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LIFE AND PENSIONS

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EDITORIAL

Somewhere in-between

By The Geneva Association Staff

At the end of January, the Pew Research Global Attitudes Project issued the results of its survey on global attitudes about the challenges posed by ageing populations. The results provided some interesting insights, not least that, while in East Asia, there exists considerable concern about the growing proportion of older people in the population, such concern was much less evident in the U.S. This is, perhaps, surprising in a country where a major city, Detroit is bankrupt as a result of its pension obligations and as the costs of retirement are soaring. But a careful analysis of the results reveals that the U.S. is ageing much more slowly than many other countries—by 2050, only about a fifth of the population (21.4 per cent) is expected to be aged 65 or older, in contrast to Japan's 36.5 per cent, or South Korea's 34.9 per cent (up from a very low 11 per cent in 2010) where more than a third of the population is expected to be aged 65 or older in 2050. There may be another consideration driving what might appear to be a complacent attitude—Americans are one of the few groups who believe that it is the individual who is largely responsible for ensuring he or she will have an adequate standard of living in old age. So these figures shed light on the otherwise surprising sense of calm about the global ageing challenge in the U.S.

In this newsletter, we look at the current state of the pensions systems in four emerging markets on different continents, Chile in South America, the Gulf Cooperation Council states in the Middle-East, Turkey in Central Europe, and China in East Asia. The challenges facing each system are rather different, not only as a result of their population age profiles, but also as a result of their pensions systems and the measures that have already been taken to address future needs and trends. For example, Jorge Claude reports that Chile did well, in the face of growing life expectancies, to move from a pay-as-you-go system to one based on individual capitalisation. The individual capitalisation programme has also had a beneficial effect by boosting the economy, he writes, but further upgrading of the system is required to reduce poverty in retirement and ensure that as retirement expectancies increase, a reformed system is needed to at least sustain its current level of support, let alone meet the increasing standards of retirement expectations.

The issues of pensions as well as the role of the life insurance industry in the Middle East are quite different writes Kai-Uwe Schanz. The hydrocarbon wealth of the Gulf Cooperation Council countries has enabled highly generous social security systems that have not created much pressure for individual provisions for retirement. Religious reservations about insurance and the limited ability of blue collar workers resident in the region to afford retirement provisions have also led to the current low-levels of uptake. However, that situation is changing and takaful represents an opportunity for the expansion of products to support security in retirement. Schanz concludes by stating that insurers must be more proactive in areas such as family takaful, microinsurance and other product development if they are to be successful and capitalise on the signs of increased interest in pension products in the region.

Turkey has a youthful population according to Sevtap Selcuk-Kestel and Derya Cidal's article, and reforms in 2012 that increased the attractiveness of private pension insurance have already doubled subscriptions to these programmes. However, a culture of both early retirement and low statutory retirement ages means that the country suffers from higher retirement expectancies compared to most OECD countries. Still, Turkey's demographic advantages and economic stability are an opportunity for further reforms to address this and other social security challenges facing the country according to the authors.

In China, the one-child policy, low returns on investment and a significant gap between the contribution rate and the replacement rate are cited as the key challenges facing the Chinese pension system according to Hong Mao's article.

Evidence of reforms and changes in attitude towards retirement security systems are also found in our final two articles. Beyond the current challenges in the developing world, Michael Littlewood looks at the past by detailing the long history of the New Zealand pensions system founded in 1898. He reports that, while New Zealand was one of the first countries in the world to adopt a form of pensions system, it was by no means available to all, with over two-thirds of over 65 year old ineligible to receive it.

Finally, looking at the present and the future, Jürgen Deller provides some selected findings from a representative study due for publication next year on potential value of older workers and their transition phase into retirement in Germany. The Transitions and Old Age Potential (TOP) study aims to provide more details on the behaviour of retiring cohorts in Germany, including the types of transition into retirement, the influence these transitions have on activities in retirement, and who continues work in retirement and why. In some selected results from the study, Deller reveals the significant contribution that retiring workers make to the economy and society, but also highlights the considerable untapped potential that these cohorts represent. Certainly, as The Geneva Association has advocated through its Four Pillars (now Life and Pensions) programme, one part of the solution to the challenge of global ageing is in the reconsideration of current cultural norms about the transition into retirement. For more information on the Life and Pensions programme, please click here.

This series of articles illustrate the various challenges facing our society to finance individual old-age income. Numerous economic actors have a role to play in that respect, whether governments, individuals, employers and insurers. There is a current trend towards greater individual responsibility for retirement security and the insurance industry has a unique role to play on how best to help retirees accumulate asset and concert those assets into income. Insurers can also be of assistance in bridging the gap between government pension plans, employer pension plans and individual retirement plans to help capture assets that will compensate the lack of productive income once they retire. At the end, not only should insurers be involved in the debate on how to reform pension systems, but most importantly they should raise awareness about an efficient management of pension. Not only will it benefit the industry itself but also society in general. We believe that the articles published in this newsletter contribute to this debate.