Asia's unique retirement challenge

Population ageing is a global phenomenon, but what sets Asia apart is the sheer scale and speed of its ageing, says **Mr Yves Guérard**, co-author of the Working Paper "*Reducing Disparities and Enhancing Sustainability in Asian Pension Systems*". In this summary which is an abstract of the Working Paper published in October 2012 jointly by the Lee Kuan Yew School of Public Policy and the Asian Development Bank, he recommends that Asian countries embark on systematic pension reform now to meet the challenge of delivering affordable, adequate, and sustainable economic security to their fast-growing elderly population.

A look at the dependency ratio (the ratio of the older segment to the working age population) makes the difference obvious. Countries around the world are ageing but Asia is ageing much faster.

A 10% ratio means there are 10 people of working age to support each in golden age; when the ratio reaches 30% it means only 3 actives per retiree. While countries in Europe or North America will see the old age burden double by 2050, the probability for Asia is that it will triple. Only Latin America shares the same challenge while Africa's burden is smaller and will remain so.

However that conventional graph assuming people on average work until age 65 is hiding a more painful truth: in Asia the current average retirement age is much lower than 65, mostly between 55 and 60 which means less workers and more retirees.

In the Working Paper which draws on a book covering a sample of eight countries in Asia, these countries are younger than Asia on average, and using age 60 as the current cut-off is optimistic but nevertheless, it shows clearly a more painful transition. However if these countries harmonise their retirement ages to 65, the increase is dramatically reduced and close to a more normal doubling.

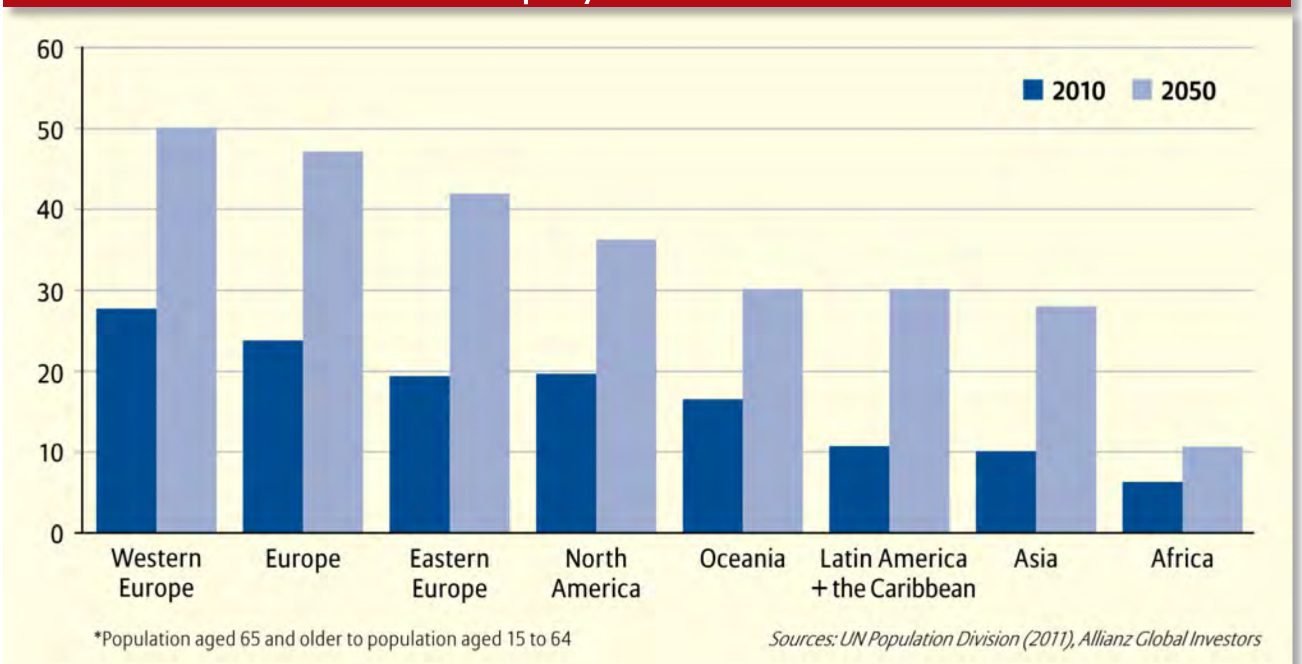
Living longer should mean working longer!

Longevity has increased significantly over the last decades and the reduction in mortality continues. Longevity can be a bonus for the economy increasing the standard of living

Elderly ratios

Country	% age 60 and above		Percent	% age 65+	Percent
	Now	2050	Increase	2050	Increase
China	12.3%	29.9%	243%	22.7%	185%
Indonesia	8.9%	22.3%	251%	16.4%	184%
Korea	15.6%	33.2%	213%	27.4%	176%
Malaysia	7.8%	20.8%	267%	15.4%	197%
Philippines	6.7%	19.5%	291%	13.9%	207%
Singapore	16.0%	35.0%	219%	28.6%	179%
Thailand	11.5%	27.1%	236%	21.1%	183%
Vietnam	8.7%	23.5%	270%	17.1%	197%

Depency ratios 65+/15-64



and the time parents can enjoy seeing their children and grand-children.

But if the bonus is not properly shared between career and retirement periods, it becomes a liability. If career durations remain fixed, the proportion of lifetime spent in retirement compared to the working period will increase at the expense of sustainability.

In the old model of working 30 years and surviving 10 years on average the proportion was 33%. Where career durations and retirement ages have remained unchanged while longevity increased to 18 or 21 years, the proportion has jumped to 60% or 70%.

Such ratios are unsustainable but despite the clear warnings from longevity projections, many countries will miss out on the demographic bonus that could repair sustainability around 2025 as shown below.

Procrastination still prevails as noted in the Working Paper:

"Instead of anticipating the ageing trend, sponsors are struggling to meet the costs of current longevity, thus the next generation will need both to postpone its own retirement and support the higher cost of pensions payable to a generation that retired too early. There is not enough room in the current budgets and lifestyles for delivering on the promises made unless resources are increased significantly or promises are adjusted to the capacity to finance them."

Longevity

Country	Life expectancy at age		
	60 in 2025	65 in 2025	65 in 2050
China	21	17	18
Indonesia	19	15	17
Korea	23	19	20
Malaysia	21	17	18
Philippines	20	16	17
Singapore	24	20	21
Thailand	21	17	18
Vietnam	21	17	18

In the table below, "Expected time in retirement", comparison shows clearly how obsolete career patterns aggravate the problem in Asia by comparison with other countries. Except for Philippines, people in Asia retire earlier and spend more time in retirement; the imbalance is unsustainable for the national economy.

Promoting fairness and sustainability

As the burden increases, how it is shared becomes more critical, putting pressure on fairness and disparities.

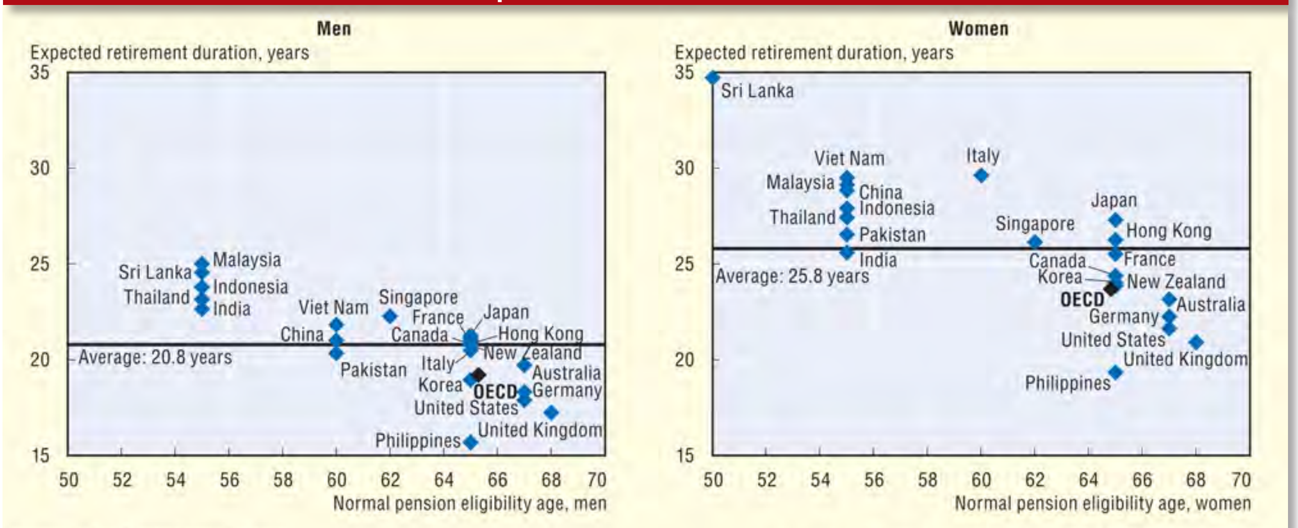
Within most countries the disparities in coverage and level of benefits are aggravated by disparities in retirement ages since workers in the public sector enjoy both higher benefits and earlier retirement while workers in the informal sector have no retirement and no benefits. Unfair sharing will become unacceptable if combined with scarcity of resources due to demographic imbalances. More importantly, the risk of scarcity increases as there will not be enough people producing the goods and services needed by more retirees surviving longer.

In Asia the disparities in the coverage are relatively high in most countries. The public sector, mainly civil servants and armed forces, are well covered, nearly 100%, but the proportion covered is far from 100% even in the formal sector and the level of benefits is much lower in the private sector. The ultimate disparity is no coverage at all, which is the case for most of the informal sector that in Asia often comprises over 50% of the work force. As fertility drops and more people move to the cities, relying on the extended family support will no longer be a way out for that sector.

Decision makers tend to shy away from difficult decisions and some justify their procrastination by expressing a desire to create jobs for the young unemployed. That is a false argument based on the fallacy of a fixed number of jobs and contradicted by the facts: there are more jobs for the young in countries where more older workers remain at work.

A country's biggest asset is the capacity of its labour force to engage in productive work. Keeping at work able and trained workers that have accumulated skills and experi-

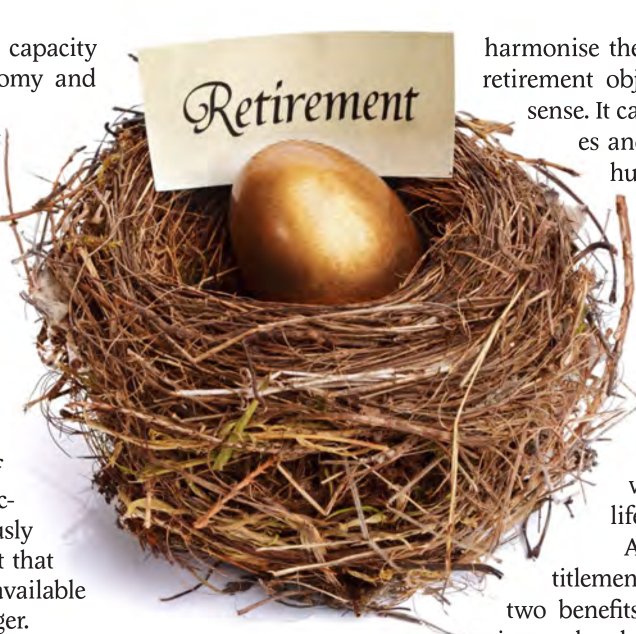
Expected time in retirement



Source: OECD pension models.

StatLink http://dx.doi.org/10.1787/888932553938 ence increases the productive capacity available to develop the economy and create more jobs.

Every time an able worker is forced to retire, the government loses a taxpayer and GDP is reduced. The sooner this waste stops, the more human resources will be available to expand output, enhance the standard of living, and the coverage of social protection systems.



Improving sustainability through increasing coverage of those in need rather than reducing the coverage of the generously covered will be less painful but that requires increasing resources available by keeping people at work longer.

Delink the entitlement age from retirement and link it to longevity!

Extending the duration of workers' careers is an optimal solution but it requires stronger proactive leadership to harmonise the labour policy with national retirement objectives that make economic sense. It calls for gradual cultural changes and more flexibility to optimise human resources deployment.

Communications and education should start now! The age at which public pension becomes available should be described as "entitlement age" while people could actually leave the work force earlier or later depending on the type of work, their capacity and their life style preferences.

An automatic link of the "entitlement age" to longevity would yield two benefits: provide long-term advance warning and reduce the political difficulties of increasing it!

Mr Yves Guérard is an actuary and international consultant. He was Secretary General of the International Actuarial Association from 1997 to 2010.