



Demographic Change : Aging Societies

The Pension Dilemma

The average age of people in industrialized countries all over the world is rising rapidly. Manuel Bauer, the Head of Global Life Insurance at Allianz, compares the trends and solutions.



Manuel Bauer, Head of Allianz Global Life

"I believe many people will be left with small pensions in the future, and the wise ones will save more" (Photo: Allianz)

You are working to improve Allianz Life Insurance at a global level. But isn't demographic change fundamentally different in different parts of the world?

Making one uniform policy that responds to demographic changes wherever they occur would be very arrogant and not pay enough respect to our clients and our local entities. Our aim should be to understand those demographic mega-trends earlier on behalf of the whole Allianz Group, and then go to single countries and discuss what we can do on a global level to help them do their job.

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So what are the demographic mega-trends?

One trend you have pretty much everywhere is that people are living much longer. However, pension systems in Asia, where I worked the last four years, are not as adequate as in Europe. Even in Europe they are not adequate. If you look at America, it is probably even worse, because people have to look after themselves completely.

The pension dilemma is everywhere in the world. There is very little governments can do in the short term. I believe many people will be left with small pensions in the future, and the wise ones will save more.

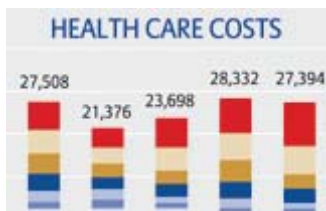
The next point, linked to longevity, will be health insurance. People who live longer will need a doctor more often than in the past. So, health care is an emerging issue, and we are talking about big money here. New facilities like hospitals and ambulances are very costly. At the moment, governments are focusing on the pension issue. They are not

looking too much into health, but I believe in the next decade, things will move much more in that direction.

You said that pensions will be a problem all over the world. Do you see any governments that are proactive?

Funny enough, it's usually smaller countries that do better, because they have more flexibility and it is easier to change a couple of million people than 80 million people like in Germany. Among the small countries, I really liked Slovakia. They introduced a very good three-pillar system with mandatory and voluntary options and tax deductions.

That said, all pension systems have one disadvantage: people in their 20s and 30s have to put away a big chunk of their income. They are hesitant to do that, because they have to give up something of their living standard at an age where they already have less income than they probably need. I wish there would be a way around this – it would also boost our business – but there isn't. All we can do is educate people, educate them again, and then educate them once more.



Health Care Costs (click on the picture to enlarge)

Health care costs in selected countries in dollars (Graphic: Allianz)

You have been talking about what governments can do to improve pension systems, but what can private companies like Allianz do to prepare?

We have been addressing longevity for quite a while, and I think that all the products we need are there. I am not too keen on overly sophisticated products. A normal consumer with an average knowledge of finance has to be able to understand it. We are already struggling to make consumers fully understand what we are selling them. What you really have to do is create awareness among the people. A 25- or 30-year-old should start to put aside a fifth of their income and increase this until they retire. To convince people to do that would be the right thing, but it is not easy.

We spoke about aging populations, but how will low birth rates and shrinking populations influence the economy?

Well, if fewer people buy products, the economy will shrink. Germany now has 80 million people. If there are only 60 or 65 million left in 40 years, there will also be fewer consumers. The question is, are we doing enough to export our goods to countries that are still growing, for example in Africa? Currently, yes, because Germany is the world export leader, but will these nations have enough money to buy our sophisticated products and make up for the loss of business here? Will we be able to make them rich and healthy enough to consume all this?

Are you focusing on countries where there is still a lot of population growth?

In my opinion, in many African states there is not enough disposable income to make it worthwhile to start any operation. It is not only disposable income; there are simply too many conflicts. It will take some time before this has changed into a sustainable economic and political environment.

On the other hand, we are very established in India and China. Business in India is going very smoothly, we can even learn from them how to grow more. In China, we are just at the beginning, and we have to see how this unfolds in the future.

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