force growth while the impending retirement of the baby boom generation presents the possibility of emerging labour market shortages, most significantly in the area of health care. As commentator Susan McDaniel remarked, the growing diversity of circumstances among the elderly and the capacity of families to provide care across generations also affect how the policy implications of an aging population will play out.

According to Foot, the net effect of lifecycle behaviour is likely a reduction in material living standards as the bulk of the population moves into older age groups. Therefore, the success or failure of policies to manage the effects on the Canadian workforce of the retirement of the baby boom generation will have some bearing on Canada's economic well-being.

OPTIONS FOR ADDRESSING THE CHALLENGE

Foot, as well as both of the commentators, points out that population aging is largely the result of demographic momentum resulting from child-bearing decisions that have already been made, so policy proposals should address the consequences of these trends rather than attempt to change the trends themselves. As Peter Hicks commented, though it might change priorities for action, population aging, taken in isolation, seldom leads to new policy directions.

Population policies

Because much future population growth is predetermined by the current age structure of the population, policies that seek to boost fertility rates will have at best marginal effects. In Canada, the median age is approaching 40, meaning that most women have passed child-bearing age. Thus policies such as cash payments for additional children and more generous family allowances will have a small overall effect, even if they are successful in boosting fertility rates of women of child-bearing age.

The other avenue for changing the age structure of the population is immigration. Foot notes that in order to have a lasting effect on demographic structure, immigration levels would have to grow at a faster rate than the population, and new immigrants would have to be younger on average than the existing population. Both of these are true of Canada's recent immigration trends. Unlike efforts to increase fertility, additional immigration provides an immediate boost to the existing labour force.

Workforce policies

As the ratio of the nonworking population to the working population (the dependency ratio) increases, the viability of many public programs, particularly pensions and health care, comes into question. In order to offset slower workforce growth and labour market shortages in the 2010s, policies that encourage baby boomers to delay their retirement will be required.

Health care

Foot contends that the challenge with respect to health care is not securing adequate funding, suggesting that the baby boom generation will finance the lion's share of its health care costs via taxes collected on current income and future RRSP with-drawals. Rather, the challenge will be to devise an efficient and effective system of health care delivery and to find the staff necessary to deliver services. Given that the next generation to make intensive use of the system is the relatively small group born during the Great Depression (who are now into their 70s), there exists a "window of opportunity" to improve health care delivery before the baby boomers begin to make their highest demands on the system in the 2020s and 2030s.

THREE POLICY PROPOSALS TO ADDRESS THE POPULATION AGING CHALLENGE

- **Retool the Canadian immigration system to maximize economic benefits.** This would involve refining the selection process, improving language programs for immigrants whose native language is neither English nor French, streamlining foreign credentials recognition by licensing authorities and expanding apprenticeships and mentoring programs so that immigrants can obtain Canadian-based work experience.

- **Encourage older workers to remain in the labour force.** Although many older workers wish to remain in the labour force on a part-time basis, current pension rules and payroll tax structures provide financial disincentives for doing so. These disincentives should be removed.

- **Increase health care staffing and optimize service delivery.** Labour force shortages will be felt most strongly in the health care sector, and there is a window of opportunity to train the next generation of medical professionals before the baby boomers begin making their greatest demands on the system. In addition, medical facilities should be located closer to elderly populations and be more tailored to their needs.

THREE PREFERRED POLICIES

Immigration as economically supportive population policy

Foot suggests a framework for retooling the Canadian immigration system to maximize the economic benefit to immigrants and the country. This means choosing immigrants who are of working age, likely to participate in the workforce, likely to find jobs, hard workers and highly productive. His preferred policies to meet these objectives are:

- Language training programs to increase the labour force participation of potential immigrants from countries in which neither English nor French is the first language;
- Streamlining foreign credentials recognition by licensing authorities;
- Apprenticeships and mentorships so that immigrants can obtain the necessary qualifications;

- Timing a substantial increase in the immigration rate at the middle of the 2010s so it does not overlap with the entry of the relatively large "echo" generation – the children of baby boomers – into the labour force.

Reducing employment barriers for older workers

According to Foot, flexible workplace policies are necessary to account for the fact that many baby boomers are likely to wish to continue working, though they might prefer to do so only part-time. To this end, he offers several proposals:

- Adopt a flexible policy of phased retirement, whereby older employees can gradually reduce their workweek or take on special projects that amount to a similar commitment of less-than-full-time employment.

- Reduce incentives for early retirement by allowing workers interested in part-time retirement to simultaneously draw from and contribute to a pension plan.
- Increase incentives for part-time work and flexible working hours by replacing contribution caps on all employment-related programs with a revenue-neutral rate – whether hourly, daily or weekly.

Optimizing deployment of health care resources

Rather than worrying about financial resources, which Foot regards as adequate to support coming health care needs, he proposes changes in the delivery of services:

- Locate health facilities in suburban outskirts, closer to where the majority of senior citizens live;
- Use mobile nurse practitioners to facilitate home visits;
- Create stand-alone clinics that deliver specific health care services, eliminating the overhead costs associated with hospital-based care

According to the author, the "Achilles' heel" of future health care delivery in Canada will be the inability to find sufficient health care workers. The impending labour shortages will be most severe in the health care sector. Moreover, with fewer children, the boomers will have less family support to count on in their senior years. Thus now is the time for Canada "to recruit the echo generation into all health care occupations, to look after their aging parents when they need care the most."

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CONCLUSION

On average, the retirement of Canada's boomers will begin in the 2010s and be spread out over two decades. There is still some time, therefore, to develop appropriate policies to accommodate this demographic fact of life. Foot asserts that a coherent set of policies that incorporate both demographic and lifecycle changes is required: the continued participation of older Canadians in economic life is a key factor to their own well-being as well as that of the nation as a whole.

THE CANADIAN PRIORITIES AGENDA

The IRPP's Canadian Priorities Agenda project is designed to initiate a broad-based and informed public debate on policy choices and priorities for Canada over the medium term. Research papers by some of Canada's foremost scholars examine the most effective ways to address the following eight broad policy challenges:

- Human capital
- Climate change
- Natural capital
- Population aging
- Economic security
- Health outcomes
- Productivity
- Trade and globalization

Based on the results of this research, six judges, among Canada's top policy thinkers, each crafted from the eight papers a policy package of the specific recommendations that in his or her view will best enhance the economic and social well-being of Canadians.