

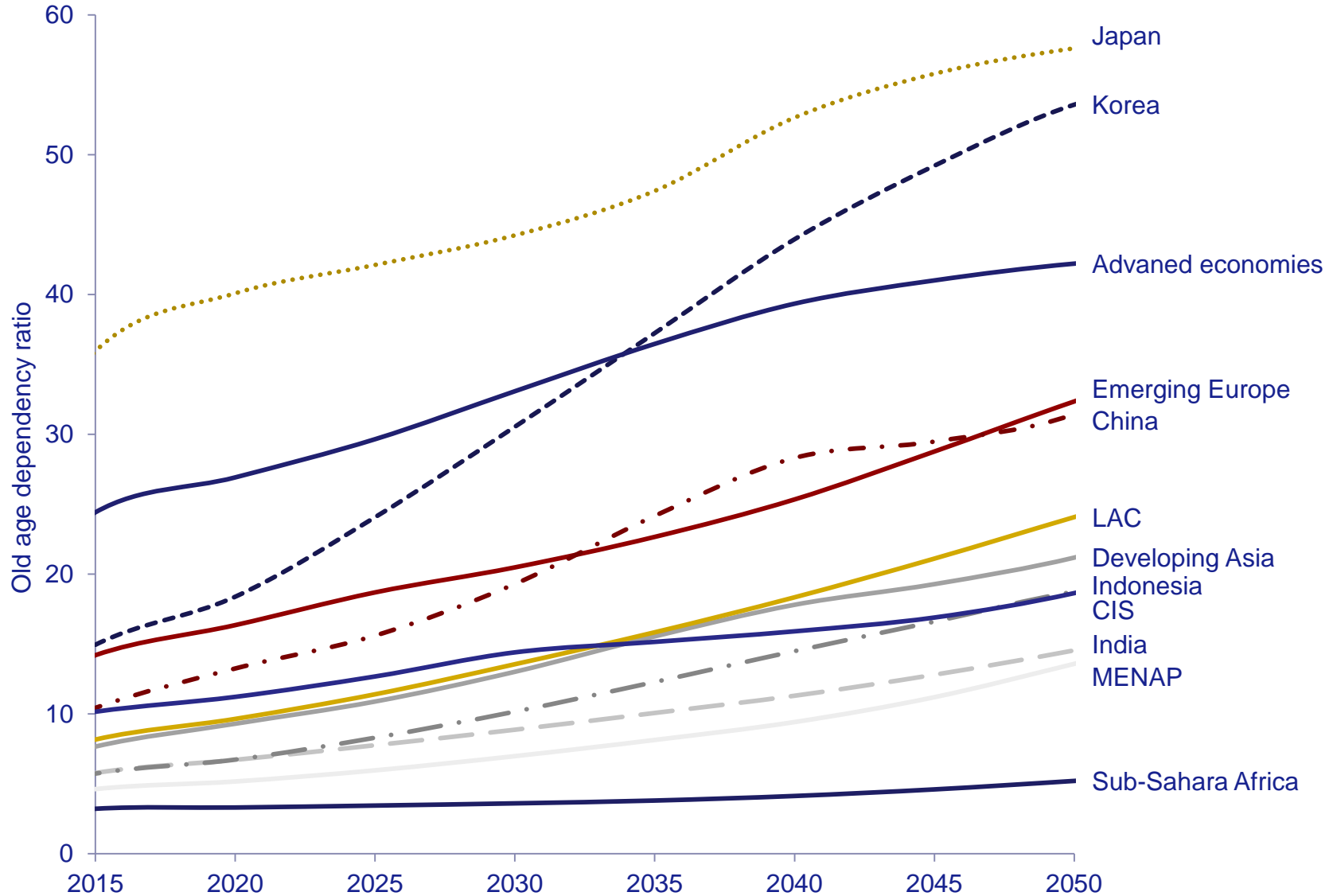
Macro-Fiscal Implications of Aging

Sanjeev Gupta

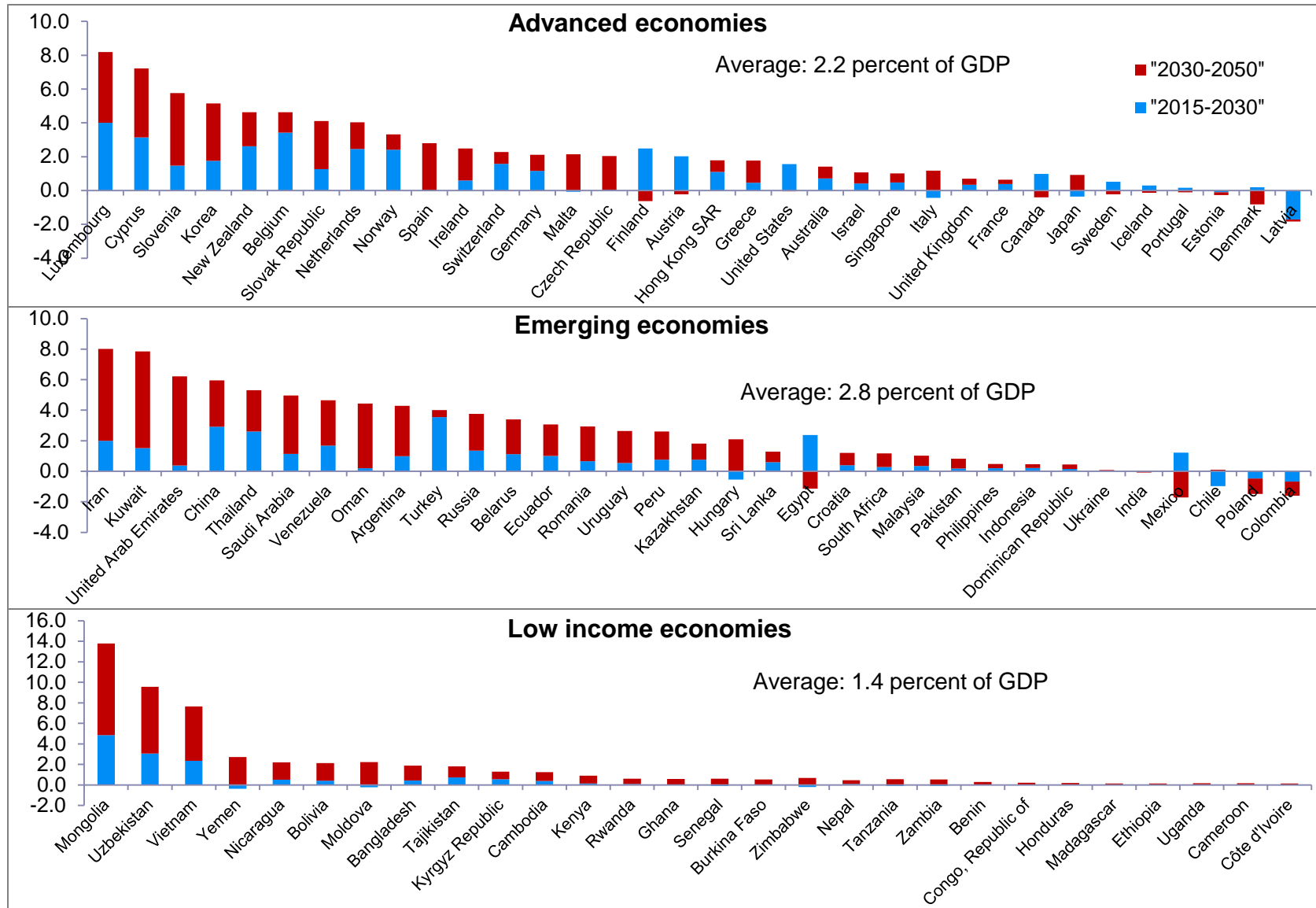
Deputy Director of Fiscal Affairs Department
International Monetary Fund

Tokyo Fiscal Forum
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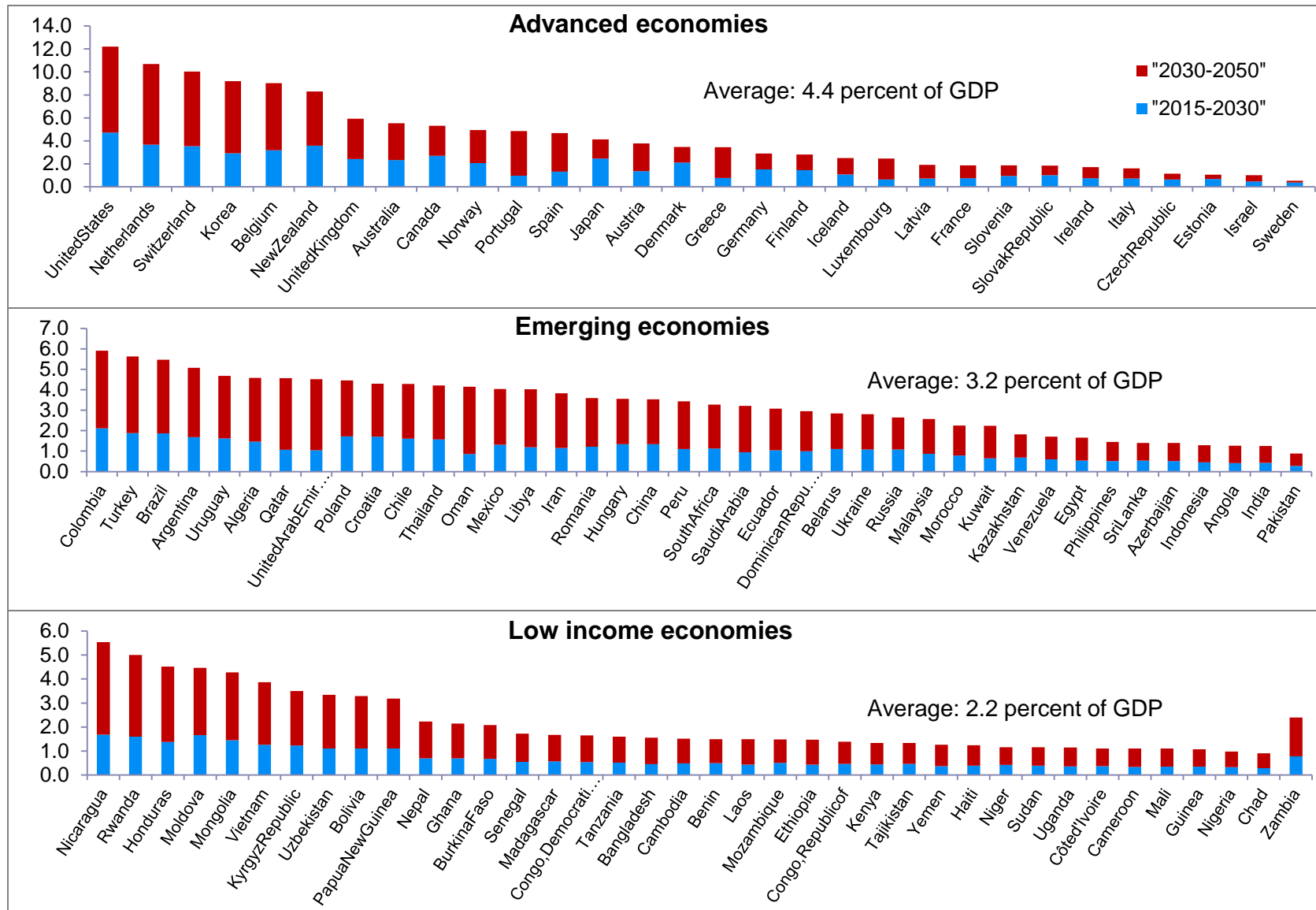
The world is aging rapidly, including Asia



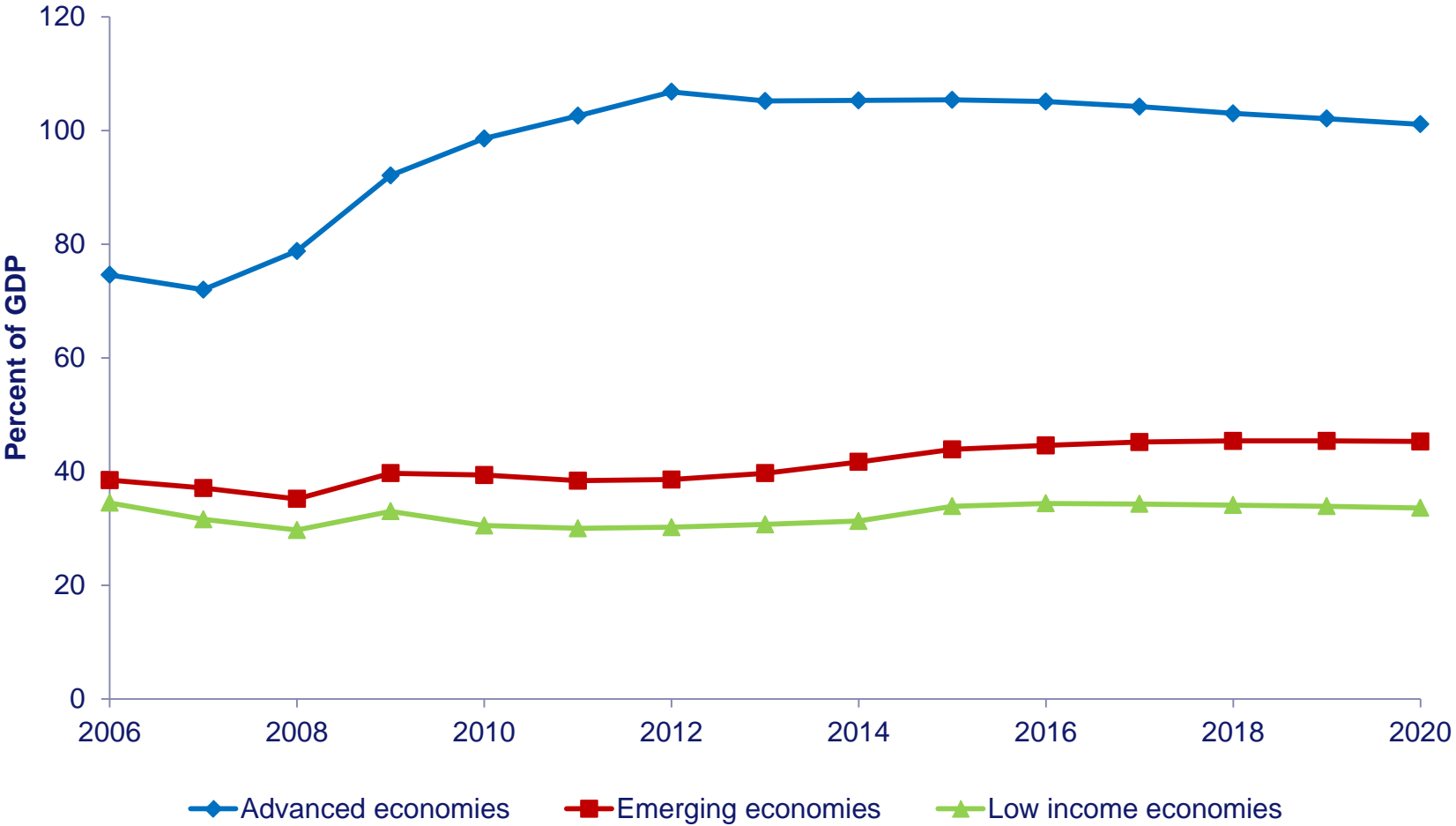
Public pension spending is projected to rise



Even larger rise in public health spending



Public debt may add additional fiscal pressure

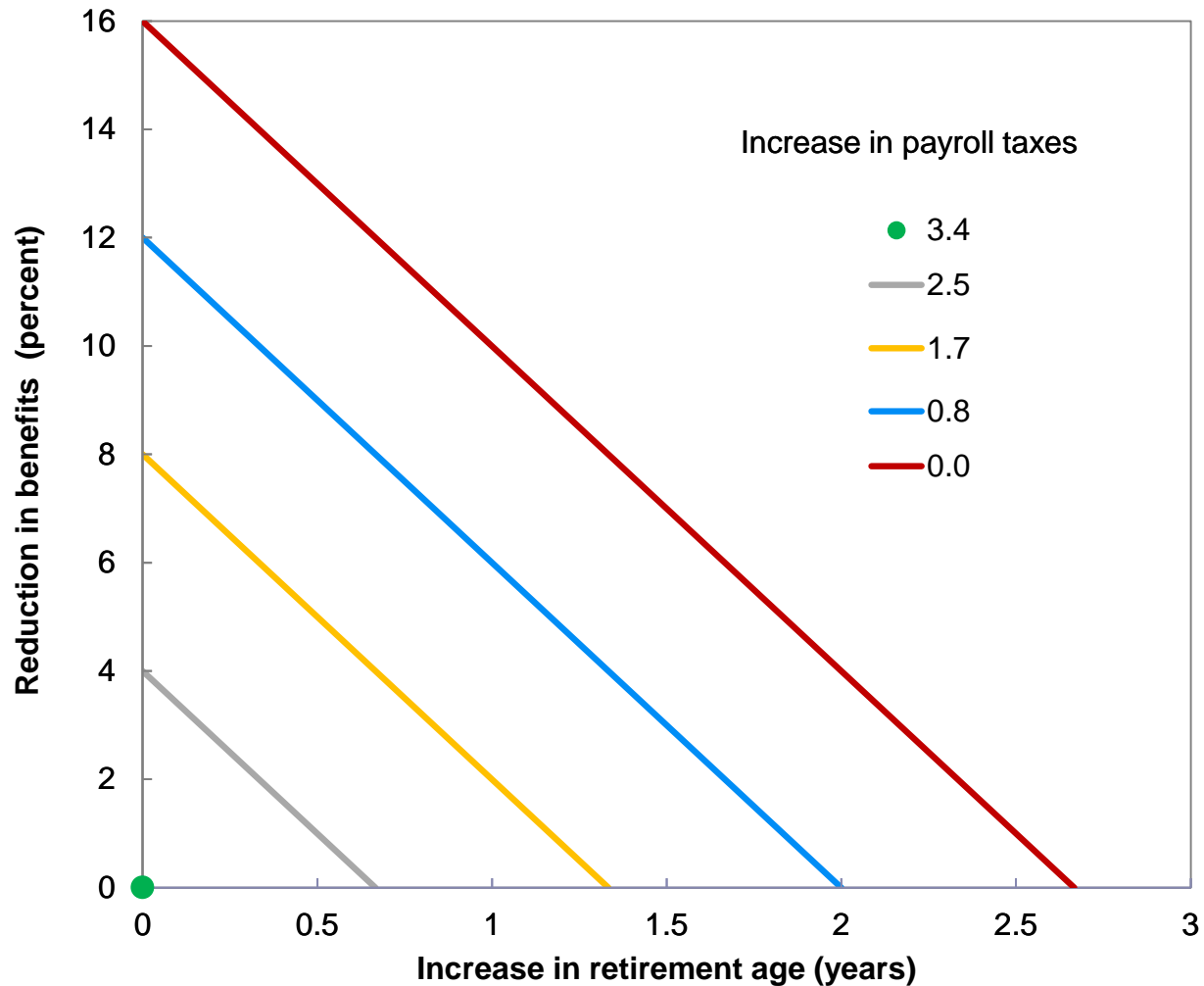




The challenge would differ by country

- ❑ For countries where age-related spending is already high, reforms would be needed to contain its increase
- ❑ For countries that need to expand the coverage of health benefits and pensions, additional revenues would be needed particularly where revenue-to-GDP ratio is low
- ❑ For countries that need to expand the coverage and where tax burden is already high, a reallocation of public spending may be the best strategy

Reform options to contain the increase in pension spending



Reform options to contain the increase in public health spending



The most effective strategy involves a mix of macro-level controls and micro-level reforms to improve spending efficiency

- Budget caps and broad central oversight of budget allocations
- Single payer, gatekeeping and strategic purchase approaches
- Greater reliance on private financing, especially of complementary health care outside public package
- Minimizing the use of fee-for-service to reimburse providers
- Improving spending efficiency (for example, through generic drugs, health technology assessments, and competition and choice)

Coverage expansion in a fiscally sustainable manner



Health

- Benefit packages should be restricted to most essential services and focus on cost-effective clinical interventions
- Taxing tobacco and reducing energy subsidies could improve health outcomes while raising additional revenues
- Expansion could be tax-financed if labor market informality is high

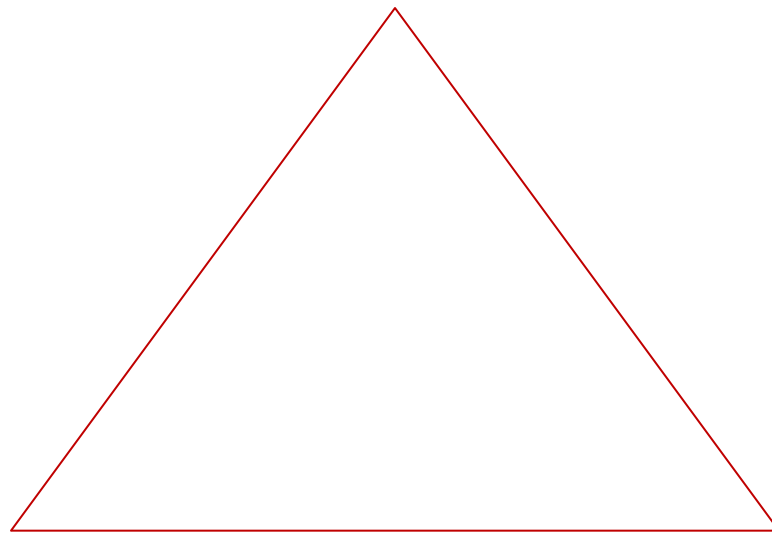
Pensions

- Non-contributory “social pensions” could be considered in countries with low coverage
- Benefits should be set at a level sufficient to alleviate poverty but low enough to minimize incentives to remain outside of the contributory system

Reforms need to carefully consider key tradeoffs



**Fiscal
sustainability**



**Poverty reduction
and protecting
the poor**

**Actuarial
fairness of the
system**

Conclusions



- ❑ **Population aging is posing various macro-fiscal challenges**
- ❑ **The projected increase in age-related spending would require fiscal adjustment in many economies**
- ❑ **The nature of the adjustment would vary by country**
- ❑ **Reforms, however, should carefully balance key policy objectives**