

Demographics in focus II

Ageing

The UN Population Division* predicts a growing world population, yet, the growth rate on a global scale has decreased remarkably. In the 1950s, the world population was increasing at 1.8% per year; today the figure is 1.18% and tends to decrease even more in the future. It was not long ago that the ostensibly most pressing demographic problem on earth was overpopulation; today the ageing of societies plays a more significant role on governments' agendas.

Driving forces: fertility and mortality trends

The decreasing growth rate is the consequence of a drop in fertility across the globe. In the 1950s, women on average gave birth to 5 children. This figure has now dropped to roughly 2-3 children and the UN expects a further decline to 2.02 children by 2050**. At that level, world population will eventually start to decrease.

Over the last 50 years, Asia's overall fertility rate has steeply dropped. On average, every woman in Asia now gives birth to 2.4 children, that is 60% less than in 1950. Only Latin America has to face such a steep decline. Europe has experienced a decline of 43% since 1950.

Yet, fertility rates are not the only reason for demographic change. Improved medical care and technical inventions have reduced mortality rates for the very young as well as the very old. Global average life expectancy has risen from 46 years in 1950 to 68 years today. Asia in particular experienced a major increase in life expectancy: In 1950, Chinese citizens could expect to live for 41 years whereas today, many reach an age of 68. No other country has experienced such radical change.

People in Europe tend to live 9 years longer, in Africa life expectancy has increased by 15 years and in the US by 10. Latin America has experienced an increase of 22 years.

This increase in life expectancy on the one hand and the decline in fertility on the other hand are affecting the age structure in all societies significantly. The so-called 'double ageing' process is characterized by the increase in the median age. In 1950, the world population had a median age of 24 years; until today, it rose by 5 years on average and it will increase by another 10 years to reach roughly 38.5 years in 2050. The stronger upcoming growth is due the increase in life expectancy of the elderly. While in the preceding decades the declining child mortality was the dominant factor for the increase in life expectancy particularly in developing countries, the increase in life expectancy for the older people will be the driving force in the future in these countries as it is already today in the industrialized world.

The rise in life expectancy of the older population also leads to an ageing of that population segment itself. According to UN projections, the fastest growing age

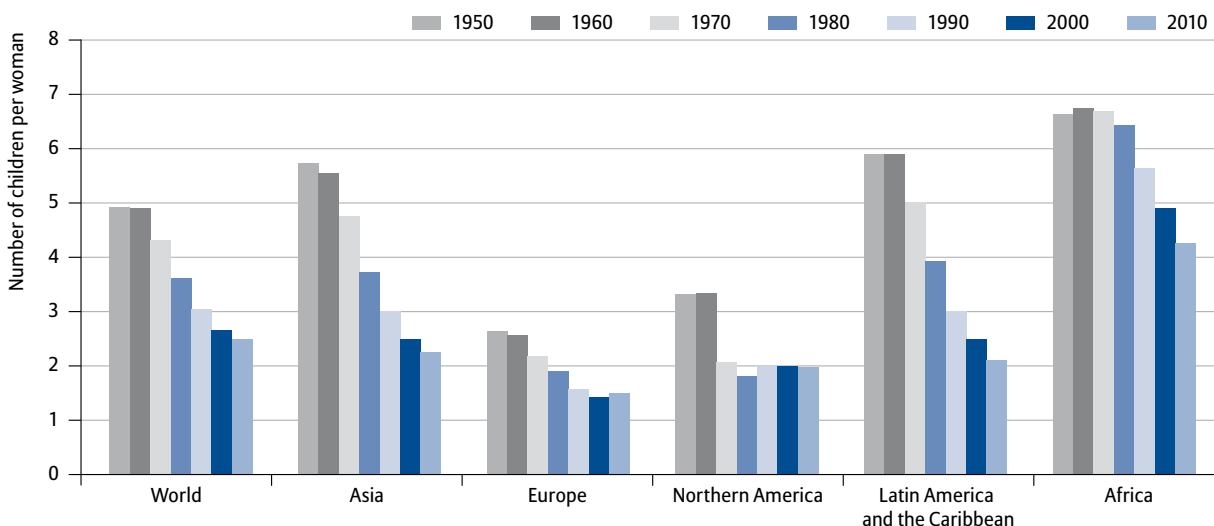
group in the world is the one aged 80 years or older. In 40 years time, one fifth of the world's senior citizens will be 80 years and older.

The ageing process***

The old-age dependency ratio clearly indicates a country's ageing society. It compares the number of people aged 65 or older to the number of people aged 15 to 64. As of now, this ratio is already high in 'old' Europe which has seen a steadily decreasing birth rate on the one and an increasing life expectancy on the other

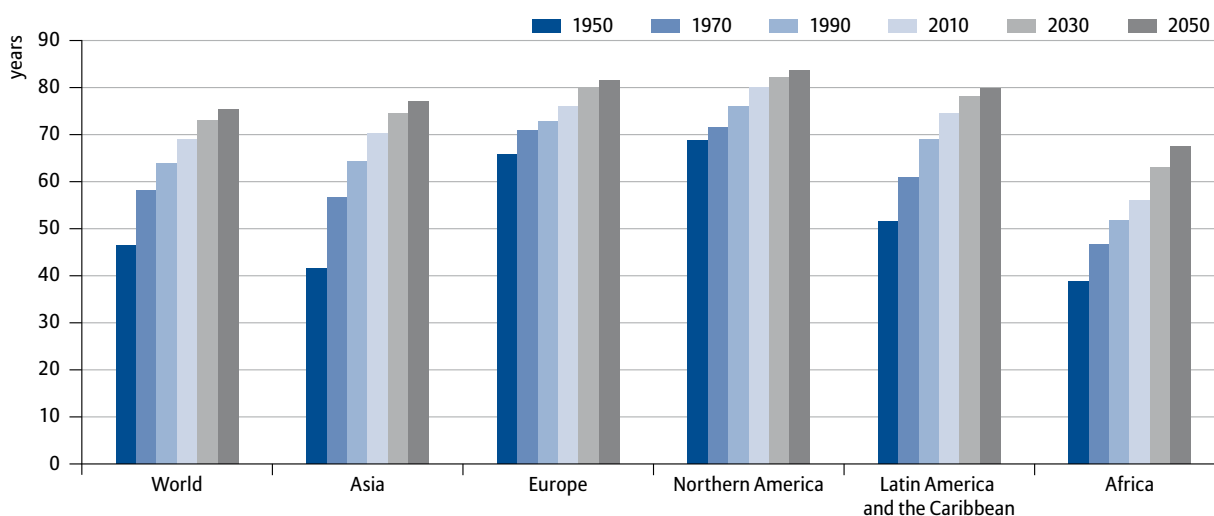
hand. In Western Europe, the old-age dependency ratio is 28%, in the world's 'young regions' such as Asia and Latin America, this ratio is around 10% and it is even lower in Africa. Although these regions might still be considered young, they are expected to experience rapid change, particularly in Asia and Latin America. During the next 40 years, the old-age dependency ratio will almost triple in Asia and Latin America, it is expected to more than double in Eastern Europe and to increase by some 80% in Northern America and Western Europe.

Fertility rate is decreasing dramatically



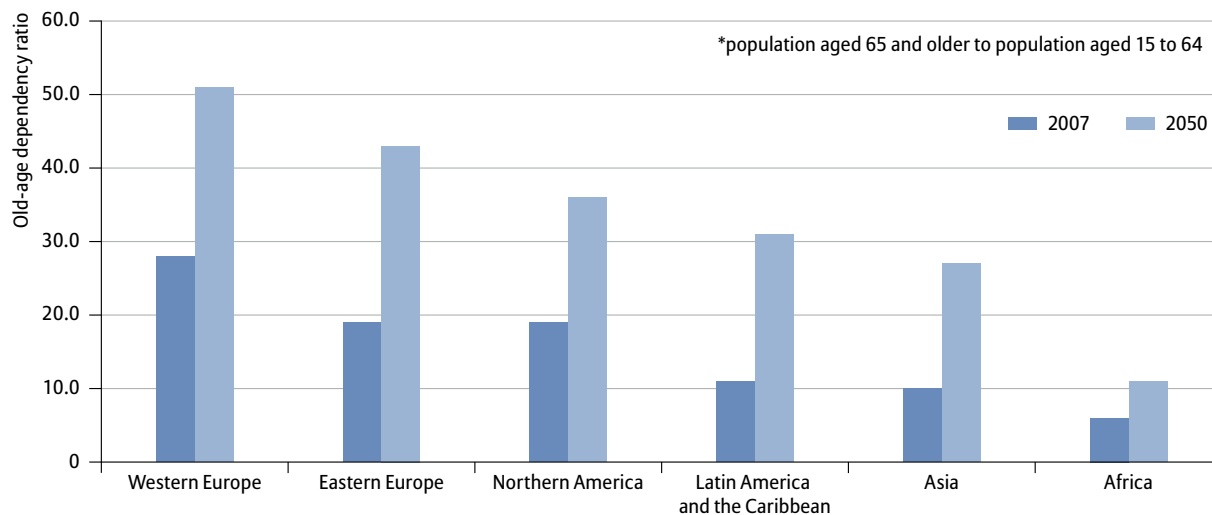
Sources: UN Population Division, 2009

Increasing life expectancy – Life expectancy at birth across world regions



Sources: UN Population Division

Aging is global! – Old-age dependency ratio* across world regions



Sources: UN Population Division

In taking a closer look at the various regions, it becomes clear that ageing dynamics differ considerably from country to country. With a 34% old-age dependency rate, Japan for example is already considered to be an 'old' country and its old-age dependency rate is expected to more than double by 2050. However, this change is rather insignificant compared to 'young' Asian countries like Taiwan, Korea and Singapore. In these nations the old-age dependency ratio is expected to increase by four or even five times, in Hong Kong it might be increasing from 17% to 58%. Eastern European countries find themselves in similarly dire straights. Like Japan, most western European countries already have a large percentage of senior citizens and their ratio will increase substantially when baby boomers finally reach retirement age.

Even so, the consequences of these developments are not as bleak as they are in Asian countries. Developing countries are under even more pressure: Demographic

change is coming fast to these countries which leaves governments with very little time to adjust to the consequences of an ageing population. Old age provisioning systems need to be set up quickly. Moreover, developing countries have to tackle the fast growing ageing process with its problems at much lower levels of economic development than industrialized countries.

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* See Allianz Global Investors International Pension Issues 5/09.

** Population Division of the Department of Economic and Social Affairs of the UN Secretariat, 2009: World Population Prospects: The 2008 Revision, Medium Variant

*** For more details see also Allianz Global Investors „The Pension Sustainability Index 2009“, International Pension Paper No.5, 2009

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