

**OPENING REMARKS BY DR KHOR HOE EE, PRESIDENT OF ESS
PACIFIC PENSION INSTITUTE
ASIAN PENSION FUND ROUNDTABLE 2007
01 Nov 2007, Four Seasons Singapore**

Greetings

Mr Christopher Ailman, Chairman of the Board of Directors, Pacific Pension Institute

Ms Marsha Vande Berg, Chief Executive Officer,
Distinguished Guests and Friends,
Ladies and Gentlemen,

1 Good morning. I met some of you over breakfast just now, and am taken by your enthusiasm for the Roundtable. I would like to congratulate Marsha and her team at PPI for successfully organizing this event so far away from home. They have put together a very rich and interesting program over the next day and a half, and an impressive list of speakers and participants. For those of you visiting Singapore for the first time, a very warm welcome.

Overview of Roundtable

2 As I understand it, this year's Roundtable has a few key objectives. One is to examine the role that pension funds and other investment corporations can play in Asia's economic reform and the development of its capital markets. Another is to explore how pension funds themselves can continue to develop over time, become stronger and better-equipped to discharge important fiduciary- and social responsibilities. A third objective is to analyze and understand trends and challenges in the region – the political economy of regional integration, issues related to the development of Asia's bond and equity markets, and possible responses to challenges arising from

rapidly changing demographic patterns.

3 These are laudable objectives. They are particularly relevant for Asia which has several countries with some of the fastest ageing populations in the world. However, pension systems in many Asian countries are fairly basic and still evolving. Policymakers need to understand and come to grips with the challenges arising from structural changes in the region's demography, especially the implications for pension systems and financial markets developments.

4 Some of you may wonder why the Economic Society of Singapore (ESS for short) is the local partner of PPI for this Asian Roundtable. Indeed, when Marsha first approached me, I hesitated. I felt that PPI's focus is on institutional development and investment issues whereas ESS' focus is more on economics. ESS is not even a think tank or research institute. We are just a loose network of people in the economics profession who are interested in economics and economic issues. We publish an economics journal and we organize talks, lectures, and seminars to enhance public awareness and understanding of economic issues affecting Singapore and the region. Given the focus of the Roundtable, I thought a more suitable partner would be a local government agency, a fund management company, a think tank or a research institute. I approached several potential partners but unfortunately, they were all too shy. So here we are.

5 But I'm glad we have played a small part in this event. Marsha and her team have worked tirelessly over the past several months to put together a wide-ranging and exciting program featuring experts, researchers and corporate leaders from around the world. I'm sure at the end of this event, we will all go away with new insights on the various aspects of pension fund management and a better understanding of investment opportunities in Asia's capital markets, and the various challenges pension funds face.

Asia's Changing Demography: Some Broad Perspectives

6 Ladies and Gentlemen, I am no expert on pension-fund management. I am an economist. As you know, economists are nosy people who have an opinion on almost any issue. We have followed with great interest the discussions and debates on how Asia's changing demography will drive trends and developments in everything from labor supply and off-shoring of economic activities, to fiscal policies, social security systems and family-support structures. Let me outline a few observations and share a few thoughts from this angle.

7 First, while graying population is a common phenomenon around the world, the trend in Asia is particular pronounced. According to some estimates, by the year 2050, there will be about 1 billion elderly people in Asia. And this group alone will account for at least 10-15% of the world's population. Here in Singapore, by 2020, 15-20% of the population could be aged above 65.

8 Second, compared with their contemporaries in the West, the current cohort of ageing population in Asia are seriously unprepared for retirement in the next 10-15 years. This is the generation of baby boomers who were born in the post-war period. They grew up in difficult economic conditions. Most of them have little or no education. Although they have benefited from the rapid economic growth of their countries, most of them are not rich. They do not have sufficient savings. And many are not entitled to pensions when they retire. For this group, it is important that social security schemes be designed to take care of their basic needs in order to pre-empt a host of social problems and tensions. Governments are faced with the challenge of finding ways to discharge these responsibilities without straining the budgets.

9 This leads on to my third observation. Asia has been fortunate to achieve a relatively high rate of economic growth. Along with that, it has accumulated a large stock of private and public savings. This reflects to some extent the Asian culture of thrift. Yet, somewhat ironically, much of these savings have not been made to work hard enough to fund the retirement needs of fast-ageing populations. One key reason for this is that Asia's financial markets have lagged behind in development. Due to a shortage of financial assets for investment, much of the savings of the people are invested in low yielding bank deposits or government bonds. There is a great need to develop the breadth and depth of financial markets. When there are new financial instruments and assets, there will be more opportunities for pension fund managers to invest their funds prudently while earning higher returns.

Singapore's Experience

10 Allow me to share briefly Singapore's experience. Singapore's retirement system is centered on the Central Provident Fund (CPF for short). This is a mandatory national saving scheme, and involves contributions from both employees and employers. It has worked well. But like other countries, Singapore is also facing stiff challenges that come with our ageing population. Most Singaporeans have drawn down much of their CPF savings to meet mortgage payments on their homes. While this has meant a very high rate of home ownership – itself a key element of our social security framework, studies have shown that most Singaporeans, especially those in their forties and fifties, may not have sufficient savings in their accounts to meet their retirement needs.

11 To address the problem, the Government has been making changes to the CPF scheme in recent years. For instance, it has limited the amount of

withdrawal for housing and set a minimum sum that must be kept in the CPF account. To make these funds last for the duration of people's retirement, it is encouraging the population to work beyond their official retirement age, and is progressively raising from 62 to 65 the age at which people can start to draw down their CPF savings after retirement. To improve the returns on CPF savings, the government will be paying a higher interest rate on the CPF funds. To cover "longevity risk", the government is proposing to introduce some form of annuity scheme.

12 These proposals and changes are an important step forward in strengthening the social security system to meet the challenges of the ageing population. They have prompted lively debates among policymakers and the public. I expect that the social security system will continue to evolve, becoming more comprehensive and robust over time.

Conclusion

13 Let me conclude. I would like to thank Marsha for inviting ESS to be PPI's in-country partner for this year's Asian Roundtable. We are happy to be able to play a small role in this important event. And I'm glad to welcome many of you to Singapore. I'm sure you will have a fruitful time over the next couple of days and I wish you an enjoyable stay in Singapore.

14 Thank you.