FC/IE Challenges and Opportunities of Japan’s Aging Demographics

Koichi Ishikura
Director & Chief Officer for International Affairs & Research
Japan Securities Dealers Association
June 13, 2016

* This presentation represents the views of the presenter, and not necessarily those of JSDA.
People live longer than ever

**Olden days**
- 60 years old ⇒ 還暦 (Kan-reki):
  Completion of a cycle of 60 Oriental Zodiac symbols
  ⇒ “You’ve lived long enough!”
- 70 years old ⇒ 古稀 (Ko-ki):
  Rarity of living until 70 years old
  ⇒ “It’s very rare to live so long!”

**Nowadays**
Average life expectancy (years)
- World: 71.4 (male: 69.1/ female: 73.8)
- Japan: 83.7 (male: 80.5/ female: 86.8)
I. Prospects for population aging

People aged 65 and over already account for 25% of Japan’s total population. The aging process is expected to enter a phase that no other country has yet experienced.
### Old-age dependency ratio

<table>
<thead>
<tr>
<th>Country or Region</th>
<th>1990</th>
<th>2020</th>
<th>2050</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>19</td>
<td>52</td>
<td>77</td>
</tr>
<tr>
<td>Asia</td>
<td>9</td>
<td>15</td>
<td>32</td>
</tr>
<tr>
<td>United States</td>
<td>21</td>
<td>29</td>
<td>41</td>
</tr>
<tr>
<td>Europe</td>
<td>21</td>
<td>32</td>
<td>53</td>
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The old-age dependency ratio is the ratio of the population aged 65 years or over to the population aged 20-64.

II. Challenges of rapid population aging

- Crunch in pension financing
  - longevity risk
  - critical need for asset accumulation by individuals for old age

- Increased need for tactical asset management after retirement
  - asset maintenance geared to “decumulation”
  - preparedness for asset transfer to/ inheritance by next generation

- Issues of vulnerable seniors
  - protection of cognitive-impaired seniors in financial transactions
  - financial fraud targeting seniors
III. Implications for FC/IE (1)

1. FC/IE across generations is now more important to promote financial literacy and support long-term asset accumulation

- Under the basic strategies:
  - “Minimum level of financial literacy to be attained”
  - “Financial literacy map”

1) For elementary, junior high, high and university students:

- school curriculums to provide age-appropriate learning of economics and finance

2) For adults, working-age people:

- guidance on long-term asset management based on each individual’s life plan
- dissemination of knowledge about useful tools, e.g. NISA, DC
III. Implications for FC/IE (2)

2. Measures for seniors should also be considered and prepared

1) FC/IE for post-retirement asset management
   In general, more emphasis on safety and liquidity, but depends on each individual’s situation and preference (e.g. trade-off between longevity risk and liquidity risk, possibility of re-employment, health condition and estimated medical care costs, possibility of support from family members, need to preserve legacy, risk-taking attitude toward asset price fluctuations, tolerance of future uncertainty, etc.)

2) Tools supporting asset transfer and inheritance (e.g. Junior NISA, advice & tips on inheritance)

3) JSDA rules to protect elderly customers in securities transactions

4) Prevention of fraud: investor warnings, campaigns on streets and through the media
IV. Lessons learned

- FC/IE across generations: ensure properly designed content and message formats tailored to each generation’s needs and interests

- FC/IE for seniors after retirement: provide appropriate advice according to the status of each individual in the “decumulation” stage, which varies considerably from person to person

- Encourage policy makers to establish simple and user-friendly schemes to support asset accumulation and transfer

- Roles of regulation: protect vulnerable customers against risks involved in unsuitable financial transactions and products by securing their reasonable decision-making

- Watching-over by family members and communities is important to protect vulnerable seniors against fraud
Ki-ju: Age of Joy --

Another name for 77 years of age

FC/IE should be an effective tool for realizing a society where people really enjoy their longevity.