Macro-Fiscal Implications of Aging

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The world is aging rapidly, including Asia
Public pension spending is projected to rise

**Advanced economies**
- Average: 2.2 percent of GDP
  - “2030-2050”
  - “2015-2030”

**Emerging economies**
- Average: 2.8 percent of GDP

**Low income economies**
- Average: 1.4 percent of GDP
Even larger rise in public health spending

Advanced economies

- Average: 4.4 percent of GDP

Emerging economies

- Average: 3.2 percent of GDP

Low income economies

- Average: 2.2 percent of GDP
Public debt may add additional fiscal pressure

- **Advanced economies**
- **Emerging economies**
- **Low income economies**

![Graph showing debt as a percent of GDP from 2006 to 2020 for advanced, emerging, and low-income economies.](image-url)
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

Increase in payroll taxes

- 3.4
- 2.5
- 1.7
- 0.8
- 0.0

Reduction in benefits (percent)

Increase in retirement age (years)
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