

### **First Session (Pensions)**

Prof. Noriyuki Takayama (Institute of Economic Research, Hitotsubashi University) opened the first session and introduced the panel.

*Speaker 1: Prof. Mukul Asher (Professor, Lee Kuan Yew School of Public Policy, National University of Singapore)*

There had been an evident need for better social protection schemes in Asia since the 1997-1998 economic crisis, and this need had been strengthened in the wake of the 2008 economic crisis.

Researchers had not always provided policymakers with the right information to allow them to pick policies which emphasized social protection and inclusive growth. The global crisis presented the possibility of reducing the mid-term growth rate and adversely affecting the pace and quality of jobs available. It would possibly raise the cost of debt refinancing, lower remittance flows, and lower medium-term real investment returns on pension assets. Fiscal stimulation packages in response to the crisis could lead to higher inflation. In order to guard against these threats, economies needed to: 1) think about how to reduce the correlation between old age and poverty; and 2) forward policy that worked to enhance employment elasticity with respect to GDP.

Social protection systems were only going to become even more difficult to operate and mistakes in these systems were only going to become more difficult to reverse. It was projected that by 2050, the world would have over 2 billion people over age 60, and more than half of them would be in Asia.

The rapidly aging population signified a need to expend greater resources on social protection in Asia. However, this was a problem due to the massive opportunity cost it incurred – the more that was spent on programs for the elderly, the less money that was available for other purposes. Demographics suggested that along with growing elderly populations, Asia was also shifting toward a situation in which a little over three-fifths of the new livelihoods created in the world between 2005 and 2020 were expected to be created in the region. Generating new livelihoods on such a scale was itself a challenge even without having to put a large quantity of resources into social protection for the elderly. It was likely that 40-80% of all the livelihoods created would be within the informal sector.

Opportunities could be created in Asia for better social protection. Asian economies could combine traditional schemes with innovative measures to increase social protection around the region. This could be accomplished by modernizing and professionalizing existing formal social security organizations to strengthen their ability to perform five core functions: 1) the reliable collection of contributions, taxes and other receipts; 2) the payment of benefits in a timely and correct way; 3) the securing of financial management and productive investment; 4) the maintenance of an effective communication network regarding fiscal matters; and 5) the production of financial statements and reports. Other specific solutions included reductions in investment management, administrative and compliance costs; the use of different types of retirement income transfers not dependant on formal sector market relationships, and social assistance targeted at the poor. There was a need to implement more dynamic solutions for social protection issues. Countries needed to think more creatively and provide a greater range of schemes in order to enhance the amount of room available for reversibility.

*Speaker 2: Prof. John Piggot (Director, Australian Institute for Population Ageing Research, Australian School of Business, University of New South Wales)*

The problem of social pensions was not a short-term problem, but something that societies would have to deal with more intensively over the next 30 years. By 2050, Asia was going to see more growth in its over 65 population than anywhere else in the world. In particular, China was going to shift from having less than 7% of its population over 65 to having more than 30% of its population over 65.

In Australia, social security pensions were not connected to rights, but needs. Workers did not have to work for so many years or have contributed a certain amount to social security to gain pensions; rather, pensions were allotted to those who needed them. Those with enough assets did not receive any pension, those without assets received the full amount of pension, and those in between received a proportional allotment. As populations in Asia aged, the countries of the region would be forced to adopt a similar system as well. Means testing was often an unpopular idea, but it had a lot of merits worth considering. For one thing, it reduced the fiscal burden placed on social support systems, allowing for less taxation throughout the economy.

Researchers in Australia had been investigating into the effects of offering lower income taxes to the elderly in order to encourage them to work longer. Another idea that was

being debated was the funding of social protection through personal capital taxation, which would fatten social protection programs while reducing disparity.

Especially in emerging Asian economies, there was not much of a structure through which social security systems might deal with population aging. Enhanced communication (about fiscal products, pensions and households), a rethinking of government debt issues (the promotion of inflation indexed bonds and longevity bonds) and the strengthening of systems for international financial transactions could help. Additionally, given the demographic trends and fiscal situation of many Asian economies, each country may want to seriously consider implementing means testing.

*Speaker 3: Dr. Hyungpyo Moon (Senior Fellow, Department of Public Economics and Social Development, Korean Development Institute)*

South Korean society had gone through a number of changes and had faced new challenges since the economic crisis in 1997. There had been rapid increases in social expenditures, growing disparities in terms of income distribution, and a general decline in social mobility. Additionally, South Korea faced falling fertility rates, an aging population, and did not possess adequate social safety nets.

In response to these problems, South Korea had introduced four major social insurance schemes: basic old-age pensions, long-term care insurance, disability allowances, and public childcare systems. Earned income tax credits had also been adopted.

Beyond these concrete measures, South Korea was working to develop “new social policy,” which Dr. Moon explained as “social policy for preemptive social investment and system improvement with an aim to build competency to counter potential risk factors in individual life cycles and enhance individual progress” This policy aimed to create a large middle class and foster social mobility and sustainable economic growth potential. The South Korean government intended to do this through agendas on the basic social security net, education, welfare services and the labor market.

South Korea faced many issues regarding pension coverage. The country’s elderly household poverty rate was among the highest of OECD member countries. Most elderly households were dependant on their offspring. One-third of the total insured were non-contributors. In order to deal with these issues, South Korea needed to improve its administrative capacity, create a contribution subsidy scheme to support elderly workers, and work to encourage those workers to continue to work as they aged.

## *Q & A*

Dr. Yasuhiro Kamimura (Associate Professor, Graduate School of Environmental Studies, Nagoya University) asked Prof. Piggot about what the main factors were which made means testing successful in Australia and if the success was repeatable in Asian countries as well. He also inquired about how Australia had overcome the problem of stigma around means testing. Prof. Piggot responded that means testing had a particularly bad name in academic circles. He believed that in Australia, there was no stigma regarding means testing. This was because those excluded were extremely well off. As for whether the success in Australia was repeatable in Asian countries, Prof. Piggot answered that he was not sure, but that means testing was an option that should be on the table in every country. Means testing was a way to provide adequate social protection while coping with fiscal stress.

Ms. Gloria Pasadilla (Research Fellow, ADBI) asked about the monitoring challenges presented by means testing. Prof. Piggot responded that it could be difficult to identify who should and should not get pensions using means testing. Although those who would not get pensions were usually in the formal sector and were easy to track, the fact that those who were actually in need of pensions were often working in the informal sector meant that making sure people actually received pensions was sometimes difficult.

Mr. Jargal Dambadarjaa (Secretary General, Mongolian National Committee for Pacific Economic Cooperation (MONPECC)) asked about the wisdom of using inflation indexed bonds in social protection programs. Prof. Asher stated that it was important to track the real rate of return when considering pension funds. If this could be done, and if that real rate of return over a long period of time proved to be 3-5%, such funds were good ideas. It was important to collaborate investment management capabilities and fiscal market reforms in any investment policy. Countries in which macroeconomic management was particularly difficult should be very careful about inflation indexed bonds, because under new accounting rules, these could count as a fiscal liability of the state.

Dr. Soogil Young (Chair, Korea National Committee for Pacific Economic Cooperation (KOPEC)) asked each panelist what one piece of advice they would like to give APEC leaders on their topic. Prof. Piggot suggested that countries agree to reduce international blockages regarding insurance systems. This would allow countries with more

developed insurance systems to help other countries, and in turn would prepare markets to deal with coming challenges. Prof. Asher answered that he would advise that progress be made in totalization agreements and the improvement of working conditions. Dr. Moon stated that for him the most important issue was the closing of the pension coverage gap, especially for those in the non-formal sector.

A member of the audience asked Prof. Asher if he had measured and compared employment elasticity in APEC economies. Did Prof. Asher think that policies with considerations for employment elasticity could improve the situation of migrant workers as well? The audience member asked Dr. Moon for more concrete information about those over 70 who were below the poverty line in South Korea. Dr. Moon responded that the figure he offered was based on income levels, not assets. Many of those over 70 lived with their offspring, and were not actually so bad off. Prof. Asher stated that there had not been a specific economic study comparing employment elasticity in APEC countries yet. However, studies did show that employment elasticity was decreasing in countries around Asia. He believed that more research needed to be done on a sectoral basis, and posited that increasingly, many of the jobs that were being created in Asia were precarious and did not provide workers with access to a social safety net.