

21st Century Risks & Rewards for Actuaries

IACA, PBSS and IAAust Colloquium

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SYNOPSIS

Implications of Increased Aged Dependency and What to Do about It

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The prospect of aging populations in many of the nations of the world has led to an extended policy discussion about the structure and cost of pension systems. To a considerable extent this discussion was brought to the fore by a report, *Averting the Old Age Crisis*, published by the World Bank in 1994. Since that time many nations have begun lengthy reviews of their pension policies and a remarkable number of them have adopted a range of changes to their retirement systems—some have marginally changed existing plans but many have significantly re-engineered traditional systems. The focus of much of the discussion around policy deliberations on these systems has been on controlling pension costs in light of anticipated increases in aged dependency. In some cases, this discussion has led to consideration of cutting pension benefits to offset the prospects of increased dependency. In other cases, the discussion has led to more basic structural considerations, such as whether defined benefit or defined contribution structures are superior, whether a shift from pay-as-you-go financing to funded systems will reduce costs, and so forth. While pension structures and financing approaches may be important, pension systems will remain allocation devices whereby the output in our economies is divided among those who produce the goods and services and those who do not. In that context, the focus on pension structures may be missing more important considerations that policymakers will have to address if we are to successfully deal with the economic implications of population aging.