European Commission – Economic Policy Committee
"The economic and budgetary impact of ageing"
Brussels, 31 March 2006

Panel debate – Can Europe afford to grow old and what could be the policy responses?

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Ageing and Pension System Reform: Implications for Financial Markets and Economic Policies

- A report prepared at the request of the deputies of the Group of Ten
- Presented to the G10 Ministers and Governors in September 2005
- Published in "Financial Market Trends", OECD, November
- On the web sites of the BIS, the IMF, the OECD, e.g.

http://www.bis.org/publ/gten09.htm

Population ageing is likely to affect:

- Economic growth
- Fiscal balances
- External balances and capital flows
- Asset prices
- Volume of private retirement saving (also through reforms) and its influence on financial markets

Pension funds importance across time and space

(pension funds assets in percent of GDP)

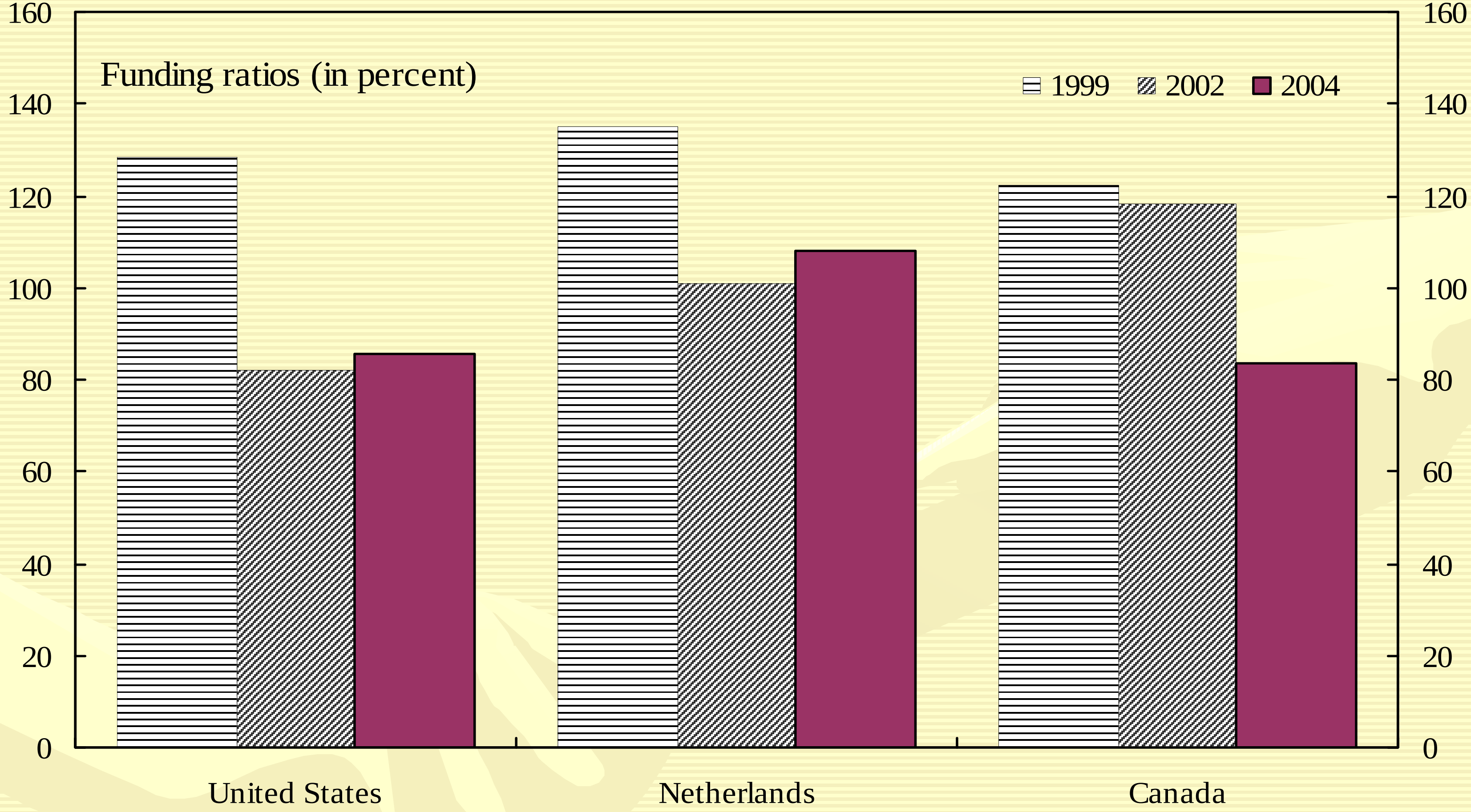
	1990	1995	1996	1997	1998	1999	2000	2001
Belgium	2	4	4	5	6	6	6	6
Canada	29	39	42	44	48	46	48	48
Germany	3	3	3	3	3	3	3	3
Italy	3	4	3	3	3	5	5	4
Japan	12	15	15	16	16	19	19	19
Netherlands	72	85	93	101	108	119	114	105
Sweden	2	2	2	3	3	3	3	4
Switzerland	56	..	80	..	98	..	105	114
United Kingdom	50	68	69	79	79	88	79	66
United States	42	57	61	67	71	74	69	63

Source: OECD (2003), Table S.2.

The retirement saving industry

- Wide-spread under-funding
- Problematic management of risks
- Industry & regulatory responses
- Underdevelopment of suitable instruments and markets

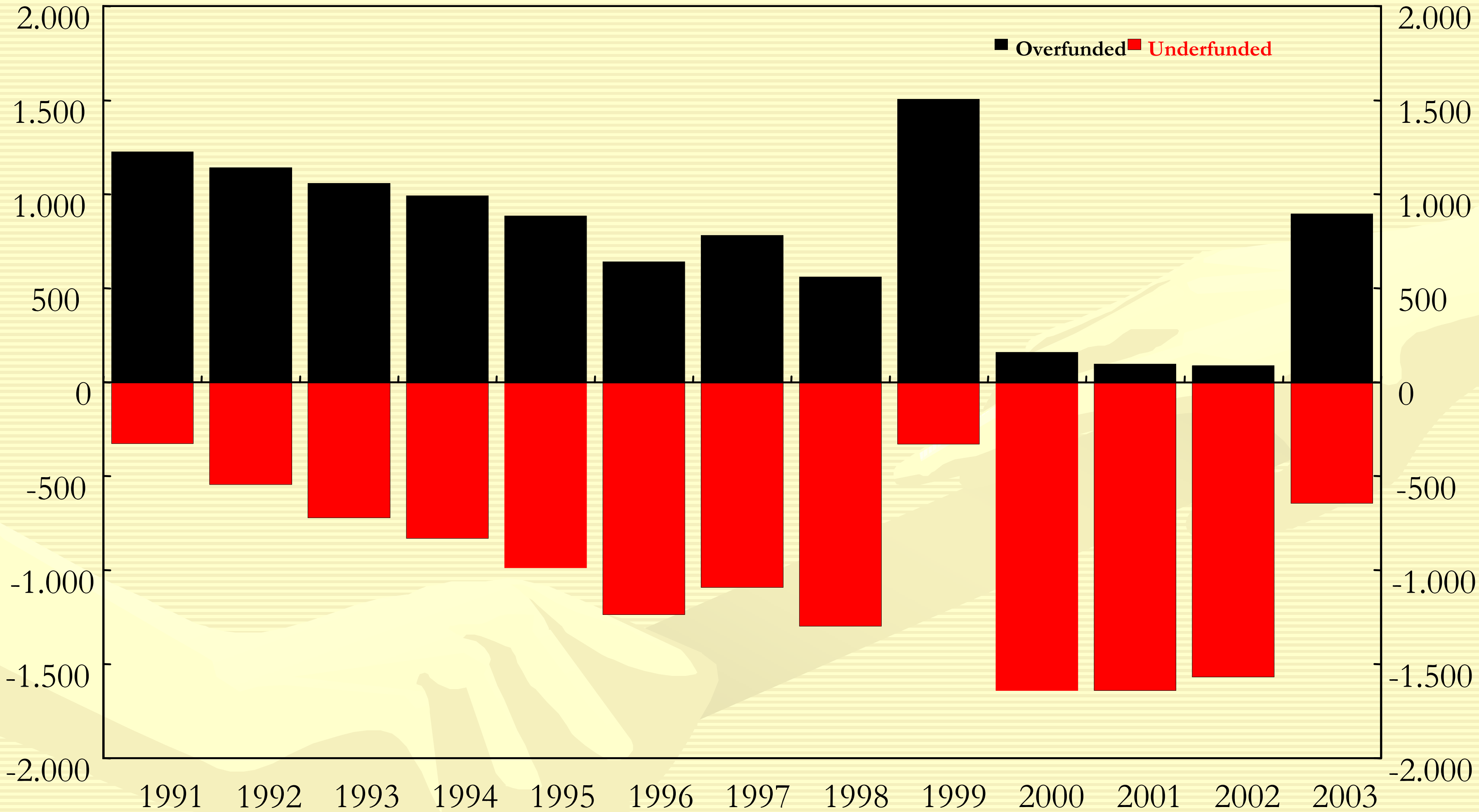
Funding ratios of DB plans are declining



Sources: Netherlands Pension and Insurance Supervisory Authority; van Ewijk and van de Ven (2003); Pacific Investment Management Company LLC (PIMCO); and Bank of Canada.

Declining funding ratios of DB plans in Japan

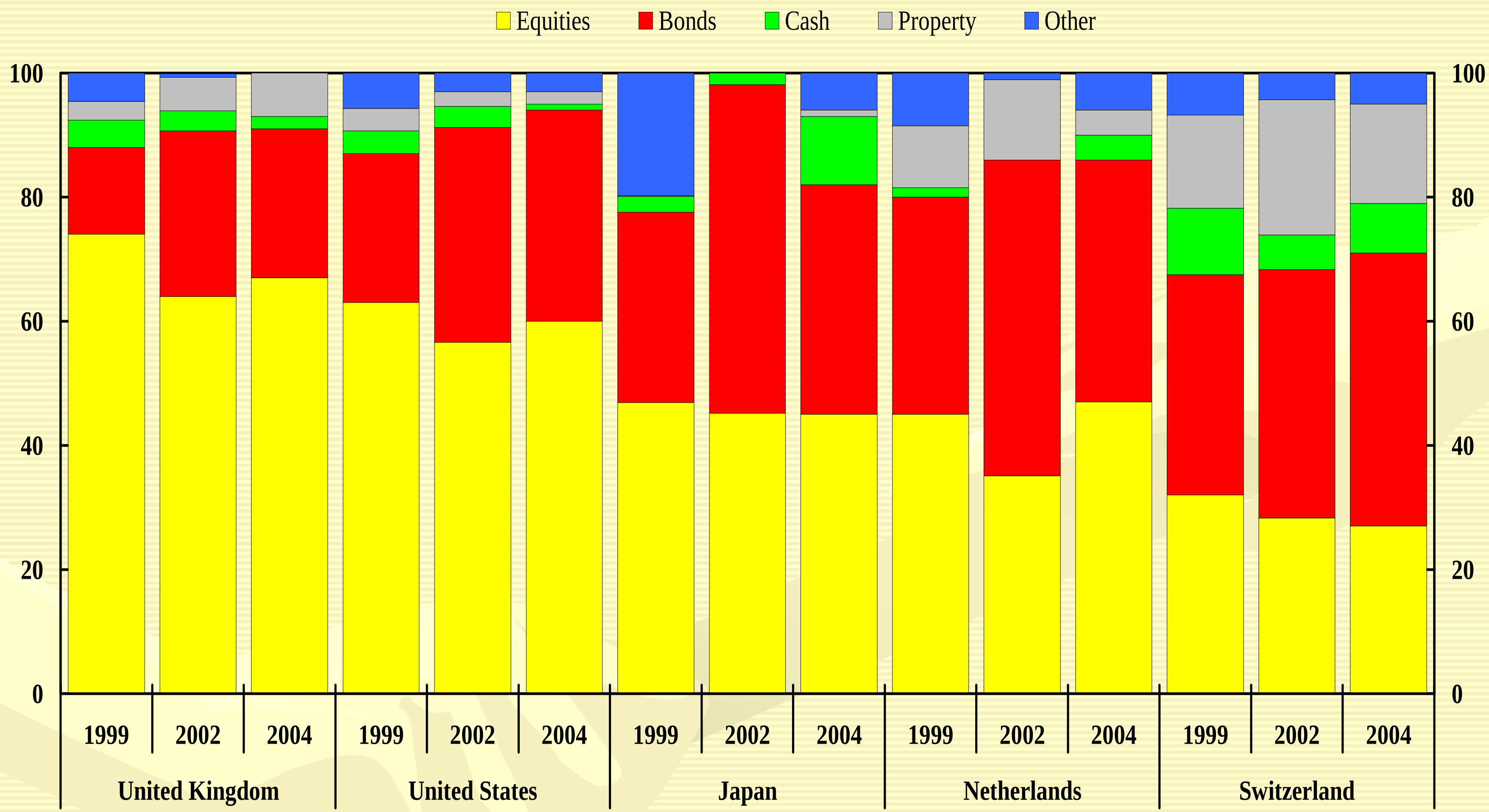
(number of funds)



Sources: Netherlands Pension and Insurance Supervisory Authority; van Ewijk and van de Ven (2003); Pacific Investment Management Company LLC (PIMCO); and Bank of Canada.

Asset allocation of pension funds, 1999, 2002 and 2004

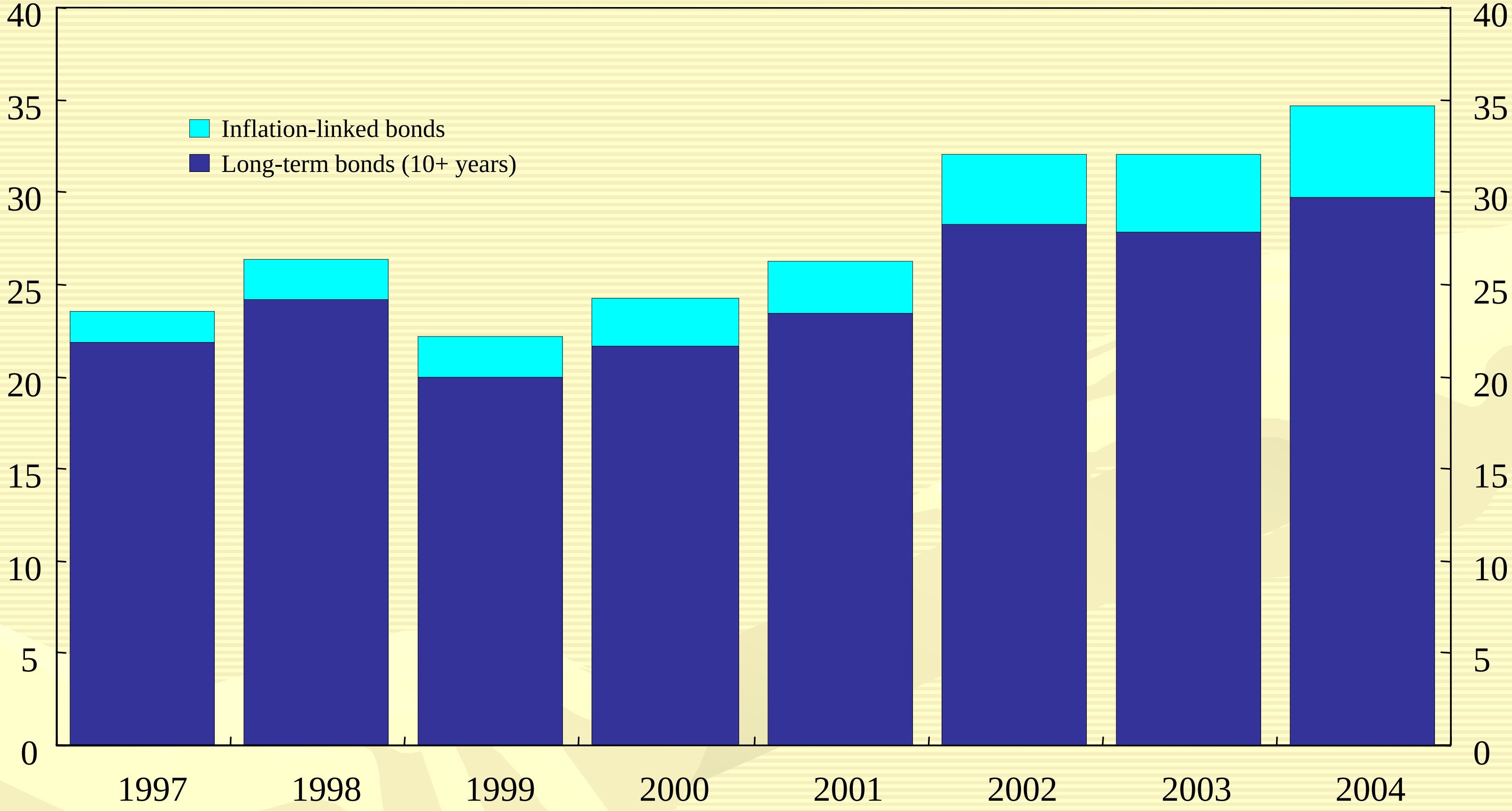
(*in percent of pension funds assets*)



Sources: Watson Wyatt; International Financial Services, London

Size of the G10 long-term and inflation-linked bonds markets

(in percent of global pension funds assets)



Sources: Watson Wyatt; International Financial Services, London; OECD (2003); Barclays; Merrill Lynch; and IMF staff estimates

Potential unmet demand for long-term and inflation-linked bonds

(selected G10 countries; in billions of U.S. dollars; amount outstanding)

		Current supply		**Potential demand**	
		Corporate and government long-term bonds	Inflation indexed government bonds	Pension fund assets (at end-December 2001)	Pension fund assets, assuming a 75 percent allocation to bonds, as a percent of long-term and inflation-indexed bonds
United States	2000	1,143	115		
	2004	1,266	223	6,136	309
United Kingdom	2000	144	99		
	2004	241	155	954	181
France	2000	74	12		
	2004	178	92	…	…
Italy	2000	81	…		
	2004	241	28	47	15
Japan	2000	250	…		
	2004	427	22	711	119

Sources: U.S. Department of Treasury, Board of Governors of the Federal Reserve System; U.K., Debt Management Office; Agence France Trésor; Italy, Ministry of Economics and Finance; Japan, Ministry of Finance; Merrill Lynch; and OECD (2003).

Policy recommendations

I. Support economic growth, also through increasing national saving and its efficient allocation

II. Develop regulatory and supervisory frameworks that encourage more rigorous risk management, greater transparency, and better governance at private pension funds, also by ensuring consistent accounting standards and tax rules

III. Facilitate the development and expansion of markets for under-supplied financial instruments that will be useful for retirement savings and the provision of pension benefits

IV. Provide adequate protection to pension beneficiaries, also through financial education programmes