



Asia-Pacific
Economic Cooperation

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Session: Ageing Populations in APEC – Impacts on Pensions

1.7.3

Impact of Ageing on Capital Markets

Purpose: Information

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Impacts of Aging on Capital Markets

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Demographic Change: Aging

- Fertility
- Life expectancy
- Working life
- Typical projections:
 - Youth ratio
 - Old-age ratio
 - Dependency ratio

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Research Focus to Date

- Macroeconomics
 - Econometrics and analysis of real economic growth
- Microeconomics
 - Household utility maximization with retirement and fertility decisions
- Demographic analysis
- Pension-fund reform
 - Overlapping generations analysis of savings and growth
- Financial asset pricing
 - Changing demand (e.g. for fixed incomes)
 - Supply of risk capital and relative asset pricing

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Financial Market Impacts

- Changing demand for products and services
 - Management of retirement savings
 - Annuitization of retirement accumulations
 - Innovative financing (e.g. reverse mortgages)
 - Consumer financial education
- Transaction processing
 - Cross-border workers' remittances
 - Retirees savings and remittances

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Interaction of Policies

- Major determinants of demographic changes are *endogenous* responses to costs and benefits
 - Fertility (family policy, e.g. Estonia)
 - Working and retirement (tax incentives and disincentives)
 - Labor immigration
 - Longevity
- Net impact of many (often contradictory) policies are not well understood

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Policy Research Agenda

- Agenda must be debated and determined for APEC policy discussions on implications of aging and other demographic changes
- Research required should be structured with cooperation of ABAC and PECC as well as other interested organizations (national and international)

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International Policy Implications

- Integration of capital and labor markets can soften impact of demographic changes
- Cross-border diversification of savings is efficient
- Immigration and remittances, property rights, residency for work or retirement
- Development of bond markets, cross-border trading in securities needed for pensions, annuities
- Development of risk-management tools and services (e.g. longevity risk contracts)