



A silver society is awaiting Asia Pacific in the near future

Is Asia Pacific the “home of the elderly”?

Driven by improving socio-economic conditions and increasing life expectancy, the speed at which societies in APAC are ageing poses an unprecedented challenge.

Asia Pacific (APAC) is the fastest ageing region in the world with more than 200m people expected to move into the ranks of the elderly (aged 65 years and above) between now and 2030. This represents an increase of 71% in the number of elderly people, compared to increases of 55% in North America and 31% in Europe over the same period.

For comparison, Singapore’s elderly population will rise from 11 to 20% in the next 15 years, whilst it took France 49 years to do the same. By 2030, Japan will become the world’s first “ultra-aged” nation, with the elderly accounting for more than 28% of the population, whilst Hong Kong, South Korea, and Taiwan will be considered “super-aged”, with more than 21%. Many APAC countries are moving from a period when they reaped a “demographic dividend” to one where they face the prospect of paying a “demographic tax”.

Such a significant demographic shift will be accompanied by a host of financial and socio-economic risks affecting multiple stakeholders. Consequently, there is an urgent need to evaluate each country’s readiness to manage increasingly aged societies and to develop solutions that mitigate the associated risks. This report takes a deeper look into the impact of societal ageing on elderly healthcare costs in APAC.

The APAC region as a whole faces a common challenge in societal ageing. However due to the

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differences in demographics and epidemiological factors, and the level of healthcare and economic development, the nature and magnitude of the risks will vary. We define three broad groups within APAC, based on the extent of ageing and GDP per capita. As discussed in the full report, these three groups also show distinct patterns in the profile of healthcare cost drivers, infrastructure, and human capital. In turn, this allows the identification of key group-specific imperatives to manage the impact of societal ageing on elderly healthcare expenditure.

Spiralling cost of elderly healthcare

Societal ageing and the greater need for elderly healthcare poses significant risks to APAC countries for the following reasons. Elderly healthcare represents an immense financial burden and a risk to the fiscal health of countries. We estimate the cumulative elderly healthcare expenditure from 2015 to 2030 at over US\$20t in APAC.

Elderly healthcare expenditure is determined by multiple, interconnected supply- and demand-side cost drivers. We estimate that the cumulative elderly healthcare expenditure from 2015 to 2030 will reach US\$20t, which represents approximately half of the region’s healthcare expenditure during that period. To put this into perspective, this amount is equivalent to the combined GDP of the 14 markets in 2015. The annual cost by 2030 is US\$2.5t, five times the annual expenditure

of US\$500b in 2015, representing a compound annual growth rate (CAGR) of 7-21% across the respective markets. We believe these estimates are still conservative, as indirect costs (e.g., productivity loss by family carers) and capital costs (e.g., infrastructure construction) have not been included. The key driver in the growth of elderly healthcare expenditure is the medical cost trend, accounting for more than half of the incremental growth.

Critical challenges

As a result of the rising demand and cost of elderly healthcare, societal ageing poses three critical challenges that will significantly impact multiple stakeholders in the health ecosystem. The combination of increasing life expectancies, a sustained low-interest-rate environment, and growth in medical costs that exceeds growth in GDP present challenges to the following.

First is the lack of government healthcare funds. Escalating elderly healthcare costs may force governments to reduce non-healthcare expenditure, increase taxation, expand borrowing and fiscal deficits, and/or shift the burden of financial support for the elderly more to the private sector and individuals.

Second is the unviable medical insurance products for the elderly. The difficulty in accurately forecasting longevity risk and future medical costs results in premiums that are prohibitively expensive for most (if coverage is offered at all), who will also face steep increases in premiums as they grow older.

Last is the inadequacy of personal retirement income. Elderly healthcare costs will place a strain on retirement savings due to the inadequacy of social security and pension systems, the decline in intra-family support, and the high out-of-pocket payments for healthcare in many APAC countries. This could force elderly individuals to choose between spending on health and other living expenses.

Our analysis shows there is a significant gap in healthcare capacity in most APAC countries and that significant investment in both infrastructure and human capital will be required to meet future demand. Long-term care is of particular importance to an ageing population. Our projections show that APAC will face a deficit of 18.2m LTC workers, with China alone requiring 9.3m more professional caregivers, by 2030. The shortfall

Governments may be forced to increase access to healthcare, while relying on a shrinking workforce.



in LTC workers is mirrored by a lack of LTC facilities. For example, we estimate that Japan and South Korea each require 100,000 or more LTC beds by 2030.

In many developing countries, the poor “bankability” of healthcare infrastructure projects, due to the legal and financial uncertainty faced by foreign investors, results in an infrastructure gap. Whilst healthcare capacity building is normally a natural consequence of economic development, due to the speed of ageing in APAC, many young and developing countries may not have sufficient time to achieve a high level of economic development before the detrimental effect of societal ageing occurs.

Governments may be forced to increase access to healthcare, whilst relying on a shrinking workforce (and reduced income tax revenue). This could lead to increased fiscal deficits, which may trigger a rise in government borrowing and the diversion of funds from areas that can fuel economic growth, such as education, infrastructure, and R&D.

The increase in debt might also necessitate an increase in taxes and interest rates, which could place further downward pressure on economic growth. The above challenges highlight the need for radical changes to present public policy and business models of healthcare delivery and financing. However solutions to tackle these issues are complex and need time to evolve. Consequently, there is an urgent need for countries to prioritise these issues and start to implement reforms now.

Many stakeholders, complex solutions

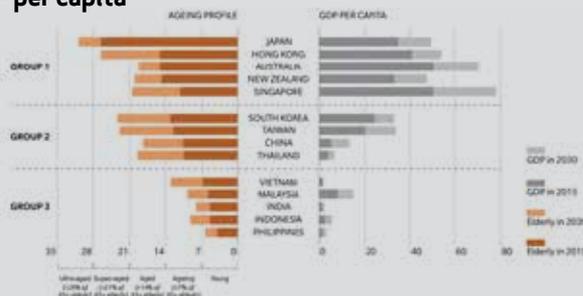
The unsustainable increase of elderly healthcare costs highlights the urgent need for solutions. However the healthcare ecosystem is complex, with multiple stakeholders, who often have conflicting priorities. The elderly individual (patient) at the heart of the ecosystem bears a particular responsibility, since his/her physical and financial health ultimately drives the demand for healthcare services.

Consequently, solutions that align the objectives of multiple stakeholders (e.g., value-based healthcare) will be the most successful in effecting change. Complexity in the healthcare ecosystem also extends across countries. Differences in the type and immediacy of ageing-related challenges mean that each country will need customised solutions to address its unique set of issues and constraints.

These differences in demographics, epidemiology, and economic development also present opportunities for arbitrage in the form of cross-border solutions, including healthcare tourism and the migration of workers from Asia and beyond, such as Africa where half of the global population growth will occur through to 2050.

Taking into consideration the cost drivers and stakeholders of elderly healthcare, we have identified four aspects of the ecosystem that most urgently require improvements. In this report, instead of discussing “traditional” strategies to combat societal ageing and healthcare costs, we discuss several “green shoots” — innovative solutions and concepts that could be

Ageing group in APAC according to elderly proportion and GDP per capita



Source: APAC analysis of data from Oxford Economics, World Bank, UN Population Division

ANALYSIS: AGEING ASIA

cultivated to improve the sustainability of healthcare provision for the elderly in APAC.

The “Internet of Things” and use of Big Data analysis (e.g., through telematics, wearable technologies, and online behaviour tracking) have the potential to improve the measurement of risk. This could allow more accurate insurance pricing that reflects the individual’s risk and the distribution of healthcare costs during a person’s later years. Together with innovative approaches to structuring premium payments (e.g., front loading of premiums during working years), this may enable insurers to offer insurance at lower premiums.

Equity reverse mortgages are challenging for insurers due to the longevity risk, interest rate risk, and asset price risk that they have to assume. As a consequence, their products may not be financially attractive for consumers. In addition, there are cultural and social barriers to selling of family assets, particularly in Asia.

Accordingly, innovative products are needed to improve the take-up rate. For example, hybrid products combining reverse mortgages with life- and non-life insurance products, minimising the inherent risks, and providing an option for the asset to be retained by the borrower’s spouse (or heirs) at the termination of the loan period.

Innovative digihealth tech

The introduction of integrated value-based health delivery models enabled by digital health technologies (e.g., electronic health records and remote patient monitoring) have shown promising initial results in bending the cost curve through lower utilisation of services and better clinical outcomes. These are achieved by improving the coordination of the care process, including both the prevention and the management of health conditions.

The development of innovative digital healthcare technologies, such as wearable health trackers, have the potential to improve patient outcomes through greater adherence to treatments and timely access to care. With rapid advancements in this technology, an ever larger set of disruptors in the healthcare ecosystem will transform the management of elderly healthcare.

The current period of low interest rates presents opportunities for more affordably tapping international funds and well organised public-private partnerships. Consequently, it is imperative for governments in developing APAC countries to address the main obstacles impeding foreign investments, such as uncertainty in the legal and financial systems. This will mitigate the risks and uncertainty for private foreign investors, whilst upgrading and commoditising infrastructure investment as a viable alternative asset class.

In addition, the continued growth of crowdfunding opens its potential use in healthcare infrastructure projects (e.g., a multi-purpose community centre was successfully crowdfunded through Spacehive.com). However the ability to scale up this approach to fund billion-dollar infrastructure projects will require further developments in regulation, technology, and financing

options. Many APAC countries are transiting from a period when they reaped a “demographic dividend” to one when they are concerned about the prospect of paying a “demographic tax”.

It’s clear that there is an urgent need to understand each country’s readiness to manage the increasingly aged societies and mitigate the associated risks. Many opportunities to capitalise on an ageing society depend on obtaining net positive economic contributions from elderly populations, or at least minimising the negative impacts.

“Demographic dividend”

Given the complex nature, there are many systemic risks associated with societal ageing that affect multiple stakeholders. Corporates need to consider whether there are potential business models that can benefit from both the growing elderly workforce and the growing demand for products marketed to the elderly. Governments need to manage labour market risks, and consider whether they need to incentivise citizens to work beyond standard retirement ages, or to encourage migrant workers.

Furthermore, the adequacy of pensions (or retirement income more broadly) is a key consideration for governments, corporates, and individuals alike. Another key consideration is the need to maintain a level of healthcare for the elderly population. Current data shows that increased longevity correlates directly with an increased prevalence of non-communicable diseases (NCDs) such as cancer and diabetes, and greater care dependency.

The higher funding required to satisfy this rising need for social support comes simultaneously as more people leave the workforce and stop contributing to the economy. This creates a positive feedback loop that amplifies the pressures on elderly healthcare management. The problem is exacerbated if traditional familial care is eroded, alongside with its financing sources. In a perfect world, elderly healthcare — in fact healthcare for everyone — would be available and affordable to all who required it. *From Marsh & McLennan Companies’ “Advancing into the Golden Years: Cost of healthcare for Asia Pacific’s Elderly”*

Elderly population by region in millions



Source: APRC analysis on data from Worldbank and UN Population Division