Canada, far smaller than the U.S., has smaller age-related economic challenges

By Editor Test *Wed, Jul 27, 2011*

Our neighbor to the north spends only 10% of its GDP on health care, compared to 16% in the U.S., and its hospitality towards immigrants should help ease labor shortages as its Boomers retires.

Canada is beginning to tackle issues related to population aging, but more action is needed, argues a new report by Schroders, the investment management company.

As boomers retire, reduced labor supply will depress GDP growth unless the country increases immigration or raises the labor force participation rates of older workers, according to Schroders' Virginie Maisonneuve, head of global equities, and Katherine Davidson.

Canada is doing just that, they wrote, but its efforts won't be adequate.

However, this will not be enough to meet the growth challenge. Future growth will have to be driven by improvements in labor productivity. Canada is expected to face the highest age-related spending of any OECD member state.

"The challenge for Canada today is to manage the costs of a rapidly aging population without compromising its superior health status and further worsening standards of service" the paper states.

Canada has a record of controlling the cost of social insurance, which should work in its favor. It spends 10% of GDP on health care versus the US at 16%. There is also a lower reliance on the state for pension provision because private pensions and other investments provide over 40% of retirement income, compared to the OECD average of 20%.

Other Schroder research findings:

- By the 2020s, all of Canada's population growth is expected to come from immigration and many sectors of the economy will rely on foreign workers. It is unlikely, however, that higher immigration will fully offset the effect of domestic population aging.
- While the healthcare and financial sectors should increase their share of GDP, other sectors – education, manufacturing, construction and retail – will shrink.
- Early recognition and steps to address the demographic issue result in a pension plan that is expected to be perfectly solvent by 2050 – a marked contrast with US Social Security, whose surpluses will soon end.