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News release

Emerging markets face a USD 5.4 trillion-per-year shortfall in savings for sustainable retirements, says Swiss Re Institute

- **Emerging markets face a USD 5.4 trillion pension savings shortfall for every year of their workers' retirements, or USD 106 trillion in cumulative terms.[1]**
- **This gap between emerging markets' pension assets and pension income need is about USD 40,000 for every worker – about 8.5 times the average annual worker's income.**
- **Emerging Asia has a pension savings gap of USD 3.8 trillion per year, or USD 50 000 per worker on average. Malaysia has the region's highest per-worker gap due to low retirement age.**

Zurich, 29 June 2021 – Workers in emerging markets are retiring without sufficient assets to cover their pension needs, creating a total pension shortfall of about USD 106 trillion, Swiss Re Institute estimates. This pension savings gap is roughly three times emerging markets' GDP, as high as estimates for major advanced markets such as the US and Australia.[2] The costs of under-funded pensions may return to governments through higher risk of poverty, ill-health and strain on younger generations, but facilitating sustainable retirements can unlock numerous opportunities to strengthen resilience in families and societies. There is an imminent need for action.

Individuals in emerging markets will increasingly need to make their own funding arrangements for retirement. Pension reforms are shifting onto individuals both the responsibility for saving for a pension and the management of lifetime risks such as mortality, morbidity, longevity and investment performance. These risks inhibit a person's ability to provide for their retirement, since a period out of work due to sickness, family care or even death will impact a household's savings. This challenge is acute in emerging markets, where personal resources tend to be lower and social safety nets weaker. Individuals will need more tailored insurance protection, in the form of life, medical, disability and critical illness covers, to manage these risks. Swiss Re Institute estimates that to protect the global population

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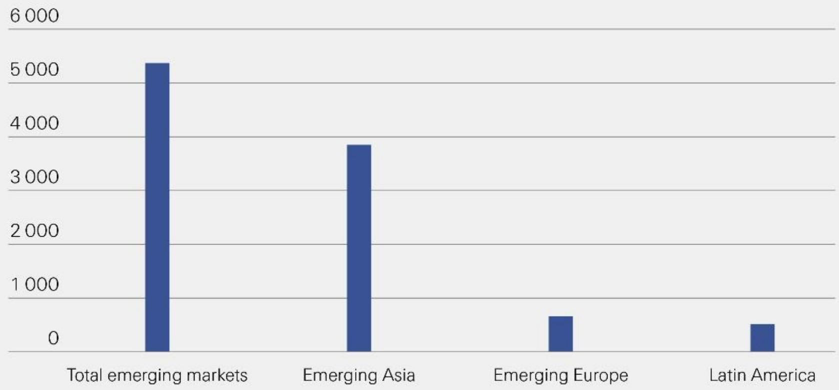
[1] As of 2019 value, based on the average worker. The calculation factors in the economic impact of the pandemic through use of forecasts.
[2] The pension savings gap is the unfunded gap between pension funds available and the retirement need of emerging markets' working populations. It is calculated as all pension contributions (mandatory and voluntary) and expected returns on pension funds and accumulated savings during working years, subtracted from the sum of money required to fund 65% of pre-retirement income during retirement years.

fully against mortality and health risks would require an extra USD 1.2 trillion in premium equivalent terms, 60% of which would be in emerging markets.[3]

"The risks being passed to individuals have the power to significantly disrupt their ability to save for a pension and, in turn, gain a steady income in retirement", Russell Higginbotham, President and CEO Asia, Swiss Re says. "Putting in place the right assurance and protection support can enable a person to safely accumulate pension assets and generate steady pension income, helping to secure sustainable retirements in emerging markets."

Integrating protection insurance into mandatory pension systems is one proven solution. In Australia, mandatory life protection embedded in the employment-based pension scheme has achieved strong protection against mortality risk. Other insurance solutions could include bundling biometric covers such as mortality, morbidity and long-term care with a savings component, to provide flexible, responsive life-long coverage. Insurers can work with trusted retirement savings platforms to make distribution easier.

Figure 1
Pension savings gap per post-retirement year, USD billion



Source: Swiss Re Institute

The emerging markets pensions savings shortfall has many causes. Population ageing is putting increasing pressure on national pension systems as a shrinking labour force supports a growing older population. Public pension spending is rising sharply as a percentage of GDP, challenging government finances, while declining interest rates are adding to the long-term challenge of pension funding. The COVID-19 crisis has exacerbated these trends in the short term.

Emerging Asia: a USD 3.8 trillion-per-year pension savings gap
Emerging Asia has an estimated pension savings gap of USD 3.8 trillion per post-retirement year. This totals USD 74 trillion over workers' full retirement years, equivalent to USD 50 000 per worker, or 11 times the average worker's annual income. Malaysia has the highest pension savings gap per

[3] *sigma* Resilience Index 2021: a strong growth recovery, but less resilient world economy, *Swiss Re Institute*, June 2021.

worker in the region, at about USD 87 000 per worker, as it has a relatively low retirement age and longer post-retirement years, which increase the pension need. Thailand has the next-highest pension savings gap per worker, at about USD 79 000, primarily from higher life expectancy and so longer retirement periods for its workers than other markets.

Swiss Re Institute also measures the adequacy of pensions (pension savings gap as a percentage of the funds needed for adequate retirement income) in emerging markets. In emerging Asia, 58% of the pension funding need is yet to be covered by current assets and savings, a slightly larger gap than the emerging market average, indicating that pension system adequacy is low. Indonesia, Thailand and Vietnam are among those with lowest protection.

Pension coverage, the proportion of the working population covered by pension provision, is low in emerging Asia, partly reflecting large informal sectors in these economies. In India and Indonesia, more than 80% of total employment including agriculture is informal, and pension coverage is only 8%. More formalisation of work would help to increase pension coverage.

Stronger partnership is needed to ensure pensions sustainability

Emerging market governments should support a sustainable pension system, with strong foundations in a sound regulatory framework, commitment to education, incentives to participate, such as tax exemptions, and solid partnership between all parties. Partnership can also provide routes for insurers to invest in long-term, public-private projects that are a good match for their liabilities, such as infrastructure finance.

"The shortfall in saving for adequate and sustainable retirements cannot be bridged solely by government resources. Strong partnership between the state, the private sector and individuals will be key," Jerome Jean Haegeli, Group Chief Economist, Swiss Re, says. "Protecting people throughout their saving lifecycle has the potential to reduce poverty, ill-health and even social unrest, and should form a core building block of emerging markets' long-term economic growth."

Table 1
Additional remarks for each market

Country	Highlights
Emerging Asia	
China	▪ Higher income, older labour force and early retirement age result in greater pension need ▪ Highest pension coverage of the labour force in emerging Asia ▪ Greater demographic pressure due to one-child policy (1979–2015), though partly offset by higher deposit ratio due to cultural reasons
India	▪ Lower pension savings gap than China due to younger labour force, longer contributing years and higher interest rates ▪ The gap is likely underestimated due to high labour force informality
Indonesia	▪ Lowest pension savings gap per worker: higher retirement age with lewer post-retirement years to cover, and relatively high interest rate ▪ The lowest adequacy ratio. Low contribution rate leads to lower pension savings available to pension need, offsetting the gains from a young labour force and late retirement age ▪ Highest interest rates in emerging Asia ▪ The gap is likely underestimated due to high labour force informality
Thailand	▪ The third-lowest pension adequacy ratio. Lower current assets and savings to pension need, as older labour force and higher life expectancy result in longer post-retirement years and so a higher pension requirement ▪ Lower interest rates compared to other emerging markets in Asia
Philippines	▪ Relatively low contribution rate partially offsets the gains from young labour force and low post retirement years ▪ Younger labour force and late retirement age
Malaysia	▪ Highest gap per worker among emerging Asian countries. Longer post-retirement period due to early retirement age (55) results in greater pension need ▪ Lower interest rates compared to other emerging Asian markets
Vietnam	▪ Earliest retirement age for women (50) of all emerging markets ▪ The gap is likely underestimated due to high labour force informality
Latin America	
Brazil	▪ Second highest gap per worker in Latin America ▪ The third-highest adequacy ratio: relatively high pension savings available to pension funding need due to high contribution rate ▪ Relatively younger labour force and late retirement age
Mexico	▪ Low contribution rate (7%) results in low pension savings available as proportion of pension need, despite young labour force and late retirement age ▪ Higher interest rates
Colombia	▪ Early retirement age results in longer post-retirement years, despite young labour force ▪ The gap is likely underestimated due to high labour force informality
Chile	▪ Highest gap per worker among Latin American countries. The second-lowest adequacy of all emerging markets: high wage income and low contribution rate (10%) result in low pension savings available to pension need ▪ Moderate interest rates
Peru	▪ Second-lowest gap per worker in Latin America as low wage income results in lower pension need ▪ The gap is likely underestimated due to high labour force informality
Emerging Europe	
Russia	▪ Oldest labour force of all emerging markets (along with Czech Republic) and early retirement age results in longer post-retirement years
Turkey	▪ The second-highest adequacy ratio: relatively higher pension savings available to pension funding need, as a result of higher expected returns on savings (due to high interest rates – the highest of all emerging markets) ▪ Relatively young working population, but early retirement age
Poland	▪ Highest pension savings gap per worker. High wage income and relatively low contribution rates compared to other countries in emerging Europe result in greater pension need ▪ Older labour force
Czech Republic	▪ The highest pension adequacy of all emerging markets, and second-highest contribution rate ▪ Oldest labour force of all emerging markets (with Russia)
Hungary	▪ Due to high wage income, pension savings are not sufficient to cover the pension need, resulting in high pension gap per worker ▪ Highest contribution rate among emerging markets ▪ Late retirement age offsets relatively old labour force

Note: Markets are ranked according to their 2019 GDP value within each region.
Source: Swiss Re Institute

Notes to editors

The Swiss Re Group is one of the world's leading providers of reinsurance, insurance and other forms of insurance-based risk transfer, working to make the world more resilient. It anticipates and manages risk – from natural catastrophes to climate change, from ageing populations to cybercrime. The aim of the Swiss Re Group is to enable society to thrive and progress, creating new opportunities and solutions for its clients. Headquartered in Zurich, Switzerland, where it was founded in 1863, the Swiss Re Group operates through a network of around 80 offices globally. It is organised into three Business Units, each with a distinct strategy and set of objectives contributing to the Group's overall mission.

How to order this sigma study

sigma 2/2021, "Emerging markets: the drive for sustainable retirements in an ageing world", is available in electronic format to download here:
https://www.swissre.com/institute/research/sigma-research/sigma-2021-02.html