

Comparison of the factors to affect pension costs among the high income countries

Hideaki Nakamura
Department of Demography
University of California at Berkley

Currently, most of the high income countries face the problem of increasing pension costs due to the population aging. The ratio of pension expenditure to GDP is 4.4% in U.S., 7.9% in Japan, 11.8% in Germany, and 14.2% in Italy (OECD, 2001). Even among these countries, pension costs vary. Why the pension costs are different among those high income countries? How do you explain the main factor of the difference of pension costs?

One problem would be the early retirement age relative to the life expectancy. 30 to 40 years ago, Life expectancy at age 60 is not so long. Therefore, even though the retirement age is early, for example, 60, government could pay enough amount of pension. Life expectancy at age 60, however, has increased rapidly in these two or three decades. Therefore, the amount of pension cost per person has also increased. One possible solution is to postpone the retirement. Government might encourage people to work until 65 or 70. It enables to postpone the starting age of pension payment.

If retirement age is postponed, however, different problem arises. If more people work until late age, employment for younger generation might be restricted. For example, the unemployment rate in Japan in 2002 is 5.4 %. But for young people (age 15 – 24), the rate is 9.9 %. That means government cannot get enough money to pay for the pension.

Another serious demographic problem is rapid change in the age structure of the population. Population aging is running dramatically. Percent of population age 65 or more is 19% in Japan and Italy, 13% in U.S., and 17% in Spain. TFR of those countries are 1.3, 1.2 2.0, 1.2, respectively (Population Reference Bureau, 2003). It is clear that the more old people live longer, the more pension costs would be needed. Besides, the number of children is decreasing rapidly. If this situation lasts, it may

be possible that the pension budget in those countries would go bankrupt.

These facts themselves make the younger generation less cooperating. Young people already know the fact that there are too many old people, and they have to pay pension costs to support the current old people. However, they also know that there are few children to support them when they get older. They have a great fear that they will not be able to get enough money to support their life. Therefore, it is natural response that they don't want to pay pension costs. In Japan, although government says it is mandatory to pay pension costs, the number of people who don't pay them are gradually increasing.

Some people criticize young people that they don't bear enough children. However, there are socioeconomic factors that make young people less willing to bring up children.

First, young people tend to live in the cities. In the big cities, not only men, but also women can find some jobs. As a result, they can earn more money, and have a stable richer life. People could enjoy their own life. In this context, children are no longer urgent need. Contrarily, if the unemployment rate in younger generation is high, people who don't have a full-time job cannot get enough money to raise their children. They may postpone their marriage. This may also be the factor to reduce fertility.

Second, the cost to bring up children is high. In modern society, people usually want their children to get higher education. It costs a lot. Besides, if a woman work outside and have children, she would have to leave her children to kindergarten, or day care center. This is also the factor to raise the cost per children.

Third, most of the current young people grew up in the small sized family in the big cities. Usually they have only one or two siblings. They are spoiled. As a result, they tend to live with their parents until late 20's, and not willing to start their new family. This may also be the factor to reduce the fertility. However, in the U.S., young people usually move to go to the University at the age of 18 or so, and start their own life in their new place. This may be one of the reasons that TFR in the U.S. is still 2.0, highest value among the high income countries.

Considering all of these factors, it seems very difficult to increase the human fertility again in the high income countries. It is also not realistic that mortality goes up again unless new infectious disease strikes the human beings, or the world war happens. Are there any other solutions to support pension system?

International migration may be the other important factor to support pension system. In the U.S., more than 1 million people come from other countries. Young people are more likely than older people to immigrate to a new country. Therefore, it is possible that they can support the pension costs for the older people. However, for countries which migration is not so popular, like Japan, this may not be the effective solution right now. In my opinion, Japan doesn't have cultural and social background to accept migration. They tend to distinguish Japanese and foreigners, and don't rely on the people from outside. This tendency is more common among older people. Therefore, a few decades later, migration may become one of the possible solutions in Japan.

I will present the current situation discussed here among the high income countries more precisely, and find some of the differences among such countries.