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The Economics of Aging

Challenges and Opportunities

"...to raise new ideas and improve policy debates through quality information and analysis on issues shaping New Hampshire's future."

Takeaways

- Well documented story of aging.
- Aside from the issue of labor force, this is not yet a big part of the broader conversation (“aging as a problem”)
- Potentially intergenerational conflict → how to make this a conversation about demographics, not aging.
- Integration point is local! The State, Communities, Counties are not really prepared for this change and are thinking in silos.

Takeaways (Continued...)

- Strategic plan for the state as it ages
 - Development of an aging caucus in the legislature.
 - Development of information specific to housing, economic development (Jeff Rose), planners, municipal leaders, state government.
- Engaging in a conversation about housing
 - Zoning
 - Land Use
 - Spacial Distribution of Aging
 - The village movement

This is an 'Industrialized Nation Issue'

THE WALL STREET JOURNAL.

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CAREERS

The Cost of Germany's Graying Managers

At small businesses led by older bosses concerns are raised about stalled investments, succession

BY MONICA HOUSTON-WAESCH

FRANKFURT—At the midsize companies that form Germany's industrial backbone, managers are literally a dying breed.

The executives who helped fuel the country's economic boom in recent decades are aging quickly, entering the 55-and-over age group four times as fast as Germans as a whole, according to a survey by development bank KfW. That disparity is particularly striking given how swiftly the overall population is aging: Germany now has the world's lowest birthrate, slipping below Japan, according to a study this year by the Hamburg Institute of International Economics and audit firm BDO AG.

The graying executive corps could have a significant economic impact. Germany's more than 3.5 million small and midsize businesses, known collectively as the *Mittelstand*, account for about 60% of its workforce and more than half of its economic output.

Older bosses at these companies, many of whom are also the owners, are less eager to invest in their own business than younger ones, the KfW survey found. They also frequently delay suc-

cession planning, even though handoffs can take an average of three years, experts say.

That's largely because "dealing with succession is like facing your own death," said Alexander Koeberle-Schmid, a family-business consultant at KPMG in Düsseldorf. "You try to avoid it as long as possible."

By 2017, according to KfW, the jobs of four million employees at 580,000 midsize companies will depend on a successful leadership transition.

Chambers of commerce here are concerned enough to have started warning members that they need to begin planning for an orderly succession, or face the risk of having to close when the day arrives.

Autohaus Ochs GmbH, a Volkswagen dealership near Stuttgart, had eight employees when Martin Häussermann took it over in 2006. The previous owner, who was 69 years old, had been seeking a buyer for years and hadn't made any significant investment in the company for a decade. "It would have been liquidated," said Mr. Häussermann, who was 31 years old at the time.

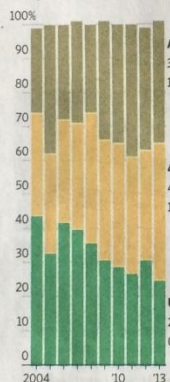
Under Mr. Häussermann, who quickly started investing in the business, it has grown to 100 employees.

Closures, however, are becoming increasingly common. Germany's annual rate of business liquidations has outpaced business openings only four times

Aging Managers

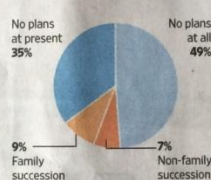
The aging population of small- and medium-size-business owners in Germany means uncertainty in succession and investment.

Enterprises by owner age group

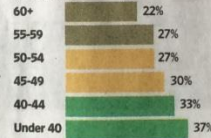


*Share of companies where investments exceeded written-down values.
Note: Percentages may not add up to 100 due to rounding.
Source: KfW

Succession planning up to 2017



Companies with older managers invested less*



THE WALL STREET JOURNAL.

since the mid-1970s, and three of those were in the past three years, according to IFA, a *Mittelstand* research institute. It expects the pattern to continue this year.

Last year, investor Gerd Fricke took over 100-employee PEKU Folien GmbH, a Bavarian printing and packaging-material business,

from its octogenarian owner. Investment had stalled in some areas, "particularly in building up employees' management skills," he said.

Mr. Fricke shortened the company's name and is flattening its hierarchical management structure as he converts it from a contract manufacturer to a more in-



Investor Gerd Fricke last year took over PEKU Folien, a Bavarian printing and packaging-material business, from its octogenarian owner.

novative supplier. In recent years, he said, PEKU skimped on spending that could have boosted productivity, such as having replacement tools ready when worn ones required servicing.

About 73% of senior managers advised by Germany's industry and trade groups haven't assembled the basic documents needed for a handover, such as a power of attorney, supplier and client information, bank-access data or a will, according to business-chamber association DIHK.

When companies change hands after the owner dies and heirs aren't familiar with the company, they "can't make the best decisions," said Mr. Koeberle-Schmid at KPMG. When heirs disagree on strategy, they don't agree on money or power

either, he added.

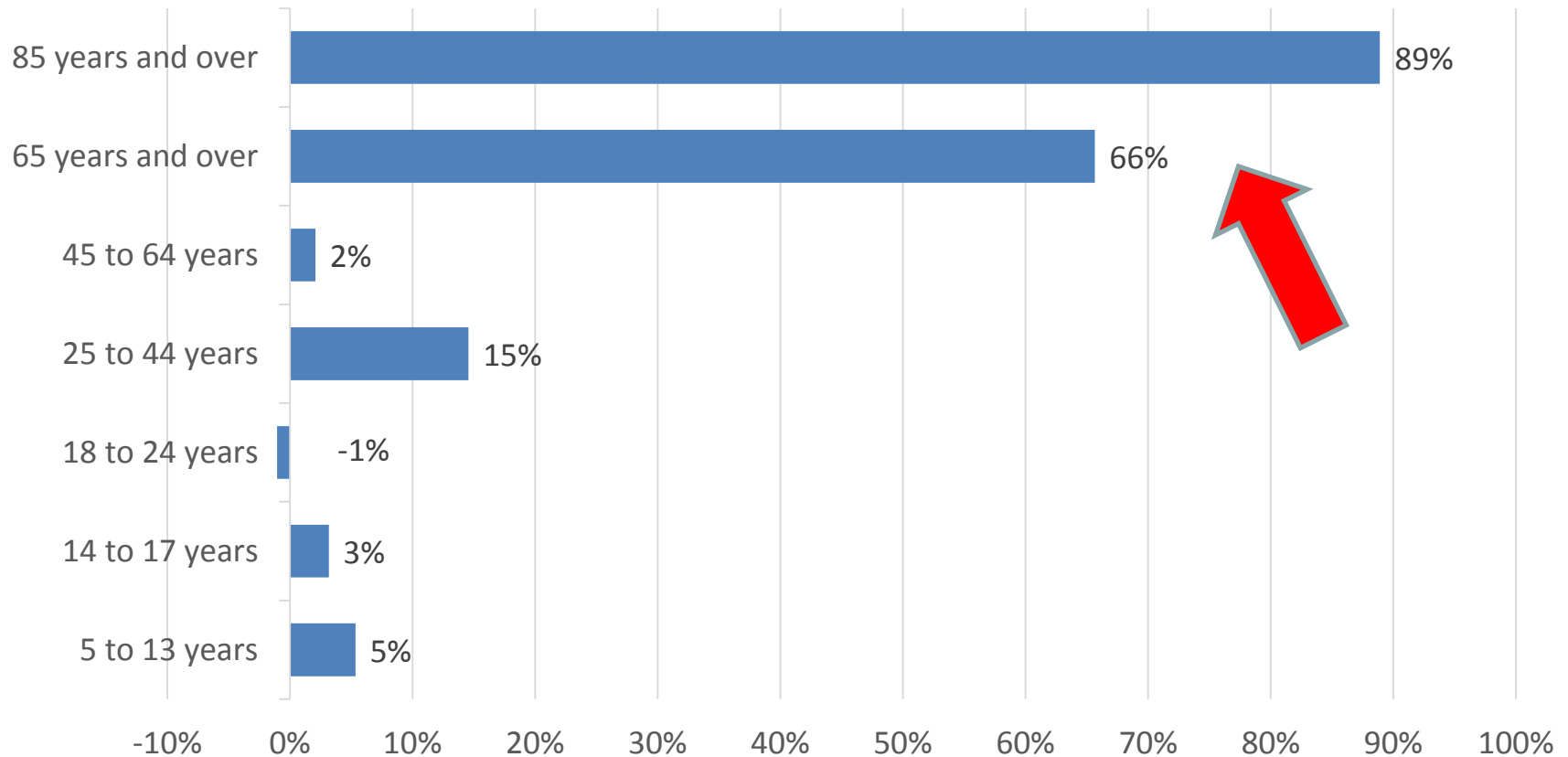
Handovers can be tricky even when a family member is involved.

By the time Caspar Brockhaus took over management of Brockhaus Group from his father six years ago, suppliers of the roughly 150-employee steel, environmental and measurement-technology company had become some of its fiercest competitors. With guidance from his father, he shed operations that accounted for half the company's sales and staff. Within four years, sales at the remaining operations had risen roughly 50%.

"In retrospect, you could say we should've done it earlier," Mr. Brockhaus said. But succession "had to be cleared up first, so my father waited to implement and invest in the new strategy."

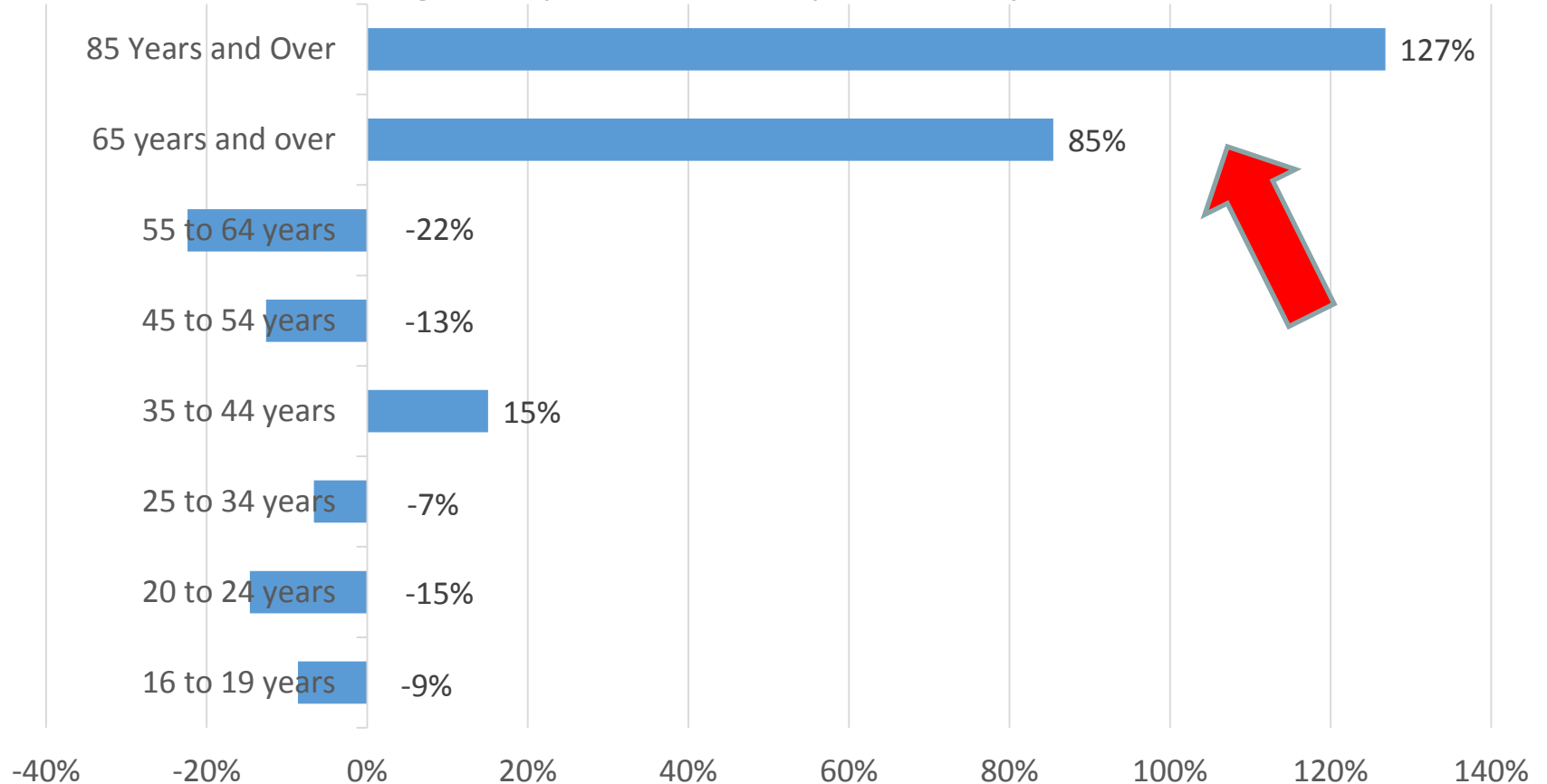
Aging Is Everywhere

Percent Change in Population: National Projections 2015-2035

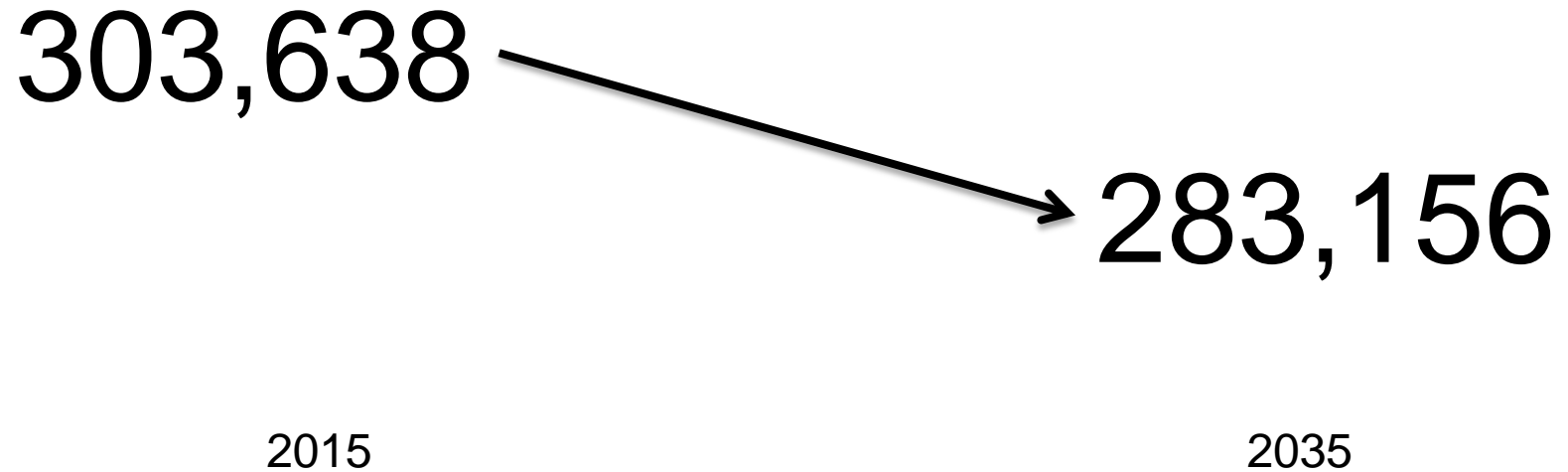


But more so in NH

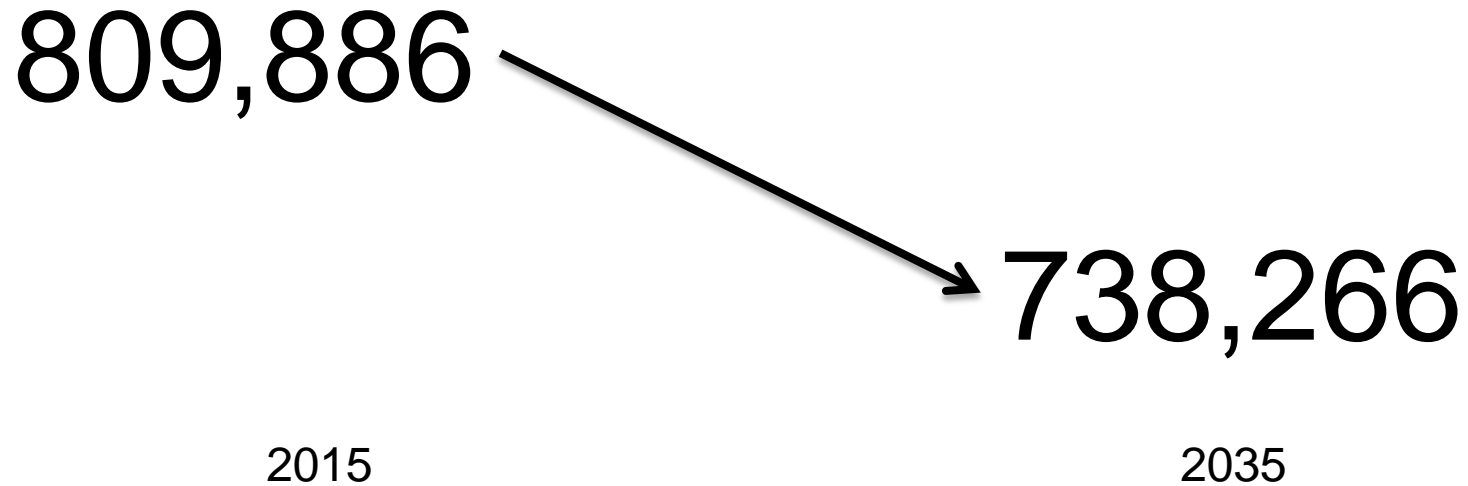
Percent Change in Population: NH Population Projections 2015-2035



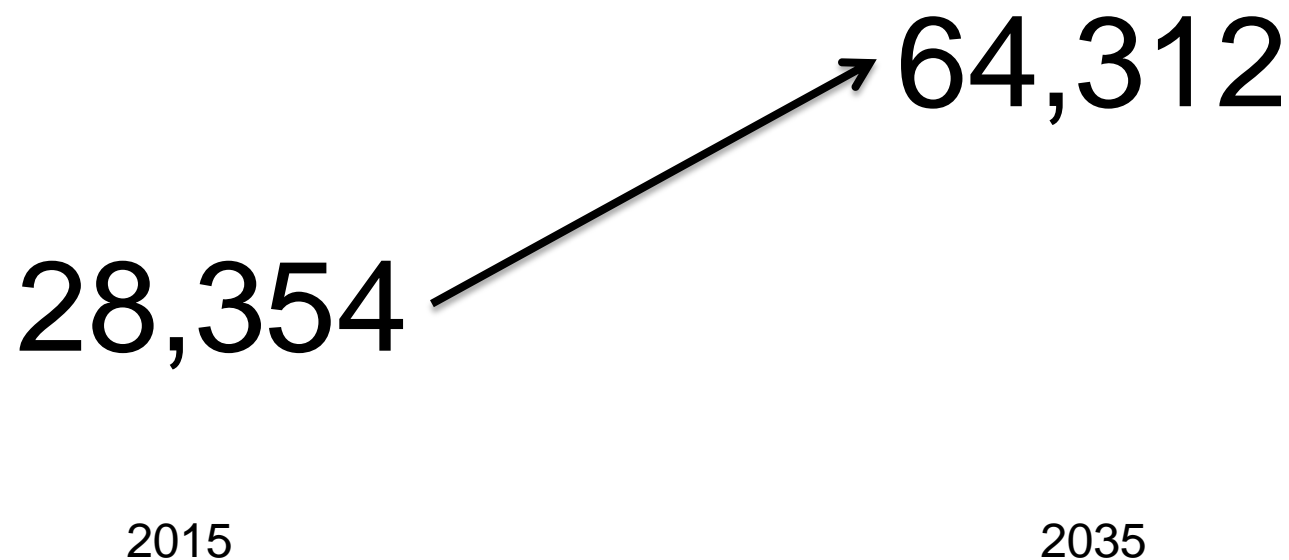
School Aged Population



Working Aged Population (20-64)



Population Over 85

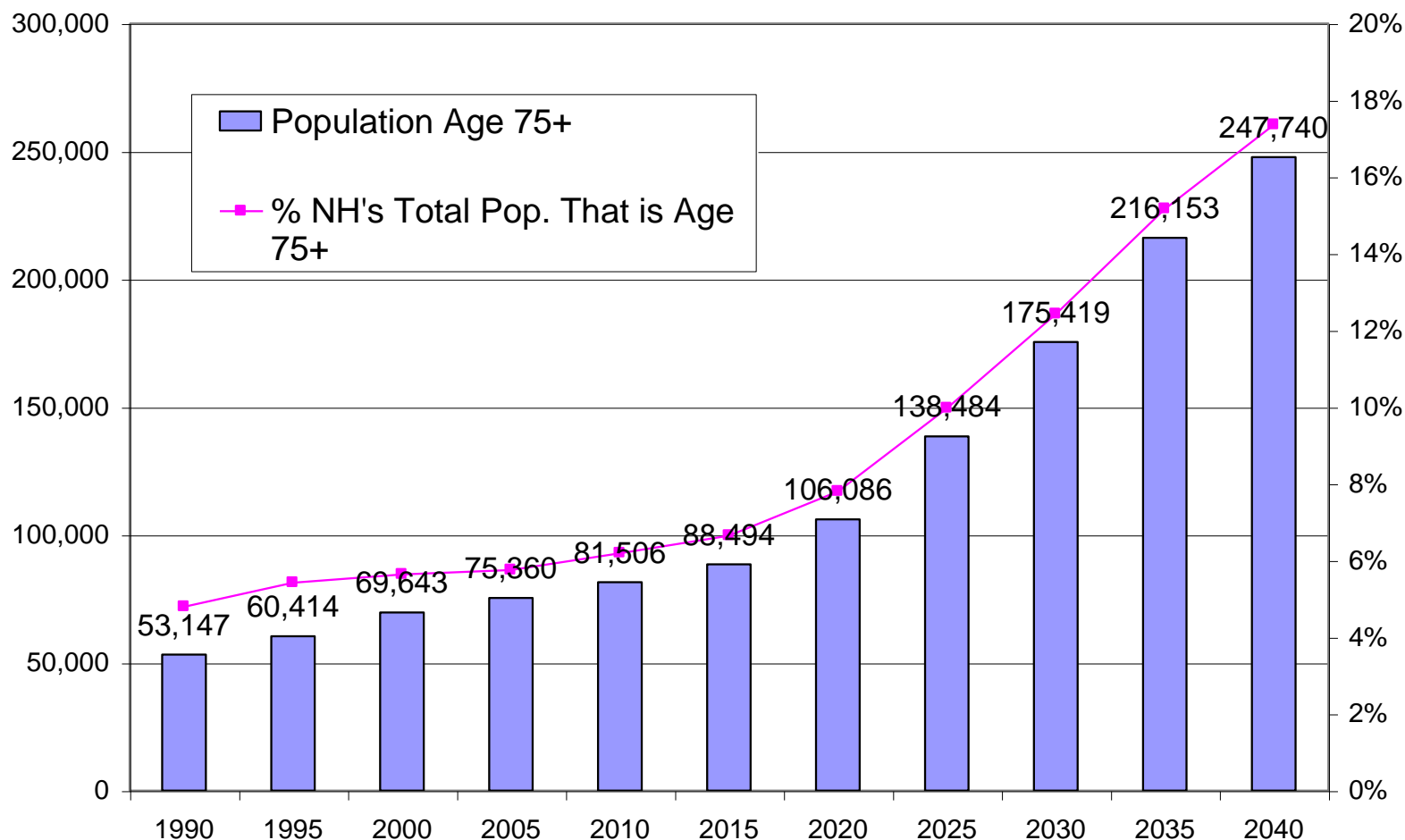


Labor Force

- Increasing labor force? Only in the population over 65.
- Job – Skills Mismatch (e.g. caregiver crunch)
- Aging population is a resource, but job demand (support services) don't match skills (experience, wisdom)
- Affordable Housing availability
- Caregiver Productivity Implications (aging parents, partners)

Timing: Are we old? Not yet, but getting there ...

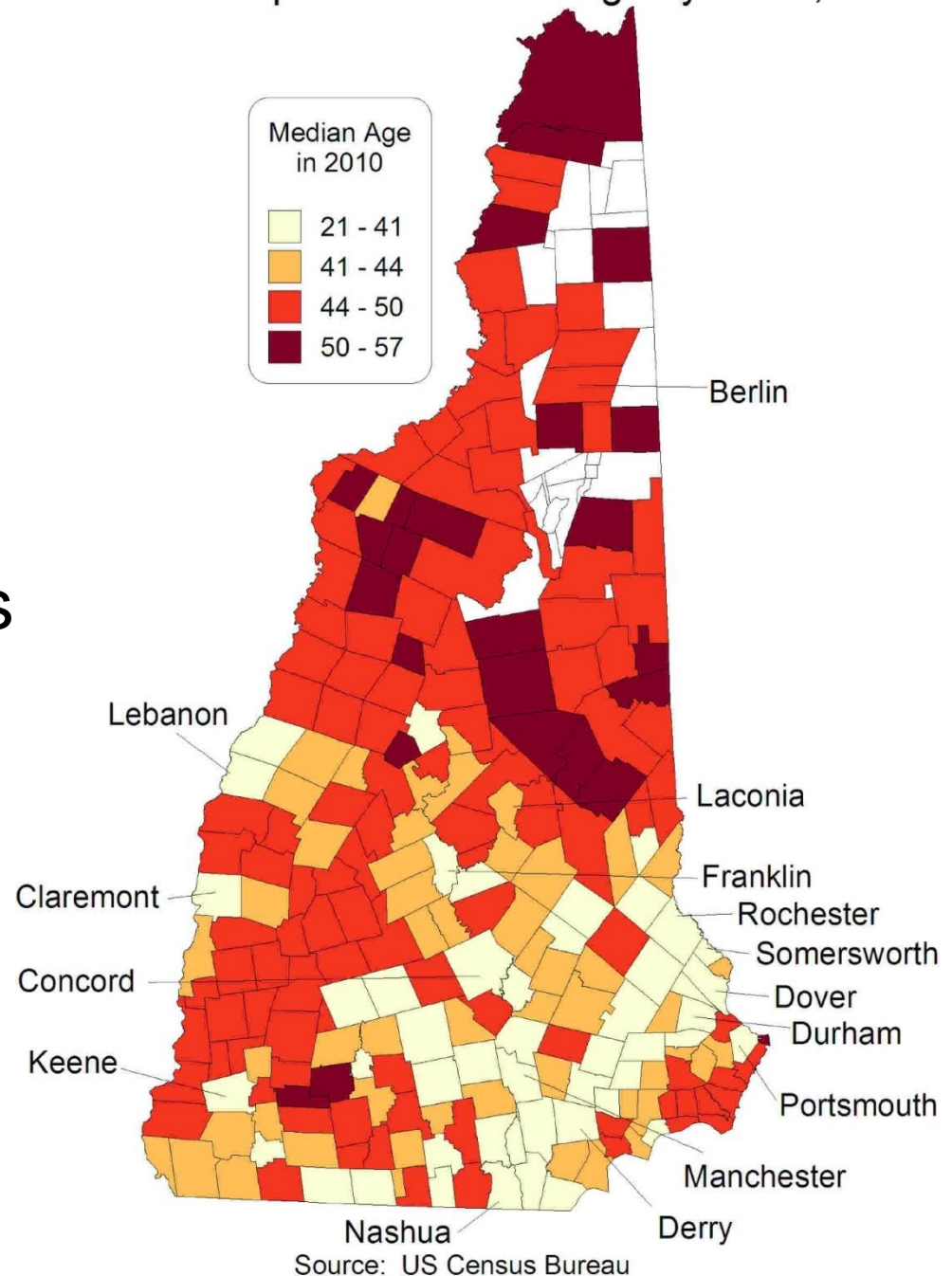
The Largest Impact of Aging will occur after 2020



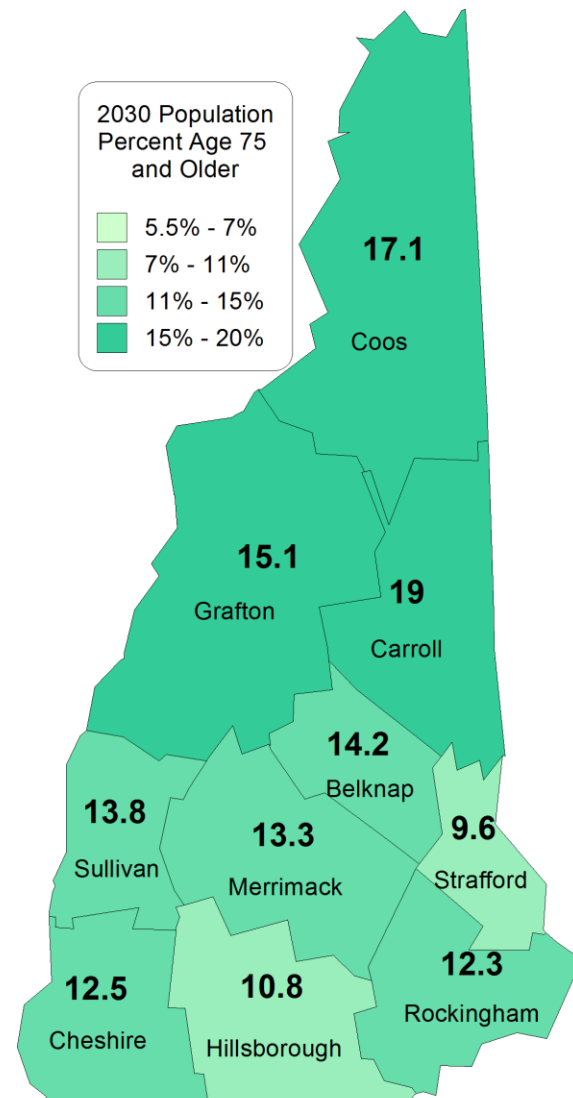
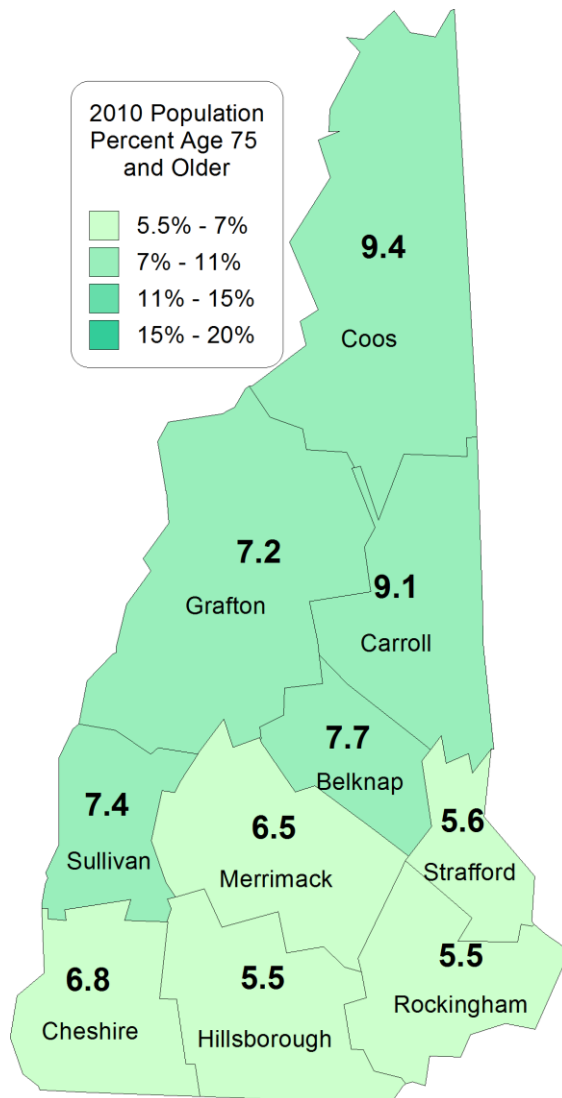
Geography Matters

NH Population Median Age by Town, 2010

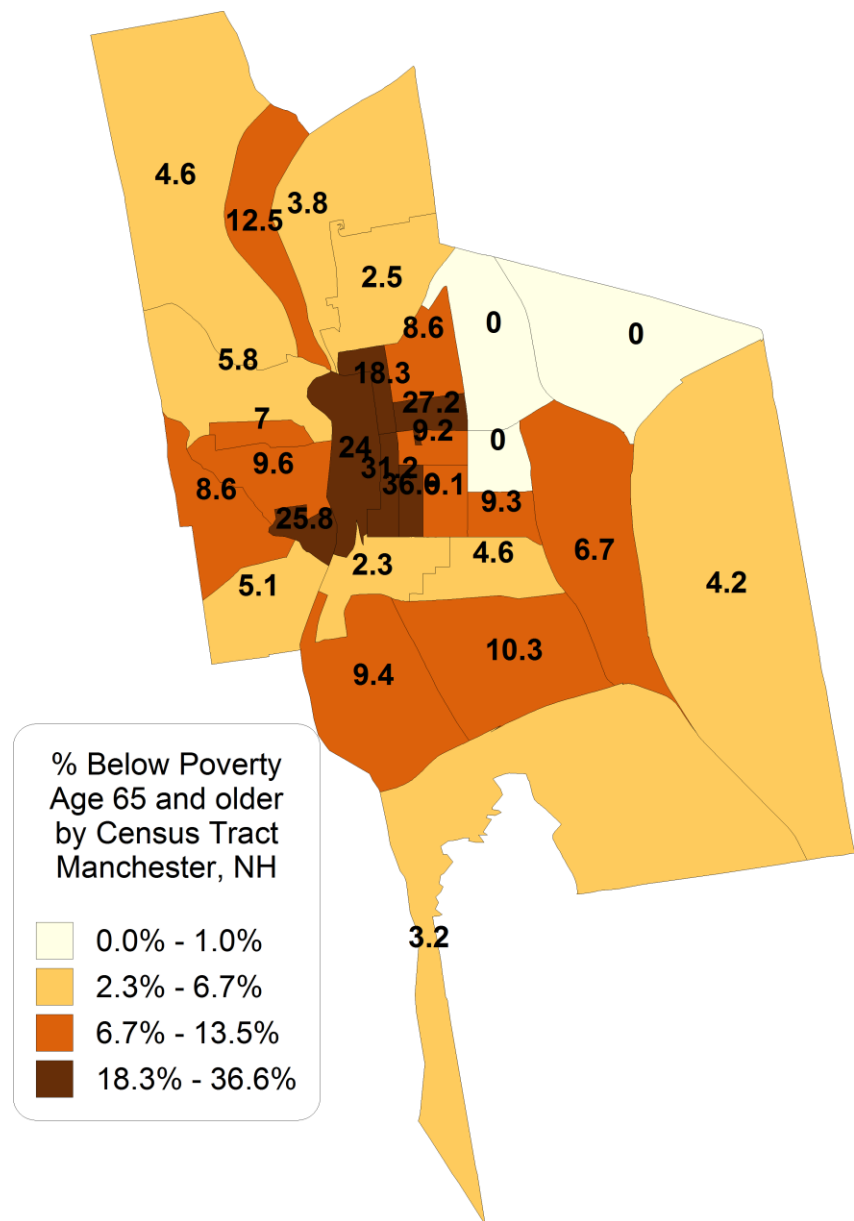
Geography Matters Now



More So Over Time



Vulnerability
can be VERY
localized



A Model: Economic Impact of Aging

Negative

- Declining workforce
- Declining savings rate
- Increasing dependency ratio → higher taxes
- Change in spending from higher return to lower return industry
- Lower levels of spending due to retirement savings issues
- Opportunity costs/Productivity of caregivers.
- Public Finance Impacts?

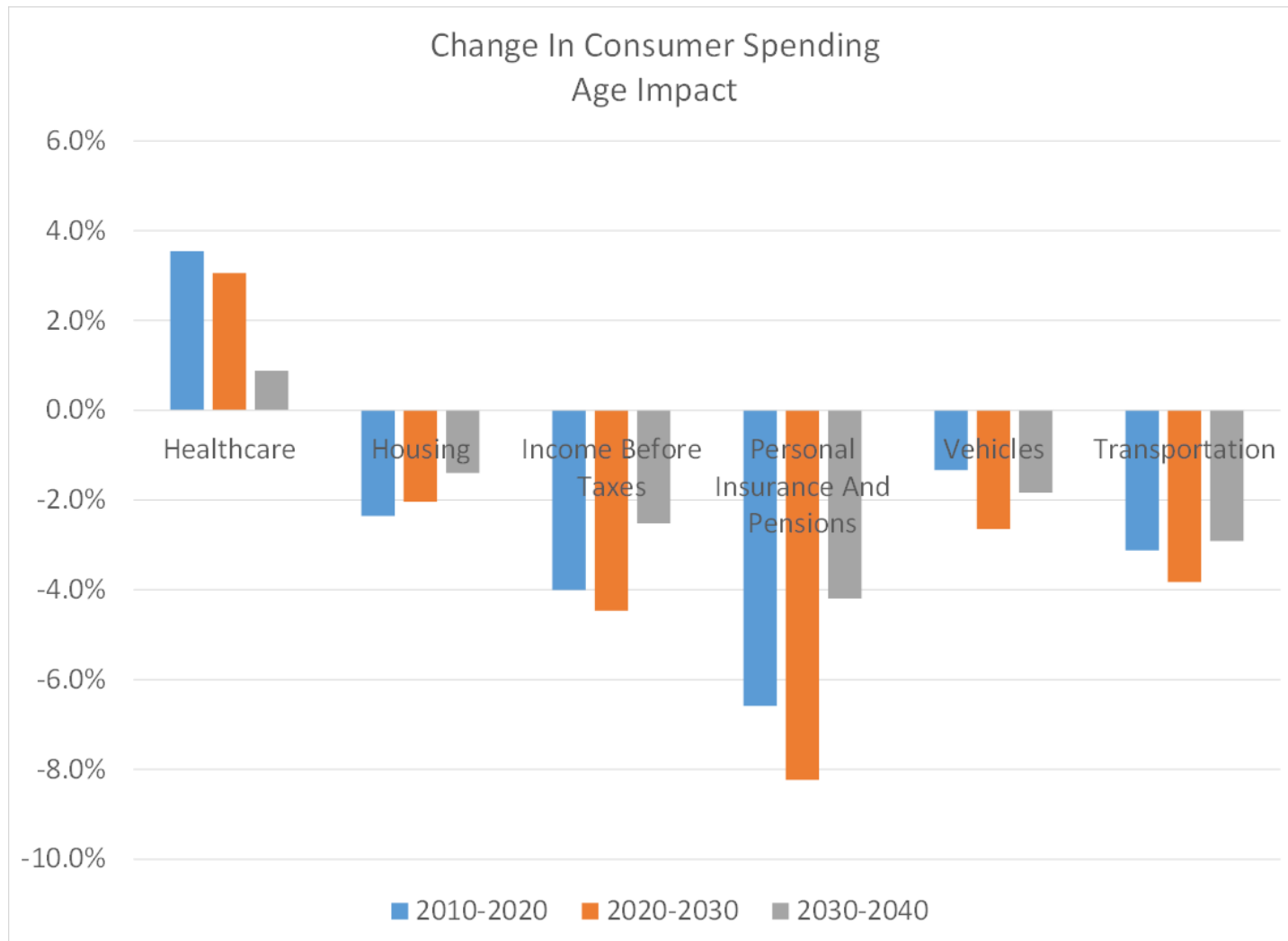
Positive

- Increase in healthcare industry and wages
- Housing development/redevelopment opportunities
- Evolving service needs/models and increase in wages
- Amenity community economic growth/boomer travel
- Access to retired human capital (longevity)
- Public Finance Impacts?

Slower Economic Growth by almost 30%

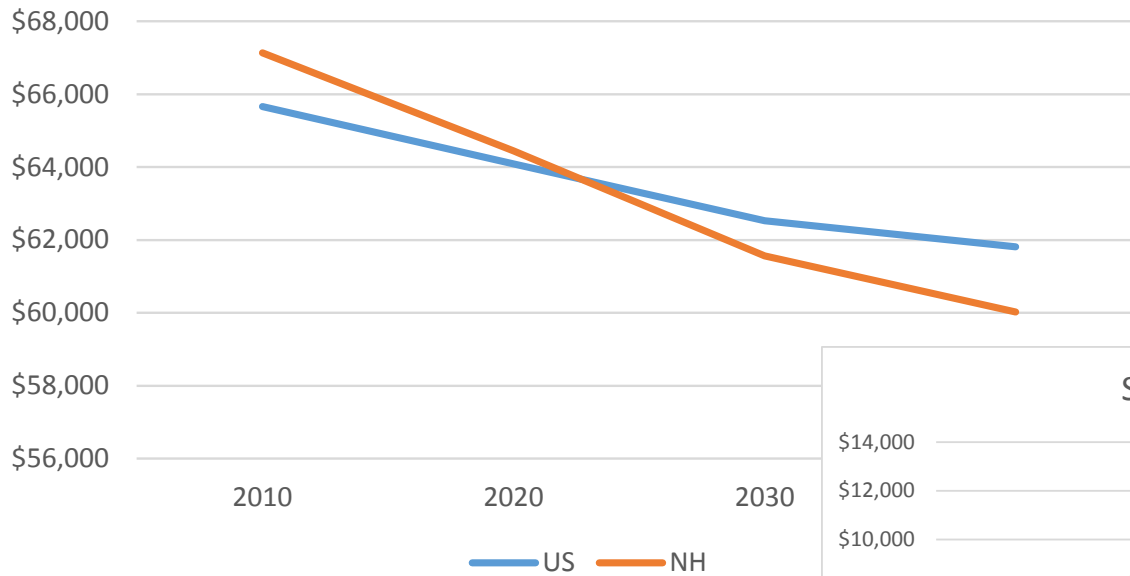
- Talkin' 'bout my generation: The economic impact of aging US baby boomers The Boomers' aging also will be felt throughout the economy. As the Boomers grow older, they will work and spend less, slowing real US GDP growth to a more modest pace than in recent decades: from the 3.2 percent average annual rate enjoyed since 1965 to 2.4 percent over the coming three decades.

Change in Consumer Spending

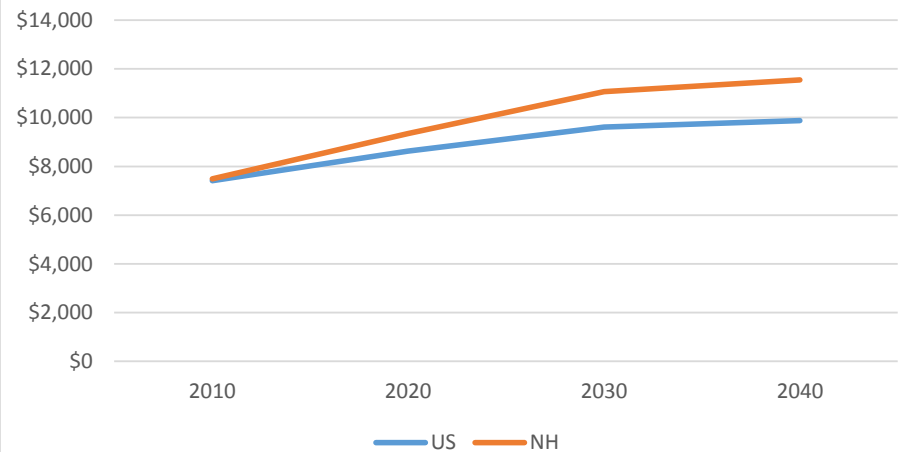


NH vs US

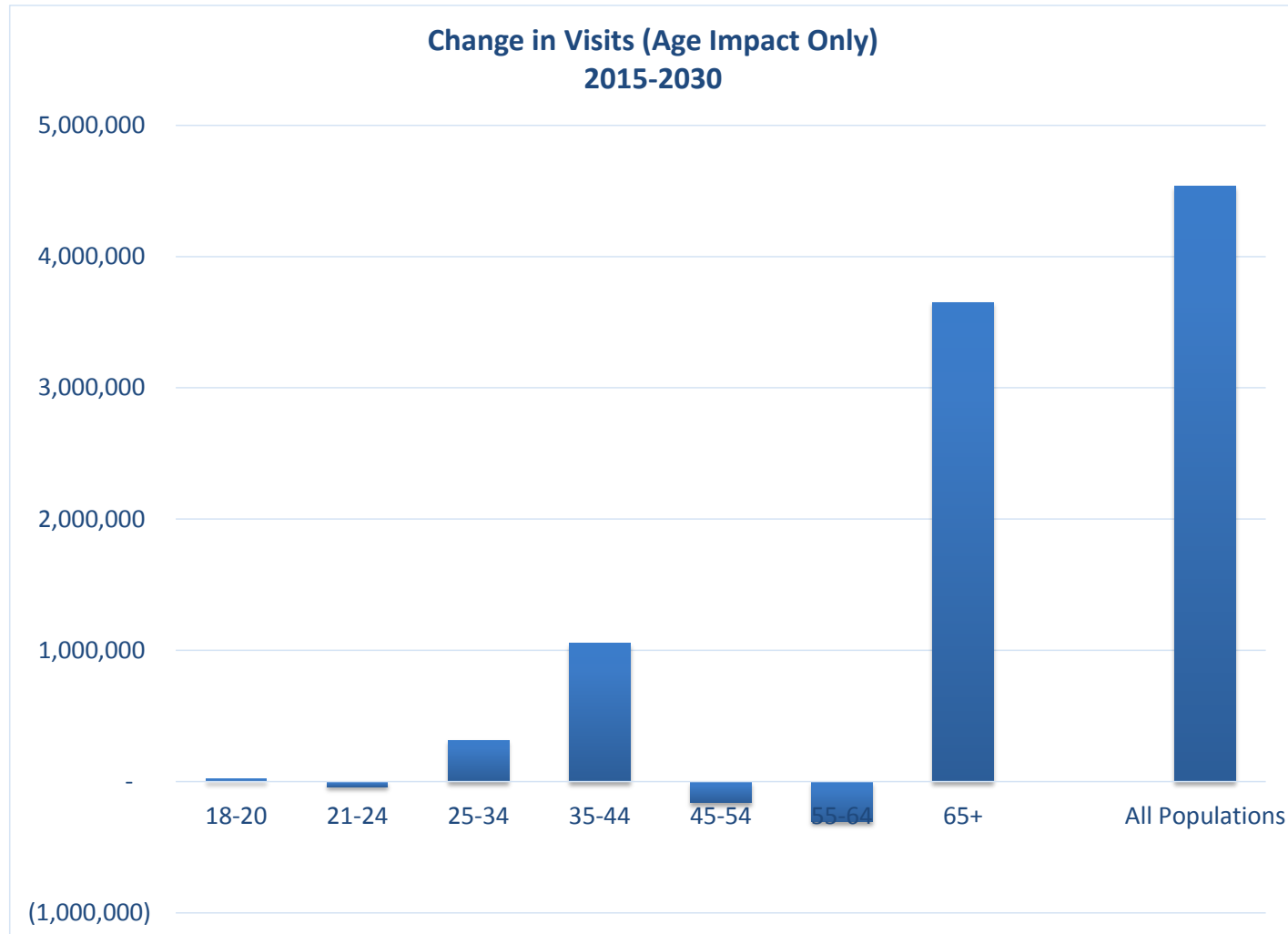
Household Income



Social Security Income



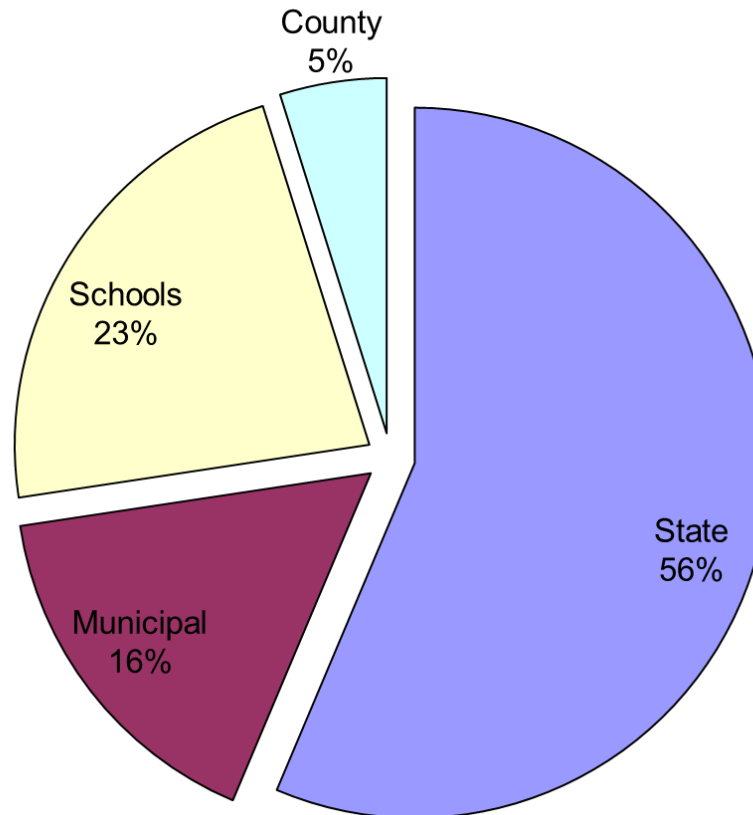
What does aging have to do with pontoon boats?



Public Finance

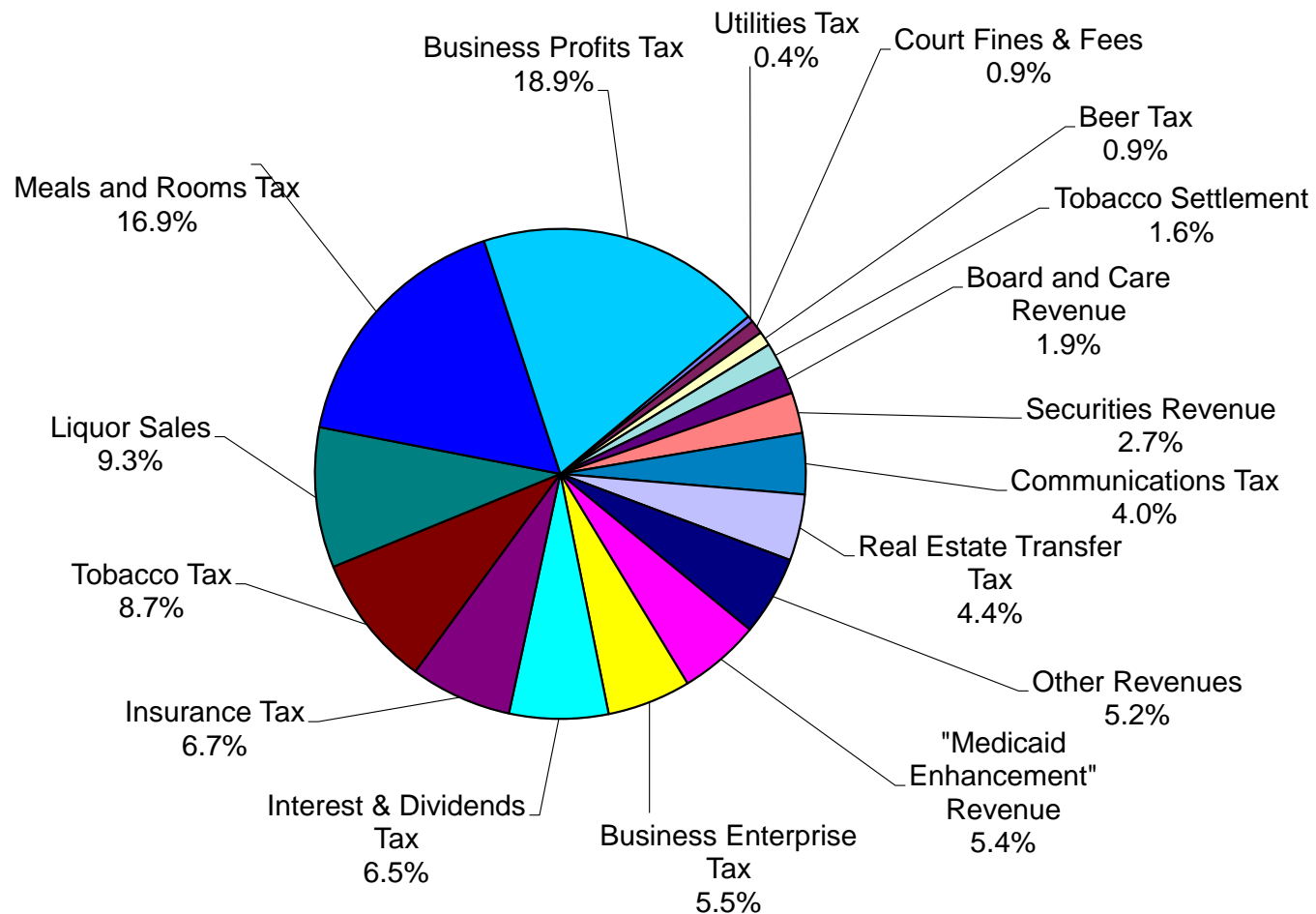
The Common Burden

**Distribution of Public Service Appropriations by Level of Government
(2011)**



State Revenues

FY2013 General Fund Revenue Sources



State Revenue Implications

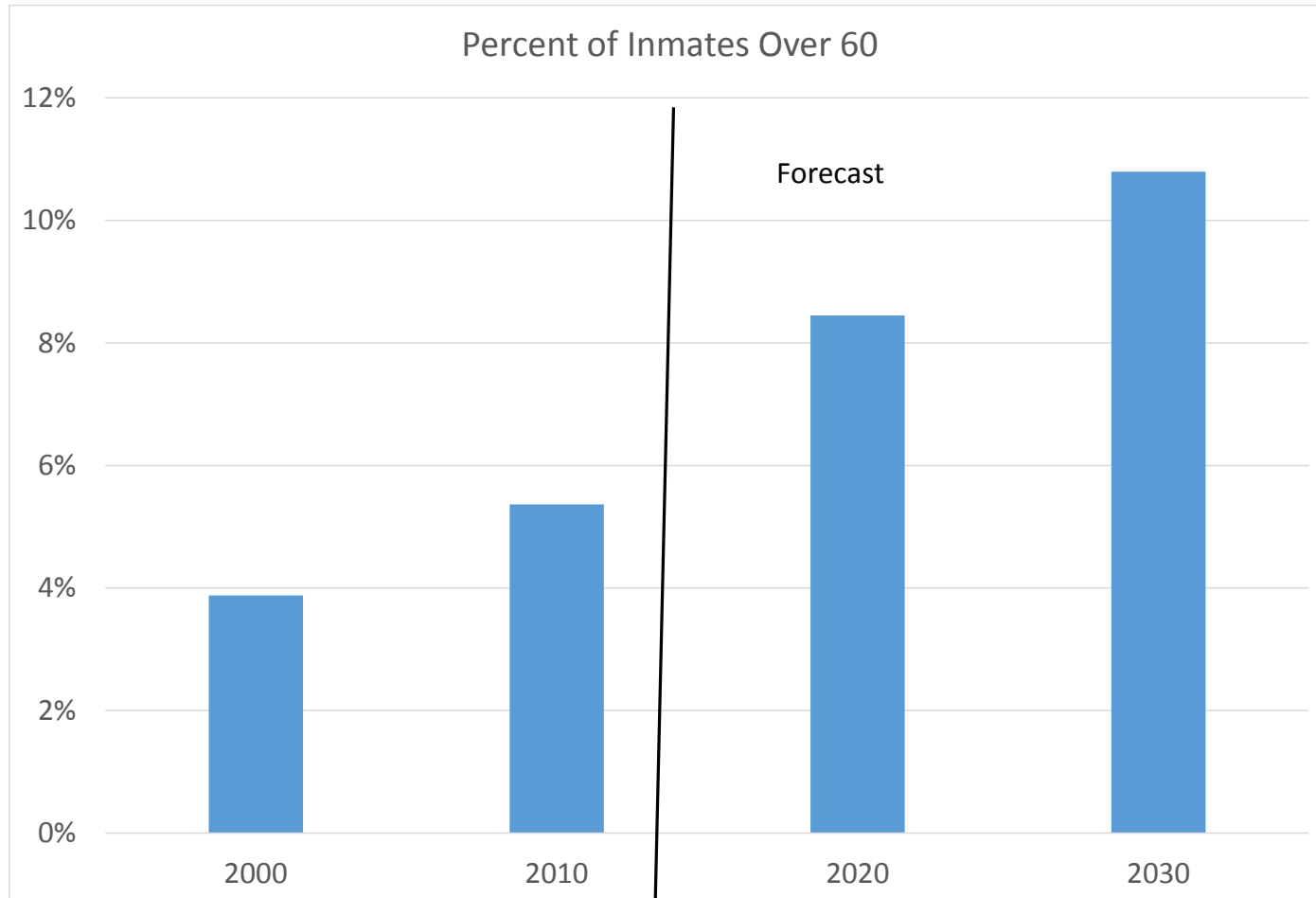
- NH's major taxes will grow more slowly than they have been →
 - Slower economic growth → slower growth in business taxes
 - Changing demand for tourism → slower growth (and different demand!) in tourism
 - Spending decreases as one ages, so all consumption taxes that aren't on healthcare, will likely decline.
- Structural Deficit – the gap between how state spending naturally grows and revenue grows – will increase, making additional trade-offs necessary

Spending

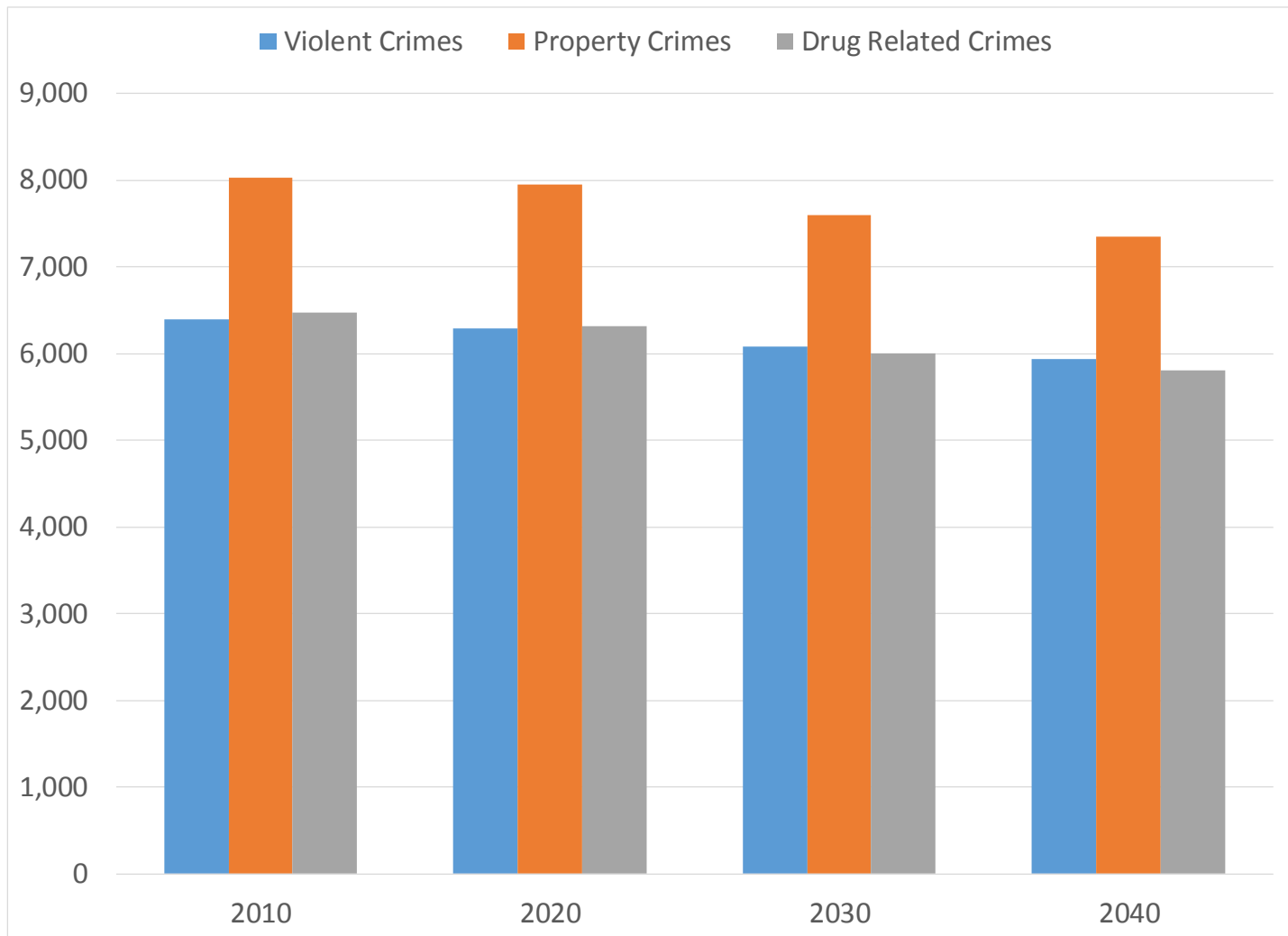
Every state agency
is touched by aging
but understanding
the relationships are
difficult

General Fund Expenditures by Agency		
Agency	Committee of Conference 2016- 2017	Affect of Aging?
HHS Total	\$1,264,905,309.00	↑
TREASURY DEPT OF	\$332,902,176.00	↑
CORRECTIONS DEPT OF	\$216,490,693.00	↑
EDUCATION DEPT OF	\$177,069,322.00	↓
UNIVERSITY OF NEW HAMPSHIRE	\$162,000,000.00	↓
JUDICIAL BRANCH	\$152,202,095.00	↓
COMM COLLEGE SYSTEM OF NH	\$86,275,000.00	↓

Corrections?

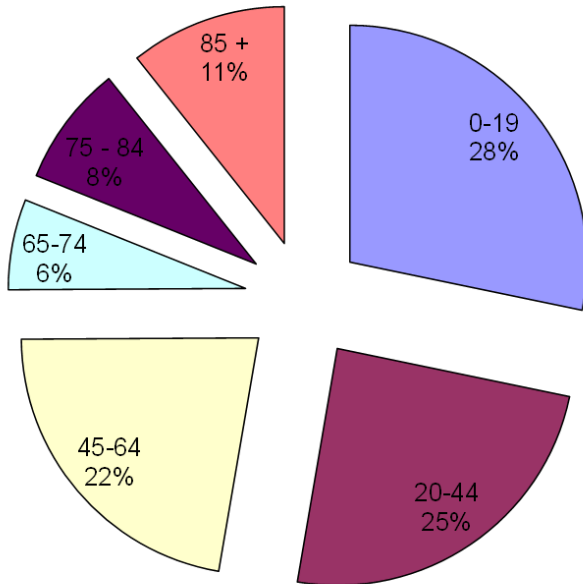


Public safety improves?

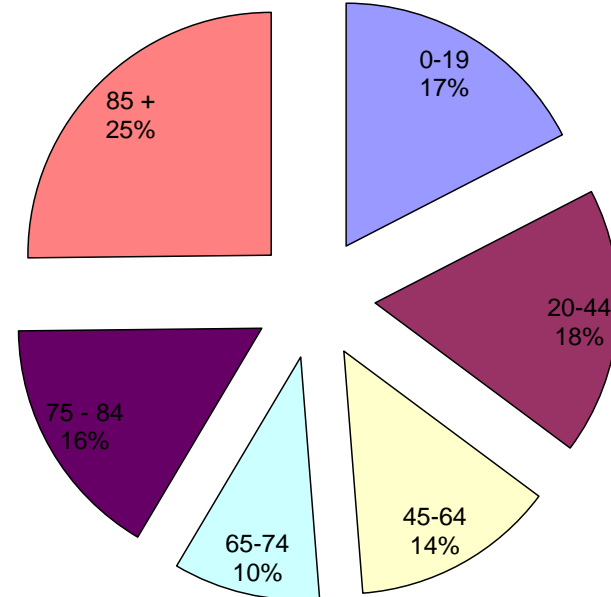


Simulating Changes in Medicaid Spending

2010 Medicaid Spending by Age
(Using Most Recent PMPM Data)

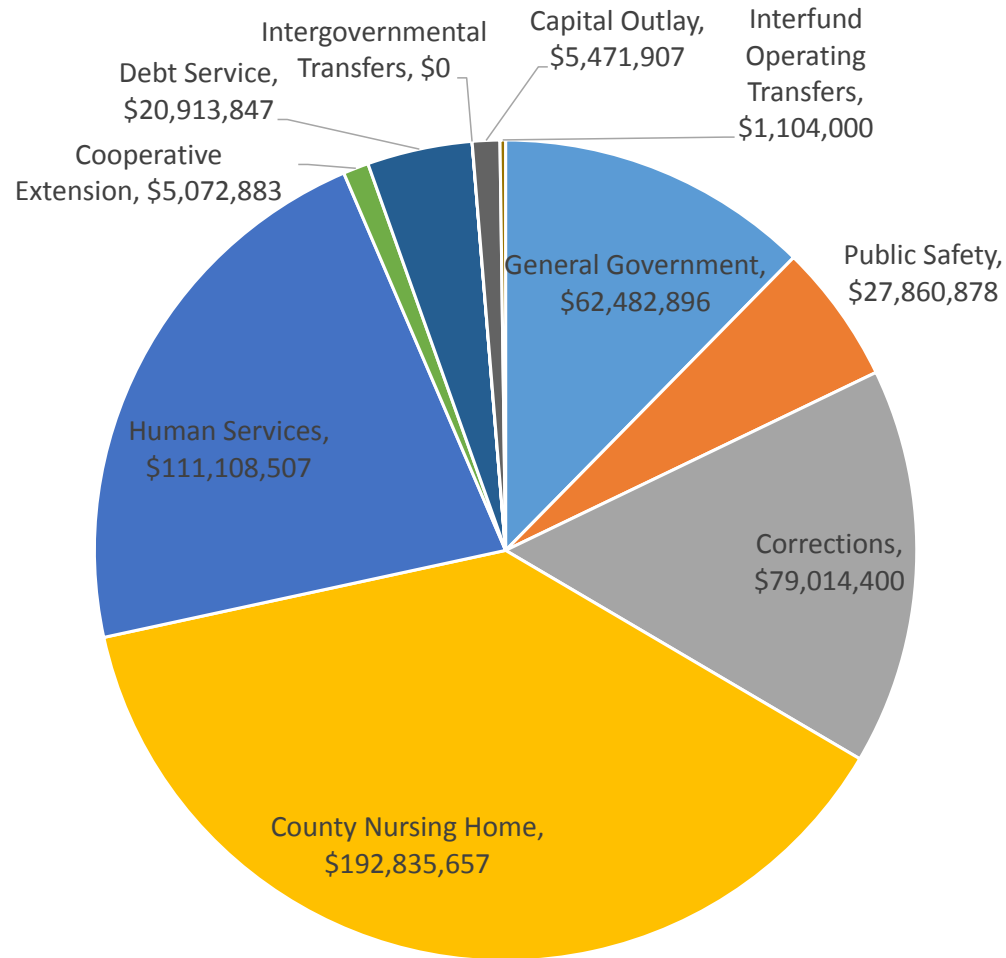


2030 Aged (2010) Spending
Using Updated Population Projections



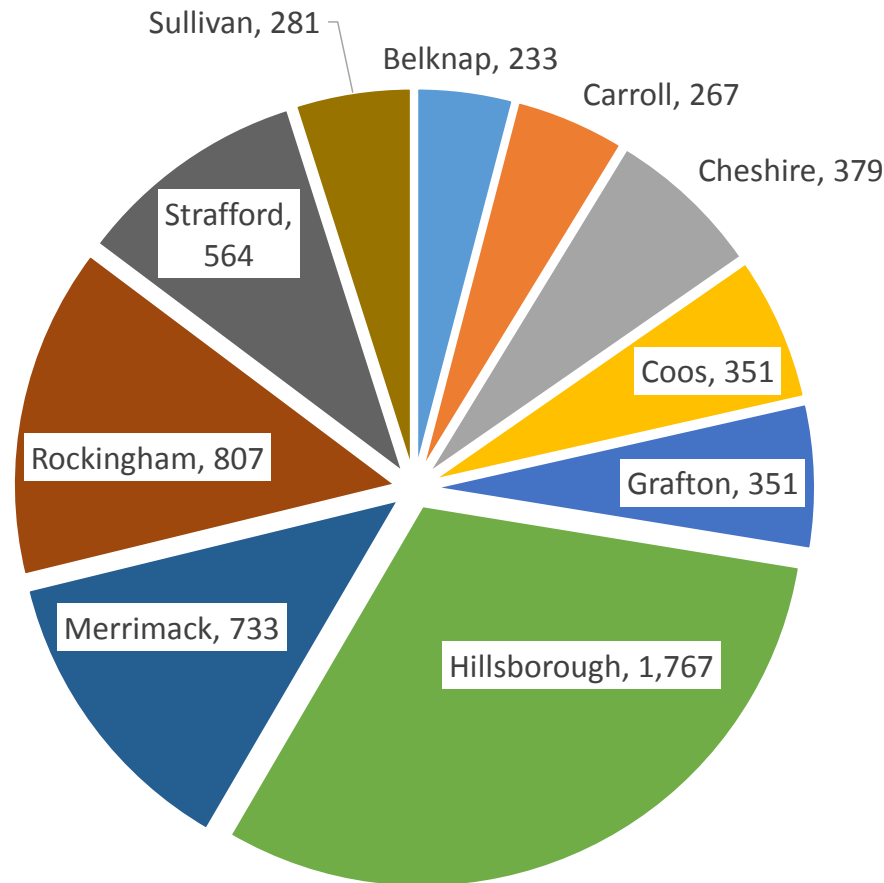
Very Fractured Long Term Care Safety Net for financially or physically frail elders

County Expenditures

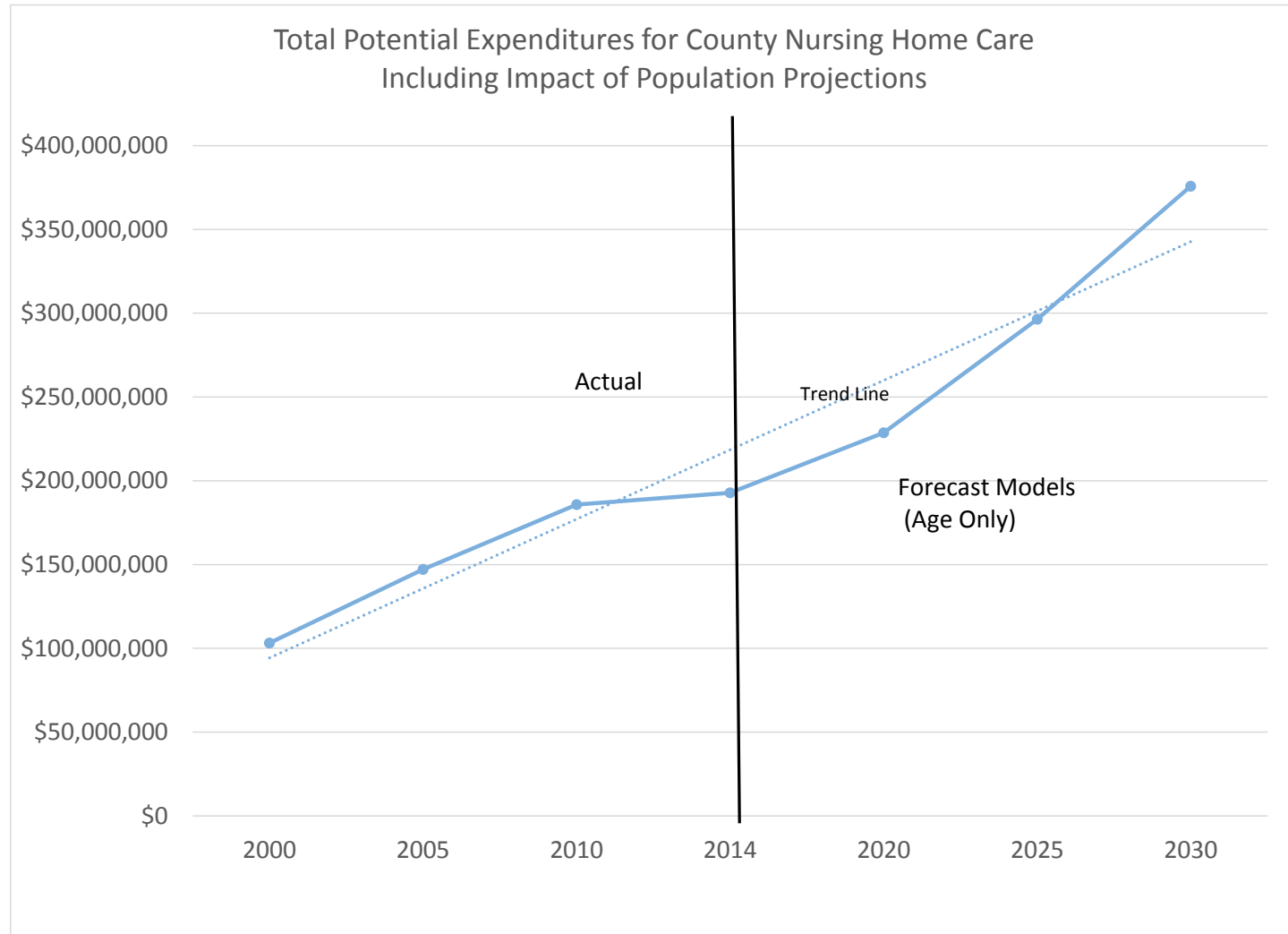


Enrollment in All Medicaid Funded Long Term Care Services by County

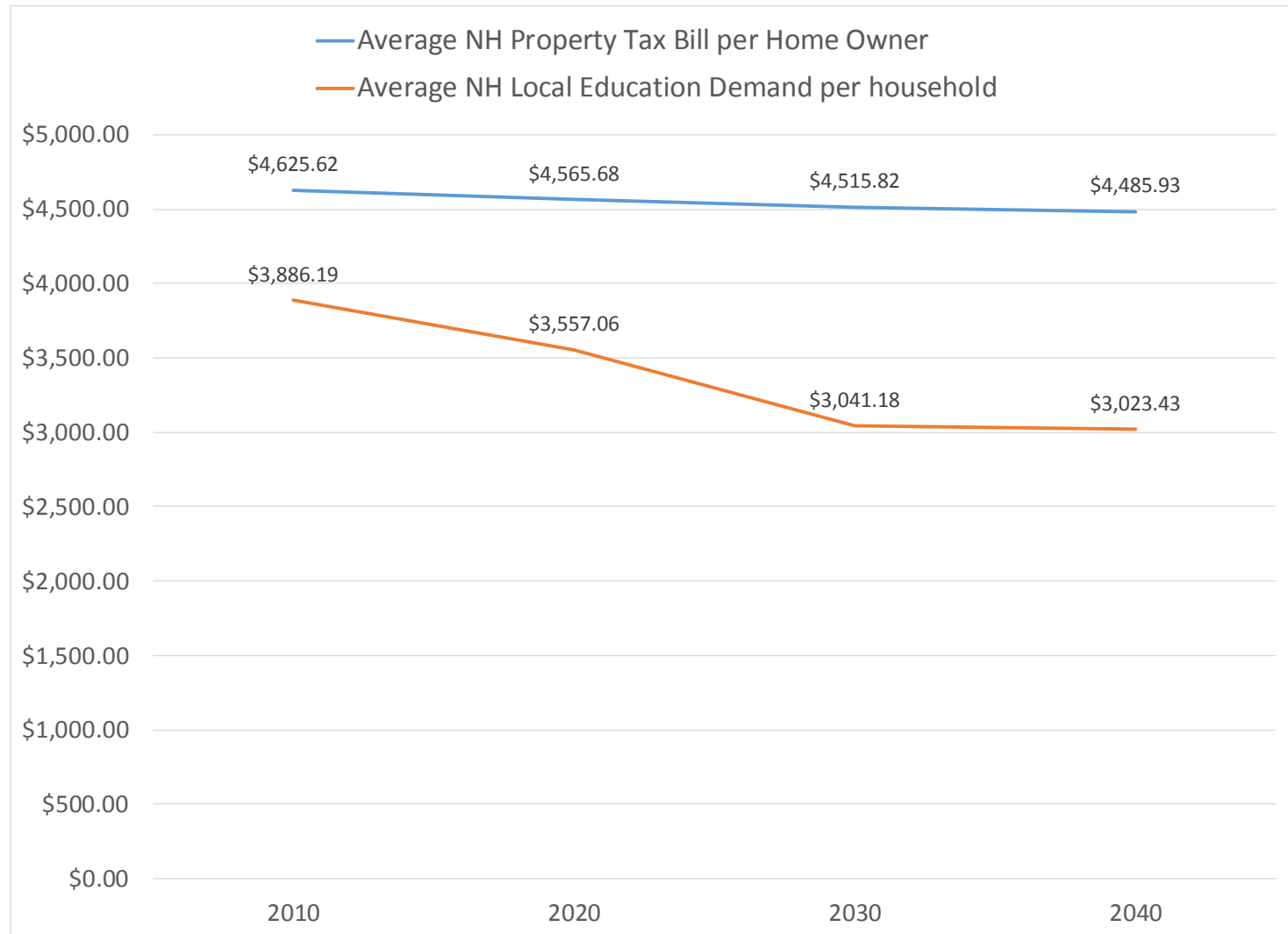
County LTC Medicaid Enrollment - 2015



What happens to county spending?



Fewer school kids in older households



Takeaways

- Well documented story of aging.
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- Potentially intergenerational conflict → how to make this a conversation about demographics, not aging.
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