Pensions Systems: Four Myths About Aging Populations Reveal New Opportunities

The world's population is aging, as birth rates drop and people live longer. The global median age is expected to increase from 29 today to 38 in 2050 . Population aging is a global trend that affects businesses, families and economies, but few pensions systems have taken action to prepare for the fast-changing future.

Four major myths about aging populations reveal opportunities for pensions systems to take proactive transformation steps to support generations to come.

Myth 1. The State will no longer support people in retirement.

Reality: The State will coordinate and/or offer more holistic support for retirees.

Many citizens fear that public pensions support will shrink for seniors. Eighty-two percent of respondents to the Accenture Global Retirement Services Survey say that they are worried about their financial situation after retirement, and 57 percent believe that their standard of living will drop when they stop working.

Trends in public service suggest the contrary may happen. Service levels will likely expand as governments begin to adopt more holistic support for seniors that connects the broader ecosystem of healthcare, pensions, housing and social services. For example, Spain adopted a bill in 2007 to assist the elderly with special needs. Since then, the government uses a coordinated approach to administer elderly and social services programs and benefits for older and dependent persons across all Spanish regions, although this approach does not include pension schemes – as yet. Moving toward integrated, coordinated services better positions the country to serve the future elderly population.

In addition to offering more holistic services, both publicly and privately delivered, governments will also need to connect with citizens earlier in life—and more often. The earlier citizens begin to plan for their financial future, the less they will be dependent on State support.

Myth 2. Work life ends. Retirement begins.

Reality: The line between work and retirement is blurring.

People are extending their "work life," some opting to volunteer to support various causes and others choosing to work part-time. Many are working later in life. The employment rate is increasing for 65 to 69 year-olds, moving from 8.8 percent in 2005 to 10.5 percent in 2011 . And rates will continue to rise. Between 2000 and 2030, the share of the workforce comprising people over age 60 will more than double, from 6.1 percent to 13 percent. Some countries have even "erased" the line between work and retirement. In 2011, the United Kingdom abolished the default retirement age (DRA) of 65. Employers can no longer use the DRA to retire employees compulsorily.

Based on a global report for HBSC, many individuals appear want to work second—or even third—careers: 64 percent of semi retirees wish they had worked full time for longer. Longer employment can also be good for the economy. Increasing time in the workforce by one year per person in the UK would boost the level of real GDP by 1 percent.

Public pension systems can support the desire for older people to remain an active part of the workforce by, for example, offering more flexible plans that allow people to take time outs at different points in their lives, such as to have children or to pursue further education.

Myth 3. Training is for the young.

Reality: Seniors will be both trainers and trainees.

The traditional model of education starting in early life and ending at employment age is a model built on a stable working environment. Times have changed. And as the rate of change increases, so does the need for more frequent education and training.

Seniors will be trainers for young workers, as older generations can impart knowledge that often cannot be learned through a textbook. Seniors will also be the trainees, as they need to learn fresh skills to meet evolving technology and work practices, and to prepare for new roles and responsibilities. Nearly half of public and private workplaces in Denmark are making special efforts to increase labor participation of workers age 60 and over. The most common tool for retaining these workers is further education and training.

Older generations show a hearty appetite for learning. The University of the Third Age in the United Kingdom—an organization that offers educational, creative and leisure opportunities for those no longer in full-time employment—has more than 300,000 members (20,000 signed up in 2009 alone).

Pensions organizations—and the labor market itself—can take advantage of this trend by viewing education as a lifelong concept.

Accenture's research into pensions encompasses those organizations that provide old age benefits and, in some cases, those that provide retirement benefits to citizens.

Myth 4. The old will be reliant on the young.

Reality: There will be dual-dependency.

In a recently published report on innovation unveiled by the French Prime Minister, citizens aged 60 and above have on average incomes that are 30 percent higher than those of the rest of the population. They own 60 percent of the wealth and 75 percent of the stock portfolio. In the United States, 75 percent of the wealth is owned by people aged 55 and above.

There will be interdependencies among these groups until wealth distribution is more uniform—and it may never be. Pensions agencies should design flexible services that meet the needs of the young and the old. Flexible pensions fund withdrawal options will assist families at different stages in life. Working parents may want to release funds to a child who is buying his or her first home, or who is entering university. In turn, the young will earn income that can support their parents in later years.

Since 2007, Malaysia's Employees Provident Fund (EPF) has divided pensions savings into two accounts that vary by their share of savings and withdrawal flexibilities. One account holds 70 percent of the members' monthly contribution and cannot be withdrawn until age 55, while the second account (30 percent) can be used at any time for down payments or loan settlements for a member's first house, finances for education and medical expenses, investments or for anything once the member reaches age 50.

From myth to momentum

Pensions systems have a ripe opportunity to move past the myths and take action to explore comprehensive active aging policies. By investing the time now, they will be more productive, save money in the future and be better equipped to support generations to come.

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