Population ageing in the Pacific Islands: Addressing the socio-economic challenges of an ageing population

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Phase 1:
To determine current ageing trends in the Pacific and to project these trends into the future.

Phase 2:
To explore the socioeconomic implications of ageing, particularly the issue of social protection.
Conclusions of phase 1:

- Ageing populations are found in all sub-regions but Polynesia and Micronesia are aging faster than Melanesia;
- Ageing populations in Melanesia (Fiji and New Caledonia) have large minority populations—Indians and Europeans, respectively;
- Where ageing is occurring, the oldest old age group is generally increasing faster than the elderly as a whole but there are variations by country;
- By 2040-50, some Pacific countries are projected to have a median age of 40 years;
- In most countries, a majority of the elderly in future will be women, particularly among the oldest old;
- Rural areas will have an older population than urban areas;
Figure 1: Percent of population aged 60 and over by region (UNDESA 2007)
Figure 2: Growth of the 60 and over and 80 and over population 2000-2050 (Total Pacific Islands)
Figure 3: Rate of growth of 60 and over population by region (UNDESA, 2007)
Figure 4: Projected trends in the median age
Which Pacific countries are ageing most rapidly?

Top 10 Ranked by percent of older persons expected in 2025:

1. Palau (23.3)
2. Niue (21.1)
3. New Caledonia (18.1)
4. Northern Mariana Is (17.8)
5. French Polynesia (16.2)
6. Guam (15.4)
7. Cook Islands (15.1)
8. Tuvalu (14.6)
9. Wallis and Futuna (14.4)
10. Fiji (12.6)

Top 10 Ranked by Median age in 2025:

1. Palau (38)
2. Niue (36)
3. New Caledonia (35)
4. Northern Mariana Is. (35)
5. French Polynesia (34)
6. Guam (32)
7. Cook Islands (32)
8. Wallis and Futuna (32)
9. Tuvalu (29)
10. Fiji (27)
Phase 2: research questions

1. What form of social security is available for the elderly other than family and kin?
2. What proportion of the elderly are covered by formal social security arrangements?
3. What are the implications of population ageing for existing arrangements, particularly for government expenditure?
4. What is the scope for expanding social protection in old age?
5. Are there recent studies of the living situation of the elderly, especially those who are vulnerable to poverty?
6. Is ageing addressed in national sustainable development strategies, sector plans or population policies?
Research findings for phase 2

- Are there recent studies of the living situation of the elderly, especially those who are vulnerable to poverty?

*Answer: There are very few such studies in the Pacific, thus there is a significant knowledge gap. (Tuvalu has conducted a study of the vulnerable groups)*

- Is ageing addressed in national sustainable development strategies, sector plans or population policies?

*Answer: Ageing is not generally addressed in development plans or sector plans. Only PNG has a national population policy and ageing does not feature in it, thus there is a policy gap.*
What form of social security is available for the elderly other than family and kin?

**Answer:** National provident Funds for formal sector workers; universal old age benefit; Social Security benefits (U.S. territories)

What proportion of the elderly are covered by adequate formal social security arrangements?

**Answer:** Provident fund and SSA coverage is generally low (5-20% of old people covered). Only some smaller countries have universal old age benefit (Samoa, Cook Is., Kiribati). Other than Cook Is., benefits are low.
Research findings for phase 2 continued...

■ What are the implications of population ageing for existing arrangements, particularly for government expenditure?

Answer:

• Ageing does not affect provident funds as they are savings schemes but savings are inadequate because of premature withdrawal and lump sum pay-outs are quickly spent. Retirees fall back on government support (e.g., family assistance);

• Ageing has a major impact on universal pension benefit paid from tax revenues. Government expenditure reaches unsustainable levels.

■ What is the scope for expanding formal social protection in old age?

Answer:

• Expansion is limited by the slow rate of growth in formal sector employment in the economy

• Establishment of universal benefit scheme sufficient to bring the elderly above the poverty line would lead to unsustainable government expenditure, unless there is rapid economic growth.
The primary socio-economic challenge of ageing

How can a society maintain consumption in old age when the number of consumers (older dependents) is rising rapidly relative to the number of producers (workers).....i.e., the “potential support ratio” is declining...
What is the “potential support ratio”?

The Potential support ratio is the number of persons aged 15-64 per every person aged 65 and over.... i.e., the number of “working age” persons per “dependent old person”

Formula:

\[(p_{15-64})/(p_{65+})\]
Figure 5: potential support ratio 1950-2050 in Pacific and world regions

- World
- MDCs
- LDCs
- Melanesia
- Micronesia
- Polynesia
Two ways of providing economic security in old age

1. Support systems that transfer income between generations: the accumulation of “transfer wealth” through (a) family systems (b) government systems;

2. Support systems that provide an income from the accumulation of capital ("capital wealth")

(Mason and Lee, 2004)
Which is best?

The accumulation of *transfer wealth* (a claim on the productivity of future generations) *does not contribute to economic growth* and does not yield the “second demographic dividend”;

The accumulation of *capital* *does contribute to economic growth* and potentially captures the second demographic dividend

(Mason and Lee, 2004)
What is the “demographic dividend”? 

1. The first demographic dividend arises from the capital accumulated as fertility drops and “youth dependency” decreases; 

2. The second demographic dividend arises from the accumulation of capital to fund old age consumption while old age dependency is low.
The “demographic window of opportunity”

- Solomon Is
- Kiribati
- Fiji

Window of opportunity for Fiji,
- rapid fertility decline hypothesis
- slow fertility decline hypothesis
Impact of ageing on social security systems and prospects for expansion

Case studies of Fiji, Samoa and Marshall Islands
Figure 6: Projected potential support ratios 2000-2050 in Fiji, Samoa and Marshall Is
Figure 7: Projected population age 60 and over in Fiji 2000-2050 by sex.
Figure 8: Projected population aged 60 and over in Samoa 2000-2050 by sex
Figure 9: Projected population aged 60 and over in Marshall Islands, by sex
What are the formal social security arrangements for the elderly in these countries?

- **Samoa**: (1) Provident fund for formal sector employees (2) Universal benefits for 65 and over.
- **Fiji**: Provident fund for formal sector employees. *No universal benefit.*
- **Marshall Islands**: Social Security system covering formal sector employees. *No universal benefit.*
Common problems with provident fund schemes for formal sector workers

- **Coverage is too limited** (between 1-40 percent of the current labour force in the Pacific)

- **Benefits are too small** (future income is eroded by withdrawals for purposes other than retirement)

- **Unfunded liability** places a potential burden on economy and future taxpayers.
How does ageing impact on these schemes? (1)

**Samoa:**

1. National Provident fund not *directly* affected as it is a *savings scheme*.

2. Samoa Senior Citizens Benefit scheme: *severe impact* on government expenditure which will rise from $14 million in 2007 to $41 million in 2050 (*adjusted for inflation*).
Figure 10: Projected costs of the Samoa Senior Citizens Benefit scheme with ageing.
How does ageing impact on these schemes? (2)

Fiji:

Provident fund is not directly affected as it is basically a savings scheme. Main problem is that a significant proportion of savings are withdrawn before retirement.

Problems would arise if a universal benefit scheme were introduced, such as in Samoa.
Impact of a universal old age benefit in Fiji

- Set at 30% (at the poverty line) of the average wage increasing to 40%, costs to government would go from 4.9% of government revenue in 2004 to 24% in 2050.

- As a proportion of GDP it would rise from 1.4% to 6.9%...(in real terms).

- To keep the cost below 2% of GDP, 3.3% real increase in GDP per year would be needed (i.e., nominal 8% per year).
Figure 11: Cost of a universal pension in Fiji at age 65 and two assumptions about economic growth.
How does ageing impact on these schemes?

(3)

Marshall Islands:
Ageing produces pressure to increase benefits without increasing contributions leading to proposals for a universal benefit scheme...

But a universal benefit scheme would have a similar impact as in Fiji...
Impact of a universal old age benefit on government revenue in RMI

- Starting in 2009, the cost to government of a universal benefit at 65 years of age and 60% of average wage would rise from $12 million to $48 million in 2050.
- At the rate of the minimum SSA* pension of $129 per month, the costs would rise from $4.8 million in 2009 to $12.3 million in 2050.

*Social Security Administration
Figure 12: Financial impact of ageing with a universal pension scheme in RMI @ 60% of average wage or minimum $129 per month
Conclusions

1. Where a universal old age benefit is in place (Samoa) population ageing will have a major impact on government expenditure, possibly leading to increased taxation.

2. A real increase in the benefit above the rate of growth in GDP would worsen this impact.

3. Introduction of a universal old age benefit where one does not exist (Fiji and Marshall Islands) would have an equal or greater impact on government expenditure and would not be affordable without a rapid increase in the rate of economic growth.
Conclusions… continued

4. In the short run, the majority of the current labour force in the three case studies will have to rely on *transfer wealth*, mostly from families at home and abroad.

5. Unless some means can be found to *accumulate capital* to provide an income in retirement for the entire population, Pacific countries will not capture the “second demographic bonus”, just as they may not capture the first.
Potential solutions?

- More rapid economic growth focused on job-creation
- Higher rate of growth in wage and salary employment
- Increased taxation (e.g., VAT)
- More restricted withdrawals from provident funds
- Limit lump-sum payments except for emigration
- Universal pension payments reduced to below the poverty line
- Government to invest in a Pension fund to accumulate capital for development
Thank you!