Dependency Ratio

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What is the Dependency Ratio?

The dependency ratio is a measure of the number of dependents aged zero to 14 and over the age of 65, compared with the total population aged 15 to 64. This demographic indicator gives insight into the number of people of non-working age, compared with the number of those of working age. It is also used to understand the relative economic burden of the workforce, and has ramifications for taxation. The dependency ratio is also referred to as the total or youth dependency ratio.

The dependency ratio is a demographic measure of the ratio of the number of dependents to the total working-age population in a country or region.
This indicator paints a picture of the make-up of a population compared to its workforce, and can shed light on tax implications of dependency.
As the overall age of the population rises, the ratio can be shifted to reflect the increased needs associated with an aging population.

What Does the Dependency Ratio Tell You?
A high dependency ratio means those of working age, and the overall economy; face a greater burden in supporting the aging population. The youth dependency ratio includes those only under 15, and the elderly dependency ratio focuses on those over 64.

The dependency ratio focuses on separating those of working age, deemed between the ages of 15 and 64 years of age, from those of nonworking age. This also provides an accounting of those who have the potential to earn their own income and who are most likely to not earn their own income.

Various employment regulations make it unlikely that individuals less than 15 years old would get employed for any personal income. A person who turns 64 years old is generally considered to be of normal retirement age and is not necessarily expected to be part of the workforce. It is the lack of income potential that generally qualifies those under 15 and over 64 as dependents as it is often necessary for them to receive outside support to meet their needs.

An Analysis of Dependency Ratios

Dependency ratios are generally reviewed to compare the percentage of the total population, classified as working age, that will support the rest of the nonworking age population. This provides an overview for economists to track shifts in the population. As the percentage of nonworking citizens rises, those who are working are likely subject to increased taxes to compensate for the larger dependent population.

At times, the dependency ratio is adjusted to reflect more accurate dependency. This is due to the fact those over 64 often require more government assistance than dependents under the age of 15. As the overall age of the population rises, the ratio can be shifted to reflect the increased needs associated with an aging population.

Example of the Dependency Ratio

For example, assume that the mythical country of Investopedialand has a population of 1,000 people, and there are 250 children under the age of 15, 500 people between the ages of 15 and 64, and 100 people age 65 and older. The total dependency ratio is 50%, or 250/500.

Limitations of the Dependency Ratio

The dependency ratio only considers age when determining whether a person is economically active. Other factors may determine if a person is economically active aside from age including status as a student, illness or disability, stay-at-home parents, early retirement, and the long-term unemployed. Additionally, some people choose to continue working beyond age 64.

What Is the Employment-to-Population Ratio?

The employment-to-population ratio measures the number of workers currently employed against the total working-age population of a region.

What Is the Working-Age Population?

The working-age population in a region consists of those in a range of ages, typically 18-64 or 15-64, considered able and likely to work.

Baby Boomer Definition

A baby boomer is a person who was born between 1946 and 1964 and belongs to a generational group that has had a significant impact on the economy.

Labor Force Participation Rate

The labor force participation rate is a measure of an economy’s active workforce. The rate for the U.S. stood at 62.7% as of March 2020.

Consumer Price Index (CPI) Definition

The Consumer Price Index measures the average change in prices over time that consumers pay for a basket of goods and services.

How Lenders and Banks Use Your Debt-to-Income (DTI) Ratio

The debt-to-income (DTI) ratio is the percentage of your gross monthly income that goes to paying your monthly debt payments and is used by lenders to determine your borrowing risk