

## **Economic Challenges of Aging**

**MIERSCOPE**

**By**

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Economic progress everywhere has led to smaller birth rates and longer life expectancy, as shown by the changing demographic profile not only in the developed countries of Europe where the problem of aging population seems particularly acute, but also in the other parts of the world. To be sure, Asia, known for population pressures, is not immune to this phenomenon even where the population is still growing at alarming rates, as mortality rates continue to decline rapidly.

According to the United Nations (UN) sources, the average age in Asia will rise from 29 to 40 and the proportion of those 65 and above will increase from 6 to 18 per cent between 2000 and 2050. In Southeast Asia, the size of the elderly population (65 and above) is projected to grow from 24.3 million in 2000 to 57.8 million and 129.0 million in 2025 and 2050, respectively, an increase of 430 per cent over 50 years. At present, Japan has the most rapidly aging population in the world, with the elderly accounting for 17 per cent of the population. For Japan, UN projections suggest, this proportion will rise to 29 per cent in 2025 and 36 per cent in 2050.

In Asia, in the category of 55 and above, over one-half now falls between the ages of 55 and 64, and more than one-third between 65 and 74. The proportion of the oldest age group (75 and above), which now forms only 15 per cent of the said category, is expected to rise to 27 per cent by 2050.

Women everywhere tend to live longer than men do. For, there are only 70 men for every 100 women among those aged 75 and above. Not surprisingly, therefore, women are more likely to be widowed than men are. Thus, for example, about 52 per cent of the South Korean women from 65 to 69 are widows, compared to only 8 per cent South Korean widowers in this age group. The trend, however, shows that there will be fewer widows in the future as the life span of the males is extended. Moreover, the demographic trend also shows that families will have fewer and fewer children, threatening the viability of the traditional family support system for the elderly.

Longer life expectancy does not necessarily mean increased man-years for production, in terms of contributions to the gross domestic product (GDP) growth. With economic progress, some workers would voluntarily retire early, while others are either subjected to

mandatory retirement or retarded by retirement plans that penalise those who wish to continue to work. Consequently, the median retirement age for men has dropped from 67 to 63 between 1960 and 2000. Older men are more likely to work than older women. Thus, in Asia, there were about 150 working men aged 55 and above for every 100 working women. This ratio is much higher among those 65 and above, with 250 working men for every 100 working women.

Evidently, the family support system for the elderly is cracking. In South Korea, for example, the proportion of elderly women living with their children had declined from 78 per cent in 1984 to 47 per cent in 1994. In some countries marriage rates have dropped sharply and most middle-aged women are working with little time to care for the elderly family members. Studies have shown that the family support system can only meet roughly one-half of the retirement needs of the elderly in East Asia's low-fertility countries. The upshot of all this is that the elderly will have to work longer and save more.

The economic implications of aging population especially in low-fertility countries in terms of resource allocation and output growth are extremely serious. By and large, aging population means that the young will be subsidising the old and that a growing segment of the population will not be producing but simply consuming goods and services produced by a declining labour force. The consumption and savings patterns also tend to change with demographic changes, as shown by the Japanese experience. That Japan's economy has not been able to grow for so long may have much to do with its aging population. The elderly in Japan sit on high savings but spend little. Low consumer spending tends to drag investment expenditure down. Consequently savings exceed investments, hobbling GDP growth.

Aging population also means lower government revenue and higher social services allocations with serious budgetary consequences. More specifically, it imposes an increasing burden on national healthcare systems. Not surprisingly, healthcare spending increased from 3 to 7 per cent of GDP between 1960 and 1997 in Japan and from 2 to 6 per cent of GDP between 1970 and 1997 in South Korea.

Countries with severe labour shortfalls may have to increasingly depend on migrant workers, but cost-benefit considerations impose a limit. Increasing the birth rate in such countries is easier said than done, given the current social values, norms, practices and preferences. Technology replacing human resource remains a viable option for economic

growth, but there are constraints of sorts. Some countries may therefore have to simply downsize their economies, as the size of the working population continues to shrink.

Another option is to encourage more retirees to work. Interestingly, the Silver Manpower Centres in Japan help find jobs for the retirees. Plans are afoot in Japan to induce the retirees to go back to work. The present rules in Japan penalise those who work after retirement, as they stand to lose part or all of their pensions, depending on the size of their salaries. Under the new regulations, planned for 2004, Japanese pensioners who continue to work (after the age of 60) will receive deferred pensions after they stop working, enabling them to earn even larger pensions. Bringing the retirees back to work, however, is an unexciting proposition for countries where unemployment remains a serious problem.

High savings rates provide an important source of retirement income, which however is highly vulnerable to financial turmoil. As shown by the recent experience, life savings of many who are retired or nearing retirement can be wiped out for reasons of not their own making. The failure of financial institutions and the tumbling of property and equity values in recent years have decimated those who would depend on their personal wealth during retirement. The main problem faced by the retirees is that risks are high and returns are low. Low rates of return in the post-crisis period are hurting those who live on past savings.

The aging population presents many challenges for public policy. The main challenge for public policy is to ascertain the viability of the family support systems and to formulate policies that will support or complement such systems. Singapore has made the children legally responsible for the support of their elderly parents, while Malaysia provides tax incentives for elderly care. To be sure, much more needs to be done. Mandatory retirement age has to be raised. Firms should be encouraged to retain older workers with flexible employment options that would include part-time occupations as well as wages based on productivity rather than seniority. There is also a need for occupational retraining or retooling programmes and skill upgrading that would enable the elderly to cope with technical change in the workplace.

The civil service pension schemes operated by national governments are helpful, but they only take care of a small segment of the population and are increasingly seen as an undue budgetary burden. Pay-as-you-go systems, in which current retirees are supported not by their own savings but by contributions from current workers, are not sustainable.

Experience has shown that the Employees Provident Funds, to which both employers and employees contribute, meant for old age, are often misused for other purposes, leaving the retirees in the lurch soon after retirement. There is certainly a need to ensure that such funds are not withdrawn prior to retirement and that these funds are managed properly so that they can yield reasonably high returns.

Demographic changes that took 50 years in developed countries in Western Europe and North America are being compressed into just 20-30 years in Asia. This means that most Asian countries have considerably less time to prepare for aging and that they will have to meet the challenges of aging at much lower levels of development than has been the case with developed countries. Bluntly put, not many countries in Asia can afford a large dependent elderly population. Nor do they have the necessary institutions and financial systems in place for coming to terms with the new demographic realities.

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