

Commentary

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ECONOMIC INVESTMENT AND ACTUARIAL RESEARCH

Policy Responses for Ageing Societies

The previous edition of *Commentary* referred to a report from the World Economic Forum (WEF) concerning the challenges presented by the emergence of global ageing societies. The trend toward ageing societies is driven mainly by a combination of declining birth rates and increasing longevity. This edition of *Commentary* continues the discussion of these challenges and outlines some potential policies to respond to the need for sustainable financing of pensions and healthcare in ageing societies. Policy makers in all countries will need to study the likely impact of prospective upward shifts in their population age structure. These shifts will produce complex demographic and economic conditions that will necessitate changes in attitudes to education and employment. Increasing financial resources will be essential for meeting the needs of the elderly for pensions and healthcare. The risks of ageing societies are evident: the adequacy and sustainability of pension and healthcare systems are in doubt as stakeholders seek to reduce or shift cost burdens and as intergenerational social tensions arise. Collaboration will be essential among financial institutions, healthcare providers, employers, governments, and individuals in order to maintain and improve social cohesiveness within ageing societies. Strategic options will need to embrace the most promising solutions that encourage the collaboration of all stakeholders. Policy responses for ageing societies demand a broad set of practical solutions. These may be achieved by aligning interests and focusing on long-term objectives and a sense of moral responsibility.

The WEF report presents six key strategic objectives: control and transform demand; stimulate consumer empowerment; strengthen funding and savings; optimize capital allocation; improve efficiency and effectiveness; and enhance risk management and risk sharing. These strategic objectives may be implemented by

means of policy actions. *Promote work for older cohorts:* for many people, better health in old age means continuing productive employment is feasible; coordinated action to change public policy, business practices and personal behavior can promote lifetime employability and active ageing. *Shift delivery of healthcare to a patient-centered system:* instead of a reactive focus on curing disease, patient-centered healthcare has a focus on maintaining good health; fundamental reorientation of healthcare systems can help reduce the incidence of preventable chronic diseases of old age. *Promote wellness and enable healthy behaviors:* encourage lifestyle factors and behavioral choices that play a major role in determining the level of health in old age. *Provide financial education and planning advice:* financially literate individuals are more likely to plan responsibly for their old age; improving awareness and understanding of private pensions and retirement saving products enables people to make informed choices and take effective action to ensure an adequate retirement income. *Encourage higher levels of retirement savings:* retirees' standards of living depend on the level of complementary private benefits; incentives need to be provided to stimulate retirement savings. *Facilitate the conversion of property into retirement income:* reverse mortgages allow elderly individuals to receive income in return for equity in their home without the need to sell the home. *Stimulate microinsurance and micropensions for the poor:* micropensions are a combination of microinsurance and microsavings products that have retirement income as their primary objective. *Enhance pension fund performance:* pension fund performance is a key factor in capital-funded pension systems; it may be enhanced by the design of investment strategies and governance and administrative arrangements. *Realign incentives of healthcare suppliers:* better health in old age is achievable by systems that reward doctors and hospitals for health outcomes

achieved rather than services provided; pay-for-performance can improve efficiency by realigning incentives of healthcare providers. *Ensure that cross-border healthcare delivery benefits all stakeholders:* cross-border healthcare delivery includes patients traveling overseas for treatment and patients interacting with a healthcare provider in another country; it can benefit patients at all income levels. *Promote annuities markets and develop instruments to hedge longevity risk:* longevity risk is the uncertainty surrounding future improvements in mortality and life expectancy; annuities protect individuals against this risk; the functioning of annuity markets can be improved by means of hedging strategies.

The ageing of society can be positive and value-creating. Older persons will have productive and meaningful roles as institutions adapt to age-related innovations. Society can capitalize on the experience and wisdom of older persons as mentors who provide guidance and insight into societal challenges and priorities. Ageing of the workforce in combination with changes in the nature of work and employment conditions will require lifelong education as well as opportunities for job retraining. These changes will enable individuals to work longer in satisfying jobs that are more flexible and accessible to older groups. The prevailing culture of youth in many nations is likely to lessen as future generations integrate with and learn from the experiences of older generations. Appropriate actions can transform the challenge of ageing societies into an opportunity to stimulate economic growth and improve society's overall well-being.

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