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Media Release

Allianz Asia Pension Report 2021: Unchanged reform needs after Covid-19

- During the pandemic-crisis, Asia fared better than most other regions – but lower income groups were hard hit
- Covid-19 will only very briefly interrupt the aging trend in Asia – where the population aged 65+ will reach almost 1 billion people in 2050
- The elephant in the room of pension reform is the retirement age – which does not reflect past and future gains in life expectancy
- There is no Asian market without pension reform needs: The necessary breadth and depth of reforms might differ – but not its urgency
- **Malaysia's pension system's weak spot is the still relatively low retirement age not reflecting the development in life expectancy**

KUALA LUMPUR, 29 January, 2021: Today, Allianz unveiled its first "Regional Pension Report", taking the pulse of Asia's pension systems, guided by its proprietary pension indicator, the Allianz Pension Indicator (API), which it introduced last year by its "Global Pension Report". The indicator is based on three pillars: demographic and fiscal prerequisites, sustainability, and adequacy, taking all in all 30 parameters into account.

Asia is in a good starting position to thrive during the 2020's as it weathered the pandemic crisis in relatively good shape. While economic activity in the region declined by less than 2% in 2020, GDP contracted by more than 4% at the global level and by almost 8% in Latin America. The main reasons for Asia's resilience: robust growth of 2.3% in China, the only big economy of the world to grow at all during the pandemic.

"Overall, Asia's performance over the last twelve months is simply amazing", said **Ludovic Subran, chief economist of Allianz.** "It gained a headstart over other regions. But by ignoring the looming demographic crisis which will not spare Asia either it could easily forfeit its advantage. Next generations of Asians would have to pay a heavy price for such negligence. Not addressing pension reform, key for social justice and resilience, could even spell the premature end of the Asian century."

The Corona pandemic has caused millions of deaths around the world and thus reduced the average period life expectancy in 2020. But the underlying demographic trends are going to remain intact: Due to decreasing fertility rates and increasing life expectancy Asia's population will continue to age. The corona-pandemic slows the aging trend only temporarily. Within the next thirty years Asia's population aged 65 years and older is expected to more than double from around 412mn today to 955mn in 2050; the share of this age group in total population is set to reach 18% by then.

"Covid-19 will have no lasting effect on aging", commented **Michaela Grimm, senior economist of Allianz and author of the report.** "But that does not mean it has no effect at all for pensions. Quite the contrary. Covid-19 has exacerbated existing inequalities. Scars will remain not only from the deep recession, rising unemployment and interrupted education but also from some of the well-meant counter-measures such as the temporary reduction or suspension of pension contributions or the temporary allowance to withdraw pension fund savings. These short-term fixes are likely to increase old-age poverty in the years to come. If anything, Covid-19 has made thorough pension reforms even more urgent."

There are still marked differences in the development stages of the region's pension systems. Pension coverage ratios, for example, span from 3% in Cambodia to 100% in Japan. Equally huge disparities can be observed in private wealth. In Taiwan and Hong Kong, net financial assets by households accounted for more than 400% of total GDP in 2019, while in Sri Lanka, Cambodia, Vietnam, Indonesia and the Philippines the corresponding figure was less than 50%. These differences matter as they signal only limited access to financial services for some swathes of the population, hindering the necessary buildup of a capital-funded old-age provision to complement pay-as-you-go systems.

The main cause of concern with respect to the long-term sustainability of pension systems is the retirement age in many markets which does not reflect the gains in life expectancy over the last decades. And although some markets are discussing an increase in the retirement age, the planned changes might not be sufficient to mitigate the expected increases in further life expectancy.

The 15 Asian markets in scope of this report fare very differently in the API, reflecting the diverging state of play in pension reform efforts (see table). While, for example, Indonesia has already decided to raise the retirement age significantly, other markets are still dragging their feet. Only four markets (China, Japan, South Korea and Taiwan) have already included a demographic factor in their pension formula, in Singapore the annuity payments are regularly adjusted. A strong capital-funded pillar can be found in just a few markets, for example in Singapore and Japan. As a result, rankings in sustainability and adequacy differ widely among Asian markets. But with no Asian market ranking among the global top10, it is clear that all of them have still some homework to do to make their pension systems demography-proof. The rapid demographic change does not allow to put pension and financial system reforms on the back burner.

This applies to Malaysia, too. Main reason for concern is the long-term sustainability of Malaysia's pension system as the still relatively low retirement age of 60 years both for men and women does not reflect the development in life expectancy. Another challenge is the still relatively low coverage ratio – less than half of the working population is effectively within the public pension system.

Asia's pensions systems through the lens of the API

	API 2021	Starting Points (I)	Sustainability (II)	Adequacy (III)
China	3.1	4.5	2.7	2.8
Korea	3.2	4.2	3.0	2.8
Japan	3.2	4.0	4.0	2.0
Taiwan	3.2	4.3	3.2	2.8
Indonesia	3.6	4.4	2.2	4.5
Hong Kong	3.6	3.3	4.0	3.3
Singapore	3.7	3.7	4.2	3.1
Philippines	3.8	4.1	2.7	4.7
India	4.0	4.6	3.5	4.1
Thailand	4.1	4.6	3.9	4.0
Vietnam	4.4	4.8	3.6	5.0
Malaysia	4.5	4.1	5.4	3.8
Sri Lanka	4.8	4.4	5.4	4.3
Laos	4.8	4.2	3.6	6.3
Cambodia	5.7	4.3	5.7	6.3

1.0	3.0	5.0	7.0
no need for reform			high reform pressure

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You can find the study here on our homepage

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ABOUT ALLIANZ

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