

Pensions in a New Age

Report on Global Aging Urges Changes to Pension Systems Worldwide

The Center for Strategic and International Studies (CSIS) has issued a report entitled "Meeting the Challenge of Global Aging." As part of a two-year project called the Global Aging Initiative, CSIS convened the Commission on Global Aging, comprised of 85 leaders from the world of politics, government, business, and academia. Commission members include such international leaders as Ryutaro Hashimoto, former Prime Minister of Japan, Walter Mondale, former American Vice-President and Karl Otto Pöhl, former President of Deutsche Bundesbank.

Members were surveyed during the spring of 2001 to determine their views on the fiscal, economic, financial and political challenges presented by the rapidly

growing portion of the elderly in populations of developed countries. As the report says, "The surge of baby-boomer retirements and further gains in longevity, combined with continued below-replacement fertility rates, will lead to a significant increase in old-age dependency ratios in all developed nations." And, as the commission points out, that is going to produce major challenges for developed countries around the world within the next decade.

While the commission focused on a number of wide-ranging themes, pension plans were the focus of some key recommendations. For example, the commission called on nations to undertake a gradual transition to market financing of public pension systems,

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Kai Li, assistant professor of finance at the University of British Columbia, has won the award for her paper, "What Explains the Growth of Global Equity Markets?" Li's paper examines the process of growth in global equity markets. Her paper develops a modelling strategy and presents evidence that sheds light on key questions such as "Why do some countries

have much bigger equity markets than others?" and "Why are some emerging markets valued far below developed countries with comparable macroeconomic characteristics?"

Look to the Fall 2002 issue of *Canadian Investment Review* for a full version of this award-winning paper.

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provided that such reforms retain a public guarantee of adequate retirement income beginning at a specified eligibility age.

Looking at private pension and retirement policies, the commission recommended the elimination of restrictions on cross-border investment of pension funds, citing Canada as an example. The report explains that such policies, while serving national commercial interests, are inconsistent with the practice of investing in the best interest of the client and can, ultimately, reduce rates of return. Ninety-three per cent of commission members supported this recommendation.

Commission members also recommended the elimination of requirements that pension plans own national public debt instruments. They point out that, while such policies may serve to reduce risk, they create “a moral hazard by reducing government debt service costs at the expense of the pensioner.”

Other recommendations made by the committee target policy shifts to help deal with a declining labour force, a factor they believe will create a drag on the growth of GDP and living standards in developed countries. It was recommended that governments consider lengthening the working lives of their populations to alleviate shortages in some countries.

The health of the financial markets is also an area for concern and the commission found that a rise in the old-age dependency ratio could depress saving rates and the value of equities. As the report notes, “Demand for public sector borrowing to meet pension obligations could increase at the same time that large retired populations are spending down their retirement savings and also when defined benefit pension plans are paying out more benefits than they are receiving in employer contributions.” ■