



SOCIETY OF ACTUARIES

Article from:

# The Actuary

March 1995 – Volume 29, No. 3

# North America in 2020

by J. Bruce MacDonald

*To begin, I acknowledge my debt to Hamish McRae. Some of the thoughts in this article are taken from his book, The World in 2020. Some are my ideas, confirmed by McRae. Others are strictly my own, for which I cannot blame or credit McRae.*

**T**he seven top industrial nations, known as the G-7 countries, are getting older, using the percentage of the population over age 65 as a measure. Canada is the youngest of the G-7, followed by Japan and the United States, with Germany the oldest. By 2025, the United States and the United Kingdom will be the youngest and roughly equal, followed by Canada, with Japan the oldest. Of the G-7 countries, Japan is aging the fastest, and the United Kingdom, the slowest.

## Effects of the population aging

Seniors will be an increasing proportion of the population and in a democracy will wield a greater proportion of the vote. As a result, it will be difficult to cut back programs that benefit seniors. Canada discovered this a decade ago when the government had to abandon a plan to take indexing out of the Old-Age Security pension. With the country's financial problems becoming more apparent, some cutbacks may be easier to sell and implement.

The aging of society will have a number of effects that could be considered beneficial. There will be low inflation; seniors will not want to see the value of their savings reduced. Unemployment will drop because of fewer people of working age. Crime should reduce, because most crime is committed by the young, whose numbers will be reducing proportionately. There will be lower tolerance of crime, disorder, antisocial, and even unconventional behavior, simply because the elderly are less tolerant of it. Concomitantly, there will be a greater acceptance of authority

controlling such behavior, with some reduction in civil liberties, although probably not an unacceptable level.

While it may be difficult to cut back existing programs for seniors, financial constraints will inhibit new government-funded programs. For example, with increased longevity, more seniors will need nursing care, either at home or in nursing homes. Government money for this will be very limited, and it probably will be the responsibility of the individual, the family, or insurance plans of an employer.

Other effects of the aging population will be an increase in retirement age; females in the workforce; part-time work, including working at home; a greater use of voluntary unpaid labor; a requirement for university students to work while studying; and a greater effort to see that the unemployed return to work. Retraining, perhaps several times during a career, will become normal. Greater pressure will be exerted for children to learn marketable skills.

## Other changes unrelated to aging

The racial composition of the population in the United States will change, with the proportion of non-Europeans increasing substantially, although those with European ancestry will remain slightly in the majority. The same will happen to a lesser extent in Canada, where there are now fewer African-Americans. There also will be fewer Hispanic immigrants in Canada.

High-pay, low-skill jobs will decrease, because people in the developing world can do these jobs just as well for much less. We already have seen this in some manufacturing jobs, where union pay scales are disproportionate to the skills of the workers. Many highly skilled and educated people in the developing world do quite complex jobs. Their pay may be low by North American



standards but not by that of their own country. Who would ever have predicted that Bangalore in India would be a center for computer software writing? What North America must concentrate on is high skill jobs where the value added justifies the high pay.

Improvements in telecommunications means that some jobs can be done from anywhere in the world. For example, a New York bank wanting a 24-hour inquiry service could have the night calls answered from Australia or Singapore, rather than employing a night shift in New York.

## Problems in the United States

The United States will have greater problems in some areas than other countries will.

One area is social disruption, including crime, drugs, the problems of the inner cities, and family breakup. All lead to increased expenditures in one form or another, including private security services.

A second area is the increase in bureaucracy and waste. The cost of complying with ever-increasing government regulation will be out of proportion to the potential good. This also includes the American penchant for resorting to the courts to solve problems, with the concomitant costs. Also included here is the cost of political lobbying. These problem areas involve increased insurance costs.

The third is the attitude toward saving and education. The United States has the lowest rate of savings of all the G-7 countries and, while education at the best schools is probably the best in the world, the average level is not very high.

I am not suggesting the United States is on a slippery slide downhill. It still will be a world leader because of its strengths, and even stronger if these weaknesses are recognized and corrected.

By 2020, the United States will no longer be the richest country in the world, but it will still be the only superpower. The question is how long it will be willing to shoulder the expenses involved.

It will no longer be the world leader in manufacturing. It already is well on its way to deindustrialization, but manufacturing still will be important. The trend will be to services, such as financial and other forms of consulting.

### **Standard of living in North America**

The standard of living in North America will not be very much higher in 2020 than it is now, if it is higher at all. The increase in recent years was from both spouses producing income, and this obviously cannot be repeated. With more family breakups and more single parent families, the standard of living is bound to be lower.

Some parts of the United States — the inner cities and the *barrios* of Southern California and Texas — may be little different from the Third World today. In the United States, however, the wealthy will pay to alleviate or contain these problems. Canada probably will escape most of these problems, as its inner cities have not decayed. More U.S. citizens will immigrate to Canada because it is perceived to be a “nicer” place. The Californians who have already moved north to Washington and Oregon may continue British Columbia.

### **Workplace changes**

Factories will be much smaller because of the development of less labor-intensive manufacturing techniques.

They probably will not be located in the inner city, but rather in industrial parks in the suburbs, closer to where the workers live. Cities will grow on the outskirts of present cities, creating “edge cities.” Cities will revert from industrial centers to their original role as social, administrative, and trading centers. The most successful ones will be those with a thriving intellectual and cultural life.

Improved telecommunications will make it feasible for more work to be done at home. People may go to the office only once or twice a month for meetings. Offices will become smaller, and it will not make sense for all employees to have private desks, let alone offices. Offices will thus occupy less space, and some office buildings may be converted to apartment buildings. Workers can live much greater distances from their offices, because a long commute only twice a month will not be objectionable.

Some disadvantages exist. Many people will miss the camaraderie of the work place, and marriages may be strained from both partners being together most of the time. On the other hand, problems with daycare for children will be reduced. From the employer’s point of view, the lack of creative interaction between employees may reduce quality. On the other hand, it will be easier to cope with the difficult, but talented, employee.

Career paths will change. Employees will switch employers and even disciplines more frequently. More work will be done on a contract basis, and part-time work will increase, perhaps with a person being under contract to several employers for specific jobs at the same time. Employees will feel less loyalty to a particular employer and have a much greater mercenary approach. Recent downsizings have certainly showed little loyalty of employers to employees, and reciprocation is not unwarranted.

This change in the nature of employment will encourage more defined contribution pension plans because of the shorter term of

employment with any one company. Companies will cut back on the benefits they provide for retired employees, as they will feel little obligation to those with short service. This also will enable them to reduce substantially the cost of health insurance for retired employees. The cost of health insurance for those who have left the work force will become of greater concern to the individuals and their families, and it may be necessary for greater government involvement for this age group. This may only be possible at the cost of lesser involvement for younger groups. Finally, employees may press for coverage of their parents, as well as their children, under group health plans.

**J. Bruce MacDonald is trying to be retired in Halifax, Nova Scotia, but the Senior Citizens Secretariat of Nova Scotia and the Federal Office of the Superintendent of Financial Institutions are making it difficult.**

## **Mail alert**

The first ballots for the Society of Actuaries’ (SOA) 1995 elections will be mailed to all Fellows on March 14. If you are a Fellow and do not receive the first ballot by March 24, please call Lois Chinnock at the SOA office, 708/706-3524. To be valid, ballots must be returned to the SOA office by April 14.

