

# Development and Opportunities: Pensions and Health in Italy and China

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# The Changing Shape of the World Economy

- Growth in the West will return.
- Where? Depends on the pattern of demand and change in technology.
- Technology:
  - Energy-use reduction and renewables
  - Information technologies
  - Service skills and skill development

# Demand Development

- Everywhere rapid growth of senior population, whose demands are different.
  - Because of longer life and better health.
  - Less food. Fewer clothes.
  - More home heating and energy use
  - More leisure activities, including travel.
  - More healthcare and residential care.
- Depending on their income and benefits.

# Senior Welfare in Italy

- Last year, births were 8.9 per thousand, deaths 10 per thousand.
- Population grew, because of immigration, 4.5 per thousand.
- Life expectancy at birth is 82 years: meaning probably 20 years of retirement on average.
- Health expenditure already 9.5% of GDP
- State Pensions, including disability, 18%, doubled in twenty years. Will it again?

# An old-age crisis?

- Is it impossible to have social security and health using half the national income?
- That is what people might want – to spend a large proportion of life-time income on good health, and a larger proportion on consumption in retirement.
- It might seem less burdensome or absurd if a good rate of return on investment were available.

# Prospects for Developed Economies

- Many governments have been changing the private/public proportion for health and pensions.
- That may involve a change in effective transfers between generations.
- The problem with health is achieving satisfactory insurance, especially for those who are unlucky early in life, or unkind to their future selves.

# The Return to Capital

- Cheap money policies have reduced rates of interest below the rate of inflation.
- Before, financial assets sustained large losses.
- This is a great problem for insurers of defined benefit pensions.
- Interest rates are likely to be kept low for at least another year. A fall in oil and gas prices might encourage expansion sooner.
- But profits are high in the world.

# Uncertain pensions and benefits

- It makes sense to have a higher pension when the return to capital has been high. Some pension risk is surely acceptable, in return for a higher expected pension.
- But the same does not apply to health care.
- People should pay something in advance for their late-life health care. But the government should provide compensatory payments when the health fund proves insufficient.



# China

- The same issues will arise in China.
- Income per head now four times Italy's (in real terms).
- Life expectancy is 76. Urban retirement is supposed to average less than 60, though part-time retirement seems common.
- Rural pensions recent and tiny.
- Health expenditure 5.2% of GDP.

# The Pension System

- Even legislated coverage is poor.
- A substantial part of the pension is from individual accounts, built up while in employment, then paid out over ten years.
- Many employers do not make the contributions they should.
- Authorities raid these accounts.
- Migrant workers are poorly covered.

# Prospects for pension need

- In maybe 10 years time, population will start falling: retired will increase, workers decline, unless retirement age increases.
- That is supposed to be scary. But the retirement age will be increased.
- No great problem if coverage remains poor. But that is a different, more serious problem.
- Saving is high – even personal saving. Old and young help one another.

# Prospects for Health

- Insurance is a difficult problem for developing economies.
- Transaction costs for small policies are high.
- Selection problems are very difficult.
- Public health service seems to be the answer.
- Difficulties in ensuring fair coverage.
- Perhaps this is an area where free trade in services would be valuable.

# Hong Kong

- 50 years ago, Hong Kong was a poor country.
- It went through the Chinese explosion 10-15 years before China.
- It (public and private) spends the same proportion of GDP on health; pensions and other welfare benefits are low.
- Yet life expectancy is one of the highest in the world, slightly higher than Italy.
- Why? Many answers are offered.

# Hong Kong as the future?

- Health expenditures may rise, because seniors are expected to be a larger proportion.
- But life may not continue to lengthen. Good public health may keep costs down.
- Pensions are funded – no problem there, except inadequacy.
- Immigration contributes to the working population.
- But it may be one model, for China, not Italy.