

Implications of Aging for the PA Economy

PA Council on Aging

Independent Fiscal Office

May 24 2017

Today's Presentation

I. The Foundation: Demographics.

- Baby Boomer retirements.
- Life expectancy and migration flows.

II. Economic Trends for Seniors.

- Seniors working more: ~25% in 2016.
- More income dedicated to housing expenses.
- More housing debt.

III. Funding for Seniors' Programs.

- Outlook for revenue sources is tepid.
- Demand and price effects create imbalance.

I. Demographic Trends

- ▶ **Subtle, yet crucial impact.**
 - Hard to see in a single year.
 - Determines work force, income sources and consumer spending patterns.
- ▶ **PA is now in middle of a retirement wave.**
 - First Boomers turned 65 in 2012.
 - Will peak in approximately a decade.
- ▶ **Other factors contribute to state aging.**
 - Life expectancies to accelerate after pause.
 - Small migration into state for age 75+.

Change Over Next Decade

Age Group	<u>Residents (000s)</u>		<u>Decade Change</u>	
	2015	2025	Number	Percent
0 to 19	3,041	3,018	-23	-0.8%
20 to 64	7,581	7,401	-181	-2.4%
65 to 74	1,197	1,589	392	32.8%
75 to 84	649	903	254	39.1%
85+	<u>334</u>	<u>365</u>	<u>32</u>	<u>9.5%</u>
Total	12,803	13,276	473	3.7%

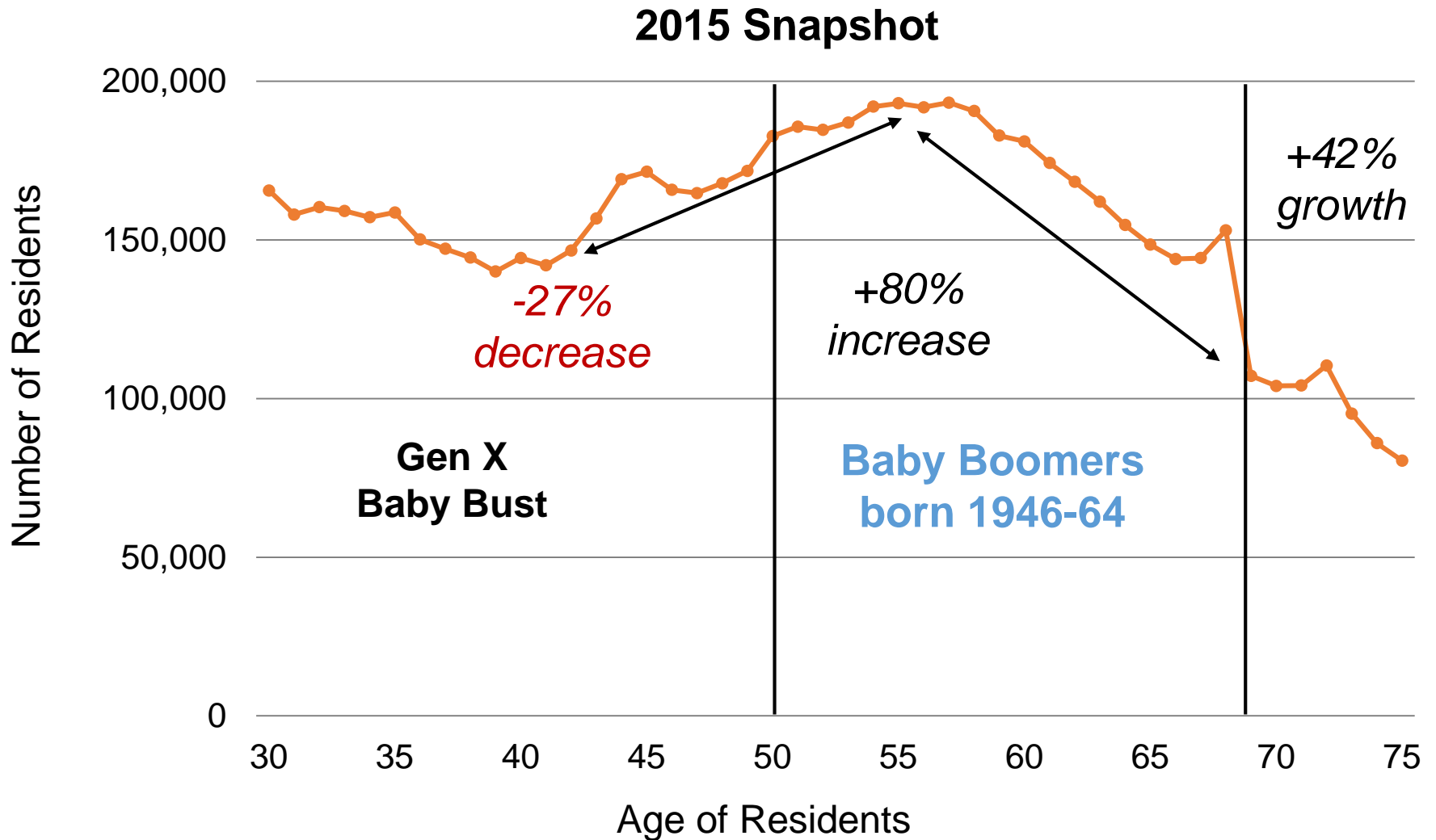
Source: U.S. Census Bureau and Pennsylvania State Data Center.

The Five Generations

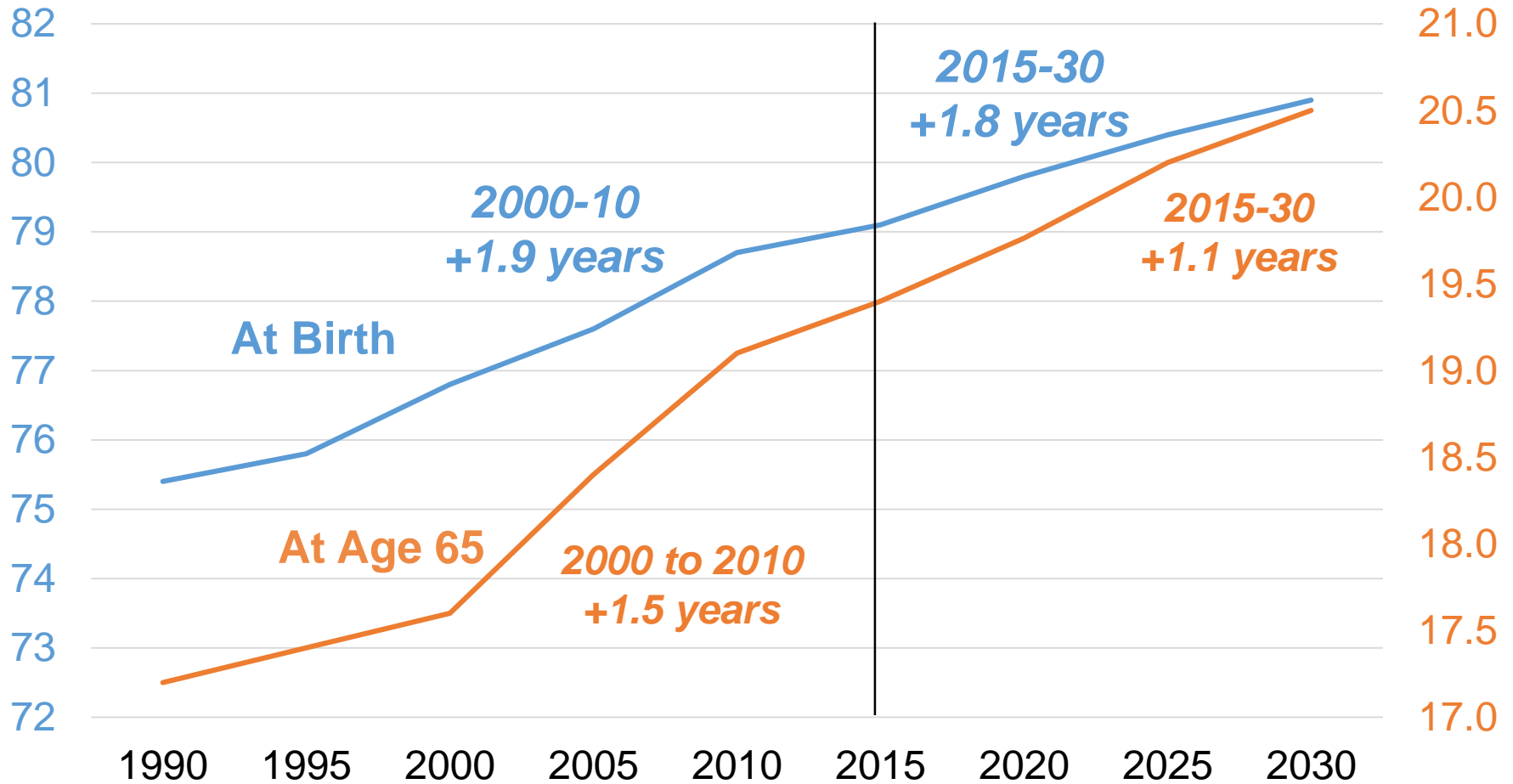
	Age in 2015	<u>PA (000s)</u>		<u>U.S.</u>	
		Number	Share	Share	Diff
Gen Z	<10	1,451	11.3%	12.6%	-1.3%
Gen Y	10 - 29	3,307	25.8%	27.0%	-1.2%
Gen X	30 - 49	3,141	24.5%	25.9%	-1.4%
Baby Boom	50 - 69	3,421	26.7%	24.7%	+2.0%
Silent Gen.	70+	<u>1,483</u>	<u>11.6%</u>	<u>9.9%</u>	<u>+1.7%</u>
Total		12,803	100.0%	100.0%	0.0%

Source: U.S. Census Bureau.

The PA Baby Boom



U.S. Life Expectancy



Sources: Centers for Disease Control and Prevention and U.S. Social Security Administration.

PA Population Change

	2012	2013	2014	2015	2016
Total Change	27,561	9,484	9,227	1,339	-7,677
Natural Increase	16,606	11,070	15,624	10,746	7,844
Domestic Migration	-17,463	-31,138	-35,353	-45,064	-45,565
International Migration	29,193	29,791	33,818	34,910	34,678

Other contracting states in 2016: Connecticut, Illinois, Mississippi, New York, West Virginia and Wyoming.

Note: Amounts do not sum to total, excludes undefined residual.

Source: U.S. Census Bureau.

Net Senior Inflow Age 75+

Domestic Migration to/from PA

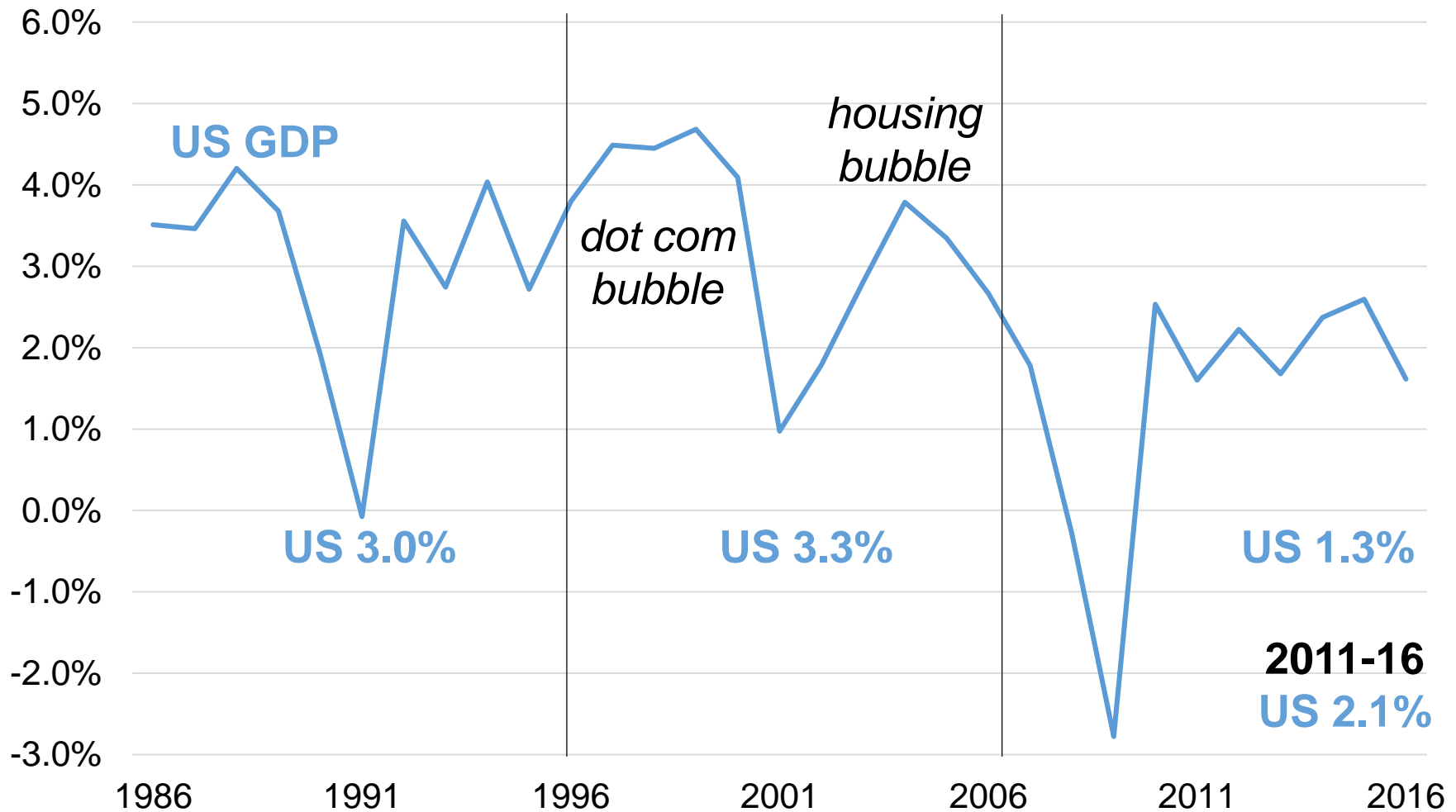
Age Group	Inflow	Outflow	Share	Net
Under 18	38,253	43,028	1.7%	-4,775
18 to 29	95,886	104,409	5.0%	-8,523
30 to 44	50,064	56,791	2.5%	-6,727
45 to 59	26,156	30,037	1.1%	-3,881
60 to 74	15,434	22,874	1.1%	-7,440
75 and older	6,890	5,748	0.6%	<u>+1,142</u>
Net Change			2.0%	-30,204

Note: Net change differs from previous slide due to different data source. Share is percentage outflow.
 Source: U.S. Census Bureau, 2015 American Community Survey, 1-year estimates.

II. Economic Trends

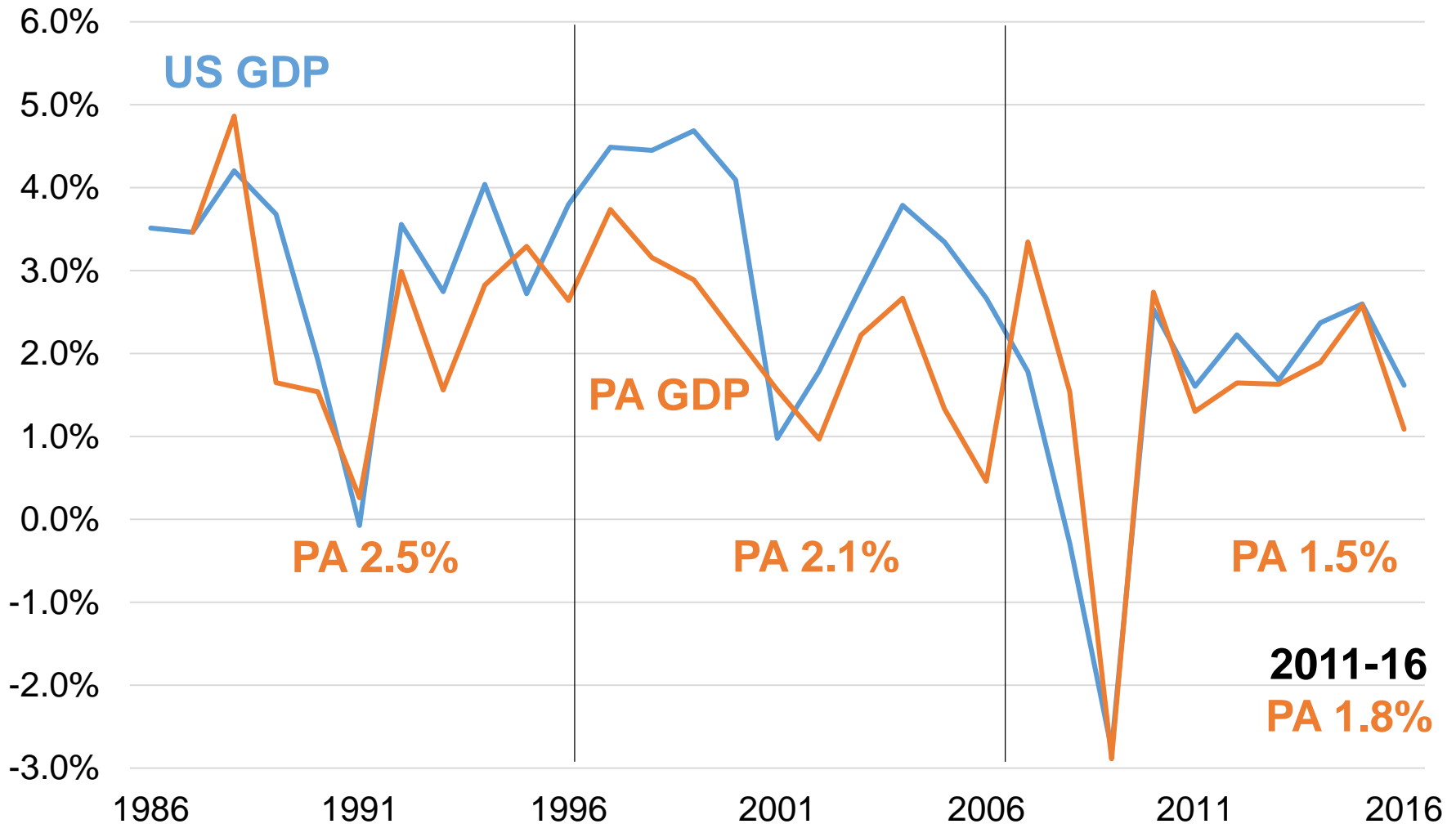
- ▶ **U.S. and PA economic growth downshifts.**
 - Similar to Japan and Europe.
 - Much due to normal aging of population.
- ▶ **PA seniors working more.**
 - Dramatic increase in last decade.
 - Trend accelerates since Great Recession.
- ▶ **Senior spending patterns shift. More debt.**
 - Home costs are a larger share of spending.
 - Mortgage debt increases significantly.

U.S. and PA Economies Slowing



Note: Average growth rates for real Gross Domestic Product. Source: U.S. Bureau of Economic Analysis.

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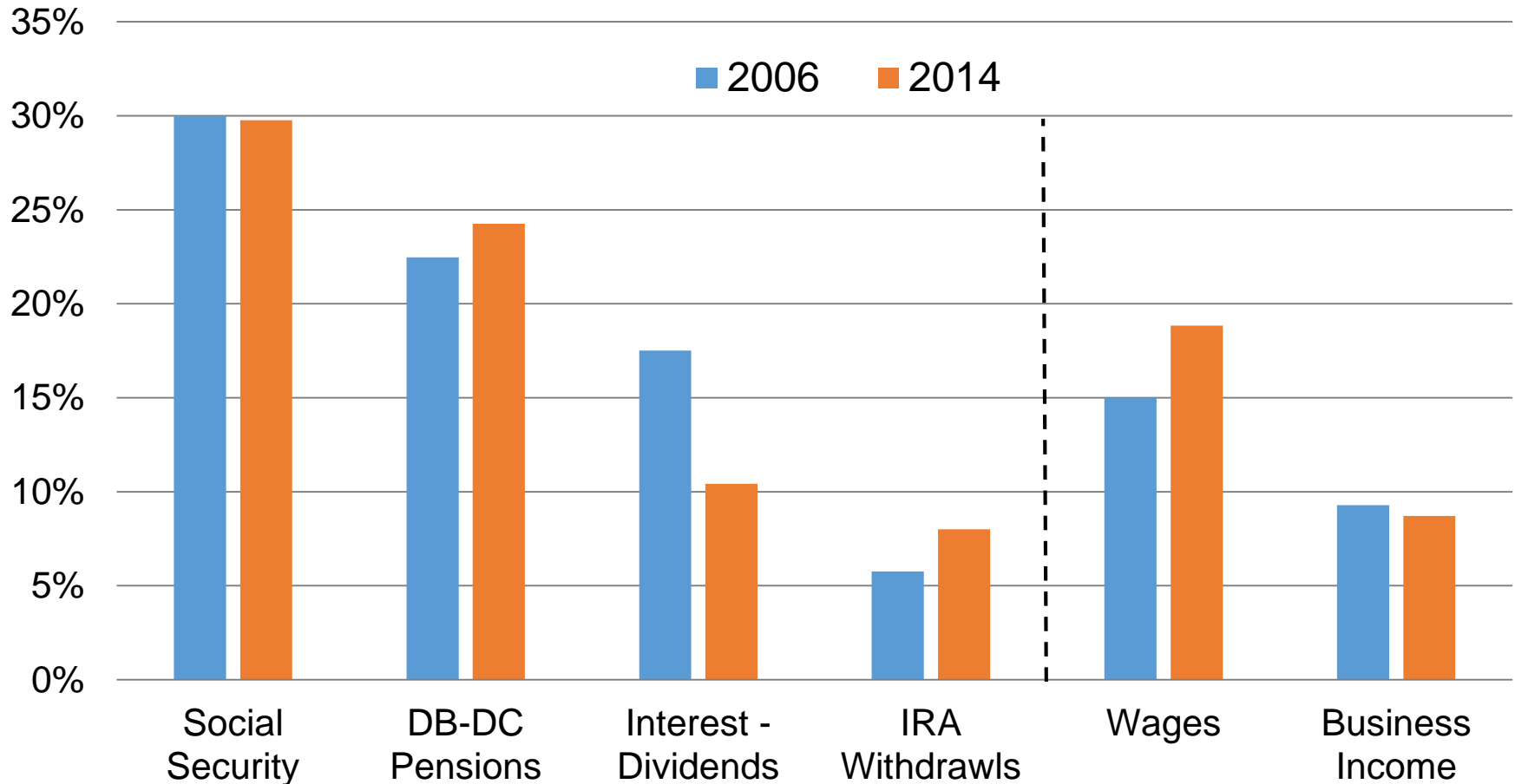
PA Seniors Working More

Year	All Groups	<u>Labor Force Participation Rate by Age</u>			
		25-44	45-54	55-64	65+
2001	65.0%	85.2%	83.6%	60.8%	12.0%
2006	64.4%	84.3%	82.2%	64.8%	14.4%
2011	63.2%	82.9%	80.1%	64.1%	16.1%
2016	63.3%	84.0%	82.5%	65.8%	20.1%
Excludes Disabled					25.5%
Change 2001-2016		-1.2%	-1.1%	+5.0%	+8.1%

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.

Sources of Senior Income

The “Three Legged Stool” is now a chair.



Source: Internal Revenue Service. Includes adjustments for unreported income. Data are for U.S.

Senior Spending Patterns Shift

	<u>Share of Spending for Age 65+</u>		
	2005-06	2014-15	Change
Housing	37.3%	40.6%	+3.3%
Mortgage-Rent-Tax	21.4%	24.5%	+3.1%
Utilities-Other	15.9%	16.1%	+0.2%
Transportation	15.8%	14.9%	-0.9%
Healthcare	12.8%	13.4%	+0.6%
All Food	13.9%	12.3%	-1.6%
All Other	6.5%	5.5%	-1.0%
Entertainment	4.5%	5.4%	+0.9%
Cash Contributions	6.0%	5.1%	-0.9%
Clothing	3.3%	2.9%	-0.4%

Note: Pension contributions counted as savings.
Source: U.S. Bureau of Labor Statistics, Consumer Expenditure Survey, northeast region.

Senior Housing Debt Increases

Change in Real Per Capita Debt: 2003 to 2015

Age	Dollar	<u>Home Mortgage</u>		<u>Credit-Auto-Student</u>	
		Dollar	Growth	Dollar	Growth
25	-\$1,333	-\$5,625	-51.7%	\$4,292	42.2%
35	-1,769	-7,956	-16.6%	6,187	54.8%
45	10,915	6,206	11.8%	4,708	46.0%
55	6,238	4,633	10.2%	1,605	16.4%
65	14,689	12,740	46.7%	1,949	30.7%
75	14,463	12,747	110.0%	1,715	52.0%

Note: Figures in 2015 dollars and control for inflation. Per capita amounts are for all consumers with a credit report, including family members. Home mortgage includes primary mortgages, secondary mortgages and home equity loans.

Source: Federal Reserve Bank of New York.

III. Revenue & Funding Trends

- ▶ **Revenue outlook is modest.**
 - Partly due to maturation of economy.
 - Also due to long-term tax base erosion.
- ▶ **Strong growth in demand for government programs and services.**
 - Price pressures that exceed normal inflation.
 - Demographic pressures.
- ▶ **Creates a long-term imbalance.**
 - Sources of funding insufficient to meet needs.
 - Does not consider any changes at federal level.

FY 16-17 Revenue Growth

	<u>FY 2016-17 (millions)</u>		
	Dollar	Share	Growth
Total General Fund Taxes	\$30,775	100.0%	+1.7%
Personal Income	\$12,697	41.3%	+1.5%
Sales and Use	\$9,950	32.3%	+1.6%
Corporate Net Income	\$2,786	9.1%	-2.0%
Tobacco Products	\$1,360	4.4%	+49.2%
All Other	\$3,982	12.9%	-5.3%
Exclude Tobacco	\$29,415	95.6%	+0.2%
Net Lottery Profits	\$1,061	100.0%	-5.4%

Note: Forecast for FY 2016-17 by Independent Fiscal Office. Excludes non-tax revenues.

Longer-Term Revenue Growth

	<u>Average Annual Growth Rates</u>		
	Last 10 Years	Last 5 Years	Last 3 Years
Total General Fund Taxes¹	1.3%	2.4%	2.7%
Net Lottery Profits	1.1%	0.0%	-0.6%

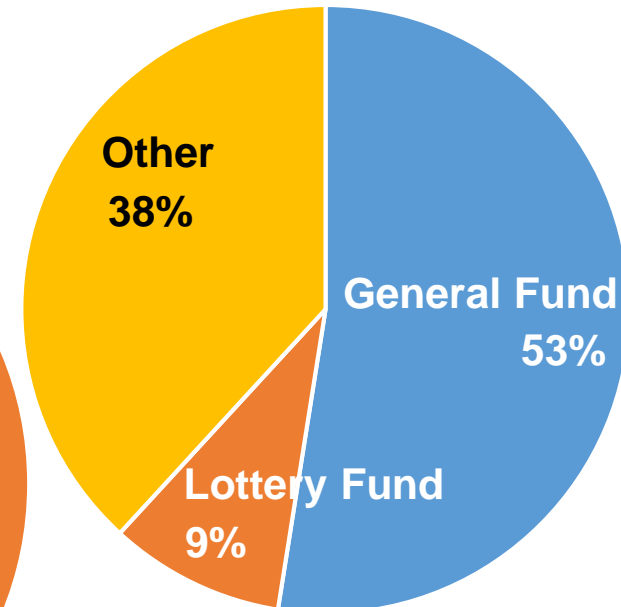
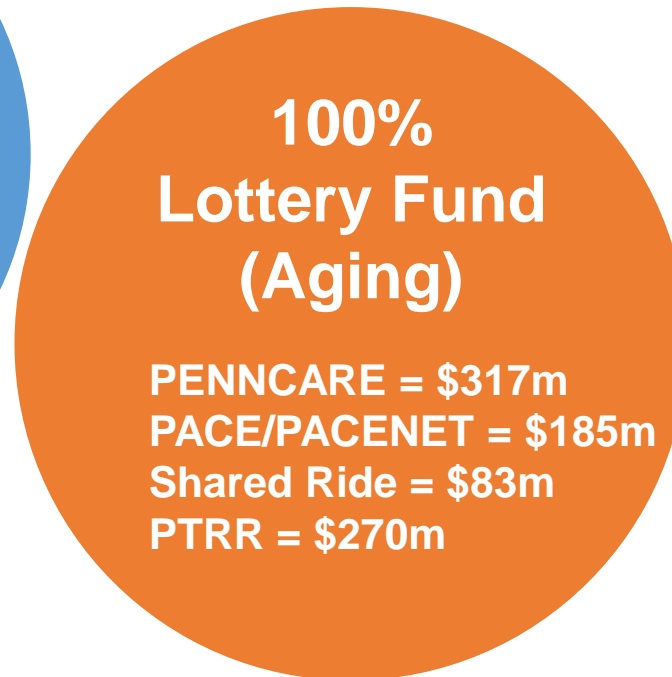
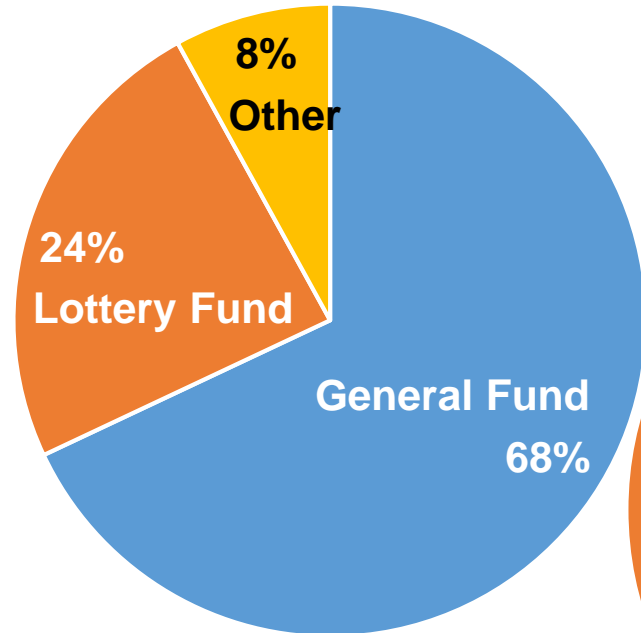
Note: Includes current fiscal year. Forecast for FY 2016-17 by Independent Fiscal Office.
¹ Excludes tobacco taxes and non-tax revenues.

Funding for Senior Programs

Funding Sources for Departments of Human Services and Aging

Home-Based Care (DHS) = \$513m

Long-Term Living (DHS) = \$1,975m



Note: Dollar amounts in millions. Other includes Tobacco Settlement Fund and Nursing Home Assessment.

PA PACE/PACENET

	2013-14 Actual	2016-17 Available	Avg. Ann. Growth
PACE			
Total Implied Spending ¹	\$72	\$71	-0.5%
Number Enrolled	107,913	93,995	-4.5%
Total Prescriptions	3,622,953	2,483,615	-11.8%
Avg. Cost per Prescription	\$19.75	\$28.61	+13.1%
PACENET			
Total Implied Spending ¹	\$113	\$129	+4.5%
Number Enrolled	167,477	151,920	-3.2%
Total Prescriptions	5,417,555	4,428,615	-6.5%
Avg. Cost per Prescription	\$20.85	\$29.15	+11.8%

¹ Dollar amounts in millions and state funds only.
Source: Executive Budget, various years.

Long-Term Living and HCBS

	2013-14 Actual	2016-17 Available	Avg. Ann. Growth
Long-Term Living			
Total Spending ¹	\$1,706	\$1,975	+5.0%
Number Enrolled	49,764	56,694	+4.3%
Avg. Cost per Enrollee	\$34,278	\$34,982	+0.7%
Home and Community-Based Services (HCBS)			
Total Spending ¹	\$287	\$513	+21.3%
Number Enrolled	23,244	30,344	+9.3%
Avg. Cost per Enrollee	\$12,076	\$16,901	+11.9%

¹ Dollar amounts in millions and state funds only. FY 2016-17 Long-Term Living total spending includes \$113 million intergovernmental transfer.
Source: April 2017 Department of Human Services monthly report and Executive Budget, various years.

Long-Term Imbalance

Funding Sources for Senior Programs	Avg. Ann. Growth
General Fund	3.0% - 4.0%
Lottery Fund	<u>1.5% - 2.5%</u>
Weighted Average	2.3% - 3.3%
Cost Drivers for Senior Programs	
Demographic Growth Age 65+	2.5% - 2.5%
Price Inflation or Growth in Average Cost	<u>2.5% - 5.0%</u>
Combined	5.0% - 7.5%
<p>Note: The figures on this slide do not represent a forecast or specific computations. They are intended to illustrate the differential in average growth rates for funding sources and programs based on reasonable and plausible assumptions.</p>	

Wrap Up

- ▶ **Decisions by Baby Boomers will have significant impact on PA economy.**
 - Work or retire?
 - Restrain spending or leverage assets?
- ▶ **Funding sources for senior programs face long-term challenges.**
 - Revenues fail to keep pace with overall economic growth.

Appendix

	U.S.	PA
Median Household Income for Age 65+	\$40,971	\$38,060
2015 Federal Poverty Levels		
Number of Members in the Household		
1	\$11,770	
2	\$15,930	
3	\$20,090	
For households with more than 3 persons, add \$4,160 per additional person.		
<i>Source: U.S. Census Bureau, 2015 American Community Survey, 1-year estimates.</i>		