The high economic growth of Asian countries has been attributed to the so-called “demographic bonus” with the increased ratio of working-age population to dependent population since 1960s. However, some Asian countries have started to experience a “demographic onus” due to demographic changes since around 2010. Population ageing and declining birth rates are expected to continue in the long term. The United Nations estimates that the total fertility rate will fall below two and the ratio of population aged 60 years and older to the total population will exceed 20% by 2040 in the region. Generally, population ageing and a decline in birth rate are likely to lower the economic growth rate through a decrease in the working-age population and an increase in social security expenditures. Against this background, Asian countries are looking at improving their pension systems, one of the most important pillars of social security systems.

Pension systems are largely still in the development stage in the ASEAN region, but various reforms have been implemented in recent years. Public pensions are managed on a pay-as-you-go basis in some ASEAN countries. The balance between active workers and pensioners is expected to change due to further population ageing and declines in fertility rates. Experts predict that pension systems are not likely to be sustainable in the long term if the present trends continue. Various measures are under consideration, including raising contribution rates, pension ages, and retirement ages as well as reemploying older workers.

There is also growing concern that people may not have enough money for their retirement if they only rely on public pensions. This concern highlights the urgent need to raise people's awareness of savings and promote their asset formation. Under such circumstances, private pensions have become more important, and defined contribution (DC) retirement schemes for individuals have been introduced to supplement public pensions. While tax incentives are provided under such private pension schemes to promote participation, there is still a long way to go before they become widely used. Moreover, increasing pension coverage, especially the inclusion of informal sector workers, is a significant challenge to be tackled as a mid- and long-term goal.

Pensions also play an important role in developing capital markets in the ASEAN region. First, as major institutional investors, pension funds provide long-term investments to capital markets, especially equity and bond markets. Second, pension funds can contribute to the growth of asset management industries by promoting capacity building for asset managers through investment outsourcing. Third, DC pension programs that offer a broad range of investment opportunities promote financial literacy among participants.

This issue of Nomura Journal of Asian Capital Markets features articles on progress in, major challenges for, and the future outlook of pension systems in five ASEAN countries, with insights into the role of pensions in developing the region’s capital markets.