Symposium Introduction

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Population ageing is a global issue. Over the next fifty years the median age of countries in the OECD is projected to increase from around 37 years to over 46, while average old age dependency is projected to more than double from around 24 per cent to nearly 50 per (OECD 2003). Similar trends are evident in much of Asia (including China) and Latin America.

These developments present significant challenges for government budgets. Population ageing shifts the distribution of the population away from the traditional working age towards an age where there has tended to be considerable reliance on public funds for income support (age pensions), and health and age care expenses.

Averages and trends tell only part of the story. There are international differences in the rates of ageing, in pre-existing economic, labour market and social conditions and in government policies and proposed reforms in the areas of retirement incomes, health and aged care. In the case of retirement incomes, policies range from little formal provision, to reliance on PAYG public pensions, to complex multi pillar arrangements comprising public, private, mandatory and voluntary schemes subject to specific regulations and complex tax regimes. A trend in recent years has been towards greater reliance on mandatory private retirement provision as governments have responded to the fiscal challenges of an ageing population while trying to improve living standards of the elderly. The costs and benefits of this approach have been extensively analysed (see for example World Bank 1994, Holzmann and Stiglitz 2001, Diamond and Orszag 2004).

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The papers in this symposium consider the challenges posed by an ageing population to the retirement income policies of four countries – New Zealand, Korea, Japan and Australia. These countries have interesting similarities and differences across a range of parameters. Japan and Korea are the most recently industrialised of the group and are ageing at dramatic rates. Australia and New Zealand are close neighbours who share a heritage of similar economic and social policies yet operate quite different retirement income systems. Japan, Australia and New Zealand have long standing public pensions, while Korea introduced broad coverage public pensions as recently as 1988. Australia mandates private provision of retirement income, both Japan and Korea have introduced policies to encourage voluntary private sector participation, while New Zealand abolished its tax concessions for private retirement saving in the 1990s. All four countries will face increased age-related expenses for income support, health and aged care over the next 50 years. Table 1 summarises relevant demographic projections and policy trends.

Table 1. New Zealand, Korea, Japan and Australia – A Comparison

Country	**Old age dependency (%)**		**Retirement income policies**
	2000	**2050**	
New Zealand	20.4	48.3	Universal public pension + non concessionary private saving
Korea	11.3	45.4	Earnings-related public pension (since 1988) + retirement allowance (to be converted to private pensions) + personal pensions
Japan	27.7	64.6	Two tier public pensions + voluntary occupational pensions + severance payments
Australia	20.4	47.0	Means tested public pension + mandatory private retirement saving + tax preferred voluntary retirement saving
OECD Average	23.8	49.9	

Notes:The old age dependency ratio is equal to (persons aged 65+)/(persons aged 20-64).

Source (of old age dependency data): OECD (2003) Table 1.

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The first paper in this symposium outlines New Zealand's unique and simple approach to retirement income provision (St John 2005). The basis of retirement income provision is a public pension (called New Zealand Superannuation) that since 1993 has been supplemented by non-concessionary private saving. The public pension has widespread support, universal coverage and guarantees a minimum retirement income of 43.25% of average earnings (for a single retiree). However, only a small and decreasing proportion of the population belong to a private occupational pension scheme. Membership of private pension schemes has fallen from 22.6% to 14% of workers over the past decade.

While New Zealand is ageing at a slower rate than the OECD average and policy makers seem satisfied that the current arrangements are sustainable in the long run, there are a number of disturbing features of the New Zealand approach. These include the projected doubling of age pension expenses as a proportion of GDP to 8% of GDP by the middle of the 21st century at a time when health and aged care expenses will also increase, and the adequacy of future retirement incomes with the current fall in private pension coverage. The New Zealand paper highlights these issues, discusses recent policy responses and identifies gaps in the current policy approach.

The second paper evaluates policies for retirement income provision in Korea (Yun 2005). Of this group of countries, Korea is ageing most rapidly, is the most recently industrialised and has the youngest formal retirement income arrangements. The current system is centred on earnings-related (but redistributive) public pensions (the National Pension Scheme), supplemented by retirement allowances and personal pensions. While this appears comprehensive, in reality it does little to ensure minimum living standards of the current elderly and its ability to provide adequate retirement incomes for the elderly of the future is questionable. The National Pension Scheme is projected to face bankruptcy within the next 40 years, and its sustainability is compromised by low compliance of the self-employed (who account for around 40% of the work force). The retirement allowances cover only 30% of the workforce and are not generally used for retirement income purposes while the recently introduced personal pensions have low coverage.

Korean policymakers and economic and social commentators are aware of the deficiencies in Korean retirement income policies and have been actively designing and implementing reforms. While policy reform has been encouraged by international organisations such as the OECD and the World Bank, their policy prescriptions have been considered but not blindly followed. The Korean paper in this symposium traces the development of the Korean pension system and the Korean approach to reform.

Compared to Korea, Japan has important similarities and differences. Japan and Korea are both ageing at much faster rates than the OECD average (and New Zealand and Australia), and both have a retirement income policy centred on unsustainable PAYG public pensions. However, while the Korean arrangements are immature and projected to run into deficit in 40 years time, the Japanese public pension system is already in deficit. This problem is exacerbated by Japan's ageing population which is projected to peak at 128 million in 2006 and then begin to fall steadily, decreasing to around 50 per cent of its current number by 2100.

The Japanese paper in this symposium uses the balance sheet approach to identify the role of past and future liabilities in the long-term financial sustainability of Japanese public pensions (Takayama 2005). The paper discusses the parametric pension reforms of the past 25 years with particular emphasis on the 2004 reforms, which saw increases in contributions and reductions in benefits. It is argued that these reforms may be counter-productive with the higher contributions affecting incentives of employers to hire workers and of potential employees to participate in the labour force. The paper concludes with a discussion of possible policy reforms. The notional defined contribution approach is canvassed as having the potential to address the financing issues while minimising efficiency concerns.

The final paper in this symposium looks at the case of Australia (Bateman 2005). Of the four countries considered, Australia places the greatest reliance on privately managed retirement incomes. Over the past 100 years retirement income arrangements in Australia have evolved into multi pillar arrangements comprising a means tested public age pension, mandatory retirement saving under the superannuation guarantee, and voluntary retirement saving. Like New Zealand, the public pension is universally provided rather than earnings-related, and, unlike any of the other three countries considered here, at least some private involvement in retirement income provision is mandatory.

To some extent the Australian retirement income arrangements represent the multi pillar approach advocated by the World Bank (see World Bank 1994). It is therefore not surprising that many of the concerns associated with the Australian arrangements have been raised in the international retirement income policy arena. These include the vulnerability of private retirement incomes to economic and financial markets, ensuring that individuals have adequate information to undertake appropriate financial planning, and the efficiency issues associated with the provision of a means tested public pension in conjunction with mandatory private provision. These and other issues are considered in the Australian paper.

Overall, the four papers in this symposium on reforming retirement incomes provide an interesting cross-section of policy approaches and reform proposals, to which population ageing has provided yet another dimension for consideration.

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