

Printed from: www.prismwealthadvisors.com

Print

HOT TOPIC

The Economic Impact of an Aging World

During the week of June 10, 2024, French markets were rocked by a government bond sell-off after a strong showing by the far-right National Rally party in the European Union election. With polls suggesting the National Rally party may win a plurality of seats in the upcoming French parliamentary election, investors feared a promised social spending program — including a reduction of the minimum retirement age from 64 to 60 — would further strain the already struggling French economy.¹ By contrast, when France raised the retirement age from 62 to 64 in 2023, aiming to strengthen the economy, workers took to the streets in protest.²



The French conflict over the retirement age reflects a fundamental social and economic issue throughout the developed world. Put simply, the world population is getting older, which means the percentage of workers in the population who can drive the economy and support old age pension and health-care programs is gradually diminishing.

The U.S. Social Security program is a prime example. In 1960, there were 5.1 workers paying into the program for each beneficiary. In 2024, there are 2.7, projected to drop to 2.3 by 2040. Because of this demographic shift, Social Security no longer pays for itself and has been partially supported by trust fund reserves built up when there were more workers per beneficiary. The

reserves are projected to run out in 2033, at which time program income would cover only 79% of scheduled benefits unless Congress takes action to increase funding.³

Medicare faces a similar challenge. The Hospital Insurance (HI) trust fund reserves, which help pay for Medicare Part A inpatient and hospital care benefits, are projected to be depleted in 2036, at which time payroll taxes and other revenue will pay only 89% of costs. Part B medical benefits and Part D prescription drug coverage are automatically balanced through premiums and revenue from the federal government's general fund, but they will require an increasingly larger share of the federal budget unless economic growth outpaces spending.⁴

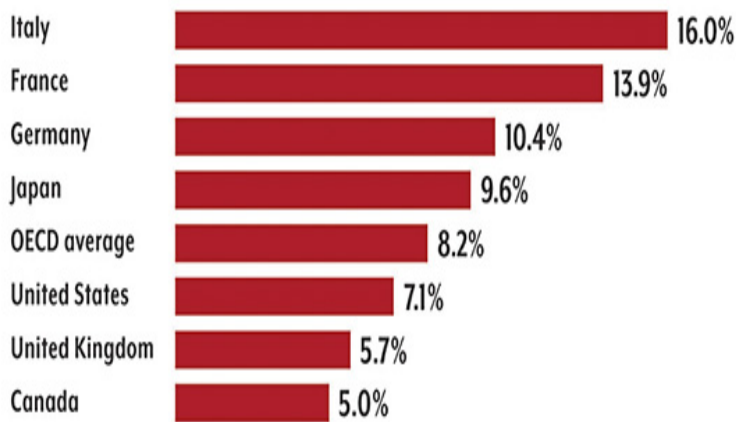
Longer lives, fewer children

The shift to an older population is driven by two demographic trends: people are living longer and having fewer children. One in six people in the world will be age 65 or older by 2050.⁵ The United States is already at that level, with more than 17% of the population age 65 or older in 2022, projected to reach almost 23% by 2050.⁶ Many other developed nations are even older. In 2022, the median age in the United States — the age at which half the population is older and half younger — was 38.9, the highest on record.⁷ In 2021 (most recent data), it was 48.4 in Japan, 46.8 in Italy, 44.9 in Germany, and 41.6 in France.⁸

The fertility rate — the average number of children born to each woman — has dropped throughout the world, due to a variety of factors including education, access to birth control, employment opportunities, and lifestyle choices. In the developed world, a fertility rate of about 2.1 is considered the replacement rate at which a country's population remains stable. (It is slightly higher in developing nations with higher mortality.) Most developed countries have been below replacement since the 1970s, so they have depended on immigration to maintain or grow population.⁹ The U.S. fertility rate was 1.62 in 2023.¹⁰ Although fertility is higher in developing countries, it is dropping. Based on preliminary data, one academic study suggests that the global fertility rate may be near or below replacement for the first time in human history.¹¹

Global Pension Spending

Many advanced economies devote a large share of gross domestic product (GDP) to government spending on old age and survivor benefits — and the share is likely to grow as the population continues to age.



Source: Organisation for Economic Co-operation and Development (OECD), 2023 (2019 data, includes non-cash benefits)

Challenges and solutions

Spending on programs for an aging population is already straining economies throughout the world, and the economic pressure will increase as populations continue to age. The burden is not only the cost of the programs, but also the potential for lower production and tax revenue from a workforce that is smaller in proportion to the total population. This is likely to drive up government debt, and increased government borrowing, along with competition for a smaller pool of workers, may lead to higher inflation.¹²

So far, government programs to encourage couples to have more children have not had a significant impact, and there is no clear correlation between the fertility rate and child-care and housing costs, student debt, employment, religious beliefs, or local laws governing contraception and abortion. This suggests that the decision to have fewer children is more deeply ingrained in fundamental lifestyle choices. For developed countries, immigration may continue to provide a larger workforce, but recent immigration to developed nations has tended to be unskilled workers.¹³

The funding gap for government pension programs such as Social Security can be addressed by a combination of solutions that may be politically unpopular but are unlikely to derail the broader economy: higher retirement ages, increased payroll taxes, and means testing for wealthier beneficiaries.¹⁴ The larger question is how to keep growing the global economy. This may require increased worker productivity driven by new technologies and greater integration of older workers into the workforce.

U.S. worker productivity increased at an annual rate of 2.9% in the first quarter of 2024, well above the annual average since the end of World War II. If this trend continues, it could help balance some productivity lost as older people exit the workforce. Americans are already working longer — about one out of five of those age 65 and older were employed in 2024, almost double the number in 1985.¹⁵ The long-term solution may require rethinking the

traditional model of a career, with more opportunity for lifelong learning and late-life career development. Studies indicate that working longer may help prevent cognitive decline, but it also could help balance the macroeconomic effects of global aging.¹⁶

Projections are based on current conditions, subject to change, and may not come to pass.

- 1) Bloomberg, June 16, 2024
- 2, 16) *The New York Times*, January 21, 2023
- 3) 2024 Social Security Trustees Report
- 4) 2024 Medicare Trustees Report
- 5, 8–9) United Nations World Population Prospects 2022
- 6–7) U.S. Census Bureau, 2023
- 10) National Center for Health Statistics, April 2024
- 11, 13) *The Wall Street Journal*, May 13, 2024
- 12) Bloomberg, May 21, 2024
- 14) Social Security Administration, September 27, 2023
- 15) U.S. Bureau of Labor Statistics, 2024

This information is not intended as tax, legal, investment, or retirement advice or recommendations, and it may not be relied on for the purpose of avoiding any federal tax penalties. You are encouraged to seek guidance from an independent tax or legal professional. The content is derived from sources believed to be accurate. Neither the information presented nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. This material was written and prepared by Broadridge Advisor Solutions. © 2024 Broadridge Financial Solutions, Inc.

Important Disclosures and Privacy Policy

Different types of investments involve varying degrees of risk including market fluctuation and possible loss of principal value. There can be no assurance that any specific investment strategy will be profitable. Our firm does not provide legal or tax advice. Be sure to consult with your own legal and tax advisors before taking any action that may have tax implications

Products and investment advisory services are offered through Berthel Fisher & Company Financial Services Inc (BFCFS) and BFC Planning, Inc. Member FINRA/SIPC. PRISM Wealth Advisors, LLC, BFCFS, and BFC Planning, Inc. are independent entities.

You may obtain a copy of the firms Regulation Best Interest Customer Relationship Summary by clicking the link <https://www.berthel.com/disclosures>

[Privacy Policy](#) | [Site Map](#)