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052185153X - The Economic Implications of Aging Societies: The Costs of Living Happily Ever After

Steven A. Nyce and Sylvester J. Schieber

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The Economic Implications of Aging Societies

The world is getting older and no one knows exactly what life will be like in tomorrow's older societies. But we do know that age dependency ratios – the ratio of retirees to workers – will be much higher than we see today. The implications of this trend are plain. The combined effect of fewer workers, more retirees, and longer retirement periods threatens not only the sustainability of pension systems but also the broader economic prospects of many developed countries. *The Economic Implications of Aging Societies* describes current trends in birth rates, longevity, and labor force participation and productivity, the cross-border flow of capital, the globalization of labor markets, the financial viability of social insurance programs, and the ways economic output is shared between working-age and retiree populations. There is no single magic-bullet solution to the demographic shortfalls ahead. Our most effective solution will likely be a multifaceted one: more workers, longer careers, higher productivity, and more global exchange and cooperation. There is no denying that challenges lie ahead, but delaying treatment will likely necessitate even stronger medicine and portend a more dismal prognosis.

Steven A. Nyce is a Senior Retirement Research Associate with the Research and Information Center of Watson Wyatt Worldwide in Washington, D.C. Dr. Nyce joined Watson Wyatt in 2000 upon completion of his Ph.D. in economics from the University of Notre Dame. He has written numerous articles and spoken regularly at public and private forums on the impact of demographic aging on developed economies. His research also includes the study of behavioral aspects of private pensions and public and private retirement policy.

Sylvester J. Schieber is Vice President, Research and Information Center, Watson Wyatt Worldwide in Washington, D.C. Prior to joining Watson Wyatt in 1983, he served as the first research director at the Employee Benefit Research Institute in Washington, D.C. Before that he served as the Deputy Director of the Office of Policy Analysis, U.S. Social Security Administration. Also at Social Security he served as the Deputy Research Director of the "Universal Social Security Study," a congressionally mandated study that evaluated whether remaining federal, state, and local government workers outside the system should be included. Dr. Schieber has authored or edited ten books by himself or with colleagues. These include the seventh and eighth editions of the *Fundamentals of Private Pensions*. His 1999 book with John B. Shoven, *The Real Deal: The History and Future of Social Security*, received special recognition in the 2000 Paul A. Samuelson Prize competition for economic writing. Dr. Schieber served as a senior advisor to the organizers of the Global Aging Initiative at the Center for Strategic and International Studies. He was appointed to the 1994–1996 Advisory Council on Social Security convened by the Bill Clinton administration. He was appointed to a six-year term on the U.S. Social Security Advisory Board in 1997 and reappointed for another term in 2003.

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STEVEN A. NYCE

Watson Wyatt Worldwide

SYLVESTER J. SCHIEBER

Watson Wyatt Worldwide



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*In memory of
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Preface

At the World Economic Forum's Annual Meeting in 2001, CEOs of our financial service industry member companies concluded there was a need for greater high-level, international attention to be paid to the economic and financial implications of the demographic challenges facing most industrialized countries. Increased life expectancy, the impending retirement of the baby boom generation, and lower fertility in many countries are creating unsustainable pressures on public and private pension systems. While this is a global problem, most of the policy debate has occurred in a national context with too little regard for the broader implications and opportunities for world economic growth and development. In addition, the discussion has largely overlooked the potentially significant distributional implications for living standards within national economies and how these are influenced by different policy choices.

During 2002 and 2003, the Forum's Pension Readiness Initiative, consisting of leaders from our financial services and employment industry member companies and other experts from labor unions, international organizations, senior citizen groups, and governments, decided to compile a comparative assessment of the retirement system readiness of OECD countries for the purpose of focusing high-level public and private attention on the need for greater action. The report was conceived in the belief that a tangible cross-country comparison of policy performance and conditions set in the context of a broader discussion about the stakes for the world economy could help to spur greater understanding and consensus for action.

The Forum entered into a partnership with Watson Wyatt Worldwide for the purpose of researching and drafting this assessment, which was

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released in summary form at the Forum's 2004 Annual Meeting. This book is based on that report. It is perhaps the most comprehensive analysis to date of the macroeconomic implications over the next few decades of current demographic trends in a wide range of countries. It also presents extensive cross-country data highlighting similarities and differences in the circumstances facing these countries as well as their approaches to policy reform.

The Forum is pleased to be associated with this important work and wishes to thank Watson Wyatt Worldwide, its President and CEO John Haley, as well as the authors for their commitment and scholarship. We also extend our appreciation to the representatives of the fifteen Forum member companies who participated in the process and the many academic, labor, international organization, and other experts who contributed their time and thoughts. And we wish to recognize with appreciation the Forum's own Nabi Niang, Project Manager of the Pension Readiness Initiative, and Fiona Paua, who provided valuable economic insight. Not all of the participants and organizations in the Initiative necessarily agree with all of the views expressed herein.

The Pension Readiness Initiative is an example of the World Economic Forum's portfolio of initiatives that engage business with other stakeholders in work processes on global, regional, or industry issues of common concern. These initiatives are developed and managed by our Global Institute for Partnership and Governance, which builds upon the "spirit of Davos" by serving as an informal, independent platform for multistakeholder partnership in three dimensions: stimulating action, improving governance, and expanding understanding through dialogue. In line with our mission, we hope that this book will help to stimulate greater public-private discussion on ways to turn the challenge posed by demographic change in industrialized countries into an opportunity for expanded economic growth and social progress the world over.

Klaus Schwab
Executive Chairman
World Economic Forum

Richard Samans
Managing Director
Global Institute for Partnership and
Governance World Economic Forum

Geneva, September 2004

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Acknowledgments

An earlier version of this manuscript was prepared for the annual meeting of the World Economic Forum (WEF) held in Davos, Switzerland, during January 2004. The report was the culmination of the WEF Pension Readiness Initiative undertaken to develop a better understanding of the potential implications of population aging on the developed economies of the world and their retirement systems. The preface describes the project that led up to the development of the report. We have subsequently modified the content of discussion in response to a number of comments we received at the meeting in Davos and from various people who have reviewed the work.

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