Managing the Global Ageing Transition

A conference report

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Managing the Global Ageing Transition

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Executive Summary

The rapid ageing of populations in developed countries will mean a momentous change in the way society will operate in the years to 2050 and beyond. Rapidly changing demographic structures in all developed countries will have immense consequences for finance, economics, lifestyles, social structures, the development of information technology, politics and international relations – and will touch almost all areas of life.

There will be no simple solutions and no panacea for this problem, said conference participants.

The Commission on Global Ageing was established by the Center for Strategic and International Studies (CSIS), a Washington-based think-tank, to address the complex issues raised by changing demography. The 80-member commission will prepare recommendations for national leaders and international governance bodies based on the conclusions drawn from international conferences held successively in Washington and Zurich in January of 2000 and 2001, respectively. The Commission's findings and recommendations will be released during that project's third, and final, summit in Tokyo on 27-29 August 2001.

The second conference of the Global Ageing Commission, which took place in Swiss Re's centre for global dialogue in Rüschlikon, Zurich, in January 2001, successfully concluded with a general consensus that the ageing transition requires a serious but balanced response. Ageing countries need to consider more than simply financing solutions – they need to also address the social and cultural impacts of demographically older societies.

Much of the discussion centered around the potentially severe economic impact of shrinking labour pools and ballooning pension and healthcare costs in ageing societies. Lower economic growth forecasts, higher budget deficits, shrinking asset values and increasing taxation burdens on smaller working populations could have catastrophic implications for all parts of society. The many economic presentations at the conference made clear that managing the ageing transition is going to be one of the most daunting challenges of this century.

There will be no simple solutions and no panacea for this problem, said conference participants. It was clear that any response must be balanced and multi-pronged:

> Reforming social security systems must take into account all potential sources of retirement funding including pay-as-you-go systems, funded solutions, employer participation and private savings. A comprehensive and sustainable pension system will necessarily consist of three pillars: a taxation funded pay-as-you-go pillar, a funded liability pillar, and a government encouraged personal savings pillar.

Karl Otto Pöhl
Co-chairman
Global Ageing Commission

> Any complete solution to the pension problem will include a "fourth pillar": the enabling of longer and more productive work lives. This will mean more than simply raising retirement ages, but a change in social mindsets and the nature of work itself. Information technology solutions to enable people to work and continue to be vital members of society for longer need to be sought and encouraged, as well as technological progress that enables existing workforces to become more productive. Mid-life education and training would figure prominently in any such solution.

> Immigration solutions will not be a panacea – demographic projections show that the levels of immigration needed to solve the developed world's ageing problems are unfeasibly high. However selective immigration will be part of the solution, with developed country labour shortages being met in part by immigration of skilled and educated workers from other parts of the globe. This may have to be managed carefully, however, in order to enable developing countries to share in the fruits of their expatriates' labours, and avoid negative side effects of globalisation.

Karl-Otto Pöhl, co-chairman of the Global Ageing Commission concluded the meeting by drawing attention to two points:

> There is an extremely low level of awareness of ageing issues amongst the general population in most countries. While it is important to avoid the impression of scaremongering and hype, it is crucial that these complex and long-term issues are brought to public awareness.

> The short-term nature of decision-making in democracies makes it difficult for leaders to make brave decisions with long-term implications. The only way that these questions can be addressed is if unpopular decisions are taken that lead to appropriate reforms over a longer period of time.

John Hamre, president of CSIS and former United States Deputy Secretary of Defense welcomed the guests to the conference by saying that ageing is one of the most important issues of our time.

Global ageing is one of the great economic and social challenges of our time.

"We are privileged to be able to look forward to the profound developments that global ageing will bring, and have the chance to shape the future if we have the courage and insight to do so," Hamre told the dinner audience on the first night. He drew attention to the link between national security and the prosperity and dynamism of society, and warned against the short-term optimisation of politicians undermining the long-term stability of national systems.

John J. Hamre
President and
CEO CSIS

This concern was echoed by **Frank Field,** member of the British Parliament and former social security minister in his address on the state of play of the British pension system. Field said that attendees at the conference would hear much about the efficacy and importance of funded systems over the course of the conference, but the British experience demonstrates that there is no silver bullet for the development of stable, long-term pension systems: "There is no panacea for all systems in all countries at all stages of the economic cycle," he said. "The UK and Denmark have more funded provision that the rest of the EU put together. But the short-term measures (increases in first tier, publicly funded pension benefits) undertaken by the UK government have the potential to undermine the strength of long-term provision."

John Hamre returned to the podium to present the opening keynote address the following morning. The main point of this address was to highlight the wider implications of global ageing.

"The reform of social security systems and the development of structures that will improve young people's chances of collecting social security is only one aspect of the global ageing problem," he said.

The potential seriousness of the situation is compounded by potentially chronic labour shortages and shrinking consumer markets, that will produce profound changes to economic structures, and enormous cultural changes. With all rich economies experiencing these changes together it is – enormously crucial that this policy challenge – perhaps the greatest of our time – is met with a coordinated and timely response. "Building security at home, is going to need cooperation" among the ageing countries, said Hamre.

Karl-Otto Pöhl, co-chairman of the Commission on Global Ageing, gave a broad and comprehensive view of the issues attached to global ageing: "The title of this meeting is maybe a little over-ambitious," he said, because the task is so large. "Global ageing is one of the great economic and social challenges of our time. Many of our old arrangements and institutions are showing strains, and success in their reformation cannot be taken for granted." The facts outlined at the conference will show that the current course taken by many countries is not sustainable and may end in crisis.

What we can hope to achieve from conferences such as these is a better understanding of the interaction between demographic trends and public policy, said Pöhl. We need to identify what might be done to prevent the worst case scenarios. At the conference in January 2000, the Global Ageing Initiative sought agreement on the need for extended working lives, but even this was extremely politically unpalatable. This conference was to extend and broaden this dialogue by looking at:

> The consequences of the ageing process for public finances
> How realistic the growth assumptions on which official budget calculations are made, the relationship between growth and public budgeting, and the connections between ageing and growth.
> Can we adapt to a world of ageing-induced slowing growth? What are the range of scenarios of Europe, Japan and America, and how must policy change to address these shifts?

Age should not be a barrier to productivity.

Ryutaro Hashimoto, Minister of Administrative Reform and former Prime Minister of Japan

> Health policy, which is closely related to the process of ageing. The rising political power of the aged, combined with the rising demand for health services will make this a very urgent and expensive issue.
> Immigration as a solution to labour shortages in developed countries, and the related issue of a brain drain from developing countries. Would a final answer to the global ageing problem be to seek closer integration between the developed and developing world? Mr I.K. Gujral, former Prime Minister of India used this issue as the backbone of his keynote address on the second day of the conference.
> The promise of technology and its ability to extend middle age and make people more productive for longer in their lives.

Ryutaro Hashimoto, co-chairman of the Commission on Global Ageing, Minster of Administrative Reform and former Prime Minster of Japan discussed the challenges facing his country in an address entitled: “How Japan is preparing for the retirement boom.” According to figures produced by a Ministry of Health, Labour and Welfare research institute, the population of people in Japan who are over 65 numbered 21 million as of October 1999. This elderly population will increase by more than 3 million every five years up to 2015. During the peak period of this increase, from 2010 to 2015, the population aged 65 and over will increase by approximately 4 million, pushing the total number of elderly persons beyond 31 million by 2015.

This will put severe strain on the Japanese pension system, with the dependency ratio (the number of workers to pensioners) falling from its current 4:1 ratio to 2:1 by 2025 and 1.5:1 by 2050. “This has given rise to concerns that the pension system will eventually collapse,” said Hashimoto. The first step to preventing such a collapse would be to correct the unusually low interest rates that have persisted over the past years and to ensure that pension assets are invested properly, he said. Other reforms undertaken by the Japanese Diet last year “seeking to achieve sustainable levels of contributions and secure benefits for the future” were threefold:

- > Reducing welfare annuity benefits by 5% from April 2000,
- > Lifting the age for eligibility for welfare annuity benefits in incremental steps from age 60 to age 65, and
- > Raising the share paid from the national treasury for basic pensions from one third to one half by 2004.

The government has also been looking at introducing a refined contribution scheme similar to the US 401(k) plan. “I expect and believe that these plans will be introduced around autumn of this year,” said Hashimoto.

To address the fundamental changes in the makeup of the workforce Japanese companies and individuals need to understand that age should not be a barrier to productivity. Eligibility for retirement and benefits and mandatory retirement age needs to rise from its current level at 60 years, and building an economic and social framework that encompasses the elderly as an indispensable labour resource is an issue that we must inevitably address. The term ‘ageing society’ itself seems to imply a stagnant society of old people and I believe the key to success for the first decade of the 21st century will be transforming this image to one of a bustling, cheerful long-lived society, said Hashimoto.

Postponing the necessary reforms will ultimately result in more painful measures later on.

Japan has comprehensive and universal medical benefits coverage, which will come under increasing strain as its society ages. But, “reform of the medical insurance system is a very difficult and complicated challenge with different people having different views and positions. The government plans to submit the bills necessary for reforming the system in the regular session of the Diet in 2002. The Diet debate at that time will focus on the reform of medical service support for the aged.” Hashimoto discussed the introduction of a long-term care insurance scheme in Japan, which had been received by the public in a positive way in spite of confusion caused by the radical nature of the system change. “We need to educate people in the merits of the system and firmly establish it,” he said.

Following Minister Hashimoto, **Lamberto Dini,** Foreign Minister and former Prime Minster of Italy, addressed the conference on “Pensions and the Future of the EMU”. The European model of ‘social protection’ has proved inadequate, he said, because it is too expensive and causes microeconomic distortions by creating unproductive incentives at the individual and company levels. Having said this, the model cannot be dropped, only reformed. The need for reform is emphasised by Eurostat studies showing that the ‘elderly dependence ratio’ (the ratio of people over 64 to working age population) will almost double between 2000 and 2050 from around 26.7% to 53.4%. In Italy, where birth rates are the lowest, the dependency ratio is expected to reach the highest level of all the European countries – 66.8% by 2050, more than twice the current level of 28.8%.

Dini said that population ageing will cause enormous strain on pubic finances, and OECD studies suggest that per capita living standards in the EU, the US and Japan may fall significantly over the next 50 years, as people reaching retirement age become net consumers rather than savers. This makes it essential that governments consolidate their budgets in order to shore up national savings rates. Pension reforms should move away from pay-as-you-go systems towards funded systems, with a possible third pillar of individual savings. Reforming pensions can be politically difficult, especially when considering inter- and intra-generational equity issues, but there will be particular solutions for particular countries. In Italy, Dini introduced a scheme of 'virtual capitalisation' for social security contributions paid to the state. The contributions earned a virtual interest rate, defined as being equal to the (future) rate of growth of GDP. Although this is still a pay-as-you-go system, it is financially sound in the very long run, said Dini, and promises each worker the same benefits in terms of what they have contributed to the system. "A very close link between contributions and benefits is very helpful in solving equity issues," he said.

"What is definitely clear is that it is necessary to act quickly," he said. "Postponing the necessary reforms will ultimately result in more painful measures later on." He concluded with a few macroeconomic observations. Since ageing does not differ radically between the developed countries, there may be a minimal impact on relative exchange rates as the issue develops. But to the extent that pension systems are variably generous within the EU, this may put a strain on the internal economics of the Union itself.

It is not acceptable for a family with several children to fear poverty or social decline.

Otto Schily, German Minister of the Interior, spoke of his country's challenges as it faces one of the most radical ageing problems of the developed countries, with a focus on replacement immigration as a solution. With large increases in life expectancy and declining birth rates, the country faces economic and social consequences of a threatening size, he said. In addition, Germany faces permanently high levels of unemployment as well as labour shortages in particular industries such as healthcare, catering and crafts. The social security system, based on adjustable contributions, is faced with fewer and fewer contributors to make up for more and more claimants.

Lamberto Dini,
Foreign Minister
and former Prime
Minister of Italy

Otto Schily,
German Minister
of the Interior

There are two main approaches to the ageing problem, said Schily:

1 Attempt to return to the old population structures – a population pyramid thick at the bottom and thin at the top. In order to achieve this, Germany's current population of 80 million would have to increase significantly.

2 Develop new social and economic structures that will support a radically different population profile.

Having said this, the German government is doing its best to promote increased birthrates, said Schily. Measures include increases in child benefits, improved conditions for child rearing and home leave, adequate provision for child minding and part-time employment. "it is not acceptable for a family with several children to fear poverty or social decline," he said.

We must encourage longer working lives.

"I do not think that we can stick to a particular population structure," said Schily. "Moreover, the strength and significance of a nation is no longer based on population size and therefore the number of available soldiers or workers, instead it is measured in the innovative power and know-how of its people. So we need to give people a framework to live, be creative and innovate from youth until old age. This will be more realistic than trying to preserve any particular population structure."

With respect to immigration, Germany has seen a large influx of migrants over the generations, with great benefits to the country and its culture. But the willingness and capability of migrants to assimilate and be absorbed into existing society has to be carefully assessed. They need a willingness to comply with the law and speak the national language. But, said Schily, it is a process of mutual tolerance and acceptance and a willingness to shape society for the better.

Germany is currently shaping "Green Card" regulations for the immigration of qualified IT workers as the first element of an active migration policy since it was stopped in 1973. By the end of February 2001, an independent commission on immigration comprised of 21 representatives from the public, the scientific community, labour organisations and policy communities will meet to form an active immigration policy intended to play a significant role in terms of demographic shaping. The EC, too, must aim to develop a common EU policy on immigration, said Schily.

"I am no friend of any solution that tries to maintain population size or structure," he said. "Any policy focussed on increasing the size of the population is outdated and will become a problem. The current model where individuals enter the working population after longer and longer years in education only to retire early has no validity anymore. We must encourage longer working lives. In the end we will have to stop making such a to-do of 'usefulness'. Today people over the age of 60 must not be deemed to be of old age, but for the time being we are far away from this – on the contrary we have to be aware of the effect that a growing number of early retirees will have on our societies. These are some of the questions that need to find answers."

The session, **The Fragile Welfare State,** focused on the issue: By mid-century as many as 40% of households in some nations could depend on government for their income and health security. Economic growth can help generate the tax revenues needed to pay benefits. Yet, inflexible financial obligations mean that growth shocks will unleash ever-larger torrents of red ink. How do markets regard this risk?

The session was chaired by **David Willets,** Conservative Member of British Parliament and Shadow Secretary of State for Social Security, who prefaced the speakers presentations by saying that in the UK, there is less demographic change than in some countries, and moves have been taken to lower pension costs. But is the system sustainable? Is there funding to make it so? And will electorates not react negatively to any attempt to address these problems? Faced with these problems, many politicians have responded with the prayer uttered by St. Augustine: "Lord, give me virtue – but not yet!"

Sylvester Schieber, Vice President, Watson Wyatt Worldwide, presented "Demographic risk to retirement systems in the 21st century"

"We expect our populations to age", said Scheiber, "but are our expectations realistic? Until now, projections have been based on deterministic models. New stochastic models are now available that put projections in context with respect to the probability that they will be fulfilled – or the probability that they will turn out to be wrong."

Pay-as-you-go pension costs are governed by the product of two ratios:

$$\text{Cost} = \frac{\text{Number of beneficiaries}}{\text{Number of workers}} \times \frac{\text{Average benefit}}{\text{Average wages}}$$

The ratio of beneficiaries to workers is related to the age structure, which itself is determined by the number of entrances vs. exits, i.e. births and immigrants vs. deaths and emigrants.

In the G7 countries, fertility is down far below the replacement levels. Immigration fluctuates, but it cannot come close to maintaining a steady population structure. Meanwhile, longevity is up.

Increases in Life Expectancy in Major Economies around the World

Country	1950–1955	1970–1975	1990–1995	Improvement 1950s to 1990s
Canada	69.08	73.15	78.50	9.42
France	66.52	72.35	77.15	10.63
Germany	67.50	71.00	76.00	8.50
Italy	66.00	72.11	77.16	11.16
Japan	63.94	73.30	79.50	15.56
UK	69.18	72.01	76.17	6.99
US	69.02	71.30	75.66	6.64

It seems evident that many countries, in using deterministic models, are underestimating the dependency ratio by a considerable amount in the medium term, by a very considerable margin in the long term. We can only conclude that there is a bigger risk to the sustainability of pensions than is currently maintained, said Schieber.

Enhancing output levels and productivity growth offers some potential to ease the fiscal pressures of declining and ageing populations.

As to the future, fertility may be influenced by natural tendencies such as the desire for self-perpetuation or the DINK phenomenon (dual income, no kids), by socio-political controls, and by the laws of unintended consequences. This opens the question: Are our projections for fertility too high? Or for longevity too low?

The deterministic models that are currently used have several failings:

> Assumptions are grouped in ways that do not always make sense, and
> Individual assumptions do not necessarily depend on historical patterns of experience.

The stochastic model produces a series of projections, each coupled with a probability. The projections peak at a certain point on a distribution curve, and as one moves away from that point, the probability is reduced that the prediction will turn out to be correct.

Official vs experience-based stochastic forecast of old-age dependency in 2030

Country	Official forecast	Percentage difference between official estimate and stochastic forecast at	
		At median	At upper 5/6 level
Canada	0.348	5.2	1.4
France	0.440	− 2.1	− 5.2
Germany	0.447	− 2.0	− 5.8
Italy	0.465	− 6.7	− 10.5
Japan	0.472	− 12.3	− 15.9
UK	0.415	2.2	− 1.7
US	0.371	− 2.3	− 5.4

Chief Economist and head of the economics department at the OECD **Ignazio Visco** looked at: "Paying for pensions: how important is economic growth?", and concluded that it is very important. The basic question, according to Visco, is that economic growth has contributed to raising the standard of living. Might it not also contribute to easing pressure on pensions?

In order to stabilise the population of the EU, annual immigration levels would have to rise to a net 10 million annually − but this would not be enough to stabilise the dependency ratio − for that the rise would have to be to 15 million annually − figures that are not realistic.

On top of demographic concerns, pension systems are overburdened by increasing benefits in real terms, said Visco. Pension levels across the OECD did rise in real terms in both the 1980s and 1990s. In order to finance pensions with no percentage increase in expenditure, a high level of GDP growth will be necessary.

Ways of achieving this include:

> later retirement (incentives against early retirement)
> recruitment of women into the workforce
> more people in work at all ages (lower levels of structural unemployment).

Ignazio Visco,
Chief Economist,
OECD

In any event, said Visco, it will be necessary to reduce the number of years during which benefits are paid to a person. In 1950, the average worker collected benefits for 2–3 years; in 2000, it is 15 years.

"One should therefore conclude," he said, "that enhancing output levels and productivity growth offers some potential to ease the fiscal pressures of declining and ageing populations. But, as with the options for increased immigration into OECD countries, higher growth would only provide a partial offset. The need for continuing on the politically difficult road of substantial reforms should therefore be reaffirmed. However, insofar as higher growth would imply an improvement in living standards and additional government revenues, it will certainly help to increase the scope and provide a window of opportunity to implement public pension reforms while reducing their burden on the people at large. While possible higher output growth should not be seen as a reason for complacency about future pension obligations, it should be pursued both on its own merits and to reduce the burden of necessary reforms."

Vincent Truglia, Managing Director of Sovereigns, Moody's Investors Service addressed the conference on the subject: "Are ageing economies becoming more vulnerable to shocks?"

Financial crises are occurring with greater regularity, he said. "Where? They may occur anywhere. Why? They are largely due to debt and leverage. Large amounts of debt tends to make pension systems the victim of economic crises because it affects the solvency of both public and private pension plans. Any country which incurs debt because of ageing will by definition be more vulnerable to economic shocks."

Still, the markets – rating agencies in particular - are not unduly worried about debt defaults. This is because the public sector may address its many needs – education, defence, pensions, debt service, etc – in whatever order of priorities it decides: yet in the final analysis, debt service will have the highest claim, said Truglia. Society treats debt service more seriously than other promises. If a country were in danger of defaulting on its pensions, it would default or raise contribution rates rather than to stop servicing its debt.

Lucio Pench, Senior Economist, Foward Planning Unit, European Commission

Debt is equivalent to risk, and a large public sector is a way of spreading that risk. The EU countries, with their large public sectors, find it easier to make adjustments in terms of a given percentage of GDP than, for example, Japan, where a relatively small public sector is moving in the wrong direction in the face of radical demographic change. The US, in contrast, has no problem with its public sector financing. What's more, all the countries that we are talking about are highly developed democracies, which in Moody's view provide the best framework for making decisions and adjustments to avoid incurring extraordinary levels of debt and thus avoiding economic shocks. The two countries with the biggest ageing problems are Japan and Italy, but they are still highly rated because the markets believe that they will make the necessary reforms and adjustments.

Lucio Pench, Senior Economist, Forward Planning Unit, European Commission, presented: "Challenges to the European social model and the role of the EU".

The "European social model" is not easily defined, and in fact the term is abused by politicians and social scientists alike, said Pench. In essence, however, the social model is defined by common goals such as "social cohesion" or the ability for society to provide a minimum level of welfare for everybody, and common institutions such as pensions, health and education systems as well as conventions regarding the relationships between firms and government, and between firms and investors. The European social model is not defined so much by conditions within Europe, as they vary widely between regions and countries, but more in relation to social and economic structures in the US.

Because there is a single market for services within the EU, it would be logical to expect that employment, for example, would follow suit, but coordination between EU countries is still weak. Despite increased mobility of labour and immigration, it is demographic factors that drive macroeconomic developments. These may challenge the continuation of economic development: for example, most companies are founded by males from 25 to 44 years of age – and, as the population ages, social policy will need to focus on how to expand this window of entrepreneurialism.

In conclusion, Pench said: "The defining feature of the European social model is a high level of public social protection expenditure. Ageing challenges the European social model at its core, as the inter-

The session then moved into discussion mode, with **Jean-Michel Charpin,** Commissioner, French National Economic Planning Agency, stating that GNP growth influences wages, the standard of living and pensions in seemingly equal measure. While **Naohiro Yashiro,** Professor of Economics,

Two new issues will emerge as a focus for employment policy: mobility and migration.

generational pact risk unravelling. National social preferences differ too much for centralisation of European social policies to be a feasible option, but European integration will probably play an increasing role in the transformation of the European social model. The main channels will be indirect rather than direct, though. They concern primarily the integration of European financial markets, including pension funds; competition among social service providers; and the coordination of fiscal policy in the framework of the euro. As Europe moves gradually back to full employment, two new issues will emerge as a focus for employment policy: mobility and migration, and entrepreneurship. Finally, an EU coordinated nationally implemented minimum social safety net is not an impossible outcome of the evolution of the social model."

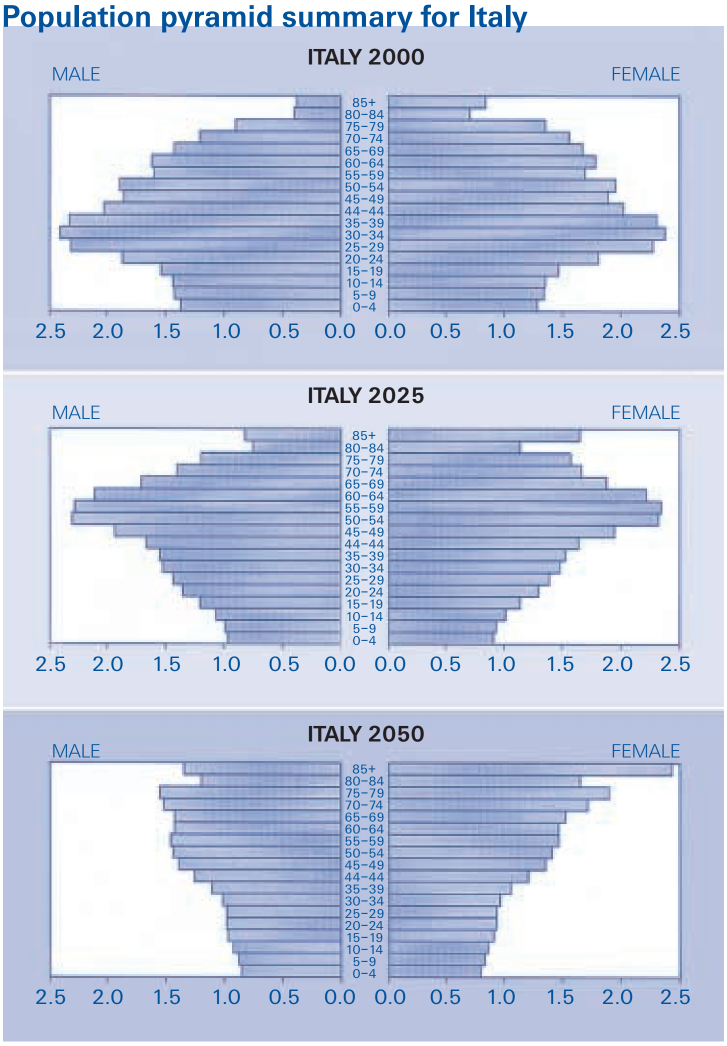
Jochi University pointed out that greater longevity without economic participation is a problem, and that incentives should be used to encourage the economy to accept older workers.

Jürgen Zech, Chairman of the Executive Board and Chief Executive Officer of the Gerling Group of Insurance Companies recounted the German experience with pension reform: the Christian Democrats lost an election due to their attempts to address the issue, and the Social Democrats won the election by denying that there was one; finally, the Social Democrats did an about-face and put together a programme to ensure, for a number of years, the continued viability of the system, only to see the reform gutted by the demands of the various interest groups.

Could the old-age welfare state self-destruct?

By 2020, shrinking numbers of workers across Europe and Japan could limit GDP growth to less than half the rise of productivity. But falling asset values could weaken banks and hence credit creation, while the tax increases needed to support pensions may also prove contractionary. Could the old-age welfare state self-destruct? If the rich world does not respond to the challenges posed by global ageing, it will face a bleak and gloomy 21st century. This was the message presented in the session on ageing recessions, chaired by John Haley, Chairman and CEO of Watson Wyatt Worldwide. Haley began by reiterating with certainty the theme of the greying of the globe over the coming decades.

Population pyramid summary for Italy



Although he said that he cannot believe that the future will be as bleak as it may seem he said there will probably be tragic consequences of a demographic shift. He outlined several key points, including:

> Cash flows of national pension plans in developed countries are probably going to turn negative around 2025.
> The pay-as-you-go system will incur rising debt levels. Many governments have not funded for the future pension liabilities of their populations.
> Economic growth will slow by 2010 because of ageing. OECD statistics estimate that average growth rates will halve by 2025. Slower growth could lead to a state of "permanent recession" – countries that will find it difficult to stimulate their economy at all. According to the OECD a general economic slowdown will occur between the 2000-2025. For example, the projected annual growth rates for Europe and Japan after 2025 are 0.5% sand 0.6% respectively.
> Employers will face an extraordinary challenge attracting and retaining workers. To meet this challenge they will need to retain and hire older workers, achieve higher productivity with older workers, and engage and retain younger workers

The first speaker **Paul Hewitt,** director of the CSIS Global Ageing Initiative, presented "Ageing recessions: what are they? Why should we care?". Hewitt demonstrated why things are bleak by firstly drawing our attention to the rapidly inverting population pyramid of Italy. The U.S. Census Bureau has predicted that there will be a 47% shrinkage in the working age population in that country from 2000-2050; there will be more women over 85 than under 25 in 2050; the home buying population will shrink by 30%.

"I walked the chairman of Fiat through this chart," said Hewitt. "It implies that Italy will face declining domestic unit sales for as far into the future as we can see. The implications for companies in developed countries are that their revenues and stock values will fall if they do not move capital and operations outside shrinking markets." As evidence of this trend, Hewitt pointed out that "In August 1999 alone, German companies announced $96 billion worth of acquisitions in the US."

Hewitt described the outlook as one of stagnant growth, perpetuated by the fact that there will be fewer workers leading to lower productivity, fewer consumers and negative savings rates as ageing populations pay for their retirement.

Critically, it is Japan, Italy and Germany, which at present are the most at danger.

Paul Hewitt, Project Director, Global Ageing Initiative, CSIS

Will need to retain and hire older workers, achieve higher productivity with older workers.

He then concluded by suggesting how to meet this global challenge. From a global perspective, the initiation of investment in developing countries with a labour surplus of young is an option, as together there may be a solution for supporting the globally aged community. However, he recognises the problem of protectionism and backlash, which according to Michael Teitelbaum, are typically reactions of citizens during a period of low fertility. Yet another counteracting ingredient, is the absolute need for restructuring in the home front in order to raise total productivity.

Paolo Onofri, Chief Economic Advisor to the Prime Minister of Italy, looked at the economic implications of ageing induced reductions in asset values. In a presentation entitled "The outlook for asset values in shrinking societies". His initial research focuses on the Italian economy and essentially describes how population ageing impacts the financial markets via its influence on:

> economic growth
> demand for financial assets
> composition of the financial asset holdings
> the substitution of physical capital for human resources, which is dependent on technological robustness and advancement.

Onofri utilises life cycle theory to justify the assertion that an aged population has a tendency to dissave and also separately observes the inverse relationship between age and the holding of risky assets. Such actions will impact financial markets, capital availability and the cost of capital, and as a result the rate of real capital accumulation. However the future outlook is mixed. At the core, the

Population declines in Japan, Italy, and Germany could be particularly severe

Country	% change 2000–2030	% change 2030–2050	% change 2000–2050
Japan			
Youth (0–20)	-22.9%	-14.0%	-33.6%
Working Age (20–64)	-16.3%	-20.6%	-33.6%
Pension Age (65+)	78.5%	11.3%	98.8%
Total Population	-1.8%	-9.8%	-11.5%
Germany			
Youth (0–20)	-33.8%	-17.1%	-45.1%
Working Age (20–64)	-14.3%	-18.7%	-30.4%
Pension Age (65+)	57.2%	6.4%	67.2%
Total Population	-7.3%	-11.8%	-18.2%
Italy			
Youth (0–20)	-33.7%	-17.3%	-45.2%
Working Age (20–64)	-16.3%	-25.3%	-37.5%
Pension Age (65+)	49.2%	15.0%	71.6%
Total Population	-8.3%	-12.7%	-20.0%

Source: Mountain View Research

outcome depends on the actual combination of influences and whether changes in one factor may strengthen or mitigate the impact on the value of assets prices relative to other factors.

Norbert Walter, Chief Economist of Deutsche Bank Group Frankfurt, discussed the future impact of taxation policy as a result of the expansion of government social welfare outlays during the 1960s and the failure of many European countries to correct the policy mistakes of the 1990s. The consequences of this spending spree are high taxes and labour costs. Competitiveness suffers, and the shadow economy grows because people naturally start to avoid taxes.

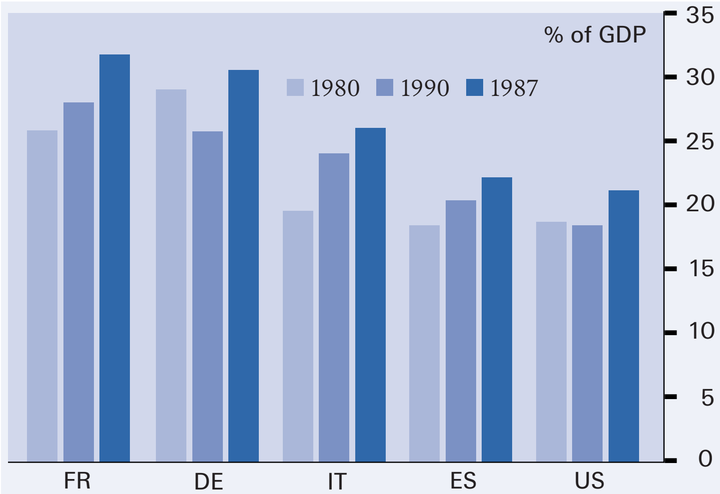
The threat of further rises in taxation and outlays is now imminent unless policy changes occur.

"The dramatic expansion of the welfare state in Europe was not corrected in the 1990s. Neither globalisation nor the imminent population greying has resulted in a reduction of social benefits," said Walter.

This high level of spending meant a lost decade for Europe in the 1990s, with relatively slow economic growth and poor labour market performance.

The threat of further rises in taxation and outlays is now imminent unless policy changes occur, said Walter. The acuteness of the impact depends of the outcome of the driving forces the greying of the population and the impact of positive globalisation efforts. Increased levels of age dependency has two detrimental effects on the economy: it increases public sector costs in both health care and pensions. The degree of success of globalisation in mitigating the effects of ageing rests on policies to encourage education, improve mobility, financial markets, and creates balanced budgets to stabilise economic risk. Walter concluded that many governments will have little choice but to default on their social welfare promises, as the continued payment of these liabilities is in strict opposition to general economic stability.

Social benefits in 1980, 1990 and 1997



In the discussion part of the session, **Noboru Hatakeyama,** chairman and chief executive of the Japan External Trade Organisation, optimistically reacted to the pessimistic outlook of the future growth potential of the Japanese economy. Essentially, he pointed out productivity will rise and referred to Sweden as the model economy, whereby increased productivity had been achieved despite the contracting of its labour force. In addition, there is evidence to suggest young people still save and by 2025 they will hold in the economy $16 trillion of assets, thus mitigating the asset value degeneration, as predicted by Onofri. Hatakeyama also said that the effects of a shrinking population would not all be negative: "We will have a better quality of life if there are less people on the buses, trains and roads."

In response to this, Deutsche Bank's Walter was sceptical about any optimism with respect to the economic impacts of ageing, and the ability of developed countries to attract migrants or find other solutions to solve the problem of the shrinking labour force. "If mothers are not born, then children can not be borne by these mothers," he said.

Are past trends an indication of the future?

Meinhard Miegel, Director of the Bonn Institute, stated that he agreed with the speakers' presentations. Having said this, however, he decided to take the devil's advocate position and sought to challenge and provoke a reaction from the speakers. He presented three main questions.

> He questioned firstly our knowledge of the future and whether past trends are an indication of the future.

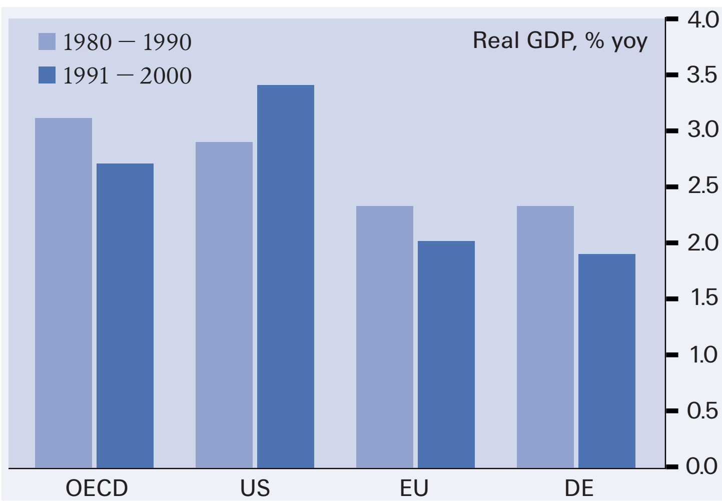
> Secondly, he discussed the objective and subjective perceptions of what is old? If few in the population are old, then anybody over a certain age looks very old, but if everybody is ageing at the same time, then "old" is no longer what it once was.

> Lastly he asked whether a permanent economic slowdown might not actually be a good thing. Global economic growth averaged 0.07% over the 1,000 years before 1800 AD. It then doubled during the nineteenth century and again in the first 50 years of the twentieth. Then it grew 4-5 times during 1950-2000. "What is normal growth and is there real loss if it slows?", asked Miegel. Perhaps ageing-induced recessions would simply be the normalisation of growth rates. "Have we not paid too high a price for the rapid growth we experienced in the last 50 years? Deforestation, environmental catastrophes, global warming, water shortages – these are all the effects of a too rapid rise in human economic development. Perhaps it would simply be desirable to slow down a bit?"

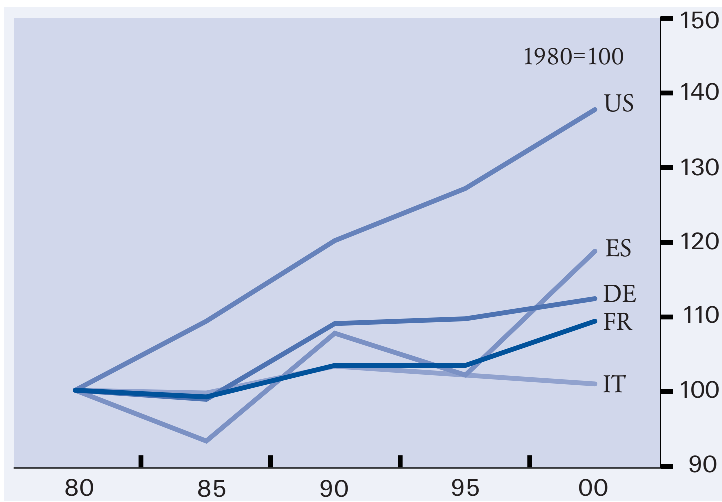
Norbert Walter
Chief Economist
Deutsche Bank

Thought-provoking questions were proposed from the audience. One participant asked why the discussion focused on OECD countries and had we forgotten the outside world, given the population numbers in China, Taiwan and Korea for example? In response, CSIS's Paul Hewitt said the "age wave" had not engulfed these other economies and the developed economies were facing the problem sooner. By heading off the problem in the OECD countries, we may learn enough to prevent them from occurring globally, said Hewitt.

Economic growth



Employment development



Carlo De Benedetti, Chairman, CIR SPA
The ageing population in Europe should lead to an ageing workforce. Instead we observe an earlier labour force withdrawal of older male and female workers. Back in the 1960s, the participation rate of the over 60s in Europe was, on average, 70 per cent. Today, participation in Belgium, France, Italy, Netherlands is at a low of 20 per cent. Is this encouraged by employers or by social policies?

Decisions to retire are significantly affected by these disincentives to work after.

Pathways to early retirement often combine different income programmes. For example, unemployment benefits were originally extended to older workers as a social policy tool for the hard-to-reemploy though with rising mass unemployment these rights became the first step on a popular pathway leading to early exit. There is a multitude of possible pathways: lowering the normal pension age, partial or gradual pensions, special pre-retirement programmes, long-term unemployment, bridging schemes to retirement, and disability insurance.

A number of regulations on social security benefits encouraging early retirement have been introduced in the 1980s in countries where unemployment was reaching unaffordable levels. Similar provisions were introduced in employers' sponsored occupational pension plans. The rationale for both of these state-organised and firm-organised plans to leave the labour force earlier than the normal retirement age was to "replace ageing workers with high wages by young unemployed with low wages". However, there is no evidence of a negative correlation between early retirement and youth unemployment: early retirement of older workers does not involve an easing of the entry in the labour market of the young generations.

Pre-retirement options offer to older workers a soft landing to retirement at a high cost for the active population and for the taxpayers. Bridging pensions, paid at rates equivalent to the standard retirement pension, with no penalty, have been used extensively in Austria, Finland, Italy, Sweden, West Germany and the Netherlands. They are often accompanied by disability pensions. Firms and unions find them appealing because the costs ultimately fall on the taxpayers. Government subsidies to declining industries and government paid early retirement schemes are significantly larger in Europe than in the US.

The Italian experience is illuminating in this respect. In Italy collective dismissals have been regulated since 1991, in order to meet European guidelines. Dismissed workers with at least 30 years of contributions have access to seniority pensions (that usually require 35 years of contributions). Initially there was no cost for firms in implementing this policy, and both the anticipated pensions and the missing social security contributions were borne by the taxpayer. It is only since 1992 that firms bear 50 percent of these additional costs. Workers aged between 50 and 59 who have less than 30 years of contributions can still enrol in special mobility lists where they can draw substantial benefits (up to 80 percent of previous pay) for as long as 4 years (in the South of Italy). Usually mobility

ends in retirement plans (the so-called "mobilità lunga"). The social security contributions of early retirees are borne by the taxpayer and are measured not as a proportion of unemployment benefits but as a proportion of pay before dismissal. In practice, the large majority of these workers can stay in the mobility list until retirement.

Contrary to common wisdom, also private pension plans often encourage early retirement. In most occupational plans, pension accrual ceases when normal retirement age is reached. Thus, continued work after the Statutory Retirement Age involves a substantial loss in pension wealth. Empirical evidence suggests that decisions to retire are significantly affected by these disincentives to work after the age of normal retirement.

An expansion of private DC plans may reduce the incentives to retire early. However, without reducing the increasing trend in equilibrium payroll taxes (those clearing the social security budget), it will be difficult to encourage individuals to switch resources from a public, unfunded, basis to a private, prefunded, or funded basis. In countries with substantial pay-as-you-go social security systems, the financing of early retirement makes it more difficult to leave room for private pension plans, as payroll taxes absorb a large fraction of workers' savings and firms' funds. The way in which the transition to a mixed system is phased in and the pace of growth of private pension plans greatly depends on the future developments on the "early retirement front".

Carlo de Benedetti

Overall, employers have so far extensively used early retirement to cope with redundancies at low costs. However, there is a growing awareness among employers of the urgency of the problems and of the risks of doing nothing. In March 2000, the Working Group on the Welfare Society of the European Roundtable of Industrialists issued a Report on European Pensions. The Report states that Governments should "raise the normal retirement age and provide incentives for older workers to stay in the workforce". This is a clear indication that employers are changing attitudes on the early retirement front.

As traditional working populations decline, ageing nations will seek to increase labour force participation in non-traditional categories, including immigrants, women, and men over 60. This session explored how laws, compensation practices, and social attitudes need to change for this strategy to succeed?

Michael Teitelbaum, Program Director and Demographer, Sloan Foundation, looked at the subject: "Can immigration keep the ageing countries young?"

He opened his presentation by looking at the results of the UN report Replacement Migration, published in 2000. This report was widely misread by the press (especially in Europe), by politicians, advocates and others. The idea of "replacement migration" itself (using immigration to maintain the ratio of those aged 15–64 to the >65s) can be seen as a replacement for "replacement fertility". There are five major points:

> Replacement migration cannot work, as the number of immigrants that low-fertility countries such as Germany, Italy, and Japan would require is too massive (188 million for Germany, or 80% of population in 2050, 120 million for Italy, 700 million for the EU as a whole, 553 million for Japan, and 593 million for the US). Further, the effect of the immigration of a working age adult on the pension levels would differ greatly from the effect of the immigration of an infant upon which population assumptions are based – but this is obviously unrealistic.

> "Dependency" (the concept) is changing. Longevity, vigour is up, but dependency is defined using categories set up 50–70 years ago: 0–19 years, 20–64, 65+. This must change.

> Paradox of perception. From the economic perspective, immigrants are a resource; but immigrants are also people, with a culture, religion, language. The lower a society's fertility (i.e. the more it needs immigrants), the more they accelerate change, and the smaller its degree of acceptance for them.

> The forecasters' dilemma: Because large, sudden social changes are disruptive or impossible to forecast, we need accurate long-term predictions in order to manage the situation with small, incremental changes. But 50-year predictions are inaccurate.

> Population changes are slow but powerful: analogous to "human tectonics". The solution must mimic the changes: small changes in many factors, over a long period, in the same direction, with a cumulative effect. Slow rises are necessary in immigration; in fertility; in retirement ages; in social insurance taxes, in labour force participation. Pensions should shift, also slowly, from public entitlement to funded.

There will be no one silver bullet approach, but a coordinated long-term response will be needed if doomsday scenarios are to be avoided, said Teitelbaum.

Ageing nations will seek to increase labour force participation in non-traditional categories.

James A. Klein, President of the American Benefits Council, presented: "Private pensions, public policy, and older workers".

The US is faced with rising life expectancy, falling fertility, and an ageing workforce, said Klein. Working on the premise that the ageing population will cause economic and social strains, the US must attempt to achieve the following goals:

> maximise retirement income with as little strain as possible on public programmes;

> encourage and retain older workers;
venhance individual choice on retirement timing/type; and

> permit employer flexibility to meet the needs of the workforce.

Michael Teitelbaum,
Program Director,
Sloan Foundation

John Coomber,
Divisional Chief
Executive, Swiss Re
Life & Health

There is a negative correlation between government involvement in pensions and savings.

How well is the US equipped to do this?

Negative factors include low pension contributions; an administrative system that discourages later or phased retirement; "leakage" of assets from the public system, and high health care costs. The political will is lacking, as well as a consensus among business, labour, and the elderly.

Positive factors include a funded pension system with defined contributions and defined benefits; a responsive policy sector; and a culture and social system that mitigates conflict – for example by delegating authority for "young" and "old" programmes to different areas of government: e.g. education (young) is distributed from the federal to the local level; pensions (old) are handled predominantly at the federal level.

According to Klein, the willingness to confront the problem is growing (in contrast to fifteen years ago, when pension decisions were driven by a desire to raise tax revenue).

How age discrimination affects a nation's economic structures addressed by **Atsushi Seike,** Professor of Labour Economics, Keio University, in "An economic analysis of age discrimination". According to this presentation, promoting the employment of older workers is an important policy in an ageing society. Mandatory retirement and age limitations in hiring are two major obstacles to this effort.

Mandatory retirement has a negative effect on the utilisation of older employees, while age limitations in hiring prevent middle-aged and older workers from finding jobs.

To eliminate these barriers, it is necessary to establish measures against employment discrimination based on age. However, the current seniority-based wage and promotion systems require mandatory retirement and age limitations in hiring. These are deeply rooted in the current system. For example, because a worker's wage rises with seniority, it is considered that young workers pay in a "deposit" that is returned to them in later years. Thus, a worker who reaches retirement age must indeed retire; otherwise he would get back "too much" deposit

Substantial reform of seniority-based wage and promotion systems is necessary if Japan is to adjust its working age to take advantage of the changing demographic structures of its ageing society.

John R. Coomber, Divisional Chief Executive, Swiss Re Life & Health, looked at "The private role in social insurance".

The private sector can collect and pool assets, and guarantee benefits through professional asset and risk management, said Coomber. However, it must do more. It should make an effort to improve understanding of the ageing issue, and increase personal responsibility among the population; for there is a negative correlation between government involvement in pensions, and savings.

Savings are key, because the war against preventable death is largely won, but no one can do anything about ageing. You must provide for it, fund for it; or it will become a debt against the future. Ways to increase funding include increasing working life and improving asset management. Employer-organised solutions are perhaps the best answer to the problem of cost: they can reach the most people most cheaply.

The private sector can have two major functions:

> mitigate demographic developments, both expected and unexpected, through pre-funding; and

> generate efficiency through risk pooling and professional asset management.

Mitsuo Kinoshita, Member, Board of Directors, Toyota Motor Corporation, said that he believes there are two questions: how to secure the level of population, and how to raise productivity.

With regard to population, we must take measures in steps. Immigration alone is an unrealistic solution; retirement at 80 is an unrealistic solution. Toyota now has an optional retirement at 63, and this is the first of a trend towards an age-free society in which the person can decide whether to work or to retire.

We need a "fourth pillar" of part-time work by older people.

In the discussion of this topic, **Orio Giarini,** Director, The Geneva Association, said three pillars of social security are not enough. We need a "fourth pillar" of part-time work by older people (from the Swiss system of old-age provisions with a government-organised, pay-as-you-go "first pillar", an employer-organised "second pillar" of funded provisions, and a "third pillar" of private contributions). We must also put energy into developing solutions, in supporting life-long learning, for example. We must ask ourselves how these older people can be integrated into the workforce. We must look at various activities to see which of these older people could perform.

Ritsuko Nagao, the President of the Japanese Council of Social Welfare, said that society will have to devote more attention to the employment of the aged and of women. "I would like particularly to address the problem of women in the workplace," she said. "In the 20th century, we have had a rigid concept of employment in offices and factories. Now in the 21st century, we need to be more flexible in defining work. In Japan, mandatory retirement is a problem. But measures must be developed to allow women to work not only in the office and factory, but in other modes."

In the ensuing discussion, the themes that emerged were the importance of not forcing retirement on individuals, and not incentivising them to retire early. "I believe part-time employment to be a key factor," said Orio Giarini. "There is a myth that it is good to retire. The reality is different. Retired people are more frequently ill, and their suicide rate rises."

UK MP **David Willets** said: "Experience shows that it is easy to raise the pension age, but that it is difficult to raise the work age. Where there is a funded pension scheme, which is generally regarded as a 'good thing', the members of such schemes are often the targets of redundancy."

The risk remains the same whether it is managed by a state or a private institution.

Walter Kielholz, Chief Executive Officer of conference co-hosts Swiss Reinsurance Company, addressed the evening dinner with a speech which dealt with the private insurers' role in an ageing society.

The nature of the problem for the life insurer has changed radically in the last century, said Kielholz. While the essence of the problem used to be that you would not live long enough to take care of your family, the problem has now become that you will live too long. Private institutions cannot earn money in this business – there are moral hazards, forecasting, asymmetry and other difficulties which, in the US, have made it uninsurable and left to the state.

In this context, Kielholz made several observations:

1 The risk remains the same whether it is managed by a state or a private institution. But there are key differences: the state can impose mandatory solutions which private institutions cannot, and the state can build solidarity – in other words the state can force individuals to lump their risk in with weaker risks than themselves. Private institutions cannot and should not do this – investors provide capital, but this capital needs to provide risk-adjusted returns.

2 Shareholders need to see fair returns which will not be possible if there is an asymmetry of information – non-disclosed genetic tests and the like. But state imposed solidarity can handle these information imbalances by providing a social structure for risk sharing.

3 Insurers are challenged to come up with innovations to solve these complex problems, but innovation and entrepreneurialism does not come without risk – look at Equitable Life. For many of these problems it will remain to be seen how the risk will play out over long periods of time – often 30 years or more. There is risk, and then there is serious, long-term liability. And,

4 There is the interesting question of how regulation will deal with these kinds of risks and challenges over the very long-term.

In the end, ageing should be seen as a good thing. People can accumulate more experience and use it for longer, and have fuller longer lives, said Kielholz. After all, is that not what we are here for?

Congressman Clay Shaw, Chairman, Subcommittee on Social Security, united States house of Representatives

America and the Global Ageing Crisis

Global ageing is a globalised problem, said Congressman Shaw, and while a conference such as this one might not have been necessary 50 years ago because of the isolation of individual nations, we are now interdependent and must search for global solutions. The greying of the global population will put tremendous pressure on the public health and pension systems of the industrial nations, and we will not be able to borrow our way out of the problem without threatening economic stability.

The US Social Security system is predominantly pay-as-you-go: annual benefits are finance by annual payroll taxes which are hypothecated for that purpose. But the system has been building up reserves since the early 1980s when it was radically reformed in the face of near bankruptcy. A presidential commission appointed in 1982 to restore the systems solvency recommended an increase in payroll taxes, a reduction in benefits, and a very gradual increase in retirement age – at the moment retirement age is rising gradually from 65 to 67 over the next 22 years. These recommendations were passed by Congress, and as a result, the system has been collecting more than enough revenues to meet its liabilities. It is building up reserves which are invested in government securities. Today the Social Security Trust Fund holds more than $1 trillion of assets, and they are expected to grow to over $6 trillion over the next 25 years.

The problem is that these assets are not real – the government securities are actually liabilities of the government contributing to the government's total debt – they are IOUs the government owes itself. The question is: how will these assets be redeemed when they come due?

Beginning in 2015, Social Security is expected to run into cash flow difficulties, and government will have to find a way to repay these IOUs. By 2037, these balances will be depleted, and annual payroll taxes will only be sufficient to pay less than 75% of promised benefits. With an ageing population, the shortfall will get worse every year. At the same time, public health programmes will also become increasingly burdensome. If changes are not made, the Congressional Budget Office calculates that spending on old-age health programmes will constitute nearly 20% of the whole US economy as against 7.5% of GDP today.

The pensions problem in the US is less severe than for other countries. This does not, however, negate the need for the US to act now, before crisis hits – although the perception that we have another 15 years to run before we get into real trouble can have the tendency to blunt the urgency of discussion. Since we are running budget surpluses and the system still has 15 years to run before it may break down, political will to make difficult decisions can be lacking.

Congressman Clay Shaw

President George W. Bush made Social Security Reform one of the main planks of his campaign, and he is expected to keep his promise. In his campaign, President Bush offered six principles to guide a bipartisan reform process:

1 No changes to Social Security for current retirees and those nearing retirement – current pensioners have resisted reforms because they thought benefits would be cut.

2 Social Security surpluses will be dedicated to strengthening the Social Security programme. Until we agreed on a specific reform plan, the surplus will be used to pay down publicly held debt. In the past, Social Security surplus was used to finance government deficits.

3 Social Security payroll tax (12.4% on $13,000+ income) will not be increased. This tax represents a significant burden on working population even though this tax is low compared to other countries. Almost 80% of American workers pay more payroll tax than income tax.

4 The Federal Government must not invest Social Security surpluses in risky private equity market

5 Any non-retirement benefits attained through Social Security, such as disability benefits, survivor benefits, etc. must be maintained. And,

We must find solutions that address demographic realities.

6 Any reforms must include private savings accounts, and allow workers the ability to build personal wealth. Moreover participation in retirement benefits should be voluntary.

Congressman Shaw anticipates that President Bush will appoint a bipartisan committee to examine these principles and recommend reforms, hopefully by the end of this year so that we can make real changes before the Senate elections at the end of 2002. Social Security is a highly politically charged issue, and there are sceptics who say that reforms will not be achieved, especially in this short tie frame. But there is broad bipartisan agreement on many of the principles that would allow the basis for a reform package, and Congressman Shaw is optimistic.

"We must find solutions that modernise the Social Security system and address the demographic realities the programme faces," said Shaw. "To ensure the future of the Social Security system, we must move away from the pay-as-you-go system towards a system that prefunds benefits through individually controlled personal retirement accounts. Whether such reforms are possible will depend on Congress' ability to show courage, by putting politics aside and legislating for the next generation instead of the next election. We have already made tremendous progress, and with new Presidential leadership guiding the debate, I am confident we can get the job done."

Prof Meinhard Miegel, Director, Bonn Institute

Only the future old and not the young are responsible for the coming problems.

Professor Meinhard Miegel,
Director, Bonn Institute

Germany's ageing transition

Germany's old-age protection system has been altered 13 times since 1975, twice to the advantage of the insured, and the other eleven times to their disadvantage. The alterations were made to adjust to shifts in the structure of the population and the labour market, and had they not been undertaken pensions, and the costs of financing them, would have been about a third higher than what they currently are. And this is only the beginning.

Assuming an increase of two years in the pensionable age and an immigration of 100,000 employable persons annually (a total immigration figure of 170,000) the section of the population which is considered as no longer employable and must therefore be provided for will increase by two thirds by 2030. That is an optimistic prognosis – many experts assume it will double. But even if it does only increase by two thirds, under the status quo conditions the burden on the active population would equally have to increase by two thirds.

Optionally, the pensionable age can be raised to 73 years of age, the number of immigrants raised to 600,000 a year or the per capita provision for old people reduced by 40%. All these options were introduced into the reform debate, although they are all equally unrealistic. A solid strategy can only be a combination of all these options, whereby the emphasis however must be put on the provision for the old through public transfer. This is dictated by justice between the generations. For only the future old and not the young are responsible for the coming problems. One of the most important aims of all reform measures must therefore be to stabilise the relative burden of the employable generations for the purpose of statutory old age protection.

In order to compensate the at least relative drop in pensions, old-age provisions in the form of private capital formation has to be pursued. It is true that this increases the burden on the employable generations. Justice between generations can therefore not be completely realised. However, as old-age provision in the form of private capital formation is more efficient due to compound interest rate effects than pay-as-you go systems, the total expenditure of the employable generations is lower than if the old-age provision continued to be run as before – mainly in a pay-as-you-go system.

This idea has met with agreement by politicians, but fierce resistance from the trade unions. The trade unions want to "maintain the standard of living" but do not want to hear anything about capital formation, and wish to hold on to the existing systems as far as possible. The unions ignore the implications of ageing for several reasons: statutory pension entitlements are one of the strongest bases of unions power; they are mistrustful of the "small capitalism" implied by capital formation; and the trade unionists themselves are overaged – elder workers and even pensioners call the tune on pensions policy.

The Schröder government did not entirely pander to the unions, but it did not make sufficient cuts in entitlements, and felt compelled to cover up the cuts that they did make as far as possible. The result is unsatisfactory, and criticism of the reforms is massive. The initially high plausibility of old age pensions has been diminished significantly. Above all, poorer people no longer see any incentive to save. In order to motivate them to do so, high tax incentives have to be created and subsidies have to be paid. The main features of this reform are contained in the box below.

German Pension Reforms

Measured against the incomes of paid employees, the pension level is to be lowered. But nobody is meant to notice this. Therefore the government is taking hidden paths and long detours. First of all it is reducing the incomes, which are taken as the basis for pension assessment, as follows:

> From 2002/3 on, paid employees are encouraged to build up assets for their old age, starting with one percentage point of their gross earnings and increasing every second year to a total of four percentage points in selected and state certified institutions. The trick: so far private capital formation has had no negative effects on the size of a pension; in future it will lower it. Because the income relevant for a pension will be dropped to the extent of up to 4 percent of gross earnings. Measured against today's incomes the pension level will shrink by about 2 – 3% by 2010.

> From 2011 on these slowed-down pensions are to develop according to gross earnings minus the contributions paid into the statutory system and into the state regulated, certified and subsidised private savings institutions, whereby however only about 90% of this amount is to be taken into account when calculating the pensions. The consequence: the pension level continues to sink – measured against present-day criteria; nobody has a very exact idea how far. Every estimate between 61 and 67% – compared to 70% today – has a certain plausibility.

The Future of Health Care Rationing

Howard Oxley,
Senior Economist
OECD

National health systems typically control costs by withholding potentially beneficial, but expensive, medical treatments. However, as electorates age, they may not tolerate the denial of life-extending drugs and services. And if such treatments are necessary for people to work longer, rationing may prove counterproductive. What will happen to health costs in the future? These were the questions addressed in the session on health care, chaired by **Yoshio Yazaki,** director of the International Medical Center of Japan.

Howard Oxley, Senior Economist, OECD opened the session with a presentation entitled: "Forecasting national health system budgets". Mr Oxley is currently leading a review of national pension policies in the OECD countries.

The key questions to address the impact of ageing on health care costs are:

1. Why will ageing affect health costs?
Ageing will impact health costs, said Oxley, for three main reasons:

> Per capita health costs are higher for the aged (a well known fact). Some figures suggest they may be 3 – 5 times higher for those over 65 than for the working age population or children

> The share of the elderly is rising (also a well known fact).

> Health costs for the elderly are rising disproportionately with respect to the rest of the population (a little known fact).

2.What types of care do the elderly consume and what are the drivers?
Elderly people consume two types of health care: "normal", and long-term care/social services. The factors driving each of these will differ. Some figures suggest that the long-term component is largely to blame for the disproportional rise in health care costs for the elderly.

> drivers include:

> population structure (normal and long-term);

> morbidity or degree of functional disability (normal and long-term)

> technology (normal)

> public's "taste" for health care, incentives to consume and to supply health care (normal);

> the relative importance of the family/state in providing care (long-term).

3.How much is spending likely to increase?

> Countries have sent projections to the OECD using common assumptions for estimating GDP growth, but there were major differences in method and coverage of these projections.

> This is difficult to state definitively because the uncertainty of predictions is high. Figures suggest an average increase by 3% of GDP by 2050 in developed countries.

We know that health care costs will rise, but we don't know by how much. With respect to policy, countries should focus efforts on the long term:

> Prevention is particularly important. An ounce of prevention is worth a pound of cure.

> Incentives in the health care system should be improved. Systems should encourage later entry into long-term care, and incentives should be structured to minimise excess demand and supply of care.

> Technology development – technology should aim at lowering morbidity and functional disability. Technology policy is currently a "free animal" and should be guided towards specific health care goals.

Hirwig Birg, demographer from the University of Bielefeld, in a presentation was entitled: "Could health spending surpass pension costs?" showed the radical changes in German demography due to the fall in fertility and increasing life spans.

Birg demonstrated how demography can give surprisingly accurate long-term forecasts. We do know that life expectancy is rising, and that fertility is falling. All countries and regions are following the same development path, although they currently find themselves at different points along this path. Without any immigration, the population of Germany will go from 80 million to 30 million in this century. This population will be very aged.

The main questions arising from this situation are as follows:

> Can we maintain a successful and sustainable economic and social situation without demographic sustainability in the long run?

> How can we cope with a polarising population between young and old, residents and immigrants, families with children and families without children.

> Can we sustain the level of health care without demographic sustainability?

> Can we sustain the level of health care without social injustice and tension between the generations?

There is no choice between retirement and health.

There are three ways to maintain the current level of pensions: increase contributions; increase immigration; or increase fertility. But these factors – separately or together – are incapable of denting the problem.

The only possible answer lies in "cultural renovation" – Germany will need to become more accepting of immigrants, for older people to become more productive and active, and for gradual, yet concrete steps taken to improve the level of demographic sustainability.

Dalmer Hoskins, Secretary General of the International Social Security Association was asked: "Will ageing nations have to choose between retirement and health?" Hoskins departed from his prepared remarks to make the following statements:

There is no choice between retirement and health. Societies must have both in whatever measure, but they are on two different tracks. As a concerned third party he often finds himself in the unusual position of introducing executives of the health and the pensions systems from the same country to each other. The cross-fertilisation between the two fields is insufficient.

The two areas differ in that pension policy is long-term, low-administration, and relatively uncertain while health policy is short-term, even immediate, high-administration, and very uncertain.

He opposed the view, expressed frequently in the conference, that voters and politicians act, even cynically, in their own short-term interest. In his opinion, the 90s were not a lost decade in pension policy. Canada increased contributions from 6% to 9%; Switzerland and Sweden also moved to put their pensions on a sounder footing. But in order to do these brave things, a consensus must be established among the national population.

His recommendation for the Tokyo conference is to work towards establishing a benchmark for reform. This would apply only to the OECD, as ageing elsewhere takes different forms and the societies are often even less capable of handling the problem, and merely exporting models from developed countries will not be enough.

Sylvester Schieber, Vice President, Watson Wyatt Worldwide looked at the question of whether the financing of health care exacerbates the pension problem. The cost is governed by the product of two ratios:

$$\text{Cost} = \frac{\text{Number of beneficiaries}}{\text{Number of workers}} \times \frac{\text{Average benefit}}{\text{Average wages}}$$

Legislation addresses the second of these ratios, while the problem lies with the first. Assumptions that the health care rates will soften have not been realised. We must either re-establish the link between increased life expectancy and retirement age or stop investing in longevity.

Schieber agreed with Hoskins that the pension problem and the health care problem are closely related. If the problem is funding, people will have to work longer. Hoskins responded that in his opinion social security systems generally do a poor job of communication with respect to the benefits and obligations of claimants. The OECD's Oxley said that benefits are related to contributions in only a few systems. The key is create incentives. The surpluses over the next decade put societies in a strong position to deal with the problem, and they should take advantage of that.

Keynote address

Mr I. K. Gujral,
former Prime Minister of India

Global ageing is a trend that is fundamental, irreversible and an established theme for the new millennium. It is an entirely new and unprecedented crisis, with no pointers from the past, no lessons from history, no premonitions from the collective memory of mankind. Although since the days of Thomas Malthus we have been convinced that the threat to mankind would be from overpopulation, it now transpires that the real threat to the demographic balance of the developed countries is coming from the opposite direction.

An ageing world will be a world in slow and protracted economic decline.

In India, where average life expectancy has gone up from 32 years in 1947 to 62 years today, the number of people aged 60 or over has increased from 19 million in 1951 to 72 million today. It is estimated to rise further to 177 million by the year 2025. Yet the requirements for the elderly have never really been the focus of public policy, the unstated assumption being that their numbers remain small and providing care and support for the elderly is the liability of their families not the state. The unfortunate fact is that the paucity of resources and the tremendous growth of population make it difficult to build a credible social security network. As a result, most aged people today are either destitute or dependent on the younger family members for such care as they obtain.

Indian public policy will no doubt need to devote considerable attention to this area in the years to come, but at the same time no one would seriously argue that there is an ageing crisis in India. In this sense, the so-called ageing crisis in the developing countries is in fact a depopulation crisis.

An ageing world will be a world in slow and protracted economic decline. Nor will the consequences of this decline be confined to the developed world alone. Developing countries, still free of the ageing virus, will also feel the cold wind from the north – their markets, their main source of investment and aid, and perhaps most critically new skills and technologies are located almost entirely in the industrialised world.

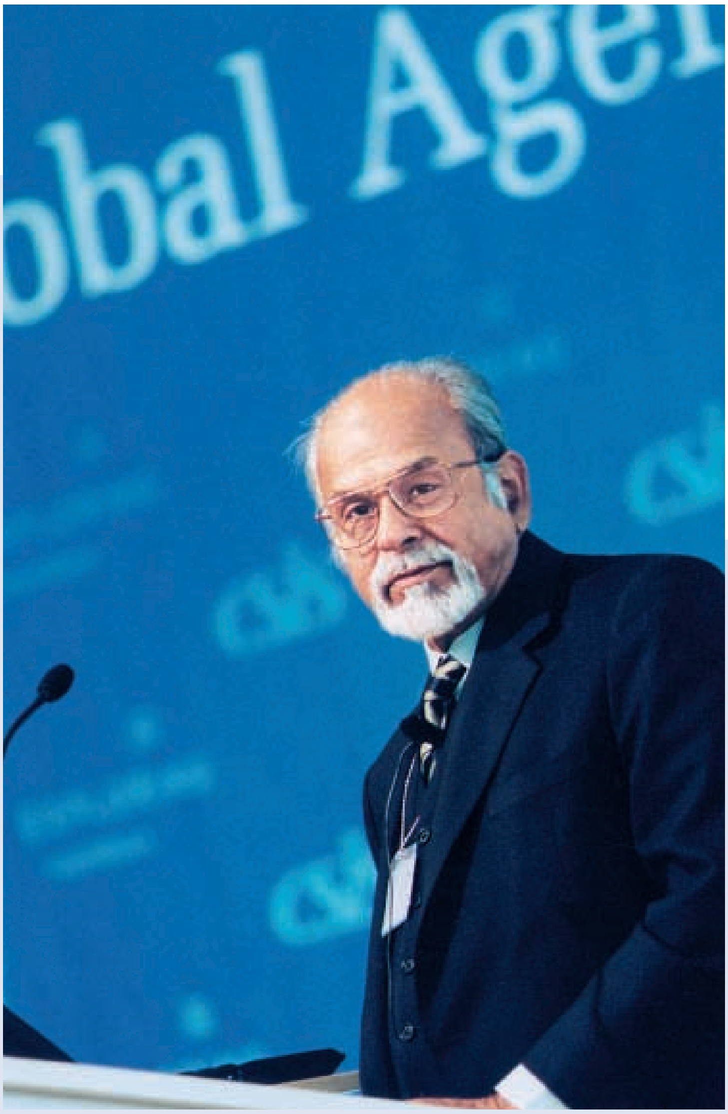
Mere description of this bleak scene will not help. The key is that the ageing crisis is not global. The total fertility rate at the global level is 2.7 births per woman – still well above replacement needs. The world as a whole still retains the traditional broad based population pyramid.

In South Asia problems primarily pertain to the education of our young and the eradication of poverty. The working age population is growing faster than the general population, a trend which is the reverse of that prevailing in the developed countries.

Seen separately and in isolation the problems of an ageing developed world and a young developing world do seem stark and serious. But seen together, in the context of a globalised world economy, it would appear that the worst outcomes could be mitigated if not avoided all together. The differing age and demographic profiles, in this sense, are not problems but another complementarity to be harmonised though the conventional mechanisms of international trade, investment, technology and the movement of people towards a global

optimum. The complementarity between resource-supply in the industrialised countries and resource-demand in developing countries needs to be tapped.

One route to achieve this is through pension fund investments in the developing countries. Investors have been volatile since the South East Asian financial crisis, and the need for putting in prudent financial regulations has assumed added importance. But we notice that investors today are displaying a positive shift in their attitude towards developing country investment as they improve the 'quality' of investment by emphasising the ethical, environmental and developmental questions. Such responsible investing can help the developing countries to take their economies to higher trajectories while avoiding some of globalisation's excesses. But we recognise that the structure of our financial markets and their regulation need to be strengthened in order to achieve this. In India, measures to strengthen financial markets frameworks and institutions such as the Securities and Exchange Board of India are progressing speedily.



I. K. Gujral

Migrant workers must be able to share the fruits of their labour with their country of origin.

Additionally, there will be globalisation through greater international migration. In Europe a number of countries are liberalising work permits and residency requirements in order to encourage skilled and educated foreigners to come and work there. But there is a related issue that concerns us. If the developing countries are providing skilled labour to the industrialised world, would it not be fair to share with their countries of origin some of the fruits of their labour. A recent study at Harvard University has estimated that the temporary migrant labour to the USA with H1-B visas from India contribute about $22 billion per year in the form of direct taxes and social security benefits. This fund, particularly the social security payment part is not repaid to the H1-B visa holders when they return to India. This is clearly an unfair situation. What is more, Professor Reitz of Canada, currently at Harvard, has estimated that under-utilising the education and experience of immigrants to the US costs the country some C$55 billion. Moreover, Professor Reitz also claims that underpayment of immigrants relative to their education and experience costs their aggregate earnings some $500 million a year – particularly in the case of "the south Asians who are best educated amongst the immigrants".

Technology is likely to be more helpful to globalisation even than immigration. The internet has led to a true revolution in this area: one result of which is the global “internet enabled services” industry, whereby all labour intensive work is relayed back and forth by the internet. Technology is facilitating millions of virtual workers to join the labour pool of the industrialised countries, without ever leaving their homes. In India, it is estimated that this sector will generate earnings of $50 billion per annum while employing 2 million people by 2008. Surely this is true globalisation.

India has made great strides to encourage globalisation. Over the past decade we have opened markets, reduced tariff barriers, reformed and liberalised its capital markets, and provided a welcoming environment for foreign investment including portfolio investments. India has never defaulted on an international commitment – on the contrary India has been a staunch upholder of the global system, liberally contributing men, material and resources to such common causes as have been sanctified through due processes of the international community.

The dispossessed of the world are actually its potential resource.

In contrast, it is difficult to reconcile the problems of an ageing world with the attitude of the WTO. It seems that for this organisation every domestic lobby and vested interest must be appeased even if this means that the dwindling labour resources of the industrial world remain locked in low skilled and unproductive jobs. Globalisation is not likely to register the desired progress unless the multilateral organisations like the IMF, the World Bank and the WTO are democratised. They are, at the moment, non-representative and thus lacking in credibility. Globalisation cannot be a success if it remains confined to preaching the virtues of liberal economics to the South and poaching from them their best educated and skilled people without any compensation or rewards.

There has to be a parallel effort, such as that envisaged at the Copenhagen World Summit in 1995, to advance the work of social development in the South, through education, through transfer of skills and technology, through fulfilling some basic needs programmes. In sum, providing the basic infrastructure to enable the people of the South to stand on their own two feet to march ahead and contribute in architecturing a humane world order.

In the so-called era of ageing, the dispossessed of the world are actually its potential resource. Let us always remember this and work together.

Ageing in the industrial world heralds the rising importance of younger, developing countries. Expanding investment in emerging economies will make remittances essential to retirement financing. But this may mean that political upheaval in developing countries will entail greater economic risk. this session, chaired by **Makoto Utsumi,** professor in the Business faculty at Keio University, looked at the implications of these questions for foreign policy.

One point to watch will be the Bush administration's strategy towards Latin America and particularly NAFTA. Mexico wants NAFTA to take on the characteristics of EU, even going so far as to abolish the peso in favour of the dollar. Other Latin American countries such as Ecuador have already done so. The average age of Mexico's population is 10-15 years younger than the US, the question is whether utilising this differential on a global basis could be a solution to the US's ageing problem.

Robert Stowe England, research director of the CSIS Global Ageing Initiative presented the "Implications of ageing for savings rates and capital flows".

There has been a decreasing savings rate in the US despite increasing wealth.

David Hale, global chief economist for the Zurich Financial Services Group presented "The perils and promise of globalisation".

The scope of population change predicted over the next 50 years will have drastic consequences on the international system and the balance of power, said Hale. Populations in industrialised countries are on the decline: from 1.2 billion in 2000 to 1.16 billion in 2050. At the same time, in developing countries, populations are set to rise from 4.9 billion now to 8.2 billion in 2050.

This power imbalance will increase the EU's and North America's dependence on technology, especially in their military forces. The assumption that an ageing population would mean a larger savings rate proved wrong in the US: there has been a decreasing savings rate in the US despite increasing wealth. At the same time, many pension funds will experience cash flow deficits in 20-30 years' time, which could depress savings rates.

There are significant implications for the structure of capital markets: Africa will have a significantly younger population of 2 billion people. The continent could attract investments from industrialised countries and become an exporter of capital. However, the region has other problems – for example it has extremely poor governance and a lack of rule of law.

According to England, demographic changes in the developing world will distort cash flows into and out of pension plans. At present it is assumed that the force of demography is pushing up equity values and will, at some point, also drive them back down again.

David Hale,
Chief Economist,
Zurich Group

Robert Stowe England, Research Director, CSIS, Global Ageing Initiative

Daniel Gouré, Director, International Security Program, CSIS

A study by James Poterba found that net financial assets remain stable in retirement while increasing stock values are due just as much to productivity gains and earnings as demand for equity. But there may be new sources of demand for financial market products – including the development of funded pension schemes and the encouragement of private savings for retirement. Examples of this include:

> German law to be passed for a funded supplementary pension plan – 4% of payroll
> Australia, Poland, Hungary, Latin America to develop new funded systems as well
> expansion of employer-sponsored pension plans

The severity of the ageing crisis may yield reform to prevent debt levels rising to crisis levels, but any delay may mean an abrupt rather than gradual adjustment, he said.

Daniel Gouré, Director of CSIS's International Security Programme, addressed the issue: "global conflicts and the risk to welfare state finances".

According to Gouré, issues of national security must be included in the debate on priorities for scarce resources. The under-funding of pension programmes and Medicare will have an impact on national security and security as a whole in the developed world ageing will increase the competition between the civilian labour force competition and the military; the military will inevitably end up paying higher premiums to attract people.

One way to address these issues is for the military to find ways of replacing people with capital – using technology to make defence forces more effective and less people-intensive. However, flat defence budgets will be insufficient to support military prowess. In the US the military will see a $100 billion annual spending shortfall over next five years. According to Gouré, the US and Europe face stark choices:

US's choices for the future:
> large scale increase in defence spending
> OR major diminution in US military power (population imbalance of 1:8 in 2050)

Europe's choices for the future:
> pressure from pension programme funding on available resources
> misallocation of resources – less than 20% of European defence spending goes on procurement
> there is a growing divide between the NATO allies and US as allied forces spend less and less on defence and are thus unable to meet their NATO commitments and share burden of European defence
> new potential war zones – the Balkans, West Africa and other trouble spots represent unknown factors compared to old adversaries.

The session discussants, approached the subject from two very different perspectives. **Shinji Fukukawa,** Chief Executive Officer of the Dentsu Institute for Human Studies, took an international relations perspective as follows:

1 The major countries should maintain integrated policy and maintain peace and stability in the world. The US will continue to be the main player for world peace. Japan and EU have to cooperate with US to enable developing countries to develop stable democratic structures.
2 The major countries should adopt a preventative security policy. Growing developing countries may be tempted to increase military power and nuclear activity using their economic achievements. The major countries have to push arms control agreements, such as nuclear proliferation treaties, and a new WTO round.
3 Some developing countries will fail to grow because of political turmoil and fall into poverty. Developed countries should extend assistance to encourage the eradication of poverty, and enhance economic cooperation.
4 There will be increasing numbers of cultural and religious frictions and confrontations. Foreign policy will be needed to deal with regional disputes – cross-cultural management and expansion of cultural interchange will need to be strongly enhanced.
5 Exchange rate systems and economic growth G7 scheme or similar should be improved.

National security must be included in the debate on priorities for scarce resources.

6 There should be free exchange of information and other technology in order to stimulate development.
7 There should be a higher level of economic integration with developing countries – although the savings rates of developing countries will decrease pension funds should be spent wherever they get the best returns.
8 In order to develop the most favourable social security schemes, the exchange of pension fund experiences among ageing countries should be encouraged, and the harmonisation of social security systems internationally would be useful in order to promote the mobility of workforces.

William Shipman, Principal of State Street Global Advisors, made a passionate plea for the investment of pension fund assets into private equity markets. According to Shipman there are two opposing camps. The first, generally accepted, theory is that a growing number of retirees withdrawing their savings for consumption will cause the value of securities to fall. But according to some research conducted by Shipman last year, this is not the case. The stock market is not a place where the interaction between demand and supply determines price, said Shipman, but a place where buyers come to meet sellers and exchange – for every seller there must be a buyer. There is no correlation between the level of cash flowing into and out of the stock market and the price level of the market.

Shipman feels that it could be costlier to maintain the unfunded liability system than it would be to move to a market-based system. As long as the return on capital is greater than the increase in payroll, the costs of the market-based system will be less than a state-sponsored funded system. Our approach should be to come up with a solution, defend that solution and participate in open dialogue, said Shipman.

Ageing societies must develop health systems and methods of work suited to an alder work force. Health care rationing alone will not keep older workers healthier. Meanwhile, even a healthy older workforce may be less mobile. Where must technological advancement occur for older societies to remain productive?

New technologies which bring a new meaning to the word "health".

This session, one of the conference's most actively discussed and interesting was chaired by **Maria Livanos Cattaui,** Secretary General of the International Chamber of Commerce.

Gerold Yonas, Principal Scientist and Vice-President of Advanced Concepts at Sandia National Laboratories, gave a sweeping futurist picture of a world in which technology enables people of advanced years to contribute in a way that even their younger colleagues cannot because of their depth of experience and knowledge.

According to predictions, Medicare finances will begin to go cash flow negative in 2025, and bankrupt soon thereafter. In the meantime, said Dr Yonas, technology is to take an exponential trajectory towards "new health experiences". These new health experiences will be facilitated by nanotechnology, info-technology, and bio-technology and the combination of the three that will bring a new meaning to the word "health".

In the year 2000 we are already seeing the internet, palm-top computers and broadband technologies being leveraged to maintain and improve health. By the year 2010, we will see the current generation of baby boomers increase the amount of self-care they can provide themselves through more developed and individualised patient records, wearable health devices, robots for health purposes, and "health reward insurance" that will reward the policyholder for staying healthy.

By 2010 technologies will bring us genetic predisposition tests and mapping, artificial organs, and personalised biochemical treatments. By 2025 we wills see the introductions of "cogno-tech" devices (devices, planted in the brain, which improve the mind-body linkage), implantable bio-chips, sensory and smart prosthetics, and a strong emphasis on disease prevention. The focus will be on personalised health maintenance plans, drugs and health treatments.

Maria Livanos Cattaui, Secretary General, International Chamber of Commerce

Towards 2050, Yonas has a vision of a "sustainable society" where the human race has moved one step beyond in terms of social evolution. We will have control and influence on our learning, cognition and behaviour enhancements. We will have moved away from the fragmented health care that we practice today towards an integration of the mind, the body, and the spirit – a systemic approach to health that will enable people to avoid disease and stay healthier and active for longer.

Integral to this is Yonas' vision of each individual's life-long contribution to society. At age 65, individuals will be engaged in their life-long programme of learning, teaching and doing. There will be continuous contribution and productivity using assistive technology including wide-band internet connections to enable two way communications between health care providers and individuals. At age 75, the focus will be on preventing disease and staying healthy, with a feedback loop between health maintenance activities and insurance premiums. At age 85, the individual will continue to share in and contribute to family life. Technology such as "doctor-in-a-box", artificial and wearable sensors will be used to reduce the impact of ageing and to provide low cost home care. At 95, we will be frail, but prepared for what is to come. Technologies such as personalised genomic indications, and cellular function monitoring will provide us with early disease detection, self-maintenance, reliable prosthetics, and the ability to know when death will come.

In conclusion, said Yonas, nano-, info-, and bio-technologies will provide us with broad potential benefits that the population will demand at an affordable price. Ageing can be a vicious circle, but with the clever use of applied technologies, it can be a virtual one.

Vice-Chairman of Goldman Sachs International, **Robert Hormats,** looked at "Information technology in ageing societies" – and emphasised how any solution to the ageing problem must include ways to keep people active and productive for longer.

He prefaced his remarks by referring to the paper by Paulo Onofri – different pension systems are simply different claims on the output of future generations. "No set of pension schemes are going to be effective unless we have growth, capital investment and output to pay for them." he said. "How do we use technology to enable tomorrow's workforces to become more productive than those of today. It is essential that they do that because workforces are shrinking."

Tomorrow's workforce must be more productive than today's.

Companies will be wary of investing in developed countries where they see a lot of unfunded pension liabilities and they are threatened by high tax regimes. Moreover, said Hormats, workers who have the ability to move from country to country are going to go to those countries where there have been pension reforms. Those countries that want to attract knowledge workers are going to have to address these pension issues.

Hormats' second point was emphasise the need to use technology to utilise the talents of the elderly past retirement ages to continue to be productive. When and if people decide to stay in the workforce longer technologies should be used to make them more productive. "One of the great ironies has been that we have spent enormous amounts of money making people live longer and healthier," said Hormats, "but relatively less work has gone into getting older workers to be productive for longer. One of the things we have done inadvertently is to look at elderly as a liability on society rather than as resources."

We need to focus on intergenerational social compacts:

1 Older people should have a strong interest in educating younger people and making them more productive. Economies that will sustain values down the road are going to have to have more productive workers. So there must be a social compact between older people and younger workers.

2 Younger workers who do not want to bear burden of more expensive social security systems will have to become lobbyists for change.

"If both ends of the equation don't work properly, if we can't use IT to manage the ageing of our societies, then it will be more difficult for all," said Hormats.

Horace Deets, executive director of AARP, spoke passionately on "Extending productive life: technology's promise."

The challenge facing those involved in managing the ageing transition is to find the right balance between a sense of urgency and the sound of panic, said Deets, and "I have seen people err on both sides."

In this issue, as in others, Deets said that it is useful to use the methodology of US Secretary of State Colin Powell by asking three questions:

> What do I know?
> What do I not know?
> What do I think?

and not to confuse the three.

Formerly the Association of Retired Persons, now formerly known as AARP, changed its name because it found that many of its 34.2 million members were now far from being retired. 52% of the association's members are employed. However the practice of age discrimination continues, said Deets. Age is not a good predictor of productivity or performance. But people still do not get hired after 40-trained after 50. It is not true that creativity only happens before 40.

longer you are likely to live. What causes these gains to be made? There has been a marked decline in disability among elderly. It is now time to lose the concept that something happens to you at 60 or 65 that makes you want to retire or move to the sun belt. Quoting baseball player Yogi Berra: "The future ain't what it used to be." Clearly productive life goes beyond the age of 65.

People will work longer if we remove barriers.

In the past century the developed world has had a tremendous achievement. In the US, life expectancy increased by 40 years to 77 today. The first gains were made by investing in eliminating early childhood deaths. These days, The longer you live the

Robert Hormats,
Vice Chairman,
Goldman Sachs International

We know that people will work longer if we remove barriers – if we incentivise people to retire early or if they are not allowed to continue through mandatory retirement laws, or if they have bought into the myth that they can no longer work. Volunteering, for instance, is a hugely productive activity, but it is not counted in the GDP figures. We need to look at the way that society addresses the problems and attitudes of the elderly – why should people live up to 30 years longer if they are not allowed to continue to be productive, asked Deets.

Horace Deets,
Executive Director,
AARP

Conclusions

Paul Hewitt, Project Director of the Global Ageing Initiative at the CSIS drew the conference to a close with some concluding remarks.

"We have had some very serious people saying very serious things," said Hewitt. "Former Prime Minister Hashimoto talked about increasing the productivity of the ageing portions of the populations, the reallocation of work and the new forms of social organisation that this will need. The Foreign Minister of Italy, Lamberto Dini stressed the importance of addressing the liability crisis. And German Interior Minister Otto Schily looked at the immigration issues facing his and other countries."

The conference looked at the problems, opportunities and obstacles to taking advantage of the fiscal changes that will be imposed by changing pension and healthcare needs, he said. "We shot down some panaceas, productivity is important but may just cause other problems. Immigration is important but don't count on it. But what stood out the most was the opportunities that we identified."

"We learned about the role of people as economic and social assets, and in that context heard about importance that education can play, and the importance of enabling us to realise our potential over a longer period of time. We looked at the developing countries as source of resources and brainpower and the potential for economic specialisation through the ability to expand workforces over the internet."

"There is considerable institutional inertia – systems will be hard to change. We learned about older people who think they don't want to work until they find out it is really boring [to be idle]. We though about the short-termism of the business and the political worlds. But then Swiss Re CEO Walter Kielholz reminded us that he works in an industry where people make decisions over a thirty year time period. Gerry Yonas talked about the technological opportunity provided by ageing and we thought about the circumstances which could put this in jeopardy."

The Global Ageing Initiative will release its recommendations for how we should work domestically and internationally on these issues following the conference in Tokyo in August 2001.

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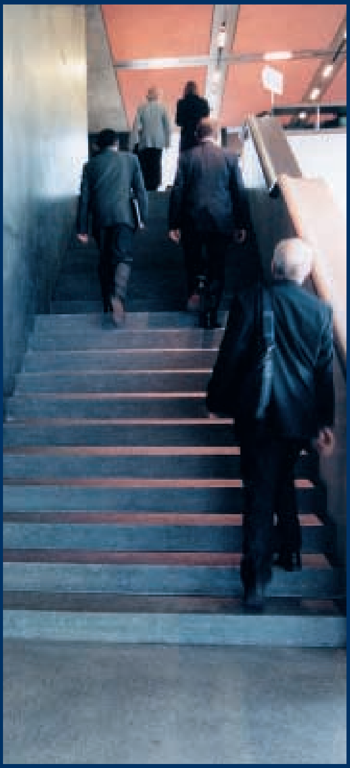

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