

Economic Commission for Latin America and the Caribbean

**ECLAC SUBREGIONAL HEADQUARTERS  
FOR THE CARIBBEAN**



# **Report of the expert group meeting on inclusive social protection and demographic change**



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Economic Commission for Latin America and the Caribbean  
Subregional Headquarters for the Caribbean

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Expert group meeting on inclusive social  
protection and demographic change  
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**REPORT OF THE EXPERT GROUP MEETING  
ON INCLUSIVE SOCIAL PROTECTION  
AND DEMOGRAPHIC CHANGE**

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## **A. SUMMARY OF RECOMMENDATIONS**

1. It was agreed by all participants that demographic changes must be factored into development planning. This is particularly true for the funding of public education, pension, and health care, each of which will be affected by changes in population age structure.

2. Pension costs are projected to increase the most, by an average of 6.1 per cent of gross domestic product (GDP) across nine Caribbean countries between 2010 and 2050. Health costs are also projected to increase although not to the same extent, with an average projected increase of 2.3 per cent of GDP across 10 countries. The falling number of children will reduce the cost of public education but this will be counteracted by the increasing generosity of education spending as economies grow. Public expenditure on education is projected to be an average of 0.4 per cent of GDP lower in 2050 than in 2010.

3. There are significant variations in projected future expenditures from country to country which are determined by four main factors: the level of expenditure in the base year for the projections (2010); the nature of the projected change in age structures in the respective country; the projected level of economic growth; and the extent to which this economic growth brings national income close to the average level of income in the Organization for Economic Cooperation and Development (OECD) countries. This latter factor is important because the projections assume that as countries' national income, expressed in the form of GDP per worker, moves towards the average in OECD countries (and perhaps even beyond), the generosity of public spending (and its age profile) will move towards that pertaining in those wealthier countries.

4. Some countries will allocate a lower proportion of national income to education due to a declining proportion of children and young people in the population. However, all countries should seek to increase the generosity of spending on education measured on a per pupil basis.

5. Countries will need to implement reforms to ensure that future public pension liabilities can be met while also providing an adequate income for all older persons. For existing pension schemes, reforms could involve the introduction of higher pension contributions for workers and/or employers and increasing retirement ages. In some countries, non-contributory pensions will need to be expanded so that all older persons receive a pension. In addition, pension systems should allow for flexible retirement arrangements so that older persons can manage their own transition from work into retirement in a way which suits them.

6. Public expenditure on health services will also increase as countries' economies grow and their populations age. Population ageing makes it inevitable that the demand for care and treatment, particularly for non-communicable diseases (NCDs), will increase. However, to control this future demand for health services, public health policy urgently needs to address the epidemic of NCDs which are related to unhealthy lifestyles. Investments in preventative health care now will reduce the future burden of NCDs on the population, and on public health services.

## **B. ATTENDANCE AND ORGANIZATION OF WORK**

### **1. Place and date**

7. The Economic Commission for Latin America and the Caribbean (ECLAC) subregional headquarters for the Caribbean convened an expert group meeting to discuss the implications of demographic change for social expenditure, in particular expenditure on education, pensions and

health care. The expert group meeting took place on 21 November 2017 in Port of Spain, Trinidad and Tobago.

## **2. Attendance**

8. The meeting was attended by officials of government agencies with responsibility for public finance management and social security in the Caribbean subregion. The following Member States were represented: Barbados, Grenada, Guyana, Saint Vincent and the Grenadines, and Trinidad and Tobago. There was also a research fellow from the University of the West Indies (UWI).

## **3. Agenda**

1. Opening of the meeting
2. Presentation and discussion of the paper “The implications of population ageing for social expenditure in the Caribbean”
3. Round table discussion
4. Closing remarks

## **C. SUMMARY OF PROCEEDINGS**

### **1. Opening of meeting**

9. The meeting was chaired by the Unit Coordinator of Statistics and Social Development Unit (SSDU), ECLAC subregional headquarters for the Caribbean. In opening the meeting, he explained that population ageing has important implications for Caribbean countries and that ECLAC has been working for some time to support Member States in addressing the issue. In this meeting ECLAC would present the findings of a study exploring how levels of social expenditure will need to change as population age structures change.

10. He noted that this study represented the first time that the wider budgetary implications of ageing had been quantified for Caribbean countries. The ECLAC study had been carried out with the support of ECLAC consultant, Valerie Nam. The Unit Coordinator expressed his confidence that the assembled experts would provide valuable inputs on the subject.

### **2. Presentation of the paper “The implications of population ageing for social expenditure in the Caribbean”**

11. The Population Affairs Officer explained how the study consisted of three parts. The first part was concerned with describing the demographic changes which are taking place in the Caribbean, with particular attention to changes in population age structure. The second part consisted of an exploration of the relationship between public expenditure and age structures through the use of cross-country comparisons among Caribbean and OECD countries. In the final part of the study, projections of public expenditure are presented for 10 Caribbean countries which illustrate the anticipated effects of population ageing and economic change on expenditure.

12. The Population Affairs Officer described how the ageing population was characterized by a decreasing number of younger persons due to falling fertility, and an increasing proportion of older persons with increased longevity. All Caribbean countries are ageing and will continue to do so over the

coming decades with the changes in the age structure of the population being particularly rapid in the coming 20 years.

13. He then described the framework which is used, starting in the second part of the study, to analyse the way in which public expenditure is related to demography. This involves disaggregating public expenditure expressed as a percentage of GDP into two distinct dimensions: a 'benefit generosity ratio' which measures the generosity of public spending per person in the relevant beneficiary age group; and a dependency ratio which measures the number of people in the beneficiary age group relative to the working age population. This approach was used to analyse the effect of age structures on public expenditure on education, pensions and health.

14. In respect of education, although Caribbean countries spend only a slightly lower proportion of GDP on education compared with OECD countries, the average expenditure in US dollars (PPP) is much lower for two reasons. Firstly, because GDP per worker is much lower for Caribbean countries and secondly, because Caribbean countries have much younger populations with many more children per worker and therefore education spending is spread more thinly.

15. The generosity of spending on pensions in Caribbean countries is, on average, quite close to the average for OECD countries (taking into account their differing levels of income and age structures). To some extent this reflects the great variation in public expenditure on pensions in OECD countries. While many European countries tend to have well-funded public pension systems, this is not true of all OECD countries. Caribbean governments have been able to afford to fund these pensions without too much difficulty because, at least until now, there have always been many fewer older persons relative to the working age population.

16. Unlike for public expenditure on education and pensions, the relationship between public expenditure on health and age structures is less clear. This is partly because health spending, although directed more heavily towards older persons, is not focused so directly on one specific age group in the way that spending on education and pensions are. There is, however, a much clearer relationship between health spending and national income. Caribbean countries spend a little more than half the amount that OECD governments spend on health as a proportion of GDP. As with pension expenditure, there are clearly many factors that influence the level of public expenditure on health. Age structures undoubtedly influence the demand for health services although higher demand does not necessarily lead to higher expenditure to meet that demand.

17. The Population Affairs Officer then described the findings from the final part of the study which presented projections of public expenditure as a percentage of GDP for each of the three areas of spending. As part of the study, two sets of projections were produced: "ageing only" which isolate the demographic effect of ageing on public expenditure; and 'ageing and economic change' which incorporate both the demographic effect and the likely impact of economic growth on the generosity and age profile of expenditure.

18. The study revealed how the reduction in the proportion of children relative to workers in the population would act to reduce education spending as a proportion of GDP but that this would be counteracted by the effect of economic growth which would lead to increased generosity of spending on education. In some countries, such as Trinidad and Tobago, the impact of economic growth was expected to outweigh the impact of demographic change with the result that expenditure on education will increase as a percentage of GDP. In other countries, such as Belize, the demographic effect is expected to be more dominant, and expenditure on education is expected to fall.



19. The biggest increases in expenditure are projected to be due to pensions, reflecting the anticipated growth in the number of older persons compared to working age persons. Expenditure on pensions is projected to increase in all countries as a percentage of GDP, albeit by quite different amounts. As stated above, the factors which influence the projections are the level of, in this case, pension spending in 2010, the extent of the increase in the number of older persons versus those of working age; the anticipated level of economic growth, and the extent to which national income approaches the average level of income in OECD countries. It should be remembered that policy reforms, for example increasing retirement ages, may be implemented to limit future increases in pension costs.

20. There are also significant increases projected in health spending although the magnitude of the increase is lower than for pensions. The average level of increase in health funding is 2.3 per cent of GDP versus 6.1 per cent for pensions.

### 3. Round table discussion

21. The participant from the University of the West Indies asked about the use of the 'near-death' dependency ratio as a measure of the population utilizing public health care services. She pointed out that this ratio would be affected by other non-natural causes of death such as crime. The Population Affairs Officer acknowledged that the use of the near death ratio was only one demographic indicator which was used in the analysis to explore the relationship between age structures and public expenditure.

22. The near death dependency ratio is not actually used in the calculation of the projections. Instead, for the projections, a measure of the utilization of health services is used to disaggregate public expenditure in the base year across age groups. Household surveys in several countries include a question about whether people have seen a doctor in the last 30 days. The data provided in response to this question in several countries provides a plausible age-profile which indicates the way in which health expenditure is weighted towards older persons.

23. There was also some discussion of the choice of base year for the projections. The year 2010 was used to project expenditures until 2050. Since the projections were produced for five year intervals based on population data for five year age groups, the base year had to be either 2010 or 2015. It was decided to use 2010 because not all of the data on public expenditure for 2015 was yet available. So the projections are based on levels and age patterns of public expenditure as they existed in 2010. However, some inputs to the projections –the population projections and data on economic growth as well as the medium term economic outlook– were much more up to date including data published during 2017 for the period 2010 to 2016. Therefore, although based on expenditure patterns for 2010, the expenditure projections do incorporate at least some more recent population and economic data.

24. There was also discussion of the potential influence of migration on population projections and the future age structure of the population. If there is an increase in the level of emigration, this will make the population older (since emigrants tend to be relatively young). The population projections used in the study were those produced by the United Nations Population Division. They take full account of anticipated trends in migration and are produced using the standard cohort component method.

25. The representative from the Ministry of Finance, Government of Guyana, enquired about the concept of the "benefit-generosity ratio" which is used in making the projections. The benefit generosity ratio is used because it provides a measure of the generosity of public expenditure which is independent of the age structure of the population. Having disaggregated public expenditure into a 'generosity' component and a 'demographic' component, it then becomes possible to make projections based on

anticipated changes in population structure and assumptions about how benefit generosity will change as economies grow.

26. A representative from the National Insurance Board (NIB) of Trinidad and Tobago then referred to the actuarial reviews that are conducted every three years. He confirmed that the findings of the actuarial reviews appeared to be broadly consistent with the findings presented in the ECLAC study. He agreed with the broad direction of reform which it pointed to and stated that the study would provide useful supporting evidence for their work as they consider reforms to Trinidad and Tobago's national insurance scheme, for example raising the retirement age or increasing contribution rates. A participant from the Ministry of Finance, Treasury Division, Trinidad and Tobago, commented on the retirement data in the country which illustrated that pensioners have been returning to the workforce and working up to approximately seventy years of age.

27. There was a discussion about the challenges involved in implementing pension reform, including the political risks. Analysis and consultation are crucial in order to be able to make the political case for change and to be able to defend reforms when they face criticism. There was also some consideration of the relationship between health, longevity and pensions

#### **4. Closing remarks**

28. The Coordinator of Statistics and Social Development Unit, ECLAC subregional headquarters for the Caribbean gave a vote of thanks, expressing appreciation to the participants for their substantial contributions and recommendations to the expert group meeting. The meeting was closed giving thanks to the attendees and participants on behalf of the Director of ECLAC.

Annex I**LIST OF PARTICIPANTS**

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Annex II**PROGRAMME**

9.30 a.m. – 10.00	On-site registration / Online registration
10.00 – 10.10	<b>Opening of the meeting</b>  Welcome remarks and introductions  Abdullahi Abdulkadri, Coordinator Statistics and Social Development Unit ECLAC subregional headquarters for the Caribbean
10.10 – 10.50	<b>Presentation of the paper “Implications of population ageing for social expenditure in the Caribbean”</b>  Francis Jones, Population Affairs Officer, ECLAC.
10.50 – 12.00	<b>Participants comments and round table discussion</b>  Participants will be invited to respond to the presentation and the paper. This may include comments on the analysis and projections set out in the paper or more general comments on how governments should plan for the way in which population ageing will impact on future social expenditure. There will be a round table discussion on how demographic analysis can be integrated more fully into medium and long term planning.
12:00 – 12.10 p.m.	<b>Conclusions</b>  Abdullahi Abdulkadri, ECLAC

Annex III**LIST OF DOCUMENTS**

<b>Document symbol</b>	<b>Document title</b>
-	Programme
-	Draft paper on “The implications of population ageing for social expenditure in the Caribbean”



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