



The Four Pillars Newsletter

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The Four Pillars Project: 25 Years On

by Orio Giarini

A quarter of a century ago, in its search to identify key issues for the future of the insurance industry and its impact on business and society, The Geneva Association started a programme on the lengthening of life cycles in societies, the promotion of an extended active life and pensions, called "The Four Pillars". It was and it is still based on many considerations, such as global socioeconomic studies, extended life cycles, better health and growing populations.

A recent study developed by the United Nations¹ confirms that in the year 2050 the world population will include almost two billion people over 60 years of age, corresponding to about 22 per cent of the global population. The majority will live in those countries we define today as developing. Keeping this figure in mind, it is obvious that the lengthening of the life cycle is a unique revolutionary phenomenon, having a profound impact on contemporary and future societies. It concerns the social, political and economic institutions in a far deeper sense that is still commonly perceived.

People in older age, over 60, 70 and 80, have always existed. But they were special cases representing a definite minority. Now the lengthening of the life cycle concerns the majority of the population and is a mass phenomenon. An analogy can be found in the economic history of industrialised countries: from the beginning of the 20th century, the poor (and the illiterate) have become a minority after having been for centuries a majority. The lengthening of the life cycle is also a worldwide phenomenon. From the "older" industrialised countries, it is extending to the large majority of communities everywhere. The number of people over the age of 60 coming from the developing and industrialising countries will be determinant and overwhelming.

The lengthening of the life cycle is often presented (erroneously) as the problem of "ageing of populations" and as such as an indication of decay of the industrialised world: in fact, the "older" countries have the great advantage of both offering a longer (and better) life to their citizens and of progressing in the delicate social, economic and political adaptations required by the new demographic reality. Such problems and experiences will concern the rest of the world more and more.

What is really changing is the notion of older age itself. Taking into consideration the ability of each individual to be autonomous (in physical and/or mental terms), many studies and surveys indicate that the average 60 or even 80 year old today equates a person about 15 to 20 years younger living one century or more ago. Statistics based not on age, but on physical capacity, indicate in fact that in many countries, the population is not "ageing" but "rejuvenating". In effect, we live in a "counter-ageing society".

The lengthening of the life cycle is clearly the result of economic and social advances strictly linked to the scientific and technological advances, whether in biology, medicine, health control, nano technologies, nuclear applications, communication, instrumentations, etc. All produce almost every year

¹ United Nations [Department of Economic and Social Affairs Population Division](http://www.un.org/esa/population/publications/worldageing19502050/), *World Population Ageing 1950-2050*, <http://www.un.org/esa/population/publications/worldageing19502050/>.

significant advances for the human body and mind. The lengthening of the life cycle, in all its aspects, is then clearly the fundamental issue to keep in mind when discussing social policies.

Of course, the lengthening of the life cycle implies redefining the period of one's active (professional) life: many studies and statistics of the World Health Organization (WHO), among others, are devoted to this issue. Active life should be considered in two different categories: remunerated work on one side and unpaid or volunteer activities on the other. In fact, the two are complementary; this is more and more the case in the post-industrial service economy.

Regarding remunerated work and employment, the lengthening of the life cycle implies the open possibility (and in many instances the necessity) of extending the retirement age. At the time of the first provisions for retirement, these were fixed at the average age of death. Today, at the age of retirement, in many countries, life expectancy tends to reach 15 to 20 years. Satisfactory employment, based on adequate training and education systems (including preparing to change type of jobs according to age conditions), is in most cases the necessary condition to a healthier life. In any case, work and an active life should be perceived as an advantage or even a privilege and ultimately as a right for all human beings. The notion of considering, for instance, work as a kind of "punishment" in older age is fundamentally erroneous and counter-productive for all individuals. Education and experience should help everybody to prepare for being active and productive in new "lighter" sectors after 50 or 60 years of age. The basis of this is to enhance human capital at all ages; marginalisation must be reduced as much as possible.

Therefore, it is very important to consider and promote part-time employment as a basic element for a well-balanced social security system. Among other things, it is an important issue for all those working over the ages of 60 and 65. As it happens in some northern European countries, part-time pensions will be more and more coupled with part-time work. Gradual retirement plans and the perspective of the "Four Pillars system"² are also very important.

Improvements in our overall health obviously mean a great increase in health costs. One could reach one's time of death without really incurring any costs not so long a time ago. Today, we have to pay for controlling, eliminating or reducing the effects of all sorts of illnesses or accidents. We already spend a lot of money to buy and use an automobile which allows us to move faster: we will probably one day spend even more in order to remain in better health, which allows us to live and move. We are, in fact, richer also because we can spend more on health (as is the case for cars). From an economic point of view, retirement and health costs imply the building of financial capabilities, under the form of redistribution (*de facto* fiscal systems) and under the form of private and collective savings (or reserves). We are dealing here with nothing less than a new definition of the notion of Capital (its building and utilisation) in the post-industrial service economy.

In this context, there is a greater and greater role to play for the public and the private institutions. The point is not to oppose the two, but rather to optimise their necessary complementarity. The contribution of the insurance industry is essential here, and its social and economic value in managing the human uncertainties and vulnerabilities is more and more a key for the present and the future of the "Wealth of Nations". Today, Adam Smith, instead of putting the insurance business at the margin of the industrial revolution as he did over two centuries ago, would surely put it at the centre of the new service economy.

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*This article was published by **The Geneva Association** (The International Association for the Study of Insurance Economics). Articles, documents and recent publications of the Association can be found on its website, at www.genevaassociation.org*

² See more on this at the site of the programme: http://www.genevaassociation.org/Research_Programme/Four_Pillars_Pensions.aspx, based on the three pillars of the Swiss system, plus the fourth pillar referring to partial employment.