

Aging and the Pennsylvania Economy

Task Force on Private Sector Retirement Security

January 25, 2018

Aging Population Has Broad Implications

- ▶ Pennsylvania undergoing dramatic transformation.
 - Began roughly five years ago. Continues over next decade.
- ▶ Subtle impacts on economic growth and tax revenues.
 - Difficult to quantify. Must view long-term trends.
- ▶ Key factor: Baby Boomers and their characteristics:
 - Sheer numbers: +43% growth in residents age 70 vs. age 71.
 - More working during “normal” retirement years.
 - Dramatic shift in spending towards housing. More home debt.

Recent Demographics: 2010 to 2017

Age Group		PA Residents (000s)		Change (000s)	
		2010	2017	Number	Percent
0 to 19	School	3,173	3,010	-163	-5.1%
20 to 64	Working	7,577	7,510	-67	-0.9%
65 to 74	Seniors	983	1,286	303	30.8%
75 to 84	Retirees	672	665	-7	-1.0%
85 or older	Elderly	<u>308</u>	<u>335</u>	<u>27</u>	<u>8.7%</u>
Total		12,712	12,806	94	0.7%
65 or older		1,963	2,286	323	16.4%

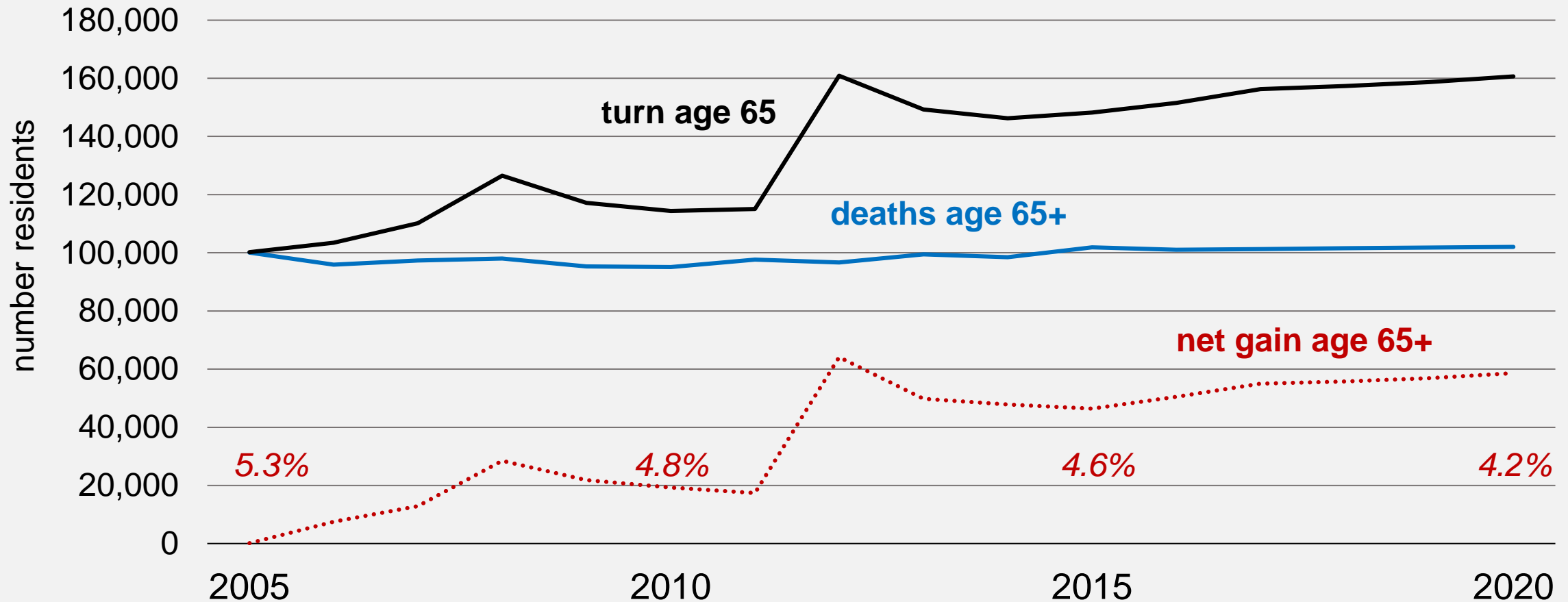
Source: U.S. Census Bureau. Data for 2010 are final. Data for 2017 are estimates and detail is an IFO projection.

Future Demographics: 2017 to 2025

Age Group		PA Residents (000s)		Change (000s)	
		2017	2025	Number	Percent
0 to 19	School	3,010	2,981	-29	-1.0%
20 to 64	Working	7,510	7,407	-103	-1.4%
65 to 74	Seniors	1,286	1,556	270	21.0%
75 to 84	Retirees	665	905	240	36.1%
85 or older	Elderly	<u>335</u>	<u>360</u>	<u>25</u>	<u>7.5%</u>
Total		12,806	13,209	403	3.1%
65 or older		2,286	2,821	535	23.4%

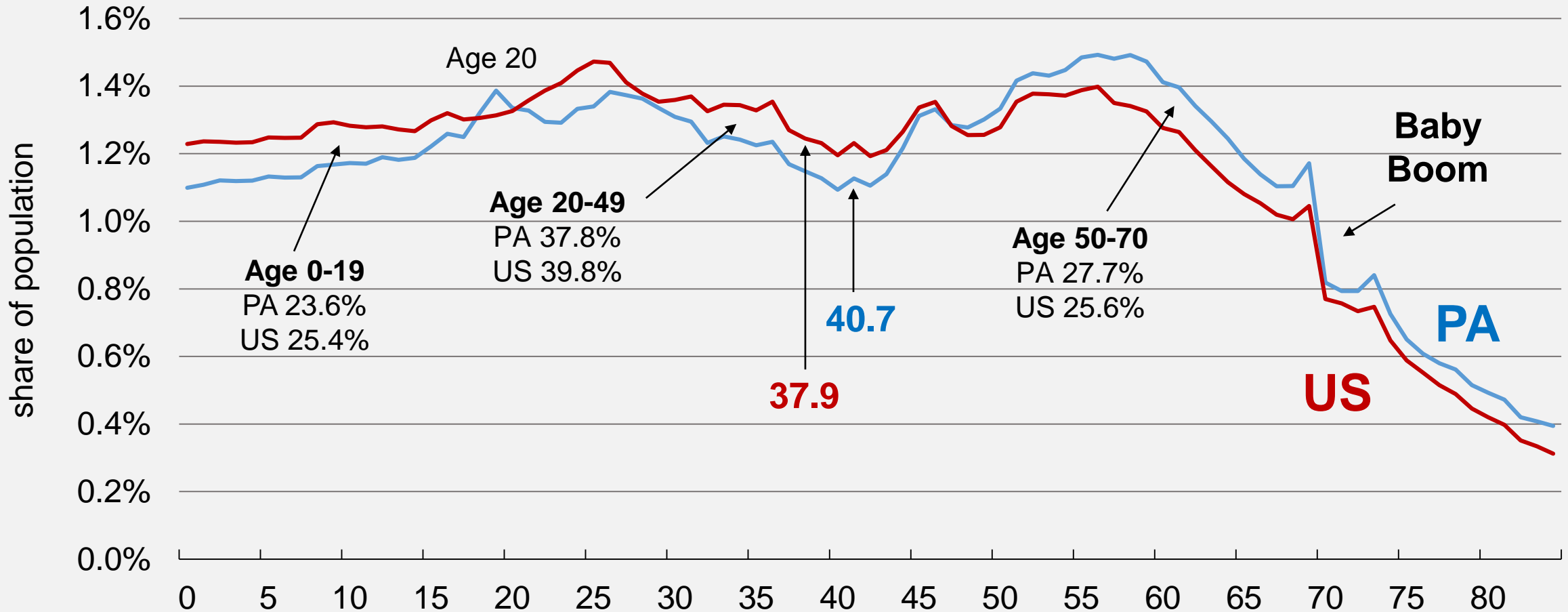
Source: U.S. Census Bureau. Data for 2017 and 2025 are estimates from the IFO Economic and Budget Outlook (Nov. 2017).

Multiple Factors Drive PA Aging



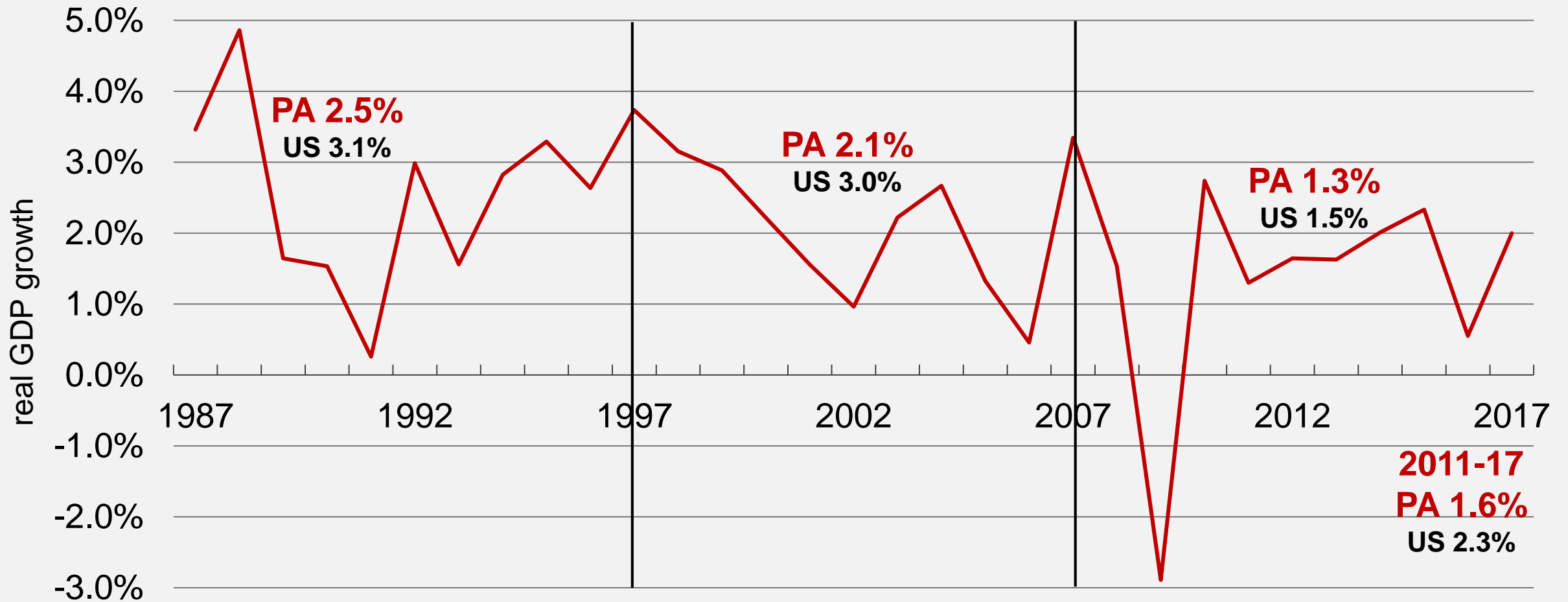
Note: Percentages are decedent rates for age 65+ population at five-year increments.
 Sources: PA Department of Health, U.S. Census Bureau. Projections after 2017 by IFO.

U.S. and PA Population Distribution



Source: U.S. Census Bureau (2016 data). Median age shown in bold.

PA Economic Growth Slows



Source: U.S. Bureau of Economic Analysis. Data for 2017 are preliminary.

Future Challenges for State Budget

	2010	2015	2020	2025	2030
Ratio: Working Age / Age 65+	3.9	3.5	3.0	2.6	2.4
Share PA Population Age 65+	15.4%	17.0%	19.0%	21.4%	23.0%
Approximate Share of State Taxes Paid by Age 65+					
Personal Income	15% to 18%				
Sales and Use	20% to 24%				
Property (homeowners)	29% to 34%				
<p>Note: Working age is age 20 to 64. Sales tax figures assume businesses pass tax to consumers. Sources: U.S. Census Bureau (American Community Survey), PA Department of Education, PA Department of Revenue, U.S. Bureau of Labor Statistics (Consumer Expenditure Survey) and Internal Revenue Service. All computations by the IFO.</p>					

U.S. Age 65+ Sources of Income

Income Source	Share of Income for Age 65+		
	2006	2015	AAGR
Wages-Salaries	14.5%	18.0%	8.4%
Business-Rent-Royalty	10.2%	11.3%	7.0%
Interest and Dividends	16.3%	9.2%	-0.6%
IRA Withdrawals	5.3%	7.4%	10.0%
Social Security	28.6%	27.8%	5.6%
DB and DC Pensions	23.1%	24.2%	6.5%
All Other	<u>2.0%</u>	<u>2.0%</u>	<u>6.2%</u>
Total	100.0%	100.0%	5.9%

Note: AAGR is average annual growth rate. Social Security includes disability, VA and Supplemental Security Income benefits. Excludes capital gains which are highly skewed to higher income taxpayers. For 2015, 82% of PA capital gains were reported by taxpayers with more than \$200k of AGI. If included, capital gains would comprise 10-15% of reported income.
Sources: IRS Statistics of Income, Publication 1304, Table 1.5 and Social Security Administration.

More U.S. Seniors Are Working

	Average Annual Growth Rate: 2006 to 2014		
	Number of Workers	Total Wages	Average Wage
All Workers	0.6%	2.6%	1.9%
Under Age 50	-0.2%	1.3%	1.5%
Age 50 to 59	1.2%	3.3%	2.0%
Age 60 to 64	3.9%	6.5%	2.5%
Age 65 to 69	5.1%	10.0%	4.6%
Age 70+	3.1%	8.6%	5.3%

Note: Data include employed and self-employed workers.
Source: U.S. Social Security Administration.

More PA Seniors Are Working Too

Year	PA Labor Force Participation Rates by Age Group					
	All Groups	20-24	25-44	45-54	55-64	65+
1997	64.5	75.4	84.7	82.7	59.6	10.2
2002	65.5	77.1	84.8	83.6	63.0	12.6
2007	64.5	74.0	83.2	83.2	62.6	15.7
2012	64.0	73.6	83.9	80.6	65.5	17.2
2017	62.4	75.2	82.8	82.7	65.4	19.3
Change 1997-17	-2.1	-0.2	-1.9	0.0	5.8	9.1

Note: The labor force participation rate (LFPR) is the share of the age group that is part of the labor force. The labor force includes all individuals actively working or seeking work.
 Source: PA Department of Labor and Industry, Center for Workforce Information and Analysis.

Senior Spending Patterns Shift To Housing

	Share of Spending for Age 65+		
	2005-06	2015-16	Change
Housing	37.3%	41.8%	+4.4%
Mortgage-Rent-Prop. Tax	21.4%	25.6%	+4.2%
Transportation	15.8%	14.1%	-1.8%
Healthcare	12.8%	13.2%	+0.5%
All Food	13.9%	12.5%	-1.4%
All Other	6.5%	5.7%	-0.8%
Entertainment	4.5%	5.1%	+0.7%
Cash Contributions	6.0%	5.1%	-0.8%
Clothing	<u>3.3%</u>	<u>2.5%</u>	<u>-0.8%</u>
Total	100.0%	100.0%	0.0%

Note: Computation treats expenditures for pensions and Social Security as savings.
Source: U.S. Consumer Expenditure Survey, northeast region.

Age 75+ Real Housing Debt Doubles

Age	Cumulative Growth: 2003 to 2015			Composition of Debt			
	Total Debt	Home Mortgage	All Other	2003		2015	
				Home	Other	Home	Other
25	-6%	-52%	42%	52%	48%	27%	73%
35	-3%	-17%	55%	81%	19%	70%	30%
45	17%	12%	46%	84%	16%	80%	20%
55	11%	10%	16%	82%	18%	81%	19%
65	44%	47%	31%	81%	19%	83%	17%
75	97%	110%	52%	78%	22%	83%	17%

Note: Figures are per capita and exclude inflation. Figures pertain to all consumers with a credit report, including family members. Home mortgage includes primary mortgages, secondary mortgages and home equity loans. Excludes reverse mortgages. For 2016, there were 1,336 reverse mortgages completed in PA. Since 2013, there have been 8,549 reverse mortgages completed.

Source: "The Graying of American Debt," Federal Reserve Bank of New York.

Fewer PA Seniors Own Home Outright

Share of PA Homeowners w/o Mortgage				
Age	2006	2011	2016	Change
Under 35	10.5%	11.6%	16.5%	+6.0%
35 to 44	12.6%	11.8%	15.3%	+2.8%
44 to 54	24.1%	22.6%	24.0%	-0.1%
55 to 59	33.8%	35.0%	35.7%	+1.9%
60 to 64	47.9%	46.0%	46.0%	-2.0%
65 to 74	66.1%	61.0%	58.5%	-7.5%
75+	88.2%	84.1%	79.8%	-8.4%

Source: U.S. Census Bureau, American Community Survey.

Looking Forward

- ▶ Senior characteristics evolve during past decade.
 - Income sources. Spending patterns. Debt. Longevity.
- ▶ By 2030, profiles could look very different.
 - Higher mortgage debt for age 65+. Could suggest pressures.
- ▶ Will “sufficient income” metrics be too conservative?
 - Lump Sum: 8 times annual pre-retirement income.
 - Replacement: 75% annual pre-retirement income.