

Policy Options to Support Asia's Growing Elderly Population

Asia-Pacific Population & Policy summarizes research on population and reproductive health for policymakers and others concerned with the Asia-Pacific region.

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Populations are aging everywhere in the world, but Asia's elderly population is growing at a rate unprecedented in human history. In 1950, there were 55 million men and women in Asia age 65 and above. In 2000, there are 207 million, and in 2050, there will be a projected 865 million—20 percent of the adult population.

At a time when Western policymakers are reevaluating pension programs in an effort to contain costs, many Asian countries have barely begun to implement programs for the support of the elderly. Some of these countries will have to develop better legal structures, financial markets, and administrative mechanisms if they are to establish and maintain effective programs for old-age support. Given the pace of population aging in Asia, policymakers will need to act quickly.

This issue of *Asia-Pacific Population & Policy* examines four areas in which policy options are available to improve financial support for the elderly. These are: (1) labor and retirement policies; (2) policies affecting traditional family support systems; (3) policies that encourage saving and investment; and (4) government and employer-sponsored pension schemes.

Information is based on a study of population momentum and population aging recently completed at the East-West Center. This project relies primarily on demographic data prepared by the United Nations for the 32 countries in East, Southeast, and South Asia with

populations of 150,000 or more. The Asia/Near East Bureau of the United States Agency for International Development (USAID) provided funding to support this work through a subcontract with the POLICY Project.

LABOR AND RETIREMENT

With economic development, workers everywhere tend to retire at younger ages. In Asia, the estimated median age of retirement for men dropped from 67 in 1960 to 63 in 2000. In 1950, 38 percent of Asian men and women age 65 and above were still in the labor force (Figure 1). In 2010, only 22 percent of men and women in this age group will be working. This trend has important implications for workers and their families and for national economies as a whole.

If workers retire earlier and also live longer than in the past, more resources will be required to support an extended period of retirement. Some workers may amass enough personal savings to support themselves through old age. In fact, such an accumulation of wealth may be the primary reason why many Asians are retiring earlier than in the past. Other workers may be forced to retire because of ill health, an economic downturn, or a mandatory retirement age. This group will probably need additional resources to support their old age—either from younger members of their own families or from a social-security or pension scheme.

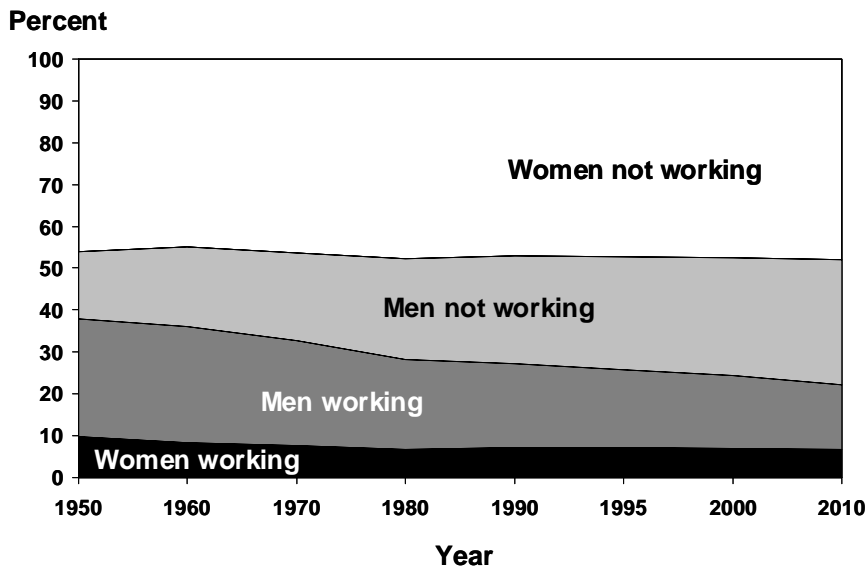


Figure 1 Labor force participation of men and women age 65 and above in Asia, 1950–2010

Note: The percentage of older Asians who are still working goes down sharply over this 60-year period almost entirely because men are retiring earlier than in the past.

Early retirement diminishes the labor pool, an effect that may become more important in the future as the proportion of working-age adults in Asian populations remains steady or declines. In the absence of substantial international migration, the only way to increase the labor supply will be to bring more of the elderly—and more women—into the work force.

Government and private-sector policies affect retirement decisions in several ways. Studies in many countries have shown that expanding pension and social-security programs tend to encourage early retirement. Asian companies have also used compensation schemes to encourage older workers to retire early. Such measures have been widespread in South Korea, for example.

Because wage systems in many Asian countries are based on seniority, employers may believe that older workers are receiving wages and benefits that are too high relative to their productivity. Several structural impediments, created by firms or labor unions or imposed by governments, may also affect older workers by reducing the flexibility of employment practices.

Most governments throughout the world set mandatory retirement ages, and many firms have inflexible rules about work hours that make it impossible for older workers to retire gradually by working part time. Rigid, seniority-based wage systems do not allow older workers with diminished productivity to remain employed at reduced wages.

Mandatory retirement ages tend to be lower in developing countries than in countries that are more economically advanced. In the Asian countries covered by this project, retirement ages range from 50 to 65. Low retirement ages may initially have reflected low life expectancies and poor health status in developing countries, but many countries have been slow to raise retirement ages as health and life expectancy have improved. In Singapore, for instance, the retirement age is still 55. China, Vietnam, Pakistan, and Sri Lanka also impose a lower retirement age for women than for men, despite the fact that women generally live longer than men and may spend many years in old age without employment or a spouse to provide financial support.

One clear policy option is to increase mandatory retirement ages or to eliminate them altogether. A second option is to introduce a system of sliding pension benefits determined by the age at which an individual chooses to retire. Monthly benefits would be lower for workers who retire early and higher for others who choose to work longer so that expected lifetime benefits are equalized. Such a pension system provides no financial incentives for retiring either early or late.

Employers will be much less reluctant to hire and retain older employees if they have the flexibility to hire older workers on a part-time basis, to vary responsibilities as the capabilities of older workers change, and to pay a wage commensurate with productivity rather than one based on seniority. Such flexible employment options will become increasingly attractive to Asian employers as the growth of the labor force slows down.

Flexible and part-time employment options may be especially attractive to women, who make up the majority of elderly populations. Occupational retraining programs and general educational upgrading will allow older men and women to take up new occupations and to cope with technological change in the workplace.

FAMILY SUPPORT SYSTEMS

In most traditional Asian societies, the elderly live in extended, multigenerational households and rely primarily on their adult children for financial support and personal care. Today, the traditional family support system is under pressure from demographic, social, and economic change. In countries where fertility has been low for decades, the elderly have few adult children to provide support, and many of these children have moved away from

their family homes. Women are entering the work force in increasing numbers and have less time than they did in the past to care for elderly family members.

It is not clear how quickly or to what extent these pressures will undermine traditional family support systems. According to a 1994 World Bank report, 92 percent of the elderly in Thailand and the Philippines, 83 percent in China, and 82 percent in Malaysia were living with children or family during the 1980s. In Japan with its more advanced economy, only 69 percent of the elderly were living with children or family, but this proportion was still much higher than in the United States (at 13 percent).

Public policy may have an important influence on the role of family support systems in the future. Several Asian governments have adopted policies to encourage family care for the elderly. In Singapore, children are now legally responsible for the support of their elderly parents, while the Malaysian government provides families with tax incentives for elderly care. Some East and Southeast Asian countries are subsidizing adult day care and other support services aimed at helping children care for their elderly parents, and Malaysia and Singapore have revised their public housing policies to accommodate multigenerational living arrangements.

PERSONAL SAVINGS

Rapid population aging in Asia has been accompanied by a dramatic increase in savings and investment. In 1960, investment rates were low in countries such as South Korea, Singapore, Malaysia, Indonesia, and Thailand, but by 1990, these countries had some of the highest investment rates in the world (Figure 2). Over the same 30-year period, investment as a percentage of gross domestic product (GDP) went down in Bangladesh and Pakistan.

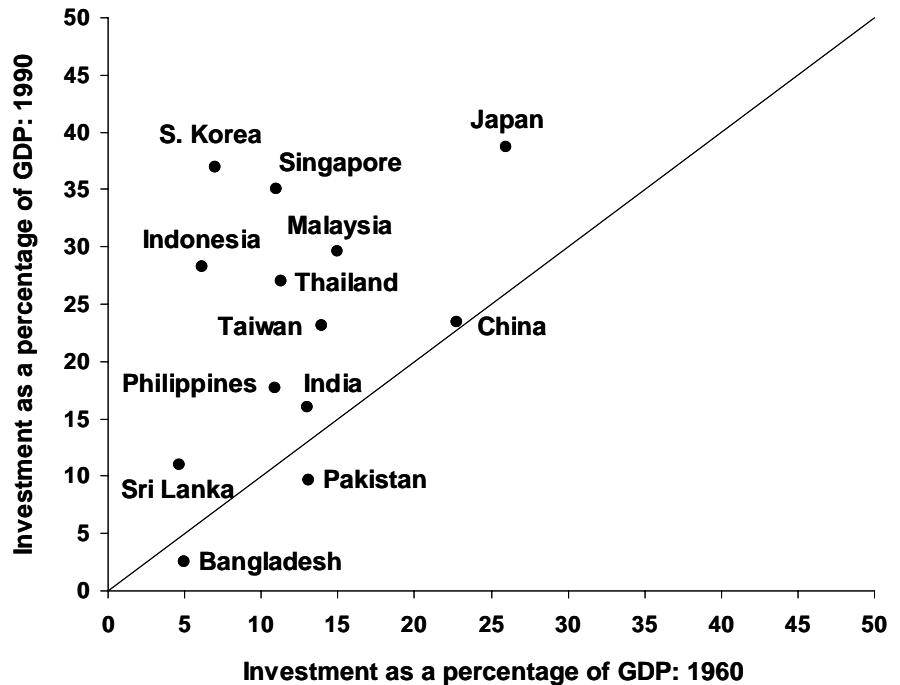


Figure 2 Investment as a percentage of gross domestic product (GDP), 1960 and 1990

Note: Countries that experienced sharp increases in investment rates over the 30-year period (with dots well above the trend line) were characterized by rapid economic development.

In addition to providing retirement income for individuals, a high rate of personal saving has important implications for national development. The dramatic increase in saving and investment in some Asian countries has played a decisive role in the region's unprecedented economic growth.

Policymakers have several options if their goal is to encourage workers to save toward retirement. One priority is to ensure that the nation's financial institutions provide attractive and secure long-term investment opportunities. A second is to control the rate of inflation so that money saved today will retain its value in the future when it is needed.

Policymakers may also wish to limit the impact of pension systems that support current retirees out of the contributions of current workers. Such programs are based on a transfer of resources from the younger to the older generation rather than on saving, and they may actu-

ally undermine the motivation of workers to save for their own retirement.

PENSION SCHEMES

During the past 60 years, national governments throughout the world have come to play an increasingly important role in providing old-age security for their citizens. Many Asian countries offer some type of support program for the elderly (Table 1), although coverage is often restricted to narrow population groups such as civil servants or employees of large enterprises. Only Malaysia, Singapore, and Japan have programs with close to universal coverage.

One big advantage of publicly funded systems is risk pooling. Individuals saving for their retirement may lose their money because of poor investments, may suffer a disability that curtails their income-earning abilities, or may experience unusual longevity and

Table 1 Coverage of pension schemes in selected Asian countries, 1992

| Country | Percent of work force covered |
|-------------|-------------------------------|
| Singapore | 100 |
| Japan | 100 |
| Malaysia | 96 |
| Philippines | 53 |
| South Korea | 26 |
| China | 21 |
| Indonesia | 7 |
| India | 1 |
| Bangladesh | 0 |

Sources: International Labor Organization (1995), *World labor report*, Geneva; Japan International Social Security Association (1999), *Outline of social insurance in Japan, 1999*, Tokyo.

outlive their savings. Many public programs provide a monthly benefit that lasts as long as the beneficiary survives, and most include some form of disability insurance.

Publicly funded old-age security programs may also help alleviate poverty and income inequality. The recent financial crisis in several Asian countries has fueled concerns about poverty among the elderly, although a clear assessment of the impact of the crisis on older populations is not yet available. In addition to concerns about poverty among the elderly, governments introducing old-age pension schemes may be influenced by political considerations, especially as the influence and voting power of the elderly increase over the coming decades.

Support programs for the elderly are funded in one of two ways. Under a pay-as-you-go system, current retirees are supported not by their own savings, but by contributions from current workers who will, in turn, be supported in old age by the next generation of workers. In a fully funded system, by contrast, each generation finances its own retirement. In Singapore and Malaysia, gov-

ernments operate mandatory pension programs that are fully funded, while Japan, South Korea, and the Philippines have programs that are partially funded but mostly pay-as-you-go.

A potentially important advantage of a funded system is that it promotes economic growth by raising rates of national saving. A funded system can also generate higher sustainable rates of return than a pay-as-you-go system because contributions are not paid out immediately, but rather are retained in a fund that accumulates interest.

By transferring resources from the working-age population to retirees, a pay-as-you-go system has the advantage, when it is first established, of raising the economic status of the elderly immediately. Yet it might be better to address problems of old-age poverty, if they exist, through a comprehensive poverty-alleviation program rather than a pension scheme.

Besides determining how much of the population can be covered and deciding the correct balance between pay-as-you-go and funded systems, policymakers must give serious consideration to problems of governance. Should pension funds be publicly or privately managed? Private management may be preferable because competition and the profit motive will lead to higher (risk-adjusted) returns. Private administration may also bring important risks, however. Countries with underdeveloped financial systems have been reluctant to allow private management of pension funds because of fears of fraud and incompetence. Yet such problems—plus political pressures and instability—could also affect management by the public sector.

CONCLUSIONS

It will be a difficult task to develop and implement effective strategies that fos-

ter economic security for the elderly. Any such strategy must acknowledge the uncertainty surrounding both demographic and economic trends. Capacities for implementing programs also vary widely, and political considerations may rule out otherwise attractive options. Despite these difficulties, the unprecedented speed of population aging in Asia requires a timely, sound, and comprehensive response.

Governments can take immediate steps that will benefit the elderly and help address broad economic concerns. Policies that increase labor market flexibility and remove barriers faced by older workers should be a priority. The elimination of gender discrimination in the workplace will allow women—the largest group of elderly—to better prepare for old age. Policies are also needed that favor education and job training, that help families support and care for their elderly relatives, and that provide old-age benefits based on a carefully considered balance between self-funding and resource transfers from younger to older generations.

How well countries can provide financial security for their growing elderly populations will depend, in large part, on the performance of their economies. Developing a sound financial infrastructure will encourage higher rates of personal saving and allow for the emergence of the financial institutions needed for successful pension programs. With population aging, labor force growth will slow in coming decades, and rates of saving and investment are likely to decline significantly from current high levels. The challenge is to achieve a high level of development and a comfortable standard of living for Asia's populations before economic growth slows down.

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