

## **FEAR-MONGERING MASQUERADING AS REFORM: The Debate on Age-Sensitive Spending by Governments**

**by Angelo Pesce, CHRP, CMC**

### **Scary Pronouncements**

In July 2009, the C. D. Howe Institute, a Canadian think tank, released a report in which they estimated that, by 2030, the cost of age-sensitive spending will be \$1.5 trillion. (Age-sensitive spending — that is, the cost of supporting people as they age — consists primarily of health care and pensions specifically for those 65-plus.) On the international front, the IMF is encouraging governments to reform health care and pensions. ‘Reform’ is the IMF’s way of saying ‘reduce people’s benefits’. The whole idea behind both statements is to scare people into accepting less because of the purported cost — \$1.5 trillion is a very scary number!

### **Opposing Views**

But not everyone agrees with these two pronouncements. According to Dr. David Foot, the well-known demographer at University of Toronto, both the C. D. Howe Institute and the IMF are looking only at expenditures and are not taking revenues into account. In his opinion, government revenues will increase, offsetting the costs. As one example of these increased revenues, Foot states, “Older workers tend to have higher income, which will also lead to increased revenue for governments.”

Regarding health care, Foot believes that the pressure on federal and provincial budgets will be spread over a much longer period of time because of improvements in diagnostic, treatment, and technologies, as well as improved health and increased longevity among the population generally.

University of Ottawa economist Marcel Merette agrees, though for other reasons. He says that skill shortages create innovation and improvement in productivity. Furthermore, skill shortages drive up wages, which increases taxation and thus increases revenues.

What should we make of these statistics and these conflicting interpretations?

### **Flawed Ratio Leads to Flawed Conclusions**

Part of the problem in determining the cost of supporting an aging population (chiefly through health care and pensions) lies in the metric being used — the ‘elderly dependency ratio’. This ratio is calculated as follows: the number of people 65 years and over is divided by the working-age population (defined as 15 to 64). Using this ratio in the year 2000, 18% of the population was 65 or over, which meant that 5.5 workers were needed for each retiree. Over the next three decades, the number of people over 65 will increase to just over 40%, which wrongly implies cause for alarm.

The implication is wrong because this ratio is no longer valid. The basis on which it is calculated is fundamentally flawed. When people actually retired at 65, it made sense. Today, however, mandatory retirement has been eliminated; so more people over the age of 65 will work because they want to — or, in many cases, because they have to. At the other end of the age spectrum, young people are staying in school longer; the lowest age of the younger cohort that is actually working is higher than 15.

Because older workers are and will be healthier than older workers in earlier times, increasing numbers of them will continue to work beyond age 65. In addition, the second and third wave of the baby boomers didn't do as well financially as the first wave. For this reason, they married later in life and thus had children later in life. Many of these people will work beyond age 65 because they have to.

Many people have also seen the value of their retirement savings severely diminished as a result of the financial melt-down in the fall of 2008. They too will work beyond age 65 because they have to.

### **Older Workers Will Increase Government Revenues**

Whatever the reason that people continue to work beyond age 65, they will all contribute to government revenues through their taxes. On the other hand, those who do retire have accumulated RRSPs; they will begin cashing them in, which will also increase governments' revenues through taxation. In addition, the next generation of workers is better educated and will earn higher incomes, thereby contributing more to government coffers through taxation.

Instead of reducing the benefits now provided to the elderly, governments should stop giving tax cuts, which tend to favour the rich and do not help those at the other end of the economic spectrum — the very people who most need the services that governments propose to cut. Reducing benefits for the elderly in particular will create huge problems in ensuring they have proper health care and a decent quality of life.

### **Conclusion**

Those who wish to decrease benefits for older workers are using the spectre of extreme levels of expenditure as a way to get all of us to accept idea of reduced benefits as a necessity. They need to stop fear-mongering. They need to stop using a flawed ratio as the basis of their argument. And they need to take the potential for increased revenue through taxation into account.

*Angelo Pesce is the President and Principal Consultant of Pesce & Associates, a full-service human resources consulting group. Visit [www.pesceassociates.com](http://www.pesceassociates.com).*