Issue 1 | OCT 2006

ETHOS

ETHOS

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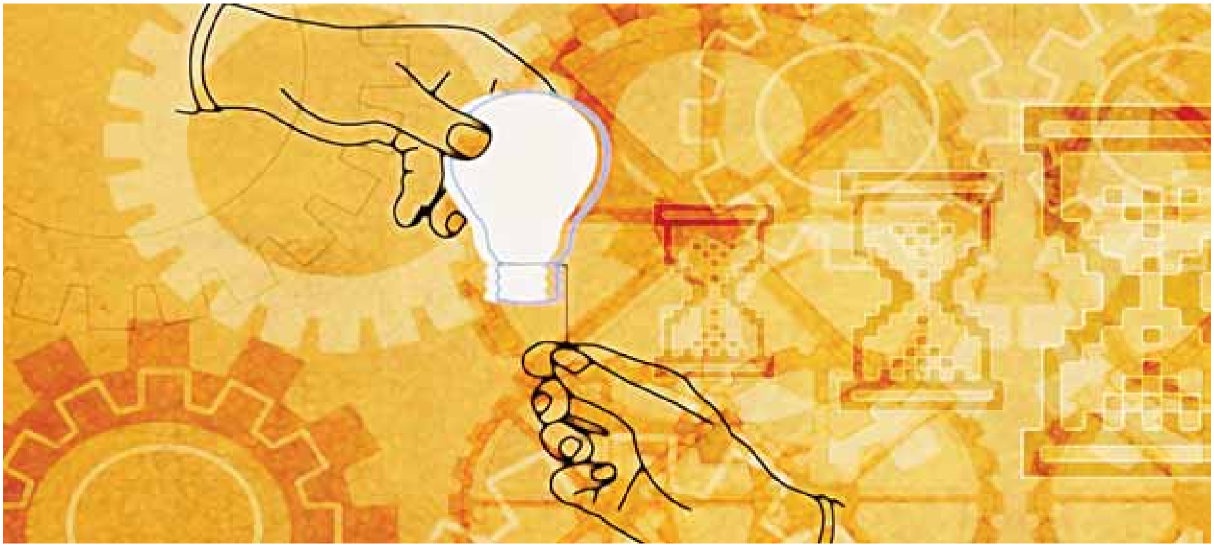
Published by the Civil Service College
The Civil Service College (CSC) is a statutory board under the purview of the Public Service Division (Prime Minister's Office). Begun in 1971, the College is an integrated learning institution comprising the Institute of Policy Development, the Institute of Public Administration, CSC Consultants and CSC International. Its vision is to be the Heart of Learning Excellence and Development for the Singapore Public Service.

ISSN: 1793-3773

Website: http://www.cscollege.gov.sg/ethos



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FOREWORD

We are at an inflexion point. Globalisation and rapid advances in technology are transforming business, politics and society. The simultaneous rise of China and India are changing trade flows and mapping out new patterns of influence. Formidable competition and new opportunities are emerging in unexpected quarters.

As the pace of change accelerates, uncertainty and unpredictability will increasingly define our operating environment. It is in such a complex and volatile environment that the Singapore Public Service must make its policies and plans today. Many of the most critical and strategic issues that we must address are not within the competence of a single agency to deal with. Instead, they are more likely than not to span several agencies and involve many interdependent factors, some of which are beyond our direct influence. Some of the policies that have served us well for the last few decades will no longer be adequate going forward. We cannot rely on time-tested formulae to ensure future success.

To succeed, we must reinvent ourselves as makers and implementers of policy. We must not only be aware of the immediate environment in which we are operating, but also the larger strategic landscape and how it shapes – and is in turn shaped by – our policies. The way forward is not to shy away from complexity, but to embrace it.

As a Public Service, we must always stand ready to seize opportunities and to capitalise on new ideas. We must be prepared to consider fresh or alternative approaches. We must be ready to act even when we cannot be certain of the outcome, because inaction will be the greater failure. We cannot worship at the altar of perfection in policy-making, or it will doom us to paralysis. Instead, we should learn how to manage the risks inherent in policy-making in an uncertain and unpredictable environment. To this end, we have to be savvy, well-informed, and open to new perspectives.

Ethos, as our professional journal for policy practitioners, has an important part to play in this evolution. It will document some of our public policy innovations, and serve as an invaluable reference for a new generation of civil servants. But it should also strive to present the best thinking there is on the theory and practice of public policy. I hope it will challenge us with cutting-edge ideas from leading thinkers worldwide, and help sharpen our policies through critical reflection, discourse and debate.

I wish the Ethos editorial team every success and I urge our readers to contribute ideas on how the journal can be improved.

Peter Ho
Head, Civil Service

EDITORIAL

Welcome to the new Ethos. Originally a newsletter started in 1994, Ethos has since become a publication of no small ambition and range. It has featured leading ideas on governance and policy from some of the most senior and expert thinkers in the Singapore Public Service and beyond. This is due in large measure to the effort and intelligence of our previous editor, Patricia Lam, to whom Ethos and its editorial team owe a great debt.

With this issue, Ethos takes on an entirely new look — one which we hope better reflects its values as a smart, professional and forward-looking journal on governance and public policy in Singapore. From 2007, Ethos will also be published biannually with a meatier slate of articles on thematic and general topics, as well as in Special Editions throughout the year.

Certainly, the changes we aspire to are more than cosmetic. We want to expand and deepen the scope of reflection on issues that are pressing — or may become so. Our vision is a journal where thought-leading, original ideas are presented, contested, refined and shared among our committed policymakers and scholars.

The Singapore Public Service enjoys a hard-won reputation for being competent and forward-looking. Some of the policies and initiatives put forward by our agencies are cutting-edge innovations. They may well have wider relevance and applicability both within and outside Singapore.

It is also folly to imagine that any government, however capable, has a monopoly on good ideas. In a fast-moving, globalised world, we cannot afford to lose track of the leading edge in thinking and action, lest we miss vital opportunities to leap ahead, or worse, be overtaken by events or the competition.

Perhaps most invaluable are ideas not yet tried or tested, but which suggest new perspectives or approaches to prevalent public issues. Some of these ideas may challenge the status quo — but what new idea doesn't? Others may not find immediate utility in governance, although their time may come.

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Our inaugural issue brings to bear some of the leading minds on a matter of global concern and national interest: Ageing. By 2050, the number of persons over 60 years of age will exceed that of children globally for the first time in human history. Singapore is also expected to age rapidly. By estimates, older persons will constitute 18.7% of Singapore's population in 2030.

These are figures for policymakers to note with some urgency, because the window of opportunity in which to take effective action, is now. What can we expect in the decades to come and what can we do about it today?

Ethos features an interview with former UN Chief Demographer Dr Joseph Chamie, who addresses stagnant fertility rates in the context of a fast-growing senior population worldwide. Dr Sarah Harper, Director of the Oxford Institute of Ageing, contests the prevailing notion that a greying society necessarily means a declining one. Professor Norbert Walter, Chief Economist of the Deutsche Bank Group, forecasts changes in global labour, savings and investment patterns as the baby boomer population retires. Olivia Goh from the Ministry of Community Development, Youth and Sports reviews Singapore's policy approaches to ageing in the context of social support and pension regimes worldwide. Andrew Kwok from the Singapore Civil Service College rounds up our issue with a thoughtful opinion piece identifying key areas for attention in Singapore's ageing policies.

By 2050, the number of persons over 60 years of age will exceed that of children globally for the first time in human history. Singapore is also expected to age rapidly. By estimates, older persons will constitute 18.7% of Singapore's population in 2030.

Ethos will continue to convene the best and most interesting thinking about public policy from Singapore and elsewhere. In due course, we hope to generate a vigorous, healthy discourse from the mix.

Let us know what you think of the new Ethos design and the articles in this issue. Tell us what you would like to see in future issues and send us your contributions or ideas for future articles, at any time. Above all, we hope that you will find the new Ethos relevant, thought-provoking, and a good read.

We look forward to hearing from you.

Alvin Pang
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Interview with Joseph Chamie

Population and Policy

As the former United Nations Chief Demographer, Dr Joseph Chamie is one of the world's leading authorities on population change and movement. Speaking to Ethos, he outlined the implications of global demographic trends for public policy in Singapore and elsewhere.

To what extent can government policy effectively influence long-term population trends?

When it comes to population and government policy, it is very important to distinguish between the three components of population change: fertility, mortality and migration.

Government policy can be very effective in reducing mortality, for example, by immunising people against disease and so on. It can also change migratory patterns, with programmes, infrastructure and incentives. Laws — for instance, the legal age to drink, drive, vote or retire and receive social security — can also affect age structure and behaviour.

Fertility is a more difficult matter. In most societies, it is generally up to the couple to decide on the number and spacing of their children, based on their own calculation of the benefits and the costs. When fertility is high, governments can facilitate the reduction in fertility that normally comes about with urbanisation, lower mortality and increased education, with incentives and investments in schools, jobs and so on. But when fertility declines to very low levels, what can governments do?

Incentives to bring down fertility have worked well in the past. But it is evidently much more difficult to bring up fertility rates. Can Singapore, with one of the lowest Total Fertility Rates in the world at 1.24, hope to improve its situation?

Very low fertility will be a big preoccupation for societies in the 21st century: is this a temporal phenomenon that will correct itself or is it something that is going to be the case for all countries in the coming decades?

The ideal of countries, of course, is to have a transition to replacement levels. We can look at countries by their Total Fertility Rate (TFR) – the ones above 1.5 and the ones below. Countries that have 1.8 or 1.9 children per couple, such as France and the UK, may be able to maintain their population size by trying to raise it slightly or bringing in migrants.

There are also many countries with a TFR below 1.5: Japan, Russia, Korea, Italy, Spain, Greece, Ukraine, Georgia, Lithuania and

Singapore. The research I have been doing indicates that government policy may have some modest impact. However, it is very unlikely that countries with fertility rates below 1.5 will get back to replacement level any time soon. The Swedish have been able to increase the fertility rate for a cross section of the population at a certain point in time, but then it has come back down again. So to get the current 1.24 up to perhaps 1.8 for Singapore will be a major challenge.

In the coming years, however, Singapore's TFR may stay at 1.2 to 1.24, but then it is likely to go up to perhaps to 1.5 or 1.6. The mean age of childbearing has been rising, but this rise will cease, resulting in 10% to 20% increase in the fertility rate. Public encouragement, media and benefits may also have some small effect. There are also people who are having difficulty conceiving, who may be helped by new means. All these factors could increase fertility.

The French, with a fertility rate at 1.9, may be a useful example to consider. They have been able to create a culture where women and men believe that they can have a family and children and still work — so they have preschool and after school assistance and so on. But in many countries, couples are finding it hard to raise a family with two or three children when both husband and wife are working outside the home.

While Singapore is trying to encourage births, we are also opening our doors selectively to migration in order to boost the resident population. How effective is this as a means of tackling a shrinking population?

Our studies on replacement migration show that if you are at a TFR of 1.2 or 1.3 and want to bring in migrants in order to stabilise the size of the population or labour force, the migrant population would have to be so large that it becomes politically and economically very difficult. You would be changing the ethnic composition and age distribution of your country.

How do you assimilate or integrate so many? This may create problems in countries, such as observed in Germany even after 30 years of immigration. In addition, migration policy for a small country like Singapore may be very different than for a large country like the United States, Japan or Russia.

Singapore is in many ways blessed because you have a large pool of potential migrants from which to draw. The question is how you will proceed: will you bring in people for two to three years and then have them leave, or will you bring them in and have them stay for 15 to 20 years and then leave or stay and become citizens? You have to be careful not to bring in so many transient people that they have no investment in the society. Also, if you bring in many migrants and they stay, it is going to have an effect on your ethnic distribution and political system.

Compared to Japan, Singapore is in a more favourable position to benefit from migration. The Japanese have a history of being somewhat isolated and not as welcoming of foreigners, although they have established national commissions recommending that Japan be more open and use more English in order to welcome people coming from abroad. Singapore, on the other hand, has a history of diversity and immigration, and can benefit from the very large populations surrounding it.

In the past, America was also not considered to have a very cohesive national identity, because it was so diverse. But now in the 21st century, diversity can be a strength, especially in the context of low fertility. In a globalised world, diversity means you work in different environments, not just one environment.

The question is: can you maintain your integrity as a country with increasing diversity? In France, Great Britain and Netherlands, we have seen immigrants whose children do not feel that they are part of the country, and have staged protests. So the people who migrate in must feel that they have a vested interest and equal opportunities.

If fertility rates cannot be restored nor compensated for by migrants, is a shrinking, greying and declining society inevitable? What adjustments will countries have to make?

What is happening in Singapore, Japan, Europe and other places with low fertility, may be the trend for the entire world. For instance, the Republic of Korea has benefited from the demographic dividend in the past – small number of children, small number of elderly. Their economy blossomed with good policies and hard work. But now their favourable age structure, where you had 10 or 12 people in the working age for every retired person, is getting considerably older and it will soon be looking more and more like the Japanese and the European age structures.

Adjustments will have to be made. In countries with pay-as-you-go pension systems — not the fully-vested individual pensions that you have in Singapore – there are going to be heavy costs because the burden on the contributing workforce will increase as the population gets larger. I sometimes refer to this as a "red ink" society, where more and more resources are being spent as ageing occurs, so you go from black ink to red ink in order to cover the increasing costs for the elderly.

What is happening in Singapore, Japan, Europe and other places with low fertility, may be the trend for the entire world.

In this situation, there are basically three variables you can adjust. You can increase the age of retirement, increase taxes or reduce retirement benefits — or you can have a combination of these three. Increased productivity may help, but then again, the aged and elderly would want to draw added benefits from increased productivity as well, such as through better healthcare.

Baby boomers, in particular, will make a deep impact as they go through retirement. And this may have significant impact on investments, as older people draw down their savings and spend. You may move from a situation where the cohort was saving, to a period of spending.

Some of the adjustments that will have to be made are obvious, such as active ageing: encouraging the elderly to stay on working much longer, keeping them well-trained, competitive, physically active, healthy, etc., and as a result, reducing the costs of the ageing process, and the burden on healthcare. One thing that is common in the US and Canada but less so in other societies, is volunteering, where retirees say: "I have my pension and now I'm going to volunteer my time." All these things could help make retirement much more rewarding and much more fulfilling for the individual, as well as helping the society at large.

Has the nature of ageing changed over the years? How might a greying population alter the complexion of society?

Throughout most of history, people did not have "golden years". You worked your whole life and then depended on your children to take care of you when you were elderly and frail. In exchange, you took care of the grandchildren or dispensed advice. The government did not get involved. But now the level of income and the well-being of the elderly have improved tremendously because of economic structures, private investments and government policies to provide social security and healthcare. So these people now look forward to what we call the "golden years" — that is relatively recent.

When governments permitted structures to be created so that the elderly had their own income and were self-sufficient, it also helped to dismantle the extended family. In the past, retired grandparents would look after the children, freeing up working mothers and fathers to work and to have more children. Now people are saying, "I raised my children. I don't have to raise another generation. I have my own income and I want to travel, do my hobbies or volunteer." With greater mobility, people are moving further away from their families. They are also older — as people marry and have children later in life, they become grandparents at perhaps 60, not at age 50. Socio-economic circumstances in industrialised societies have brought about a situation where grandparents are no longer necessarily available to raise the grandchildren.

> When the elderly became self-sufficient, it also helped to dismantle the extended family.

There have been studies by social psychologists about what happens when the population ages. I think there is some correlation between age and the type of productivity, innovativeness and behaviour you have in a democracy. As people become older, they often change their political views and positions on those policies and programmes that directly affect them. In the United States, for example, an official who tries to change existing policies for social security and pensions has to be very careful because if the elderly do not like it, they will try to vote him out of office. So the ageing of the population will have an effect on politics and democracies — we see that in France and in America.

The elderly can feel that they have an entitlement, that the government owes them retirement income and healthcare, for example. However, in the end, someone has to pay these costs. So, you need policies and structures that encourage economic independence, self-reliance and planning for old-age, not dependency on the government. In many Asian countries, including Singapore and Japan, there is a balance between societal needs and individual rights and responsibilities. The question for policymakers is this: What areas should be left to individual decision-makers? What issues are basically outside the domain of government involvement and should be left to individuals to manage for themselves?

In brief, the ageing of humanity is likely to be among the most significant events of this century. The expected ageing of populations is unprecedented, a worldwide phenomenon affecting every household, and a major challenge for all societies.

Dr Joseph Chamie is Director of Research at the Center for Migration Studies in New York and editor of the *International Migration Review* published by the Center. Previously, he was the Director of the United Nations Population Division. Dr Chamie served the UN in the field of population and development both overseas and in New York for more than 25 years. Among other major duties, he was the deputy secretary-general for the 1994 UN International Conference for Population and Development. He has written many papers and books in such areas as fertility, population estimates and projections, international migration and population and development policy.

This article is excerpted from an interview conducted in Singapore (May 2006) by Andrew Kwok, a research associate at IPD, and Alvin Pang, the Editor of Ethos.

Andrew Kwok

Ageing and Public Policy – A Global Perspective

Is there an impending ageing crisis? Two views predominate in the global discourse.

The first warns of looming disaster — a shrinking labour force, unsustainable pension, and healthcare subsidies increasing the fiscal strain and destabilising the economy. Here, demographic upheaval foreshadows an inevitable economic decline, if not total collapse.[1] Those who disagree consider this analysis too Malthusian: it overlooks increases in productivity, and the reduced fiscal burden of households with fewer children to support. These pundits see demographic change as a gradual transition and not an imminent crisis.[2]

Neither fatalism nor nonchalance is likely to help much in informing public policy. How ageing affects a society will vary; the individual conditions of each country decide if a crisis will set in. The Japanese economy remains intact, even as one in five citizens are now aged 65 and above. In contrast, scores of nations with much younger populations are struggling.

Japan's case suggests that an ageing society can still thrive. On the other hand, what could be disconcerting for Singapore is its exceedingly rapid pace of ageing. Its over-65 population is projected to grow by 372% from 2000 to 2030 – faster than in noted ageing countries Japan (54%), Germany (63%) and China (170%).[3] In 2005, one out of every 12 Singaporeans was aged 65 or above. By 2030, they will number one in five.[4] Post-war baby boomers lead this surge, with the first cohorts hitting 65 years of age as early as 2012, and setting off an exodus from the workforce. By 2050, 38% of Singaporeans will be 60 years or older.[5]

These dramatic changes mean policies cannot continue as before. Existing fiscal systems, retirement and healthcare provisions, structured in the context of a younger population and a growing economy, may no longer be suited to meet the needs of a rapidly ageing society.

Singapore could level up quickly by adapting the successful strategies of governments who already support a significant aged population. The latitude of policy response, however, does vary with the context of each country.

AUGMENTING POPULATION

In 2005, Japan's population declined for the first time since 1945. The proportion of persons aged over 65 rose to 21%; it is estimated to rise further to 35.7% by 2050. Its Total Fertility Rate (TFR) has fallen to a record low of 1.25. Despite this, Japan remains focused on raising TFR and is reluctant to open its borders to immigrants, for fear of their impact on its homogeneous society. Foreign residents account for only about 1.2% of Japan's population as at end 2005.[6,7]

Singapore, in contrast, has augmented its population through both immigration and pro-natal policies. Today, non-residents constitute around 20% of the total population[8] and make important contributions in various industries. However, this approach has its trade-offs – competition for jobs and other opportunities will inevitably create some foreigner-local tensions. A successful immigration policy also needs to go beyond attracting foreigners to live and work in Singapore; immigrants must integrate well into the society, and foster emotional ties with the country. The 2005 French riots, fuelled by the discontent of its immigrant enclaves, attest to how easily social fragmentation can take place within a few short years.

Policies intended to raise fertility have proven to be complex and controversial. Yet Singapore is not the only country with an explicit population policy. France has a long-standing, conspicuous and active family policy. French politicians have gone so far as to appeal to nationalistic sentiments, talking of demography as a "source of vitality".[9] In Australia, parents were urged to "have one (baby) for mum, one for dad, and one for country".[10]

Nordic states, on the other hand, take a more subtle approach. Through quality childcare services and generous parental leave, their policies focus on building favourable conditions for people to have children, without pitching the objective of population growth. Germany, France and Belgium target families as the focus of benefits, while resources targeted at children are proving to be popular in Sweden.[11] Scholars have also called for the expansion of assisted reproductive technologies such as in vitro fertilisation, which accounted for some 4.2% of total live births in 2002 in Denmark.[12]

SOCIAL SECURITY AND PENSIONS

Pension systems were originally designed to alleviate the elderly poverty that became rampant after the Second World War. They have since become a financial burden and a political minefield for many governments, particularly in the West. Pension entitlement is typically pegged to price inflation, but as growth in wages outpaced inflation over the past decade, an uncomfortably large gap between workers' last drawn pay and their entitlements has emerged, leading to much discontent. Consequently, these governments have become pressured on all fronts, having to finance a rapidly increasing pool of pensioners from a shrinking tax base.

Under the fiscal strain, many pension systems are gradually moving away from the pay-as-you-go model, where contributions by workers go directly to pay benefits to pensioners, to a funded or savings plan model, where contributions are invested in assets which pay for their own retirement benefits, or are notionally recorded, to entitle them to their contributed sums plus some interest upon retirement.

Yet the pace of reform is slow. Few pension programmes in Organisation for Economic Co-operation and Development (OECD) countries have been radically overhauled in favour of private or fully-funded schemes. Measures to reduce benefits or raise the retirement age are also politically unpopular. Tweaks and half-measures suggest that the root problems will linger. As a result of this historical baggage, the problem of pension reform is likely to continue to dominate the discourse on population ageing worldwide.

Founded on a social ethic of self-reliance, Singapore's Central Provident Fund (CPF) is a compulsory savings scheme, fully funded by workers' and employers' contributions to individual accounts. It is immune to many of the pressures faced by pension systems elsewhere. However, in a bid to lower labour costs, legislated contribution rates to the fund have declined. From a peak of 50%, contribution rates have settled to their present levels of 33%. While the Government has maintained CPF as the primary instrument for retirement financing, it has also encouraged citizens to be more proactive in personal financial planning, and continued to emphasise the family as a source of support in retirement.

Individuals tend to be poor long-term planners. While 61% of working Singaporeans are seriously concerned that they might not have enough money to last them through their retirement years, only one in 10 surveyed actively save for retirement.[13] One safeguard introduced to address this is the 1987 CPF Minimum Sum Scheme. Currently set at S$94,600, this minimum sum will be raised gradually to S$120,000 (in 2003 dollars) in 2013; it cannot be withdrawn from members' accounts until retirement. This sum ensures a monthly payout of S$711, which is roughly 21% of the monthly income of an average earner,[14] for 20 years from retirement at age 62. In comparison, average earners in OECD countries can expect a post-tax pension of about 70% of their earnings after tax.[15] Nevertheless, only four in 10 Singaporeans aged 55 had the mandatory nest egg in their CPF accounts in 2005.[16]

The CPF differs from pensions in one other aspect: basic pension schemes provide all retirees with a flat rate payout, as long as they have worked for a specified number of years. As a further social safety net, targeted schemes pay a higher benefit to poorer pensioners and reduced benefits to better-off retirees. The CPF system, while self-sustaining and generally equitable across different generations, does not redistribute income in this way. Accordingly, it has limited merit in forestalling elderly poverty, since lower-income earners are less able to accumulate as much savings.

As more people move up the population pyramid, higher expectations and practical needs will fuel greater demand for instruments that complement and make up for the inadequacies of the CPF. As other nations have found, it may be the Government, rather than fragmented private sector services, that is in the best position to operate or facilitate such programmes with sufficient economies of scale.

SUPPORTING SENIORS: A NATIONAL APPROACH

Many countries have found it useful to adopt a whole-of-government approach to supporting an increasingly senior population, whose needs straddle several sectors. The "National Strategy for an Ageing Australia" is reportedly exemplary: its comprehensive mix of policies, a result of a wide participative process, addresses the multi-faceted concerns of its senior citizens.[17] Like Australia, New Zealand has a dedicated minister overseeing the welfare of seniors. That such resources are invested in the public services reflects the growing emphasis and importance accorded to this sector of the electorate.

Canada takes a slightly different approach. Its policies focus on nurturing lifelong employability of workers, instead of targeting senior citizens as a specific group. The Ministry for Human Resources and Social Development looks after all aspects of education, youth, employment and pension with the aim to "help Canadians invest in themselves to move through life's transitions – from families with children to seniors, from school to work, from one job to another, from unemployment to employment, from the workforce to retirement".[18]

Population ageing is not limited to developed nations. The most serious challenges will likely be faced by developing countries, which have yet to build a sound economic base to withstand the economic impact of a greying society. Literature shows that early intervention offers the best chance of success in influencing population trends. Singapore is in an advantaged position – it is not caught in the pension trap and its fiscal health allows it to prepare adequately for an impending demographic shift. It should therefore be able to restructure successfully to meet the challenges of an ageing population – if it acts in good time.

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Olivia Goh

Successful Ageing – A Review of Singapore's Policy Approaches

In Singapore, the issue of an ageing population has been on the national agenda since the 1980s, with several high-level committees formed to study ageing trends.

Given its multifaceted nature, Singapore has tackled the issue of ageing with an inter-agency approach, taking into account public inputs when deliberating policy.

1980s – ANTICIPATING NEEDS

In the 80s, Singapore began to recognise that its population was ageing rapidly. A "Committee on the Problems of the Aged" (1982–1984), chaired by the Minister for Health, was formed to study the implications of an ageing population and recommend solutions to its challenges.

One of its main recommendations was to improve society's attitudes towards ageing and the aged. The Committee foresaw that the rapidly ageing population would require a national policy aimed at keeping every senior physically and mentally fit to continue to lead a normal, useful and active life.

Addressing the contributions of seniors in the workforce, the Committee called for the customary retirement age to be raised from

55 to 60 (later to 65), and to raise the age for the withdrawal of retirement funds in stages. It also listed alternative employment options such as part-time work, flexi-time and work at home as a means of creating more job opportunities for seniors.[1]

Acknowledging that the best guarantee of care for seniors comes from the family, the 1982–1984 committee report also placed special emphasis on the need to foster filial piety among the young.[2]

1990 TO DATE – A COORDINATED NATIONAL RESPONSE

In the late 90s, an Inter-Ministerial Committee on the Ageing Population (IMC) established a coordinated national response to the challenges of an ageing society. It sought to realise a vision of "Successful Ageing in Singapore", with a high degree of preparedness for its challenges and opportunities:

> We want Singaporeans to age with dignity and to remain involved in society... we must maintain a strong sense of cohesion between the generations. Singapore should be the best home for all ages.[3]

Building on the 1982–1984 report, the IMC made a total of 78 recommendations in six key areas, viz. Social Integration of the Elderly, Healthcare, Financial Security, Employment and Employability, Housing and Land Use Policies, and Cohesion and Conflict in an Ageing Society.

UNDERLYING PHILOSOPHY: "MANY HELPING HANDS"

Singapore's policies towards seniors have been guided by a principle of personal responsibility in securing well-being in one's old age, with the family as the key pillar of support. Indeed, the 1982 Committee considered institutional care as a last resort and most "extreme measure".

While the emphasis on the family as primary care-giver has continued, the nature and expectations of "filial piety" have evolved in the past 10 years and can be seen in the approach established by the 1999 IMC which involves "Many Helping Hands". The community, family and seniors must work in partnership to ensure the well-being of the aged:

> Every individual has a personal responsibility to plan and prepare for his or her old age. The role of the family and the community is to provide the first and second line of support for those who need care and support; and the role of the State is to set out the policy framework, and provide the infrastructure and resources necessary for the other sectors to play their part.[4]

With the 2004–2006 Committee on Ageing Issues (CAI), a new and urgent emphasis was placed on maintaining a high quality of life for a new cohort of seniors – the baby boomers, who will reach 65 years of age by 2010. This cohort would be healthier due to rapid advances in medical science, and much more educated and economically well off than those of the 1970s and 1980s. The baby boomer generation of seniors will have highly varied needs and aspirations to be catered to, within the window of only a few years.

HOLISTIC AND AFFORDABLE HEALTHCARE AND ELDERCARE

Singapore's healthcare policy emphasises health promotion and disease prevention, promotes personal responsibility, and encourages seniors to remain healthy and active in the community for as long as possible. The Government has aggressively promoted healthy lifestyles and regular health screenings for early detection of illnesses to lessen the risk of major illnesses. It has also developed a strong network of community-based, step-down care services to support the family in its care-giving role. The implementation of an Eldercare Masterplan[5] has resulted in more service providers offering a variety of residential, centre-based and home-based care services for seniors.

Healthcare in Singapore is based on access to good, affordable and appropriate healthcare for all Singaporeans, through a combination of market forces and Government intervention and infrastructure. Complementing these measures is the national healthcare financing framework, which is based again on individual responsibility, supported by Government subsidies. The Medisave national medical savings scheme, introduced in April 1984, helps individuals to put aside part of their income in personal accounts to meet future medical needs for themselves or their immediate family. MediShield, introduced in 1990, is a co-paid, low-cost insurance scheme, which helps meet medical expenses from major or prolonged illnesses that Medisave balances would not be sufficient to cover. MediFund[6] is an endowment fund set up by the Government in April 1993 to help needy Singaporeans who are unable to pay for their medical expenses.

As part of this national framework, healthcare affordability for seniors is ensured through significant government subsidies in "Class B2" and "Class C" restructured hospital wards. ElderShield was introduced in 2002; it is an insurance scheme established to cover severe disabilities, especially at old age.

Healthcare and Eldercare policies also address the basic needs of the less privileged. In 2001, an Eldercare Fund was established to subsidise step-down healthcare services to the needy. Less well-off Singaporeans have their Medisave accounts topped up when the national budget permits. Through a public assistance scheme, destitute persons also receive a monthly allowance and free medical services during occasions of illness.

FINANCIAL SECURITY: LIFELONG FINANCIAL PLANNING

Under Singapore's Central Provident Fund (CPF) system, individuals are responsible for planning and saving for their financial security in old age. Surveys have shown that many

Singaporeans rely mainly on family support and were not prepared adequately for their financial needs in old age.

In recognition that family support may not be sustainable given the trend of smaller families and longer life expectancy, a "basic needs CPF model" was adopted after 1999 to cater to basic living expenses, medical and housing needs in old age. Individuals would have to make independent provisions for their desired retirement lifestyles beyond this basic level.

In recent years, the Government has taken steps to refocus the CPF system on its primary objectives of providing for retirement, housing and medical needs. Policy recommendations have been made to ensure more funds for retirement (e.g. increasing Special Account contribution rates when the CPF contribution rate was restored to 40%) and to enhance returns on CPF balances. A comprehensive public education programme on planning for financial security was also initiated. As a result, public awareness on the importance of preparing for retirement early has increased in the past five years.

Nevertheless, the financial security of seniors in the near future remains a challenge. One concern is that a significant number of seniors are "asset-rich, cash-poor". Under consideration are initiatives that would allow seniors to monetise their assets, such as reverse mortgage schemes, or helping seniors to downgrade to smaller flats or sublet their flats.

EMPLOYMENT AND EMPLOYABILITY

Having older persons employed for as long as possible keeps them healthier mentally and physically. It also integrates them more effectively in society, and enhances their financial security. Singapore will also need to tap on older workers to meet manpower needs as the workforce ages. To this end, the Tripartite Committee on Employability of Older Workers (2005) has recommended a four-pronged approach: *expand employment opportunities for older workers, enhance the cost competitiveness of older workers, raise their skills and value, and shape positive perceptions towards older workers.*

Mindsets are already changing. A recent study commissioned by the Hong Kong Shanghai Banking Corporation (HSBC) found that Singaporeans, unlike their counterparts in other countries, wish to continue working for as long as possible to remain financially independent. Employers in Singapore, more than anywhere in the world, actively encourage their older employees to continue working; very few companies here encourage full early retirement. More than half of Singaporean companies surveyed agreed that retirement of older workers means the loss of valuable skills and knowledge.[7] This is highly encouraging for the future.

ELDER-FRIENDLY HOUSING, TRANSPORT AND LAND USE

An elder-friendly built environment is a key determinant of the extent to which seniors have access to service and are integrated into the community. For instance, accessible infrastructure helps seniors maintain social networks and participate in social and economic activities. The key principle adopted in housing and land use policies for seniors is "ageing-in-place" – allowing seniors to grow old in the home, community and environment that they are familiar with, with minimal change or disruption to their lives and activities. Land use policies aim to provide a comprehensive range of housing options, complemented with good support care services, and a more elder-friendly public transport system over the long term, to cater to the diverse needs and higher expectations of a growing senior cohort.

In 1990, a "Code on Barrier-Free Accessibility in Buildings" was enacted to ensure that new buildings conform to a set of standards on barrier-free provisions. Housing Development Board (HDB) studio apartments equipped with elder-friendly fittings and features were also introduced in 1998 as a customised housing option for the elderly. In 2001, the Lift Upgrading Programme was introduced to allow lifts to be provided at every level of high-rise HDB blocks where feasible.

Since 2000, the Land Transport Authority (LTA) has been retrofitting existing Mass Rapid Transit (MRT) subway stations to ensure elder accessibility. In addition, low-floor, step-free and wheelchair-accessible buses have been introduced. These features will eventually be available on all public buses.

YOUNG AT HEART

An example of opportunities to help seniors stay active, this community-based learning programme sends the elderly back to school.

Started by the Marine Parade Family Service Centre in May 2005, the YAH! (Young At Heart!) Community College is a pioneering effort to offer learning opportunities for the elderly aged 50 and above.

Its first intake saw 100 elderly take up courses in gerontology, information technology and other life skills; 94% of them have had less than secondary school education and for one-fifth, this marked their first experience at schooling. The majority or 86% of the two cohorts in 2005 and 2006 are women.

The programme includes core subjects, project work, volunteer and community activities, and electives such as line dancing, yoga and creative painting. Participants graduate with a "Certificate on Life Long Learning". Student Seniors are then be recruited as Active Seniors Ambassadors in various areas of volunteer work.

– Olivia Goh

The YAH! Community College:
http://www.mpfsc.org.sg/yah/yah-index.htm

ACTIVE AGEING AND SOCIAL INTEGRATION

Public education efforts have attempted to reshape values, attitudes and perceptions towards ageing and seniors. The intent is to foster a society where older persons are valued as contributing members and remain actively engaged in their families, communities and society.

In 1999, the Ministry of Community, Youth and Sports (MCYS) introduced year-round public education programmes on active ageing, highlighting the need to plan early for old age and maintain an active, engaged senior lifestyle. These messages are complemented by other programmes from various agencies and voluntary organisations.

The importance of seniors maintaining active lifestyles continues to be emphasised, with efforts to encourage healthy living, active lifestyles, social networks, lifelong learning and strong family ties. In 2005, the Government committed $20 million to the Golden Opportunities! (GO!) Fund, which provides seed funding for programmes and activities promoting different aspects of active ageing.

One key thrust of Singapore's ageing policies has been the social integration of seniors and inter-generational cohesion. Strong families continue to be seen as the first line of support for seniors. While children have the responsibility to take care of their elderly parents, seniors can also contribute, for example as active grandparents.

Recognising the need for work-life balance in support of stronger family ties, the Government has introduced pro-family practices in the workplace.[8] Some policies also actively encourage inter-generational bonding within families. These include the CPF Family Housing Grant, priority for parents and married children buying new HDB flats to live with or near each other, tax incentives for children looking after aged parents and CPF top-ups among family members.

COHESION AND CONFLICT IN AN AGEING SOCIETY: THE IMPORTANCE OF INTER-GENERATIONAL BONDING

In an ageing society, conflict could arise between the young and the old. With the increasing number of nuclear families, grandparents have fewer opportunities to interact with their married children and grandchildren. Communication between the two generations can be impeded by language barriers, since many elderly speak only dialects while the young are more comfortable speaking English. People will have to turn increasingly to friends and community in their older years.

Inter-generational cohesion is therefore important in ensuring that both the young and old do not see each other as competitors for limited resources. The IMC had proposed a review of policies that cater to two-generation families and to extend them to three-generation families. Since 1999, more emphasis has been placed on inter-generational bonding, for example, by encouraging seniors to take on a more active role in the family as grandparents and caregivers. In July 2002, the Family Matters! Singapore Taskforce on Grandparenting and Inter-generational Bonding was set up to promote activities or events that foster interaction and bonding between people of different generations, providing opportunities for older and younger generations to interact and engage in meaningful exchanges and learn from each other.[9]

CONCLUSION

Singapore has had a head start in meeting the challenges of an ageing population. While much has been achieved over the last five years since the publication of the 1999 IMC report, more remains to be done before the baby boom generation reaches 65. To be effective, the Government must take an integrated approach and encourage greater co-ordination and collaboration between agencies. Equally important is the need for the community to respond with the same level of commitment and to take ownership of the issue of ageing. A positive and mature attitude towards seniors and ageing, at all levels of society, will be necessary for ageing policies to be truly successful.

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NOTES

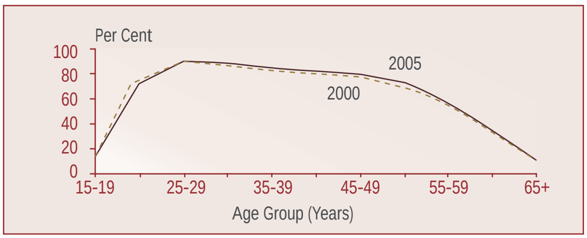
1. *Report on the Committee on the Problems of the Aged*, (Ministry of Health, February 1984), pp24-26.
2. ibid, p41.
3. Prime Minister Goh Chok Tong in a letter to Minister Mah Bow Tan, Chairman of the 1999 IMC (9 November 1999).
4. Taken from the IMC report (1999).
5. The Eldercare Masterplan (2001-2005), spearheaded by the Ministry for Community, Youth and Sports, was a result of a broad-based review of elder care programmes and services conducted between June 1999 and July 2000.
6. Ministry of Health, "MediFund was established with an initial capital of S$200 million and capital injections will be made when budget surpluses are available," http://www.moh.gov.sg/corp/financing/index.do
7. *Future of Retirement: Insights for Singapore* (London, UK: HSBC, 2006). The report was authored by the Oxford Institute of Ageing under the directorship of Dr Sarah Harper.
8. In the workplace, pro-family practices such as flexi-work arrangements, extended maternity leave and childcare leave have been introduced. The civil service is now on a five-day work week.
9. Since July 2002, the Family Matters! Singapore Taskforce on Grandparenting and Inter-generational Bonding has received more than 100 project applications from 65 organisations and disbursed more than $500,000 in funding.

Facts & Figures: Singapore's Ageing Population

POPULATION TRENDS[1]

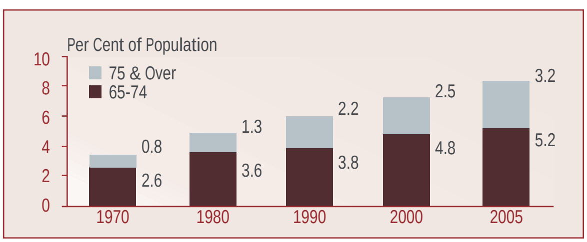
	1970	1990	2005
Median Age (yrs)	19.5	29.8	36.0
Age Dependency Ratio (per 100 population aged 15-64)			
Child (under 15 yrs)	68.1	32.3	27.3
Old Age (65 yrs and over)	5.9	8.5	11.6
Total Fertility Rate (per resident female)	3.07	1.83	1.24
Life Expectancy at Birth (yrs)			
Males	64.1	73.1	77.9
Females	67.8	77.6	81.6

LABOUR FORCE PARTICIPATION RATES[2]



In Singapore, the labour force participation rate of those aged 60 years or more was 29% for males and 8% for females in 2006. In comparison, the rate in Japan was 41% and 19%, while in South Korea, it was 49% and 28%.[3]

ELDERLY POPULATION BY AGE GROUP[4]



PROJECTIONS FOR SINGAPORE POPULATION AGED 65 YEARS OR MORE[5,6]

	2005	2030
Number	296,900	873,300
Percentage of total population	8.4%	18.7%
Potential Support Ratio*	6.3	2.3

*The ratio refers to the number of persons aged 15–64 years to each person aged 65 years or more.

Notes

1. Department of Statistics, Ministry of Trade and Industry, Singapore.
2. Department of Statistics, Ministry of Trade and Industry, Singapore.
3. United Nations, Department of Economic and Social Affairs, Population Division, "Population Ageing 2006," http://www.unpopulation.org (accessed September 14, 2006).
4. Department of Statistics, Ministry of Trade and Industry, Singapore.
5. *Committee on Ageing Issues: Report on the Ageing Population* (Singapore, Ministry of Community Development, Youth and Sports, 2006).
6. Manpower Research and Statistics Department, *Older Workers Paper No. 3/99* (Singapore: Ministry of Manpower, Singapore, 1999).

Sarah Harper

Ageing Repositioned: Singapore in the New Global Demography

Singapore will soon be one of the demographically oldest countries in East Asia, as measured by the proportion of the population aged 65 and over. The median age of Singapore residents has increased over the past quarter-century, from 24.4 years in 1980 to over 35 today. This has been fuelled by a fall in Singapore's Total Fertility Rate, which now stands at 1.24 per resident female, one of the lowest in the world.

There has been a corresponding increase in longevity, with life expectancy at birth now 77 years for men and 81 years for women.[1] Within 25 years, Singapore will be second only to Japan in demographic age, if current trends continue.

Many governments might be alarmed at such statistics. There is a general perception that such a shift would lead to a dramatic decline in the ability of government systems, social structures, and the economy to support an ageing population. The reality, however, is far more complex and susceptible to policy changes.

An ageing population alone does not account for pressure on healthcare services. As Leeson[2] has pointed out, although a number of cross-national studies have considered the determinants of healthcare costs, only one has found that the *age structure* of the population – where the proportion of population aged 65 years and over is taken as the age structure indicator – is the explanatory factor. Instead, it is the wider effects of income, lifestyle characteristics, and new technology, alongside environmental factors, which drive demand for advanced medical applications. Indeed, analysis of OECD data[3] by Seshamani and Gray[4] reveals that in developed countries at least, per capita healthcare costs for those aged 65 years and over have increased at the same rate as for those aged less than 65 years.

Several studies do suggest that the ageing of industrial populations will add greatly to the burden of public expenditure through an increase in real spending on pensions. However, as Heller[5] has pointed out, while this in part may be attributed to the slowing of real economic growth accompanied by a shrinking labour force, the main fiscal pressures originate from the existing framework of social insurance in many countries. Any economic burden is more likely to arise from labour markets, which have used retirement as a regulating mechanism in times of labour oversupply and social discrimination against older workers, than from large numbers of older people who are unable to work due to their age per se.

Indeed, the three major concerns of demographic ageing – public spending on pensions, high dependency ratios between workers and non-workers, and a slow down in consumption due to an increase in older people and a decrease in younger people – are dynamics of the current time period and not fixed. Critically, they are all concerns which can be addressed by policy.

It is thus important for policy makers to take a holistic approach by considering the changing population structure as a whole, and not just the micro picture of elderly dependency ratios and support for the growing numbers of older people. Here is not a simple increase in numbers of older people, but a shift in the population structure of the country, away from a society with many young and few old, to one with a far more balanced ratio of young to old. Indeed, fears over the dependency ratio of the old to those of working age should also take into account a fall in the dependency ratio overall from 48 per 100 in the 1980s to just under 40 by 2003, due to a rapid fall in the number of those aged under 15 years.

In developed countries, per capita healthcare costs for those over 65 have increased at the same rate as for those aged less than 65.

For example, early retirement in Singapore is becoming common. Any economic challenges posed by rapid population ageing in Singapore will thus be compounded by low labour force participation rates among those aged 55 years and over.[6] Male labour force participation rates in Singapore fall after age 55 years, and are very low compared to other nations in the region after that age. Among women, labour force attachment rates in Singapore are much lower than those of men. Similarly, female labour participation at older ages is lower than both male and female employment rates in Western nations. These trends raise questions about the kinds of policy options available both to encourage greater labour force participation, and to enhance retirement security for those who retire out of necessity, for example, through ill health.

Given the steadily increasing health profiles of this population, there are clearly policy options toward extending working lives. Compounding the policy challenge, however, is the myth that older people aged 50 years upwards are unproductive and potential burdens on society because they are less able to perform modern economic activities than those younger. Yet evidence with current generations shows that while there is some decline in mental and physical capacity between age 50 and 70, there is little decline that cannot be compensated for by changing the working environment and working practices. In addition, retaining and retraining older workers would halt the haemorrhaging of experience from corporations and industries — a concern associated with increasing early retirement. Older workers can be as energetic as younger ones given the right working environments and are, in almost all cases, more experienced.

With fewer younger people working and consuming, there is a further concern that economic growth may be slow. However, if individuals continue to be economically active, their consumption rates and patterns will change and not necessarily decrease. Currently, those over 50 years spend on leisure activities rather than on consumable goods. If they remain within the labour force throughout their 60s, later life income is more likely to be spent on household consumable goods. For example, consumer goods purchased in their 20s and 30s will need replacing. Already key marketing and consumer organisations are beginning to realise this and are capitalising on new market potentials. Traditional perceptions of older cohorts and their patterns of behaviour will need to change.

> How industrial economies address their new demographic structures will also have important consequences for the global economy.

As the recent HSBC *Future of Retirement Survey*[7] shows, Singaporeans, like their other Asian counterparts, look forward to a happy and healthy retirement, and one in which active, economically productive work plays a part. They are also realistic: two-thirds believe they should bear the financial costs of their own retirement. Unlike other populations, who favour increased lifetime savings to fund retirement, Singaporeans wish to work longer in order to finance their own old age. Their potential working environment is promising too. In the HSBC survey, over 90% of Singaporean employers surveyed said their older workers were as loyal and reliable as younger ones, and three-quarters saw them as at least as productive, saying they tried to encourage them to remain in the workplace. Over half felt that early retirement meant a loss to their workplace of valuable skills and knowledge.

The Singapore Government is clearly aware of its impending demographic shift and is ahead of many Asian governments in putting in place early policy initiatives which may address these issues. What is less well understood, however, is how large changes in national age distributions will affect wider economic issues such as national saving patterns, capital requirements and international capital flows, particularly between the developed, and the transitional and less developed economies.

Yet Singapore need not fear its future demography. The population of Singapore seems realistic about its long-term demographic futures; its employers are willing to retain and retrain older workers. It is not so much heading into a world of older people, but into a world where Singaporeans simply live longer — and wish to remain healthy, active individuals throughout their new long lives.

Dr Sarah Harper is Director of The Oxford Institute of Ageing at the University of Oxford. She is lead investigator on the Ageing Workforce Programme and the Impact of Migration on Families Programme. She has also completed a recent study on Extending Late Life Work, and a collaborative six-country study on grandparenthood across Western Europe, funded by the European Union.

NOTES

1. Singapore Department of Statistics, *Key Annual Indicators*, http://www.singstat.gov.sg/keystats/annual/indicators.html (accessed September 1, 2006).

2. Leeson, G. W., *The Demographics and Economics of UK Health and Social Care for Older Adults* (Oxford: Oxford Institute of Ageing, University of Oxford, 2004).

3. *Financing and Delivering Health Care: A Comparative Analysis of OECD Countries* (Paris: Organisation for Economic Co-operation and Development, 1987).

4. Seshamani, M and Grey, M, "The Impact of Ageing on Expenditures in the National Health Service", *Age and Ageing* 31 (2002):287-94.

5. Heller, P. S., *Who will Pay?: Coping with Aging Societies, Climate Change, and other Long-term Fiscal Challenges* (Washington, D.C.: International Monetary Fund, 2003), pp14.

6. Singapore Department of Statistics, 2006.

7. HSBC, *The Future of Retirement* (London: HSBC, 2006) is a global research commissioned by HSBC, in consultation with Oxford Institute of Ageing and Age Wave, and conducted by Harris Interactive. It involved 21,329 adults across 20 countries – UK, USA, Hong Kong, China, Japan, Brazil, India, Canada, Mexico, France, Singapore, Saudi Arabia, Malaysia, Germany, Indonesia, Egypt, Poland, Russia, Turkey and Sweden.

Norbert Walter

Ageing Population: What to Expect and What to Do

What will the global ageing trend mean for finance, investment and production? Professor Norbert Walter highlights the economic implications of ageing in the coming decades.

What are the ramifications of a demographic shift towards an ageing population? When post–World War II baby boomers enter their retirement phase, the supply of labour will fall. In Germany, as in many other European countries, the population in the working age of 15 to 64 years is likely to shrink by around 20% between 2005 and 2050. This will put Germany's growth potential under pressure. If no action is taken, Germany's trend growth rate is set to be cut in half in the longer term from its current level of 1.5%. The working age population in Singapore is likely to decline by 16% by 2050, reducing the share of 15- to 64-year-olds from 72% to 56%. All other things being equal, this would lower Singapore's growth potential by half a percentage point.

In addition, the quality of the labour supply could decline. Technical expertise is largely generated by young workers; productivity and innovation potential is likely to fall in ageing societies. Older workers are also usually less flexible and mobile than their younger counterparts. This restricted mobility of the labour force will in future slow down the formation of clusters of specialisation and structural change, since it is mainly younger workers who smooth the implementation of new product, process and management ideas. We must also expect less willingness to assume risk and a decline in the number of start-ups. In many countries, 25- to 45-year-olds are among the most active in setting up their own businesses.

How can we tackle the challenges of this demographic shift? In principle, lift the participation rate first; second, increase work life and third, raise net immigration. However, each of these measures can at best only dampen the negative demographic effects.

STRETCHING THE WORKFORCE AND WORKING HOURS

Policy makers have to focus on raising the participation rates of women and older people. In Germany, only 24.3% of 60- to 64-year-olds are still gainfully employed. The Organisation of Economic Co-operation and Development (OECD) average is 38.5%, while the figure in the US is 49%. If Germany's participation rate of the 55- to 64-year-olds matched the OECD average of 51.8%, the size of the workforce could increase by 2.25% or 800,000. The instruments to achieve a higher participation rate of the "young" seniors are manifold. Among them, the most important are to correct the inducement of early retirement, reduce the period of entitlement to unemployment benefits, and eliminate high severance payments, extensive job dismissal protection as well as seniority principles.

Europeans should start working at an earlier age and retire later. In the public sector in particular, early retirement is granted much too often and at subsidised conditions, especially in Italy, France and Germany. Singapore has extended its prescribed minimum retirement age from 60 to 62 years; efforts to recognise the contribution and significance of older workers are steps in the right direction.

In addition, the participation rate for women must be raised by implementing new child-minding arrangements and more creative working time models and speeding up organisational reforms. This is an area in which both Germany and Singapore can further improve.

> An ageing population will change the structure of the economy, principally to the benefit of the healthcare sector.

Average weekly and/or annual working times could also be increased. Fewer workers have to work more hours in order to compensate for the negative demographic effect on potential growth. This implies, among other things, a higher share of women in the workforce or greater numbers in part-time jobs switching over to full-time positions. This also requires an increase in collectively agreed weekly working times.

MIGRATION WILL HELP, BUT WILL NOT REVERSE THE SHIFT

Economies with a shrinking and ageing population obviously need selective migration and thus a sensible immigration policy. Immigration cannot reverse the unfavourable demographic shift – at least not within reasonable, socially acceptable parameters. To illustrate this: all else being equal, Germany will need net immigration of over 500,000 persons every year to stabilise the labour force at its present size.

Immigration can, however, help to slow down the process of ageing and shrinking of the population and mitigate its negative economic consequences. The younger, more flexible and better qualified the immigrants, the more favourable the outcome would be. In traditional pro-immigration countries, it is normal for immigration to be regulated accordingly. EU states could adopt some of these standards.

Migration policy should not stop at identifying suitable immigrants, but should also help them integrate well into society. It is of great importance for the host countries to promote harmonious race relations. Singapore is fortunate in this regard as it naturally understands the complexities of a multi-racial nation.

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POPULATION TRENDS: LOOKING AHEAD

The development of the population over the next decade could make us imagine that all is well. Population numbers in Western Europe are expected to increase until 2020, but will then decline dramatically. Between 2020 und 2050, they will shrink by almost 16.5 million or 3.5%, according to UN projections. According to the UN, Singapore's population is also set to shrink by 2% or by some 108,000 persons between 2035 and 2050. However, it will still be almost 900,000 more people in 2050 than today. Other countries in Asia will face the same problem but with different starting points. Asia's population as a whole will continue to increase well into 2050, thanks to the growing populations in most Asian countries, most notably India, Indonesia, Pakistan and Bangladesh.

BIRTH RATE LAGGING BEHIND REPLACEMENT RATE

The reason for the decline in Europe's population is that the birth rate is much lower than the replacement rate and even the steady rise in life expectancy cannot offset its impact. Germany is at the lower end of the European Union (EU) scale with 1.4 children per woman. For nearly 30 years, only two-thirds of the parent generation has been replaced. The

Federal Statistical Office population projections for Germany are based on a constant birth rate of 1.4 children per woman between now and 2050. Singapore's current birth rate, at 1.24, is at similar levels.

LIFE EXPECTANCY TO INCREASE

Life expectancy in Europe will rise by around three years by 2020 and seven years by 2050. In Asia, coming from a lower base, life expectancy will rise by some four years by 2020 and 10 years by 2050. Global life expectancy has risen in almost linear fashion by 2.5 years per decade during the last 160 years. In Germany, life expectancy has increased by no less than 30 years in the last 100 years. In the past, life expectancy has been systematically underestimated. Demographic experts are discussing whether there is actually a limit to life expectancy. Some argue there is none.

The confluence of a low birth rate and the rising life expectancy will cause the median age in Germany to increase considerably: by 2050 half of the population will be over the age of 47.4 years against 42.1 years in 2005. Singapore's median age is expected to increase by 14.6 years to 52.1 years in 2050. It will almost match Japan where the median age will rise by almost 9.5 years to 52.3 years. By contrast, the population of the US will be among the most youthful of the industrial nations in 2050. The median age there will rise by 5 years to 41. – Norbert Walter

MAKING UP FOR A DECREASE IN QUANTITY BY AN INCREASE IN QUALITY

The economic success of a country, and the creativity and productivity of its citizens are only partly a question of population size and age. More important are their knowledge and skills as well as their work ethic.

Europe has to reform its education system. The decisive step will be to shorten the duration of school education and to increase competition between educational institutions. Universities should be granted autonomy in matters of personnel and fees. The high spending on education in the US is the reason why a relatively large share of the population (38%) has completed higher education. Germany can by comparison only boast a share of 24%, matching the OECD average. In Singapore, around 20% of the population has completed university, a level which is still below the OECD average. However, Singapore is increasingly looking to adapt American models of education for its own system in order to increase its attractiveness in the global education market, and to raise the numbers of foreign students from 60,000 in 2003 to 150,000 in 2012.

LIFELONG LEARNING, MOBILITY AND FLEXIBILITY

Yet school education will no longer suffice as the vocational preparation for one's whole life. Students and workers have to understand that their education and training are their most important investment in life – much

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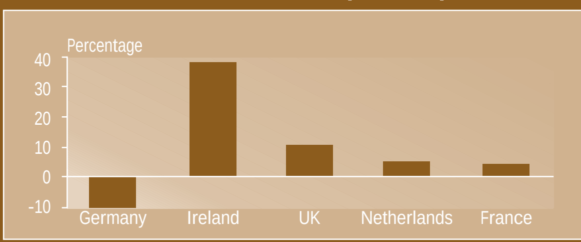
POPULATION TRENDS WORLDWIDE

Demographic developments will vary across Europe in the coming decades: while the population will decline in many countries, such as Germany, it will rise in France, Ireland, the Netherlands and the UK.

POPULATION CHANGE BY 2050 (EUROPE)



Asia's population will continue to increase well into 2050. Yet some countries will face a declining population:

SHRINKING POPULATIONS IN ASIA	
South Korea	-10% between 2025 and 2050
Singapore	-2% between 2035 and 2050
China	-4% between 2030 and 2050

bigger than a car or a flat – which will keep them employable in an ever faster changing environment. In this respect, Europe can learn a lot from Asia. Lifelong learning is no longer a choice but a must for workers of the future. However, the onus is not only on workers; management principles and systems have to change too.

Labour markets in Europe need to be made more flexible. The principal goal is to improve the incentive for firms to hire new workers, by pursuing a moderate wage policy geared towards the needs of labour market adjustments and towards the abolition of excessive protective provisions that stymie job creation. Greater tolerance for risk-taking is required, with regard to matters such as dismissal protection and starting up a company. Greater mobility is also needed, for example, a greater willingness to relocate or change jobs.

In particular, the work ethic has to be boosted, in terms of work intensity, working hours and learning time. Motivation to do a good job must be remunerated in pecuniary and non-pecuniary ways.

IMPLICATION ON ECONOMIC SECTORS

An ageing population will change the structure of the economy, principally to the benefit of the healthcare sector. Other business lines that stand to gain are asset management, pharmaceuticals, bio-technology, medical technology, support and social services. Niche products and services for an older population will be in demand.

Products and services bought primarily by young people and families, including toys, family vacations and single-family homes, will have less growth potential. Manufacturers of internationally tradable goods can partially compensate for this by increasing their exports to more populous and younger regions. Suppliers of products and services provided directly to the local customer, such as retailing and real estate, will be hardest hit by population decline.

PENSION SCHEMES: RETHINKING PRIORITIES

Pension and healthcare systems are probably the most intensively discussed consequence of population trends. For the past 30 years, old-age provision has been insufficient in Europe. For an entire generation, we have failed to set aside reserves for the future one way or the other. Instead, with the pay-as-you-go system, we have put an ever-increasing burden on present and future working generations.

The ageing of society will put pay-as-you-go systems under catastrophic pressure: contributions are falling with the decreasing number of contributors, while paid-out benefits will rise sharply as a result of the increasing number of pensioners and the extension of pension periods. Efforts to correct imbalances by raising contribution rates or broadening the tax base will likely lead to a dead end as they lead to fewer jobs and more emigration.

However, old-age pension systems based more strongly on personal or occupational schemes also face a challenge. In periods of shrinking growth, traditional occupational pensions (defined benefits), especially those based on book reserves, run into the same problems as public pay-as-you-go systems in markets with a domestic orientation. This is because the massive deterioration of old-age dependency ratios also applies to companies.

Occupational and personal pension plans which are based on funded schemes, especially ones diversified with a strong international orientation, could perform better, although it is true that in the last three years, many of these pension systems also had to cope with considerable setbacks due to tumbling stock prices. While the extent of the under-funding of company pension funds is rapidly and almost fully reflected, this does not apply to old-age provision in the public sector and the statutory pension schemes, where transparency is insufficient. Here, a rapid, full-scale correction is required.

> Privatisation, public-private partnerships and private initiatives will play a key role in absorbing the pressure on public finances and social systems.

In Singapore's context, the Central Provident Fund (CPF) is among the most advanced in Asia, yet there are still challenges to overcome. Recent findings suggest that the population's need to finance housing, for instance, has eaten into their retirement reserves. The CPF, as well as its members, may benefit from a review of its priorities.

FUNDING PENSIONS: THE NEED TO DIVERSIFY

Investment decisions in funded pension systems have to become more intelligent. All pension systems have to take account of the fact that the yields of investments in the next 30 years will be far below the levels of the last 30 years. In my view, half the yield level should be a safe bet, while two-thirds would be the best-case scenario. To count on more would be to exaggerate expectations with regard to pension payments.

In the financial market, calculations show a drop in capital yields until 2035 of about 1.25%, without considering international diversification. Some argue that when the baby boomer generation starts to retire and consume its capital in the coming 15 years ("dissaving"), there is a risk of a falling saving rate and lower yields on financial assets ("asset meltdown hypothesis"). Others disagree and argue that dissaving will happen gradually, investments will be internationally diversified, and those still working will likely increase the level of their private retirement savings. In this regard, government policies may be able to play some role in helping to sway the population to make the right choices.

State pensions in pay-as-you-go systems and returns on domestic investments depend on economic growth at home. Therefore, investing abroad is the only way to decouple retirement incomes, at least in part, from economic development in the home country. One could invest in export-oriented companies. If more capital is to flow into emerging market economies, strategies must be developed to promote risk management and financial stability. Successful financial services providers will probably act increasingly as intermediaries in the next few decades, gathering liquidity in the ageing European countries and passing it on to emerging markets which demonstrate greater political and economic stability.

The future of European government bond business depends primarily on whether the ageing countries manage to reform their social security systems and reduce their debts in time. Governments failing to cut their deficits run the risk being downgraded by rating agencies.

Europe has generally recognised that pay-as-you-go pension systems alone are not a sustainable solution for retirement income and must therefore be supplemented by funded pension systems. Currently, 80% of an average pensioner's income is state-financed in Germany, compared with 45% in the US and 65% in the UK. Retirement provision, and thus asset management, will profit most from the ageing process in Europe, as the volumes of institutionally managed assets in many Continental European countries such as Germany, Spain and Italy, are considerably smaller than that in the US and Britain.

GLOBAL SHIFTS IN SAVINGS AND INVESTMENT

Population ageing and decline will influence global economic and political power structures as well as international capital flows and exchange rates. Already, there have been endless debates on the current global imbalance and the need for Americans to save more and Asians to spend more. Generally, there is scope for Asians to spend more based on the overall increase in population size between now and 2050, but this will not necessarily apply in countries such as China, South Korea and Singapore, where the domestic population will shrink in a few decades' time. In the future, savings plans will have to take into account a higher dependency ratio in these countries.

Inter-regional and inter-temporal differences in ageing result in divergent saving and yield effects ("demographic arbitrage"). Over the next few years, saving and capital accumulation will probably focus on the European countries – where baby boomers are in their main saving phase – providing great opportunities for asset managers.

Lending will tend to shift increasingly to the US, Asia and Latin America, where large numbers of young people are expected to be seeking loans and equity capital for business and private purposes. However, the absorption capacity of younger emerging countries could be a limiting factor. Political and economic stability in the emerging markets are essential premises for the stronger inflow of capital. Given this trend, lenders and borrowers will place rising demands on risk management for credit and currency businesses.

There is considerable growth potential in countries where birth rates have fallen only in the last 10 to 20 years or where the population continues to grow. If this demographic window of opportunity is combined with favourable political and economic conditions, the growth potential is high. Countries that fall into this category include those in Asia (India, Indonesia and the Philippines), Latin America (Argentina, Brazil and Mexico), and the US.

Foreign capital investment by European countries in the younger economies of South America and Asia is expected to increase substantially, and also in the Middle East and Northern Africa depending on political and economic developments. OECD calculations suggest that G3 net foreign assets will expand strongly until about 2030, and then fall again via current account deficits of up to 3% of GDP. – Norbert Walter

DEMOGRAPHIC CHANGE AND CORPORATE BEHAVIOUR

The ability of ageing European societies and economies to adapt and adjust is crucial to master the challenges of a demographic decline. The job must not fall solely to the public sector; we must enlist the help of everyone. Privatisation, public-private partnerships and private initiatives will play a key role in absorbing the pressure on public finances and social systems.

Private-sector entities must be made aware of the challenges facing them as the labour pool shrinks. Demand for less qualified staff is likely to continue to fall in the future, making it unrealistic to hope that the problem of unemployment will be solved by demographic change. The competition for highly qualified employees ("war for talents") is likely to become more intense and inflate salaries for this group.

CONCLUSION

The impact of the demographic shift will be wide-ranging, leading to changes in the way various sectors operate as well as the way individuals live. Appropriate migration policy should help mitigate some of the negative implications in the countries with a shrinking population, but it will not reverse the overall population trend.

In preparation for a smaller pool of labour in the next few decades, more economically-inactive persons need to be enticed to enter the workforce. These include women and the elderly. However, suitable work arrangements for women must be arranged so as not to depress the birth rate further. Furthermore, stretching the working life will be necessary to reduce the burden on the active population. This must be supported by life-long learning and improvements in the health and recreation sectors. The government must raise public awareness of the implications of an ageing society in addition to thoroughly preparing key sectors such as education and healthcare in the coming decades.

Pension schemes will have to enlist the help of all stakeholders. Priorities must be reviewed in order to make sufficient provision for old age. In addition, expectations for investment returns must be realistic. The scope of investment activity will certainly have to be enlarged, which will necessitate an upgrading of risk management and capital market efficiency in emerging markets.

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Opinion

Andrew Kwok

The *Real* Challenges of an Ageing Population

The ageing of populations worldwide has had national governments scrambling to stave off looming economic decline and fiscal disarray. Common policy measures to this effect include raising the retirement age, encouraging savings, and tightening the eligibility criteria on social security. The underlying principles are sound: extend the working life of healthier, longer-lived individuals, exercise prudence, and reduce the burden on fiscal and social support systems.

Yet policy makers will need to address more fundamental issues to be truly effective in the long term. For instance, is raising the retirement age helpful if there are no new jobs to fuel demand for elderly workers? What causes over-consumption and hinders people from saving? What is the extent of the Government's responsibility for retirement financing, vis-à-vis the individual's?

Singapore faces challenges on each of these fronts. Economic and job growth can be limited by a small population size and talent pool. A longstanding policy stance encouraging home ownership, coupled with high property prices, may reinforce over-consumption. In addition, the Singapore Government, having shunned the Western social security model, needs to find ways to care for an increasing pool of low income elderly, without eroding the work ethic or undermining familial and community support structures.

THE RACE FOR GROWTH

In tackling the challenges of an ageing population, oft-mentioned factors such as social security, elderly-friendly infrastructure or healthcare provisions are clearly valid concerns. Nevertheless, developed countries have been able to sustain increasingly elderly populations primarily because rising productivity has outweighed the costs on society. Economic growth – sustained by a highly competitive and innovative economy and a well-trained workforce – is the best defence against any potential crisis arising from an ageing population. Part of the energy devoted to examining the implications of an ageing population may be better spent on strengthening the fundamentals for a strong and vibrant economy.

An ageing population with a shrinking

workforce calls for stronger economic growth to compensate for the increased costs to the economy. Ironically, to grow its GDP by an average of 3% to 5% annually, the Economic Review Committee estimates that Singapore needs to increase its labour force by 1% to 2% a year.

Furthermore, Singapore's current population size limits the extent of expansion possible. Global cities, centres for international commerce, trade and finance like New York, London and Tokyo average a population of 7 to 8 million. With a large talent pool to draw from, these cities can support diverse industries and services. Singapore cannot rely indefinitely on a few key industries to drive growth, as increasing global competition will make it harder for Singapore to maintain its market share. Furthermore, dependence on a few key sectors leaves the entire economy vulnerable to the cycles of these industries.

Singapore's current sub-replacement Total Fertility Rate (TFR) of 1.24 offers little hope of kindling population growth. If Singapore is to grow its workforce, it will have to increase the current stock of non-citizens. However, citizens must be able to accept a larger pool of migrants than they have been accustomed to.

This policy is clearly challenging. Migration is not a tap that one can turn on and off at will. More notably, it can be difficult to garner public support, as the Government may be viewed as catering to the interests of foreign talent at the expense of locals. It will be tough, but crucial, to persuade citizens of the need to grow the population in good time. The Government should capitalise on the current cycle of healthy economic performance and high employment to introduce aggressive immigration policies that will boost its population.

TACKLING OVER-CONSUMPTION

Singapore's savings rate is already one of the highest in the world. Exhorting citizens to save more will have a marginal net effect. Instead, the focus should be on addressing over-consumption, particularly on housing.

Since Singapore's independence in 1965, housing policy has played a pivotal role in national development. As incomes rose, so did home ownership, surging from 29% in 1970 to 90% in 2003. Even among the lowest 20% income households, home ownership rates were as high as 87%. They have, on average, accumulated home equity (the sum they would earn after selling their flat and paying off their outstanding home loans to the Housing and Development Board) of $138,000 per household.

Current rules allow citizens to use their Central Provident Fund (CPF) accounts, intended for retirement, to finance their mortgages. This, coupled with easy access to loans with relatively long repayment periods, makes monthly instalments more affordable and facilitates larger home purchases. Indeed, liquidity in the market was one factor that contributed to a significant inflation of property prices in the nineties. Earlier, in the 1980s, the Government also stopped building smaller sized flats because demand was leaning towards larger apartment units. With easy financing and lack of choice, some people may have been encouraged to buy larger properties and take on heftier loans.

Housing has a considerable impact on retirement adequacy because over-consumption in property adversely affects the ability to save, reduces capital available to invest in other assets, and thereby results in a smaller retirement nest egg. People have more of their wealth locked up in housing than in other assets, yet have relatively few avenues to monetise housing equity, especially when the property market is weak.

As a foremost factor affecting financial adequacy for retirement, housing policy as a whole may need to be rationalised. Housing as an investment tool should also be de-emphasised, particularly when expectations of property assets rising indefinitely are likely to be misplaced. In recent years, steps have been taken to address this issue. The Government has tightened controls on the use of CPF funds for housing purchases, as well as resumed the construction of two- and three-bedroom apartments.

DRAWING THE LINES OF RESPONSIBILITY

In Singapore, it is socially accepted that families should bear the filial responsibility of caring for their elderly. However, appearances of functioning familial support structures could be unreliable. The normative expectation of caring for aged parents should be discerned against actual behaviour, as normative culture can act as a cover, concealing more serious problems. These difficulties may not be surfaced or adequately dealt with because grown children avoid the issue, and aged parents are too embarrassed to talk about them openly. Academics point out that in reality, more and more children are no longer supporting their parents, even in countries like South Korea, where a strong normative culture of filial piety still holds sway.

As the ratio of children to parents decreases, filial piety should not be emphasised to the point of creating an unrealistic burden on children. The concept of filial piety can be used to raise awareness and garner support for a family approach towards caring for the elderly, but the provision and regulation of community and institutional care may need to be expanded, and should not be seen as an arrangement of last resort.

From the point of view of an ageing Singapore, these three key challenges – generating economic growth, avoiding over-consumption of housing and remapping the lines of responsibility for the elderly – will demand shifts in policy. How Singapore turns out as we age will likely be influenced by how these challenges are met.

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Ethos is a biannual publication of the Institute of Policy Development, Civil Service College.

It aims to provide thought leadership, insight and context on a wide range of public policy issues of interest to Singapore.

Ethos is circulated to the policy-making community in Singapore as well as to a select international readership.

It is also available online at: **www.cscollege.gov.sg/ethos**

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