Global Journals LaTeX JournalKaleidoscope™

Artificial Intelligence formulated this projection for compatibility purposes from the original article published at Global Journals. However, this technology is currently in beta. *Therefore, kindly ignore odd layouts, missed formulae, text, tables, or figures.*

Financial Preparedness for Old Age

Mukul Asher[1]

[1] Universiti Sains Malaysia

Received: 14 December 2018 Accepted: 31 December 2018 Published: 15 January 2019

Abstract

Introduction-Public policy goal should be ageing with dignity. It implies that a person should be ageing-in-place, staying at home to the maximum number of years as possible, and have access to a bundle of services, especially affordable and accessible health care.According to UN projections, the number of persons over-60 years of age will increase from 205 million in 1950 to 2.1 billion by 2050."Given the deficiencies of storing current production, the only way forward is through claims on future production. What matters, therefore, is the level of output after I have retired. The point is central: pensioners are not interested in money (i.e. colored bits of paper with portraits of national heroes on them) but in consumption -food, heating, medical services, seats at concerts, etc. Money is irrelevant unless the production is there for pensioners to buy."

Index terms—

1 I. Introduction

ublic policy goal should be ageing with dignity. It implies that a person should be ageing-in-place, staying at home to the maximum number of years as possible, and have access to a bundle of services, especially affordable and accessible health care.

According to UN projections, the number of persons over-60 years of age will increase from 205 million in 1950 to 2.1 billion by 2050.

"Given the deficiencies of storing current production, the only way forward is through claims on future production. What matters, therefore, is the level of output after I have retired. The point is central: pensioners are not interested in money (i.e. colored bits of paper with portraits of national heroes on them) but in consumption -food, heating, medical services, seats at concerts, etc. Money is irrelevant unless the production is there for pensioners to buy."

So the focus should be on household welfare and accessible bundle of services to the elderly. Each society should decide on what is the bundle of services needed in its current context, and be prepared to change as demographic conditions and expectations change.

The aim is to enable purchases of bundle of goods, services and assets on a life-cycle basis ? Yet retirement or withdrawal age from provident funds in many countries have remained below 60 years.

? Four examples of challenges in financing ageing:

The first example is Japan.

? The second example is Brazil in which pensions expenditure use up more than half of the federal budget and are growing at a rate four percentage points above inflation. ? This reflects the non-conducive political economy in pension arrangements. ? The third example concerns Taiwan where the ruling party, in response to official reports warning that an unreformed civil service and military pension systems could be bankrupt by 2020, has legislated significant cuts in their pension benefits to be implemented gradually over a decade. ii. Increasing longevity and reduced fertility rates; iii. Volatility in financial markets and prolonged low interest rate regimes; iv. Changing labour markets with a growing role for disruptive technologies; v. The increasing importance of the digital market place.

? The following findings of the study are particularly relevant: i. Nearly half of the people surveyed globally think that current retirement arrangements will make them worse of in terms of retirement income security. ii. Declining physical health is the most often cited retirement concern globally. Only a fifth of those surveyed confident of health care in retirement. Many stop working before retirement due to own or family member's ill health. So healthcare should be an integral part of financial preparedness for old age. iii. Only a quarter of those interviewed think they will achieve mean expected proportion of current earnings of 68% in retirement. Various avenues making up this 68 percent depends on many factors, including country's pension system.

? However, the recommendations for a New Global Retirement Model suggested by the AEGON study are relatively modest.

2 Main Characteristics of Asian Pension Systems/1

? There are large variations in the robustness of Asian pension systems. Nevertheless, the following broad characteristics apply to them as a whole. 1. There has been less than adequate policy focus in Asia on financing arrangements; on developing professional provident and pension fund organizations, with appropriate governance and regulatory structures. These have resulted in high administrative and investment management costs; mis-selling of financial products; and less-thanadequate systems of coping with financial frauds which are increasingly directed at the elderly. 2. The above has resulted in lower coverage of the population with access to pensions (and to healthcare); lower number of risks being addressed, and when addressed, limited benefits are provided. This means that trade-offs between the adequacy of benefits, coverage of the population, and the extent of risks that are covered must be made for any given level of resource allocation to healthcare and to pensions.

3 Main Characteristics of Asian Pension Systems/2

In most Asian economies, a large share of healthcare expenditure is financed out-of-pocket, with limited risk pooling, though there is some progress towards social risk pooling, particularly in India and Indonesia. Thus, the focus should be on ensuring adequacy across all three dimensions, focusing only on the number of beneficiaries or statutory coverage is not very useful. 1. The main risks in retirement financing are:

? Inflation risk -the risk that the real values of retirement income decreases with the inflation rate relevant for the consumption basket of the elderly); ? Longevity risk -risk that retirement income may be inadequate in view of longer-than-anticipated life spans; ? Survivors' risk -risk that survivors, particularly women and children, may not be adequately provided for.

In managing these risks, sufficient social risk pooling arrangements are essential as society, rather than individuals, are better able to bear them. In many Asian countries, this aspect is inadequately recognized by policymakers.

Societies as well as households need to rely on multiple sources from which financing for retirement is derived.

4 Main Characteristics of Asian Pension Systems/3

1. The financial and capital market development has been relatively limited. This has restricted investment options by provident and pension fund organizations, and by individuals. This increases investment risk both when retirement savings and social security contributions are made during working years; and during retirement periods when macroeconomic risk and annuities market risk need to be managed. 2. There is insufficient appreciation of the need to establish a strong data collection and analytical capabilities relating to pension arrangements, and to retirement behaviour. Regarding these data as a public good to be made available to various stakeholders should be accorded due priority. Such a practice would also enhance trust in the statistical systems and in provident and pension fund organizations. These are essential to undertake needed reforms with public support. 3. There is a strong case for establishing retirement behavior and pension research centers in most Asian countries, such as the Social Wellbeing Research Centre (SWRC) at Universiti Malaya. Such centres could address the issue of pension and healthcare policies being based on insufficient empirical evidence and policy research. 4. In many Asian countries, the political economy is not conducive to long-term and sustainable pension, retirement and healthcare policies. As a result, organizational, institutional, and regulatory arrangements which are conducive to long-term savings by households with confidence are relatively weak.

5. There is relatively less emphasis in promoting financial literacy among pension and provident fund trustees and staff, among policymakers, among households, and other stakeholders. 6. Asia has a large number of cross-border workers.

They have very limited access to retirement income and healthcare benefits. Even when access is available, the costs are often prohibitive.

5 Select Issues in Financial Preparedness/1

Financial Literacy ? The importance of basic financial literacy has been recognized in helping to make appropriate choices for retirement income security. A Assuming real wage growth of 2.1 percent and a real annual return on investments of 4 percent. With a larger difference between the rate of return and the wage growth rate, the charge ratio with annual management fees is slightly larger, and conversely.

Select Issues in Financial Preparedness/2 ? It is not just the administrative costs that matter, but also cost of complying with the regulations, including receiving benefits without undue hassle costs and side payments. ? Compliance costs estimates are a relatively neglected area of research as well as of governance focus in Asia. ? Lowering compliance costs could improve adequacy for same level of monetary benefits; as well as improve fairness and organizational effectiveness.

6 III. Concluding Remarks

? The progress towards greater financial preparedness for old age will require all concerned pensioned related organizations, be it regulators, asset managers, service providers, as well as individuals and households to implement or to address the PHUI: -Purpose of the organization -shifting from process to outcome orientation; -Habits of stakeholders, including of officials of provident and pension fund organizations, as well as their trustees; and of individuals who will need to exhibit greater financial literacy. -Using emerging technologies more competently and purposefully for record-keeping, lowering of administrative and compliance costs, and lowering investment management costs. -Incentive structures for the organization, the officials, and the members to behave in a manner consistent with financial preparedness, and to enhance transparency and accountability.

[1]

[1] Year 2019 © 2019 Global Journals Financial Preparedness for Old Age

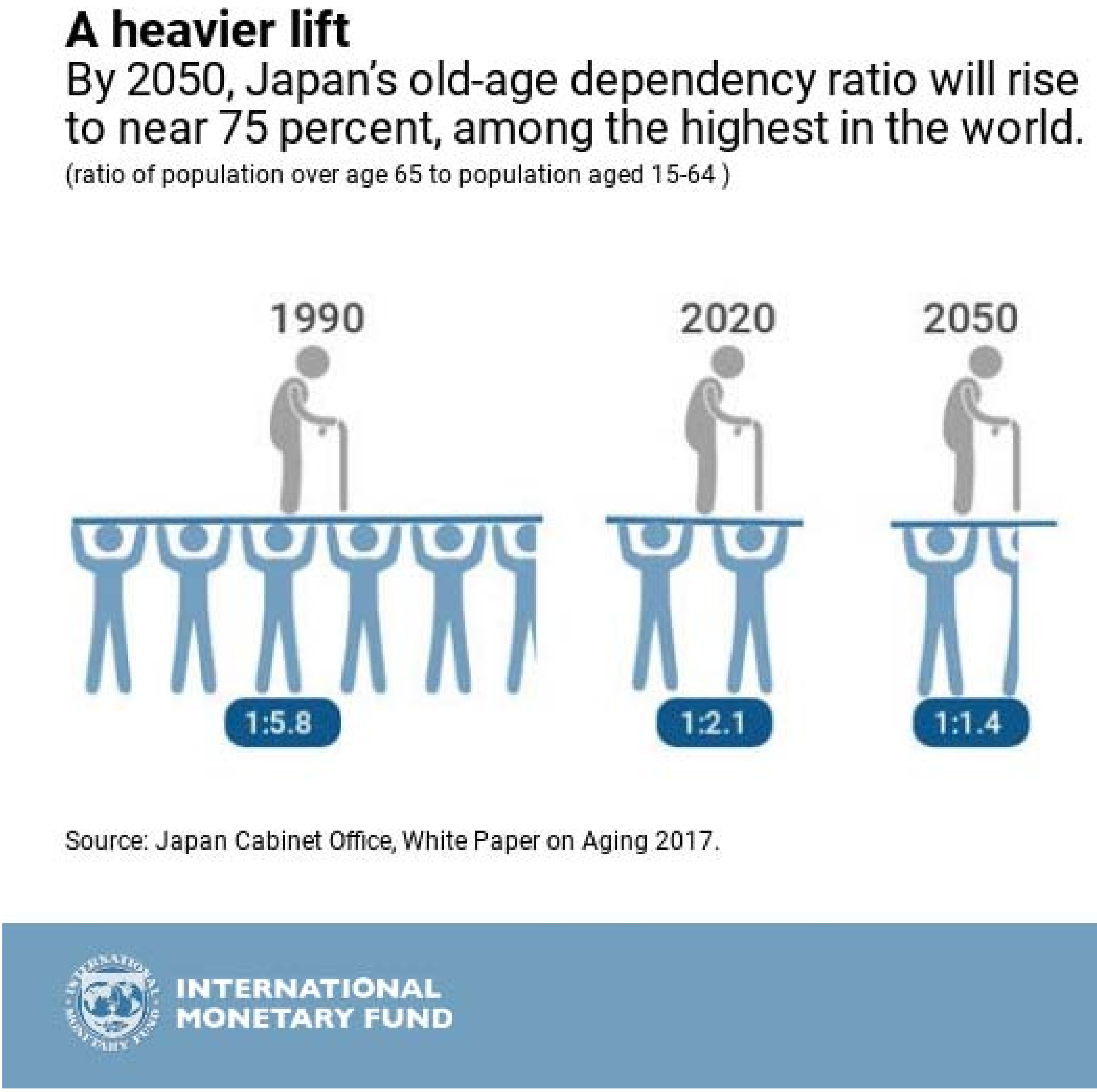
A heavier lift
By 2050, Japan's old-age dependency ratio will rise to near 75 percent, among the highest in the world.
(ratio of population over age 65 to population aged 15-64)
1990
2020
2050
1:5.8
1:2.1
1:1.4
Source: Japan Cabinet Office, White Paper on Aging 2017.
INTERNATIONAL MONETARY FUND

Figure 1:

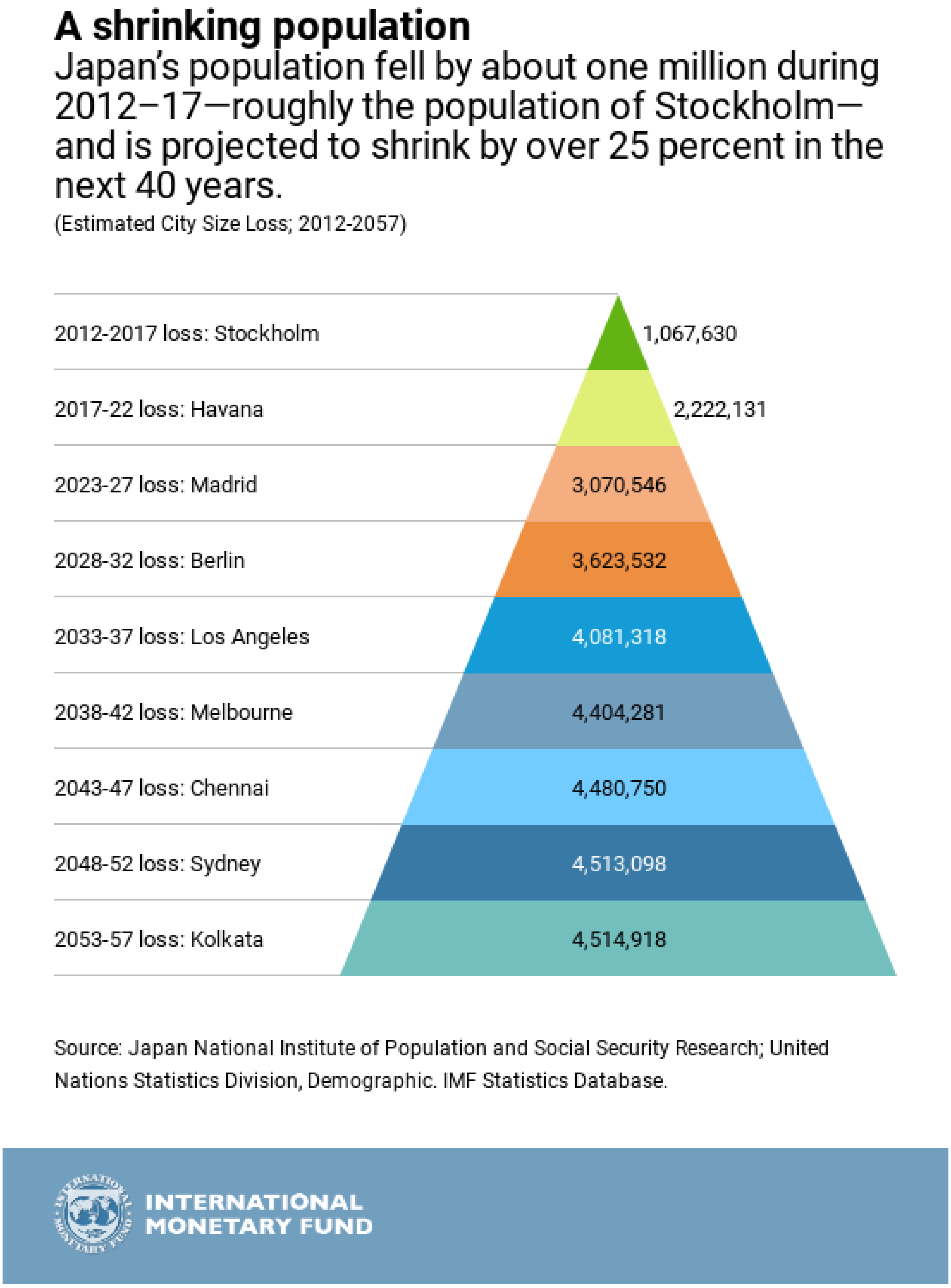

Figure 2: Financial

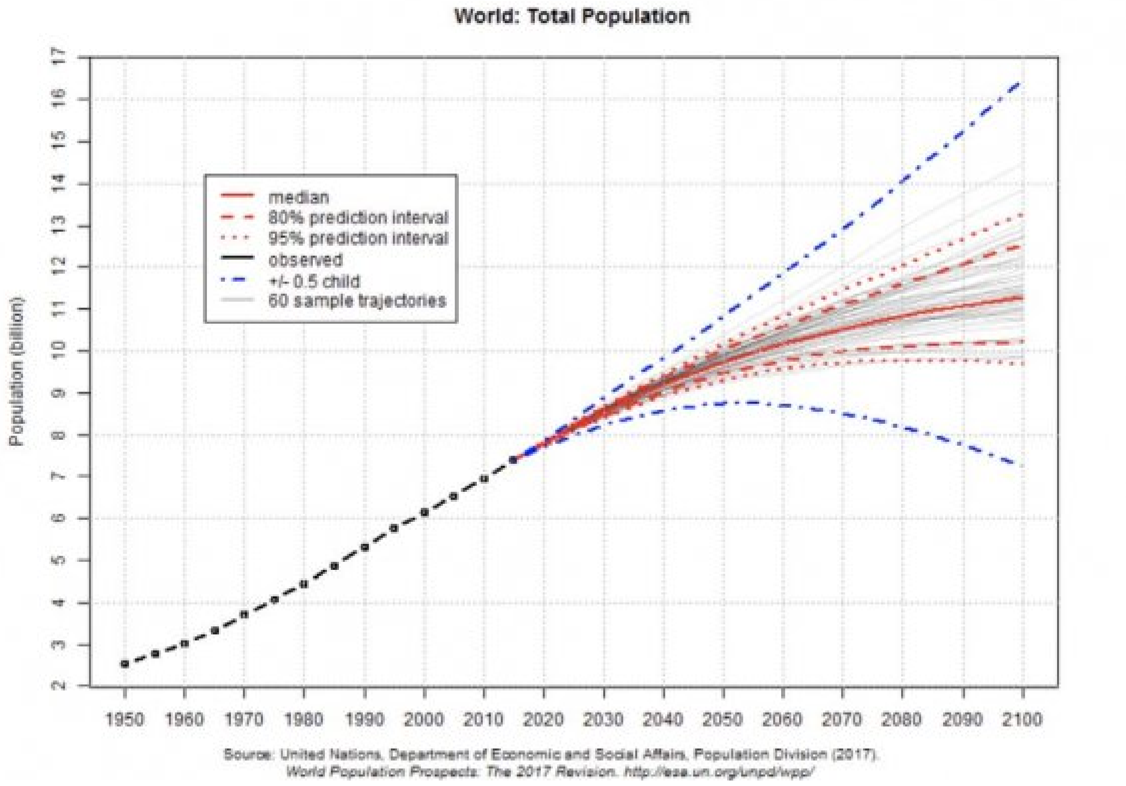

Figure 3:

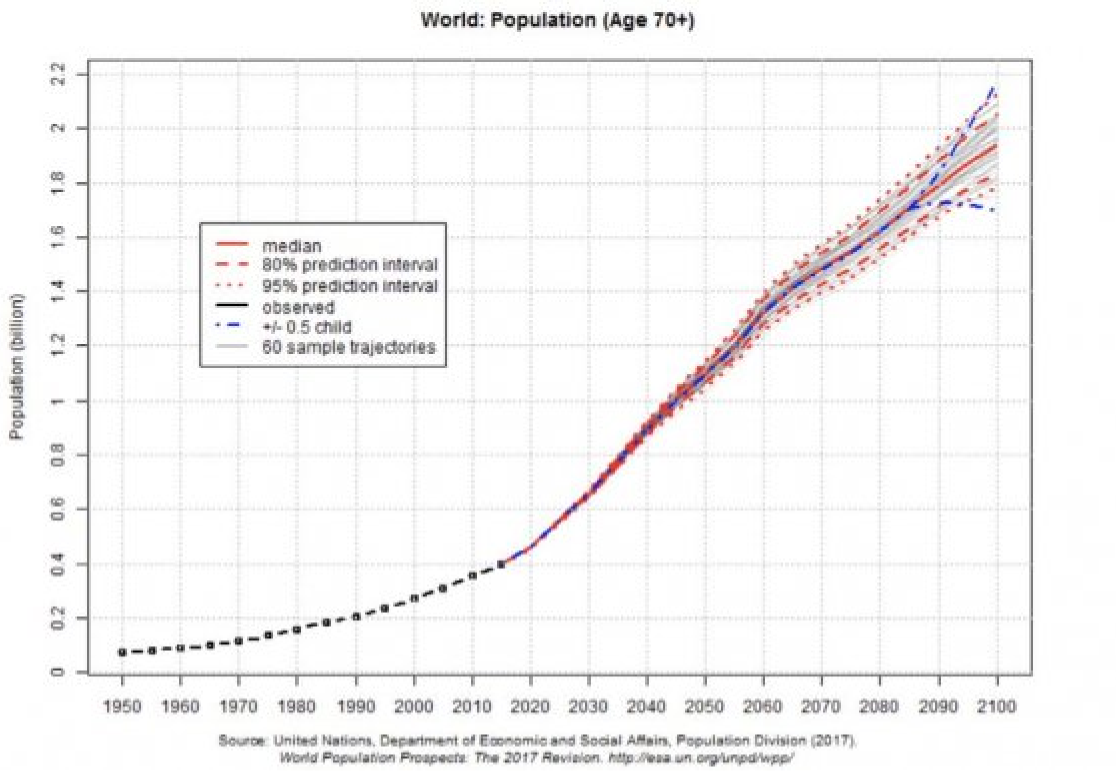

Figure 4:

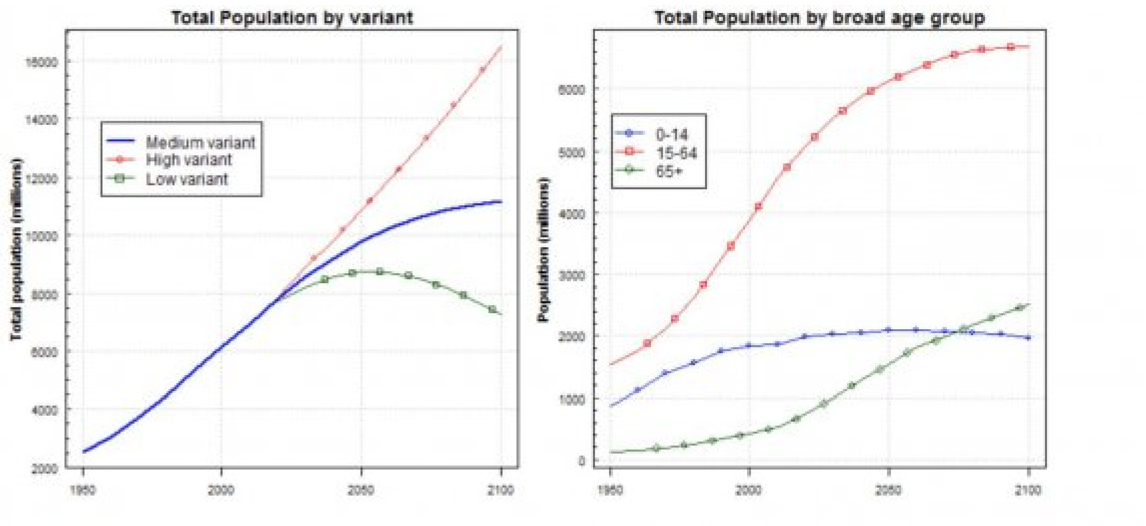

Figure 5:

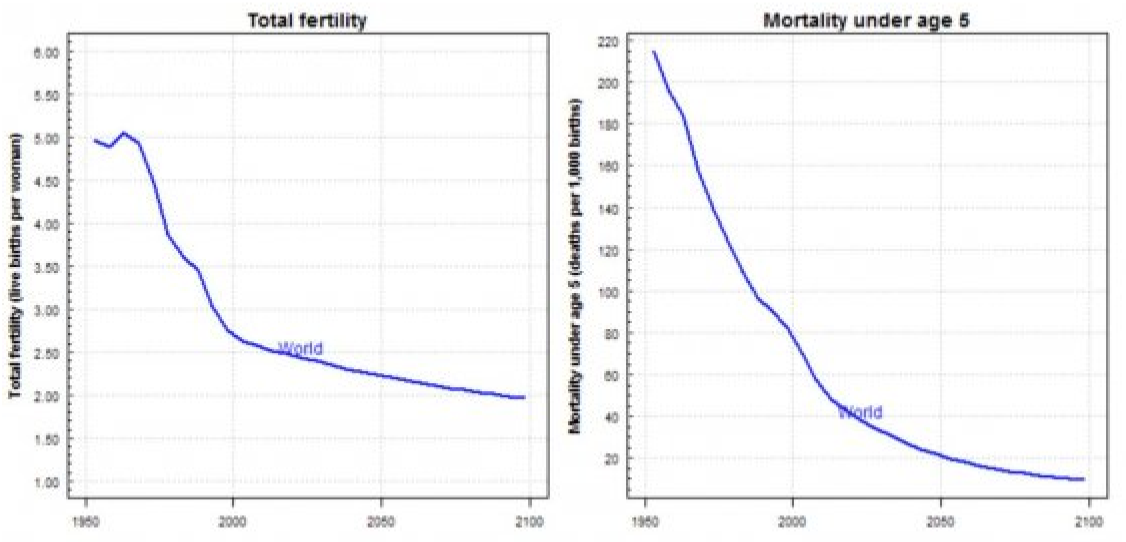

Figure 6:

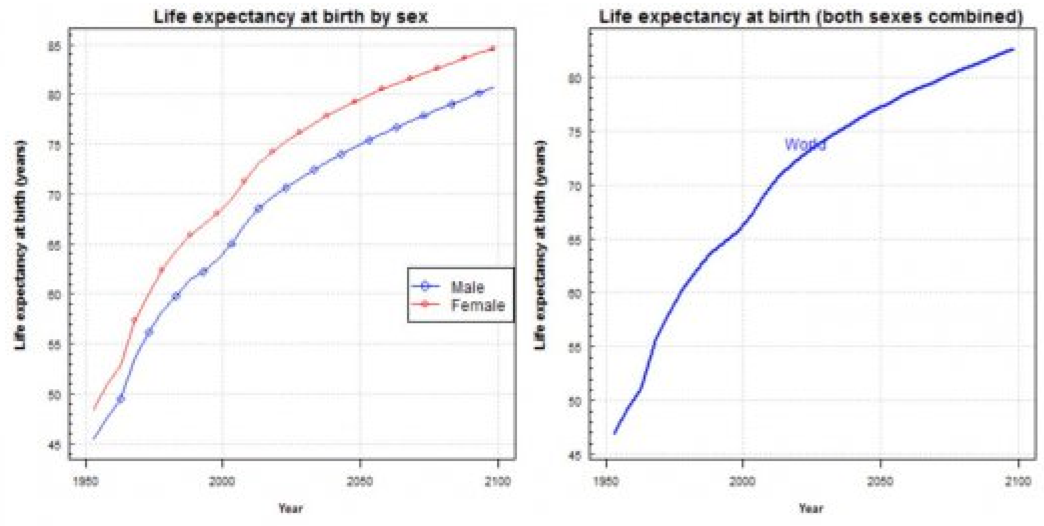

Figure 7:

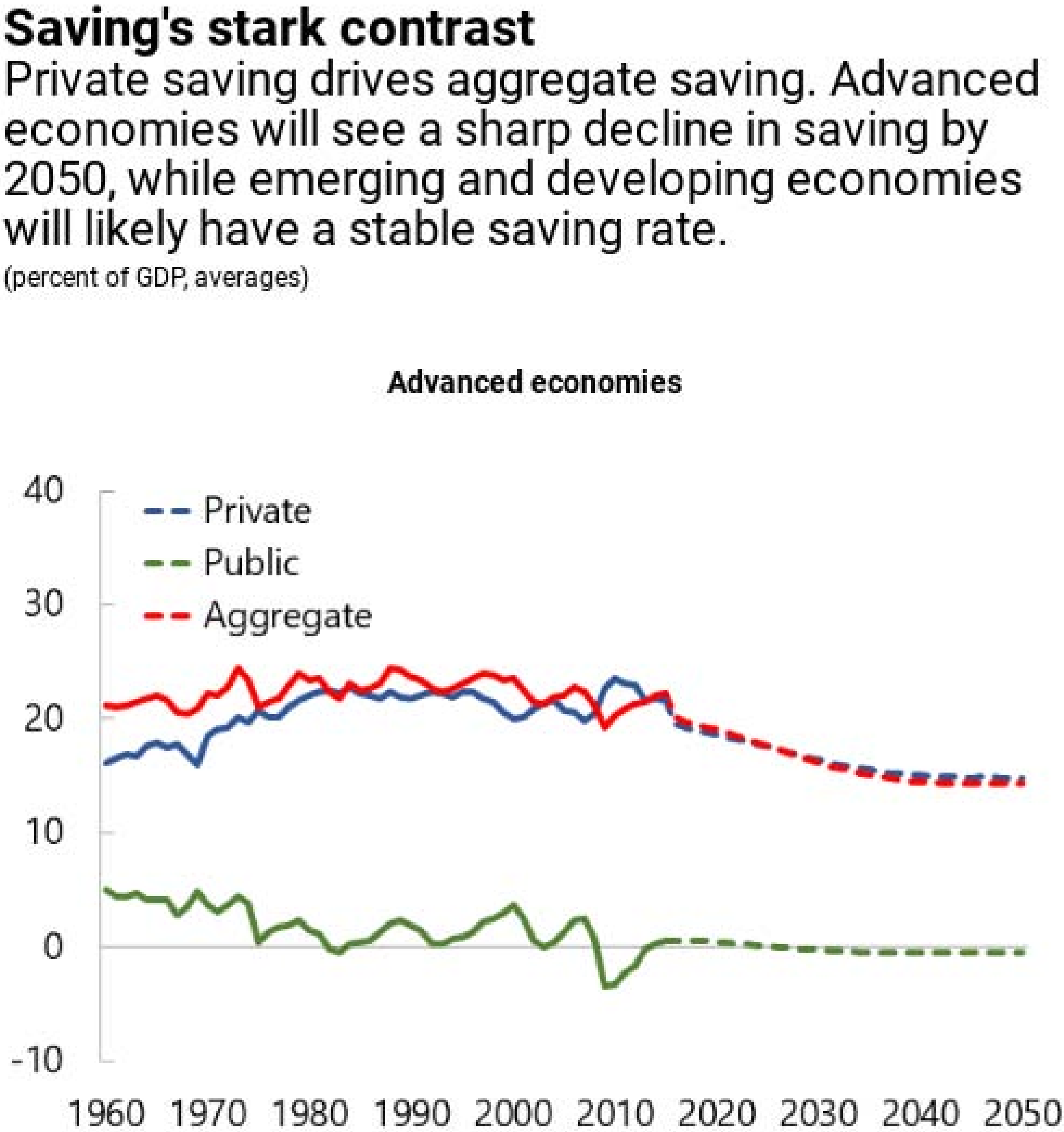
Saving's stark contrast
Private saving drives aggregate saving. Advanced economies will see a sharp decline in saving by 2050, while emerging and developing economies will likely have a stable saving rate.
(percent of GDP, averages)
Advanced economies
Private
Public
Aggregate
40
30
20
10
0
-10
1960
1970
1980
1990
2000
2010
2020
2030
2040
2050

Figure 8:

? These examples suggests that high middle income (Brazil), and high income countries such as Japan and Korea are required to m tough decisions to address the pension challenges of an ageing society.

? The middle income countries could study these examples and draw context-specific lessons from them.

II. Demographic Trends and Their Implications

Demographic trends pertain to all the persons

centered https://asia.nikkei.com/Spotlight/Asia-Insight/No-on poverty of the elderly. country-for-old-

Source: World Population Prospects, 2017 Revision. Accessed on 16 December 2018 ? Globally, propo

business climate, and flexible labour market

arrangements with reasonable growth in real wages;

country's pension system. (David Amaglobeli, Era Dabla-Norris, and Vitor Gaspar, 2019).

2015

World
China
Japan
Republic of Korea

Population (mn) 1.32

World India 2018 7632.8
Indonesia

64 China 1415.0 127.2
Japan
Malaysia

Republic of Korea India Indonesia Malaysia Philippines Singapore Thailand Viet Nam Philippines 1354.

Philippines World China Japan Republic of Korea India Indonesia Malaysia ? Universal access to robu

Singapore 13.6
Thailand 11.8
Viet Nam 7.4

[Note: ? The second study by Michal Rutkowski (2018) of the World Bank, titled "Reimagining Social Protection." ? He argues that new technologies, particularly digital technologies, are changing how people work and terms under they work. ? Around 3.5 percent of the global workforce works under the 'gig economy' type arrangements under which work is]

Figure 10:

[De Liema et al. ()] M De Liema , M J Deevy , A Lusardi , O Mitchell . *Financial Fraud among Older Americans: Evidence and Implications*, 2018.

[Enhancing Financial Preparedness by Lowering Administrative Costs pension) by nearly 20 percent] *Enhancing Financial Preparedness by Lowering Administrative Costs pension) by nearly 20 percent*,

[Diamond (2016)] *Good Pension Design*, P Diamond . 2016. 12 Jan 2016. Presentation at National University of Singapore

[Harding and Geronimo (ed.)] S C Harding , M Geronimo . *Financial Security of Older Women: Perspectives from Southeast Asia*, AB, Bezbaruah (ed.) (Singapore) Tsao Foundation.

[Amaglobeli et al. ()] *How Much Should You Save for Retirement*, David; Era Amaglobeli , Vitor Dabla-Norris , Gaspar . https://blogs.imf.org/2019/01/15/how-much-should-you-save-for-retirement/?utm_medium=email&utm_source=govdelivery 2019.

[Packard et al. ()] 'On Risk Sharing in the Diverse and Diversifying World of Work'. Truman Packard , Ugo Gentilini , Margaret Grosh , O' Philip , Robert Keefe , David Palacios , Indhira Robalino , Santos . *Social Protection and Jobs White Paper*, (Washington, DC) 2018. World Bank.

[Barr ()] 'Reforming Pensions: Myths, Truths, and Policy Choices'. N Barr . *International Social Security Review* 2002. 55 p. .

[Rutkowski ()] 'Reimagining Social Protection'. Michael Rutkowski . *Finance and Development* 2018. 55 (4) .

[Roy ()] Amlan Roy . *Global Retirement and Demographics: ASEAN Focus" London: SSGA (State Street Global Advisors*, 2018.

[Aegon Centre For Longevity ()] *The New Social Contract: a Blueprint for Retirement in the 21st Century*, Retirement Aegon Centre For Longevity . https://www.aegon.com/contentassets/6724d008b6e14fa1a4cedb41811f748a/retirement-readiness-survey-2018.pdf 2018.