Summary of Key Recommendations

Task Force on Aging Population and Its Impact & Immigration

By Mr. Chul Ju Kim
Deputy Dean, Asian Development Bank Institute (ADBI)

Global Solutions Summit 2019
19 March 2019, Berlin, Germany

Very good morning, Ladies and Gentlemen:

It is my great privilege to present key preliminary findings of Task Force 10 on population aging on behalf of our 8 co-chairs and 50 registered Task Force members.

The fact that population aging is a focus of both Japan's G20 presidency and T20 is indicative of its importance and the need for an urgent policy action in this space. As you well know, the world is experiencing rapid demographic transition toward population aging, due to decreasing fertility rates and increasing longevity. According to the UN, globally, there were 962 million people aged 60 over in 2017. The number is projected to reach 1.4 billion in 2030 and 2.1 billion in 2050. At this rate, the world’s old-age dependency ratio will triple over the next 80 years.

That said, there is a great deal of demographic diversity, even among G20 countries. Some are at advanced stages of aging. Some are young and experiencing their first demographic dividend. Although the demographic transition of some countries is still in its early stages, it is nevertheless under way and countries are gradually moving toward older populations.

Population aging poses a formidable challenge to economic growth, social
security, public finances and people's lives. It will require fundamental changes to the ways we run our systems and institutions established at the time of early demographic transition. Against this background, our Task Force on aging has worked to provide evidence-based policy proposals to five key questions deemed critical in face of population aging.

1. What are implications of aging and what are corresponding policies?

An aging population implies a decline in the number of workers relative to the number of consumers. Aging also implies that each worker will have to support more and more retirees. All things being equal, these phenomena will lead to lower economic growth and heavy strain on public finances. Aging also causes huge generational inequality, which creates imbalances in fiscal spending for different generations.

Yet population aging can bring positive results – a labor force that works longer, saves and invests in human and physical capital, leading to increased labor productivity, higher wages, and sustained growth, depending on paths and policies we are taking.

The problem is, our knowledge is very limited - the channels of influence are numerous and subject to considerable uncertainty. There are national differences in labor supply at older ages, savings behaviors, social security systems, and the health and vitality of the elderly. All these factors and more can shape the impact of population aging on an economy.

Better understanding, better analysis, better knowledge, therefore, is imperative. G20 countries should vastly improve their national statistical systems and capacity to access, utilize, and analyze disaggregated data by age, gender, and income groups.

Fundamental policy challenges posed by aging are how to sustain economic growth and how to maintain adequate and affordable security systems for all.
With aging, however, conventional macro-economic policies tend to lose their effectiveness, simply because aged people are out of traditional policy instruments, be it tax or interest rates. G20 countries must embrace holistic structural reforms, covering all critical areas of the labor market, social security, the financial market, foreign investment and migration.

2. What are appropriate elements of labor market reforms?

Labor market reforms should focus on policies that increase labor supply, enhance labor force quality and productivity, and put in place flexible institutions and systems.

Raising labor market participation, especially among the elderly and women, is critical. The obvious options are policies that raise the retirement age or remove it altogether, remove employers’ prejudice and socio-economic barriers, remove early retirement incentives, and narrow gender-pay and education gaps. It is also important to take a full accounting of women's economic contribution, including unpaid family-care and household services in economies.

Governments also need to establish vigorous life-long education and training systems. This means investing more in human capital to enhance labor productivity, offsetting decline in labor supply, and adapting to rapid technological advances. A flexible and well-functioning labor market is crucial. One important policy step is the redesign of seniority-based wage systems into performance-based systems.

3. How to design a sustainable social security system?

Fundamental reforms are proposed with a focus on the incentivizing the elderly to work longer, improving their health status, and avoiding poverty. Key elements are (i) to establish a comprehensive income support system with more focus on expanded non-contributory pension, (ii) to implement accessible and affordable universal healthcare, and (iii) to establish effective long-term care for the elderly.
The inequality of work capacity and health status among the elderly should be considered when addressing such reforms. It is recommended to provide the elderly with enough time and benefit options, along with fiscal spending to reduce poverty and strengthened safety regulations.

As the healthcare cost is skyrocketing, we encourage the adoption of evidence-based medicine to achieve economically and politically sustainable fiscal spending. We also suggest that the G20 establish a Global Fund for Healthcare in Aging Population as a coordinated mechanism to evaluate new and existing services and technologies, and to improve incentives for global biomedical innovation.

4. What are the roles of the financial sector in addressing population aging?

It is important for the elderly to increase long-term savings and manage longevity risks. While individuals are increasingly being asked to take more responsibility for their old-age saving, the evidence suggests that low levels of financial literacy are prevalent across the world and financial incentives for savings are limited.

G20 countries should pursue policies to ensure that people have an equal opportunity to access effective financial education at a younger age. In addition, we suggest fully developing innovative financial products such as lifetime annuities and reverse home mortgages for the elderly. Of course, such financial products should be safe, properly designed, and actuarially fair.

5. What is desirable immigration polices for coping with population aging?

For aging advanced economies, welcoming immigrants from younger societies remains an important way to mitigate the consequences of aging. Migration can favorably impact origin and host countries, though it depends on several factors
including how quickly migrants integrate into the labor market of host countries.

While ensuring legal and safe pathways for migrant workers, host countries must match their labor needs to migrants’ characteristics. There are many initiatives for skills development of new migrants in specific sectors, and these could be scaled up. The G20 should develop a similar framework to the Made by Refugees Framework, acting on responsibility sharing while developing the skills of migrants.

Finally, there should be tailored policies for developing countries. Above all, young developing countries should adopt policies and institutions that maximize their demographic dividends such as life-long education and investment in physical and human capital.

Developing countries tend to be less prepared, especially when it comes to social security system development—a situation described as getting old before getting rich. Young developing countries can learn valuable lessons from advanced countries. The G20 should help developing countries design and implement a framework to assess and develop their social security systems.

In conclusion, aging is national and global. Differences in the timing and degree of aging, combined with differences in economic development, will shape international flows of capital, trade, and labor, warranting enhanced regional and global cooperation. The G20 should continue proactive international policy dialogue to address the adverse effects as well as possible benefits of population aging and to ensure sustained growth and well-functioning security systems that can help everyone live longer, prosperous and healthier.

Thank you very much!