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Fitch Ratings: Aging Population an Adverse Tide Turn for U.S. States

Link to Fitch Ratings' Report(s): U.S. States and the Growth Implications of an Aging Population

Fitch Ratings-New York-24 October 2018: The United States population is aging at a rate that will hurt revenue growth for states over time, particularly for several states that will be "super aged" within a decade, according to a new Fitch Ratings report.

The U.S. population is projected to age considerably over the next 10 years, with the over-65 population in 17 states eclipsing 20% (or what the United Nations refers to as "super aged"). This is a somewhat surprising statistic considering that no state was deemed "super aged" as recently as two years ago. A closer look also shows that several other states will be within striking distance of "super aged" status by 2026.

This rapid increase in aging populations will affect the finances of state governments in two general ways, according to Fitch U.S. Public Finance Group Credit Officer Olu Sonola.

"First, the working-age population shrinks as the population ages, constraining economic and revenue growth," said Sonola. "Second, a rapidly aging demographic profile changes a state's expenditure profile as expenses related to healthcare and retirement cost grow."

Among the 17 states that will have "super aged" populations by 2026 are Connecticut, Michigan, Pennsylvania and West Virginia. Additionally, New York, New Jersey and Illinois are among some of the other states that will fall just short of "super aged" status less than a decade from now.

With several states facing declines in working age population in the coming years, improvements to labor utilization and productivity could help stem the prospect of falling revenue growth. "Economic growth prospects for many states with negative demographic trends will likely hinge on improvements to labor productivity," said Sonola.

Another interesting wildcard could be immigration. Net positive international migration will likely mitigate domestic out-migration in many states. However, a more restrictive national immigration policy environment would likely accelerate population and working-age population declines in states like New York, Illinois, New Jersey, Pennsylvania, Massachusetts and Rhode Island.

"U.S. States and the Growth Implications of an Aging Population" is available at www.fitchratings.com or by clicking on the above link.

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