Live Long and Prosper: ageing in East Asia and Pacific

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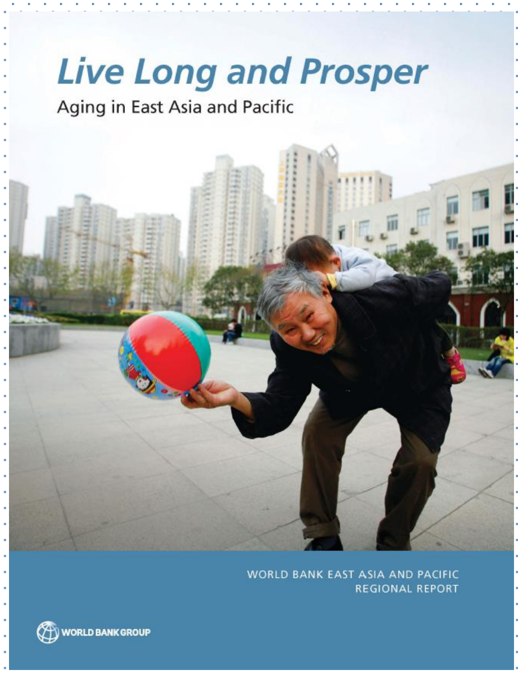


Key messages

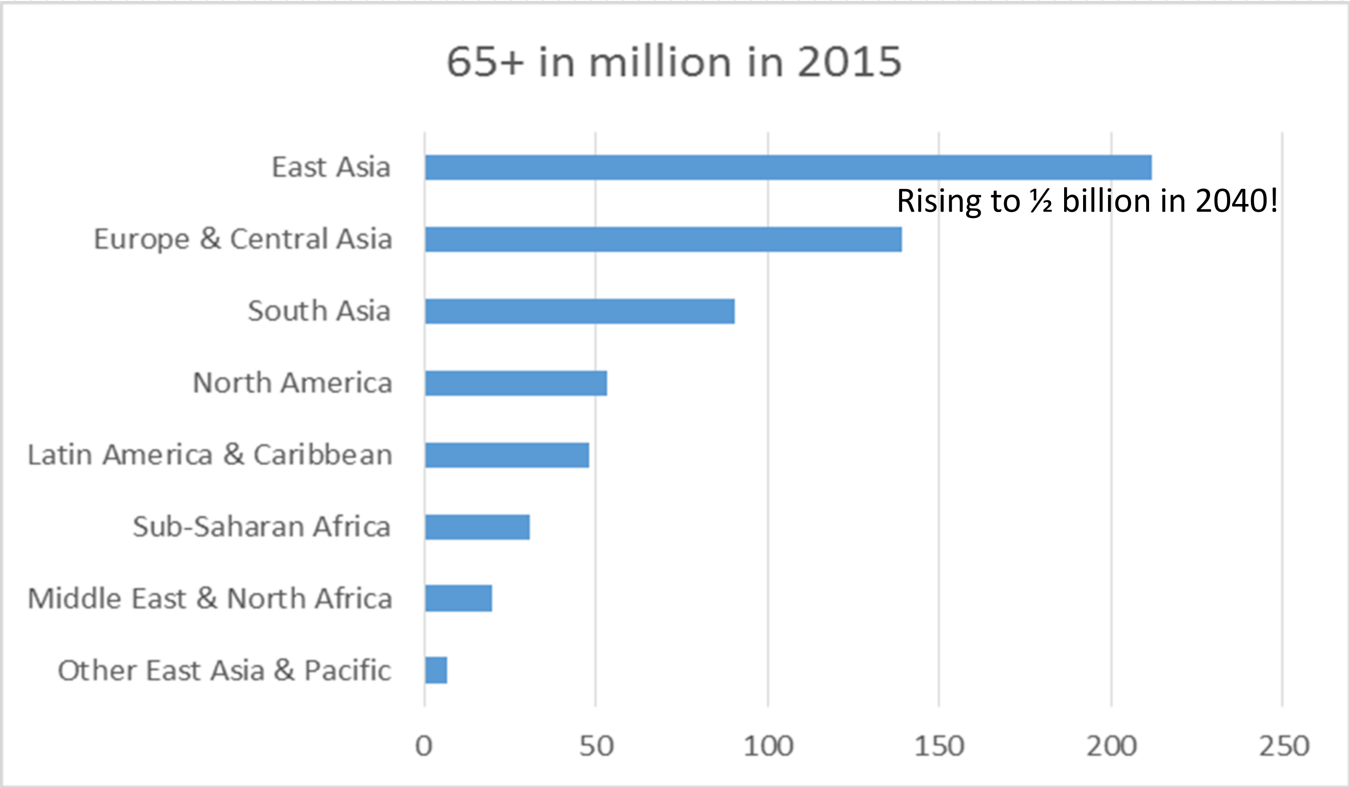
- East Asia experiencing unprecedented ageing
- Policies to increase labor force participation are needed
- Ageing will cause fiscal pressure through higher spending on health, long term care and pensions
- Retirement protection solutions will differ across countries depending on two things:
  - past pension policy decisions due to 'pension inertia'
  - Context of ageing including the role of the 'fourth pillar'
- There are many positive steps that can be taken to minimize the potentially negative impact of ageing

Structure of presentation

1. Demographics and the labor force
2. Health and long term care
3. Pensions

Demographics and the labor force

East Asia, led by China, has more older people than any other region



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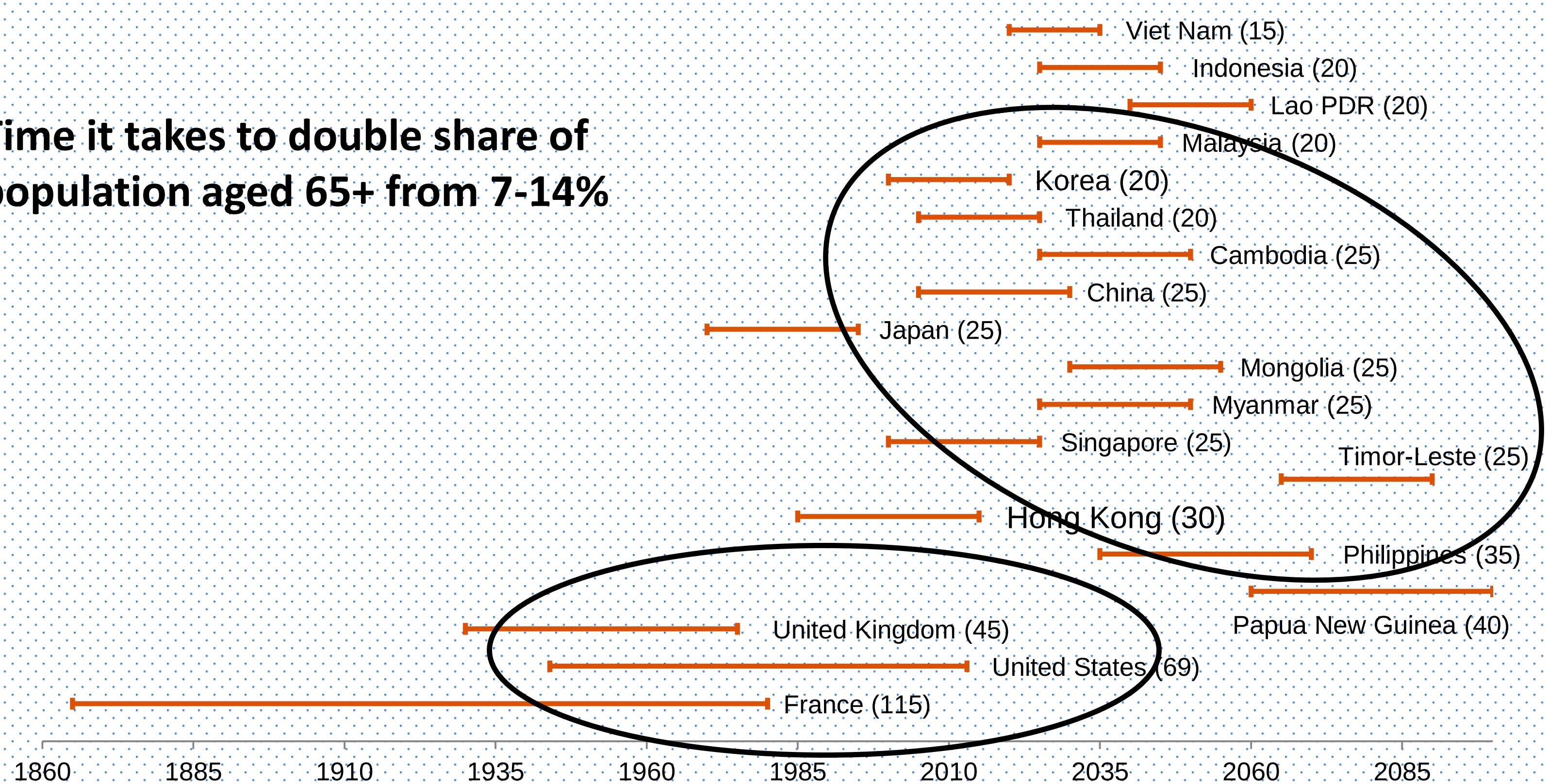
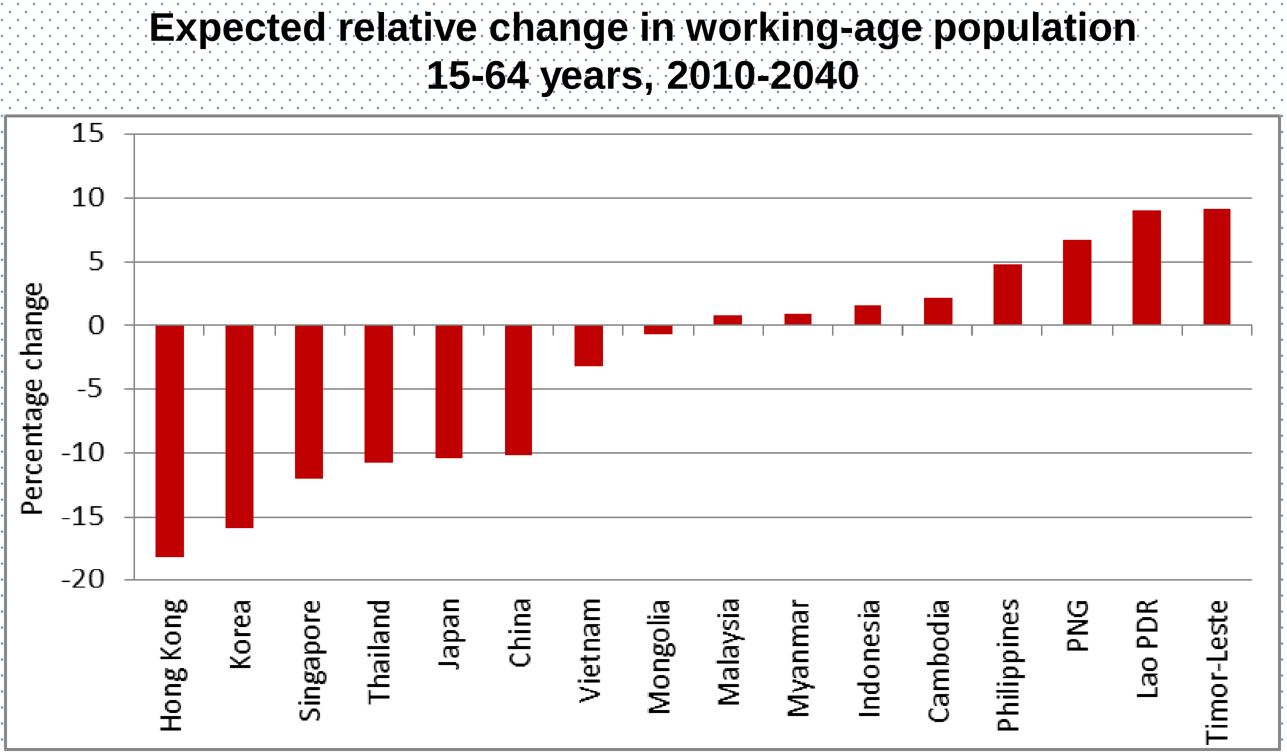
More importantly, the pace of ageing is unprecedented

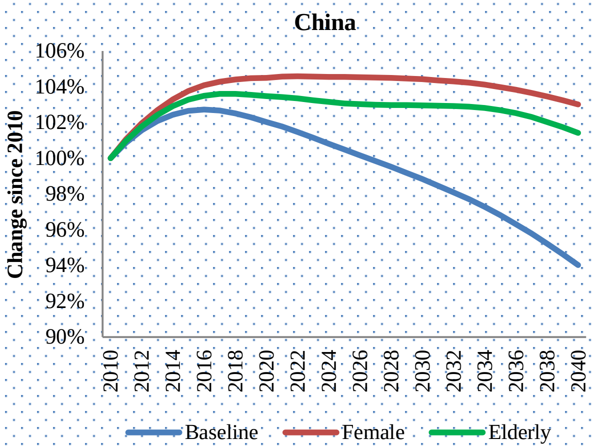
Time it takes to double share of population aged 65+ from 7-14%

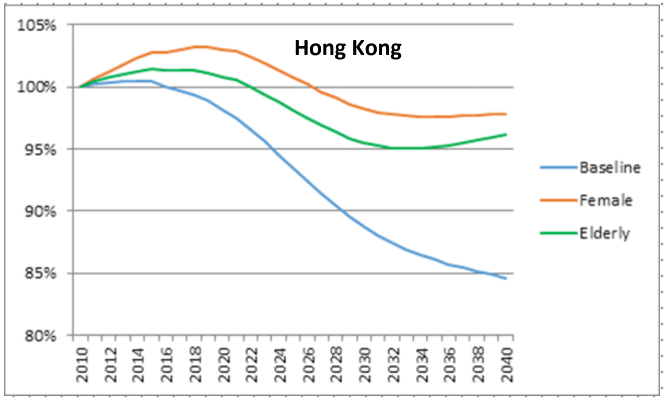


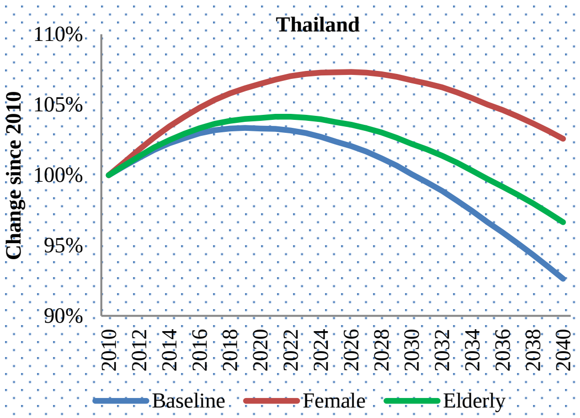
A shrinking working age population in much of EAP is inevitable …

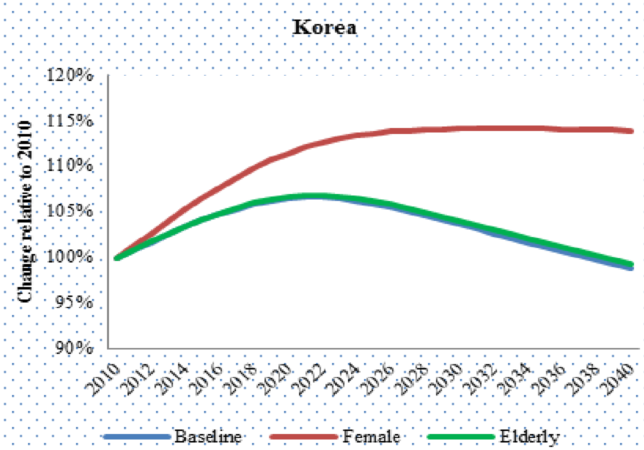


While in the post-dividend period, countries must find ways to increase labor force participation rates to avoid an 'ageing tax'









Retirement incentives, life long learning, healthier ageing, accommodating workplaces, subsidies, childcare, immigration

Health and long term care

Health: good and not-so-good news…

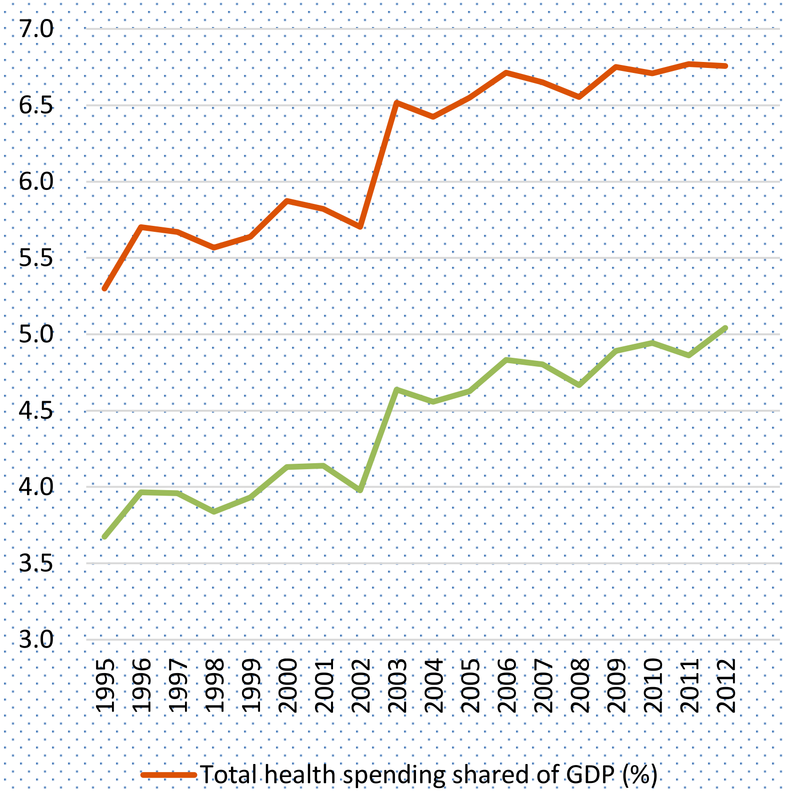
The good news

- EAP people are living longer
- They also have more years of healthy life expectancy
- In much of EAP, communicable diseases are no longer the primary case of death & morbidity

The not-so-good news

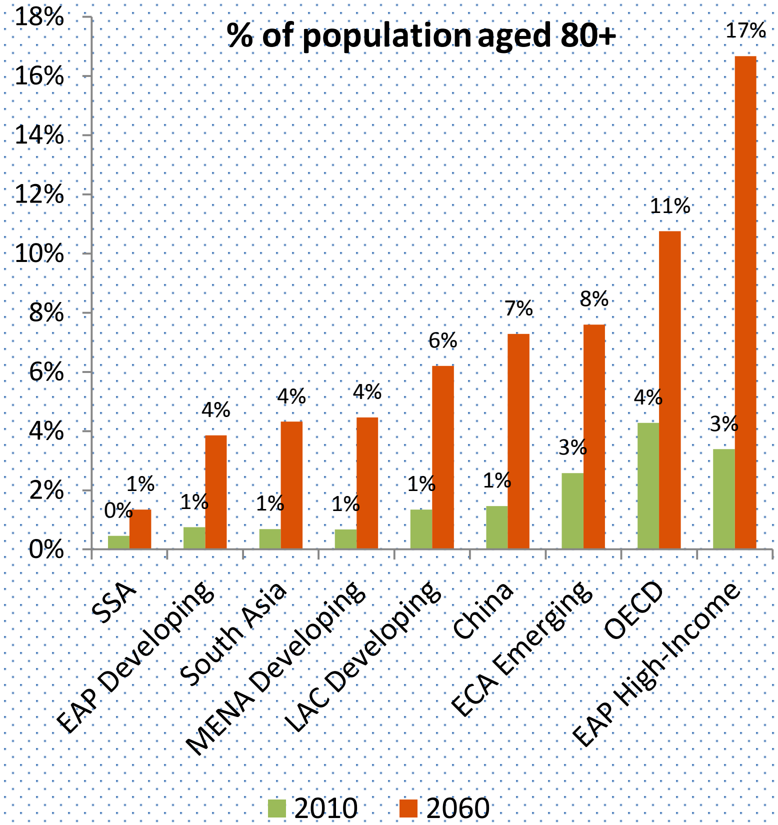
- Non-communicable diseases (NCD) are exploding: more middle aged people have them & older people often have multiple chronic conditions
- Many people with NCD go undiagnosed and/or untreated – leading to high-cost acute treatment later
- In much of EAP, unhealthy behaviors are high, including smoking, salt intake and alcohol consumption
- ageing is leading to new health challenges such as dementia

Health spending rising – but only partly due to ageing



- ageing contributes to increasing health spending (<1/3), but non-demographic factors more important
- Health spending has outpaced income growth
- NCD-related costs generally on the rise due to changing behavior but will be exacerbated by ageing
- Health insurance coverage has grown but there are gaps in financial protection
- Study points to inefficient spending; eg., hospital-centric provision, lack of strategic purchasing

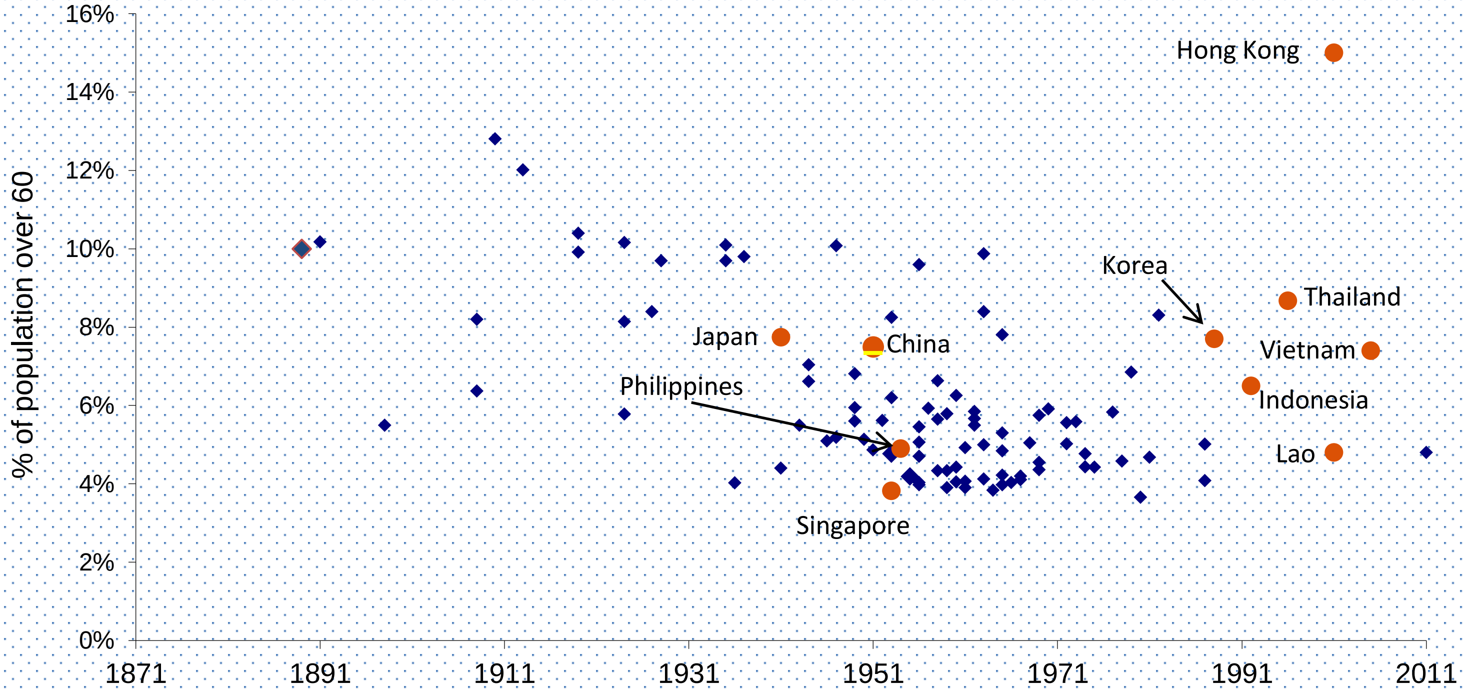
Long-term care: avoiding mistakes and planning ahead



- Public sector support for long-term care remains nascent in developing EAP with rapid growth in 'oldest old'
- Important to avoid defaulting to expensive long term hospital stays
- With the strains on traditional networks, there is a need for proactive policy measures – but government cannot do it all, and needs markets, families & individuals to play a role
- 'ageing in place' should be the guiding approach, with a strong reliance on home- and community-based care – both more affordable & giving higher quality of life

Pensions

Timing of pension system introduction varies significantly



Pension system design also varies…

- Group 1: Defined contribution based systems
  - Hong Kong**
  - Malaysia**
  - Singapore**
- Group 2: Pay-as-you-go DB schemes
  - China (transitioning to hybrid DB/DC, but DC 'empty')
  - Indonesia (new DB began in 2015)
  - Korea**
  - Japan**
  - Mongolia*
  - Philippines*
  - Thailand*
  - Vietnam*
- Group 3: No mandated national scheme
  - Cambodia
  - Lao (but planning to introduce)
  - Myanmar (but planning to introduce)
  - Timor-Leste

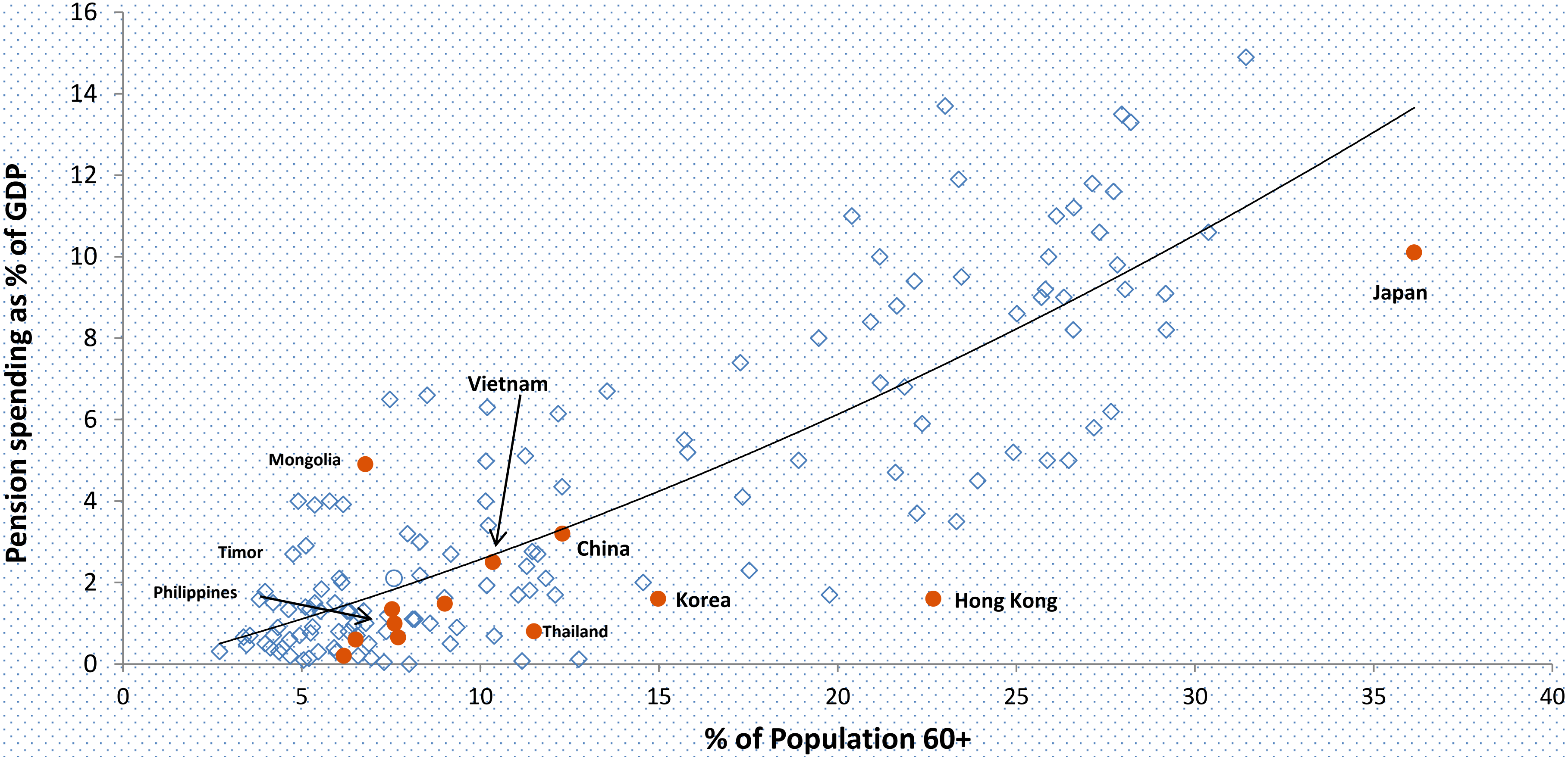
*** = high coverage*
** = moderate coverage*
Low coverage

Orange – immature schemes

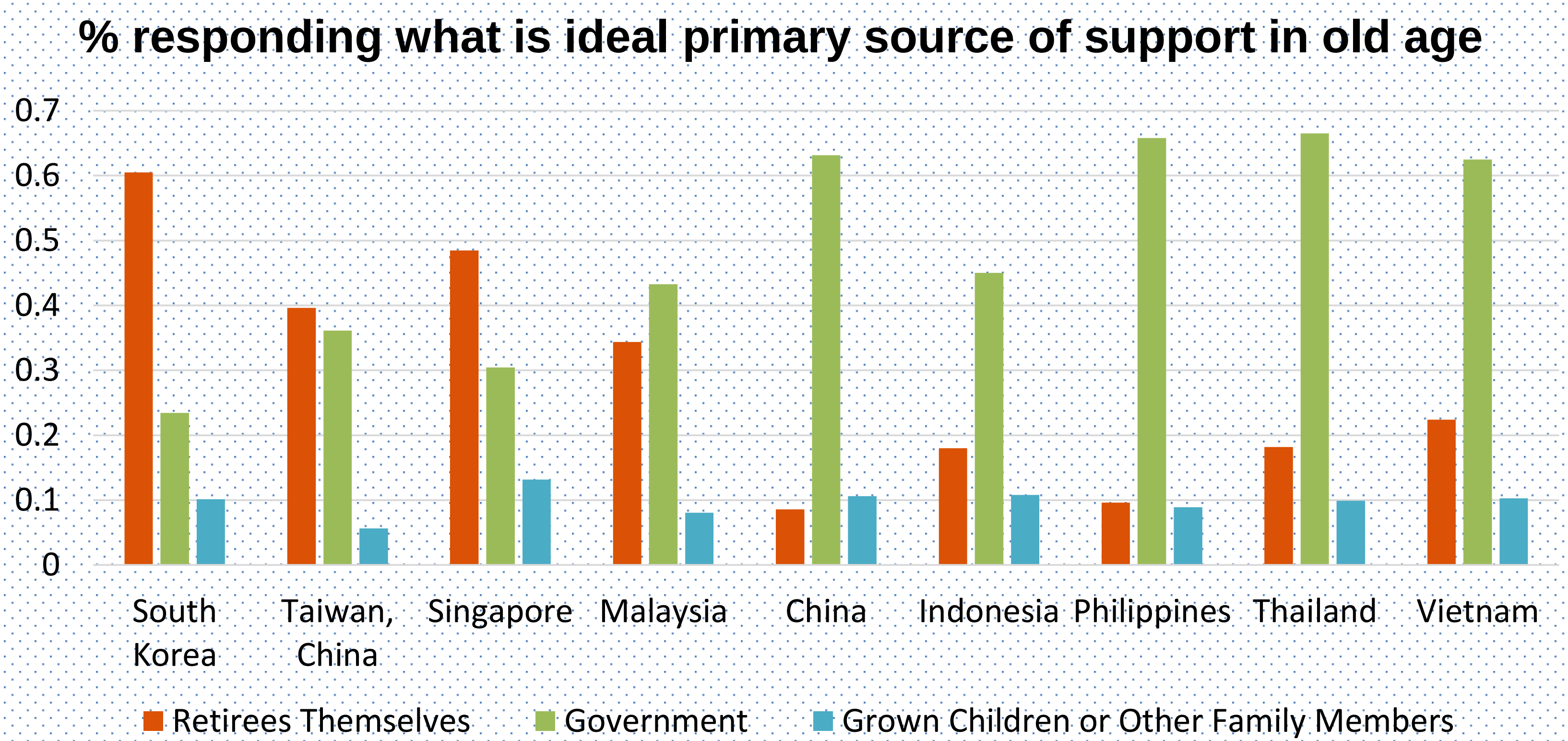
…leading to different risks

Country	Benefit Target	Degree of redistribution	Member risk	Risk to government
China	High	Large	Low returns on DC component	Large unfunded liability
Hong Kong	Low	Small	Low returns on DC; longevity risk	None
Indonesia	Low	Small	Low returns on DC; longevity risk	None
Japan	Moderate	Moderate	Sponsor risk/default	Large unfunded liability
Korea	Moderate	Large	Sponsor risk/default	Moderate unfunded liability
Malaysia	Low	Small	Low returns on DC; longevity risk	None
Mongolia	Moderate	Large	Inflation risk; sponsor risk/default	Large unfunded liability
Philippines	High	Large	Inflation risk; sponsor risk/default	Large unfunded liability
Singapore	Low	None	Low returns on DC component	None
Thailand	Moderate	Moderate	Inflation risk; sponsor risk/default	Moderate unfunded liability
Vietnam	High	Small	Sponsor risk/default	Large unfunded liability

Public pension spending lower in EAP for its demographic stage



Yet many people in EAP countries want the state to provide financial support in old age…



Source: (Jackson & Peter, 2015)

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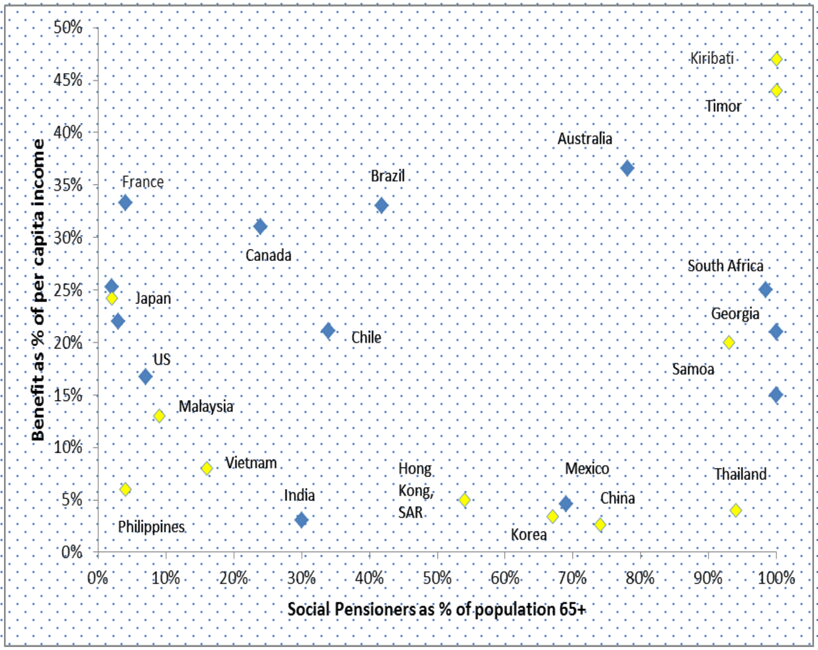
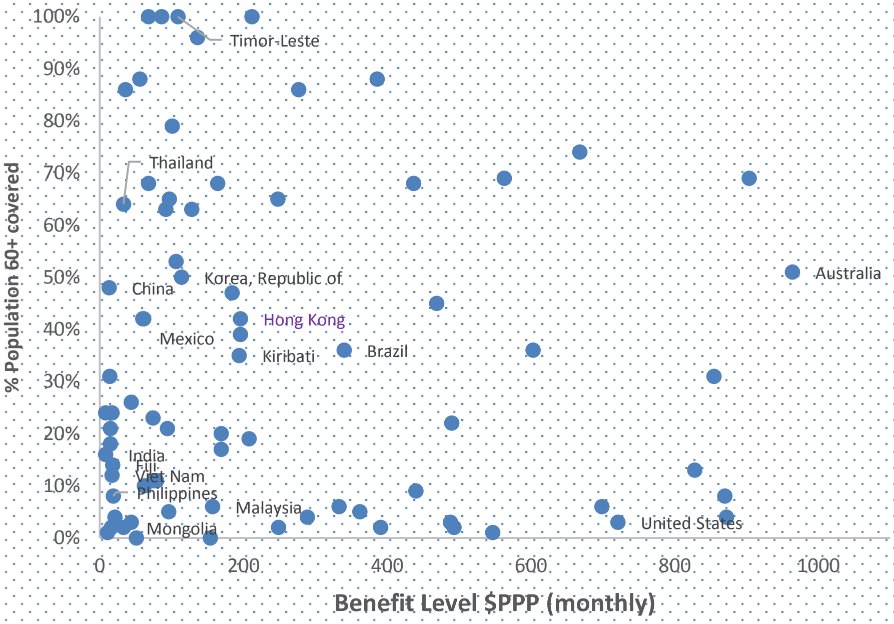
Social pensions increasingly supplement the contributory schemes





Pensions: Balancing coverage, adequacy and sustainability

- Group 1: DC schemes face adequacy concerns that are creating pressure on governments to supplement benefits

- Group 2: Mature pay-as-you-go DB schemes face large unfunded liabilities and most face pressure for increased coverage – e.g., China using both matching contributions and social pensions

- Group 3: Pension liabilities still moderate (mostly civil servants) but pressure to expand coverage; has become clear that traditional contributory schemes wont get there fast enough

- **Regardless of starting point, low adequacy or coverage and large unfunded liabilities all imply higher future pension spending of one type or another**

Different countries need to address different weaknesses

Country	Performance		
	Sustainability	Coverage	Adequacy
Cambodia	Minor	Major	Major
China	Major	Significant	Major
Hong Kong	Minor	Minor	Significant
Indonesia	Minor	Major	Major
Japan	Minor	Minor	Minor
Korea	Significant	Minor	Significant
Lao	Minor	Major	Major
Malaysia	Minor	Minor	Major
Mongolia	Major	Significant	Significant
Myanmar	Minor	Major	Major
Philippines	Significant	Major	Major
Singapore	Minor	Minor	Major
Thailand	Significant	Significant	Significant
Timor-Leste	Significant	Minor	Minor
Vietnam	Major	Major	Major

Minor | Significant | Major

Concluding observations

- While the entire region is experiencing unprecedented ageing, it is staggered and the starting point is heterogeneous
- Younger countries hope to emulate the East Asian miracle productivity story of their elder neighbors but are unlikely to get rich before getting old
- Older countries must look for ways to increase labor force participation, especially for upper income workers covered by pension schemes
- Fiscal pressures are inevitable; more efficient health and LTC spending can help but some increase is unavoidable
- The largest ageing-driven expenditure in most countries is pensions; despite huge differences in pension systems, there will be fiscal pressure to supplement inadequate pensions and use general revenues to expand coverage – in some cases while paying off mature DB unfunded pension liabilities

Concluding observations

- Pension reform paths will be different for each country because (i) pension policy is subject to inertia and (ii) the income support gaps depend on multiple contextual factors outside of pension policy
- Most defined benefit countries need parametric reforms to achieve financial sustainability while defined contribution schemes must address adequacy concerns due to low return-wage differentials and low contribution densities
- East Asia will likely continue the global expansion of the role of social pensions as part of the system – the challenge is to integrate them efficiently with the consumption smoothing pillars of the system
- Defined contribution countries and those with partially funded DB schemes will have to invest effectively
- The right reforms can alleviate the fiscal burden as well as offsetting the impact of ageing on the labor force while improving the welfare of the elderly so that they can 'live long and prosper'