

Forum: GA2

Issue: Safeguarding sustainable social and financial resources for an aging population

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Introduction

Overview of the situation

The countries with the largest percentage of the total population over 65 years (2022) include 1. Monaco (36%) 2. Japan (29%) 3. Italy (24%) 4. Puerto Rico, Finland, Martinique, Greece, Portugal (23%) 5. Germany, Croatia, Bulgaria (22%).¹ The city-state of Monaco is an outlier, as the majority of its population are immigrants. Japan is perhaps the most famous example of an aging population, although similar trends are seen across East-Asian developed countries. Both Western Europe (Italy, Portugal, Germany) and Eastern Europe (Poland, Baltic countries) have an aging population but the causes vary between the two regions. While, until recently, the issue of aging populations was largely the concern of developed countries, more and more developing countries in Africa, Latin America, and Asia will face these issues. Due to their higher vulnerability, there is an urgent need for the international community to support them through the transition. Finally, research highlights that the older population is predominantly female with the global life expectancy for women being 4.4 years higher than for men on average.² As women face higher social and financial discrimination worldwide, overseeing and supporting them should become a priority of countries' public policies.

Causes of the demographic transition model (DTM)

In order to tackle the issues of an aging population structurally, the phenomenon's causes should be clearly understood. The theory of DTM studies population growth and changes in fertility versus mortality rates. The transition is outlined as a sequence of five stages:

Stage 1: high mortality and high birth rates,

Stage 2: falling mortality rates and high birth rates,

Stage 3: low mortality rates and falling birth rates,

Stage 4: low mortality and low birth rates,

Stage 5: low mortality rates and (future developments to be determined).

¹ Dyvik.

² Population aging and sustainable development.

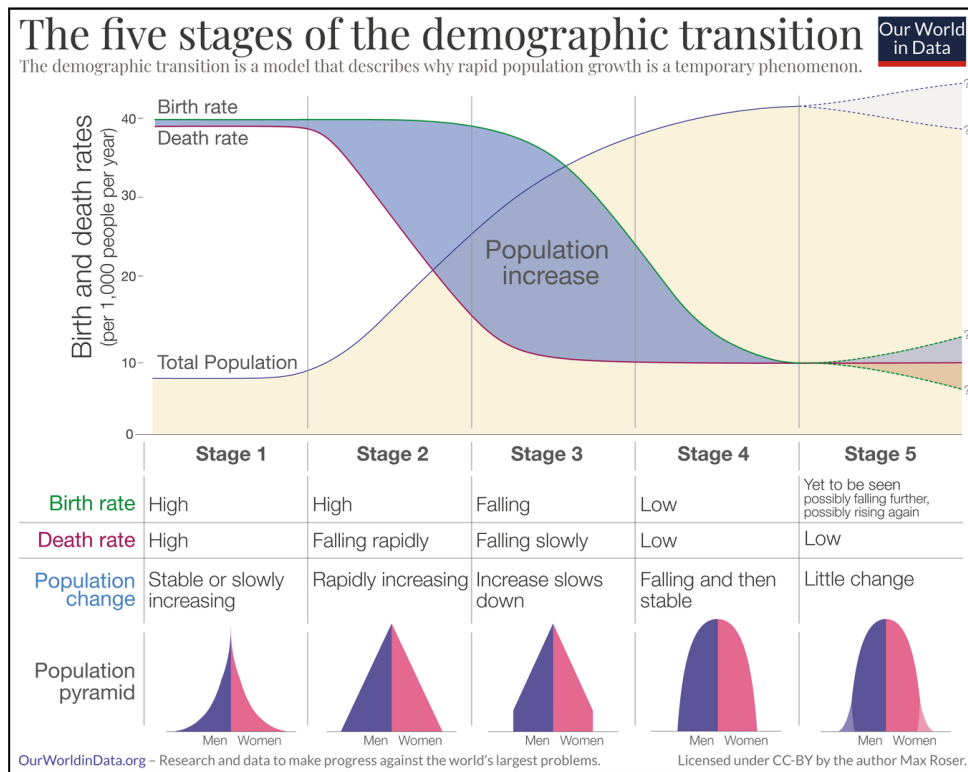


Figure 1: graphical representation of the DTM³

The aging populations are categorized under the fourth stage of this model, caused by increasing longevity and declining fertility. Various reasons exist behind this demographic shift in developed countries such as greater access to education, advancement in healthcare, nutrition, and overall living conditions, industrialization/urbanization, less economic fluctuations, and greater political stability. Furthermore, migration flows (immigration and emigration) are important factors to consider. For instance, all the factors above explain the Baltic countries' recent demographic shift towards an aging population. Not only has the fall of the Soviet Union led to greater political stability, but it has improved their levels of human capital and increased the urbanization process.

Impacts of an aging population

A country with an aging population may not attain its macroeconomic objectives (low unemployment and wealth inequality, sustainable levels of inflation and debt, high growth). The increased government spending on social and financial resources will increase the debt-to-GDP ratio. Furthermore, the aging population will be less capable of working in labor-intensive industries and will slow down labor productivity. For the old population, there is a growing risk of social and financial exclusion, especially if this demographic trend contradicts technological advancements in developed countries. The well-being of the younger generations may also be compromised. On a micro scale, they may have to financially support their parents/grandparents at home, and on a macro scale, the labor force will face higher

³ Roser.

pressures from a reduction in the number of workers relative to the population. The government's reallocation of funds to pensions, etc. could lead to a spending decline towards the youth. Such impacts are most evident in Japan.

Definition of Key Terms

Aging population

Population aging is defined as an increase in a population's average age as a result of declined birth rates and increased life expectancy.⁴ Though the causes for it show relatively positive signs for an economy, it may create strong burdens in extreme cases.

Age dependency ratio

The ratio of working-age to old-age individuals.

Safeguarding

Safeguarding refers to protecting things from possible harm. In this case, this will refer to the government budget which should be "safeguarded" in order to sustainably fund the scarce social and financial resources, meaning without compromising the well-being of future generations.

Financial exclusion

Financial exclusion describes the inability, difficulty, or reluctance to access mainstream financial services, which, without intervention, can stimulate social exclusion, poverty, and inequality. This is due to traditional bank closures, and the adoption of online banking.⁵

Social exclusion

Social exclusion is a multidimensional process through which individuals become disengaged from mainstream society, depriving people of the rights, resources, and services available to the majority.

The Silver Economy

The term "silver economy" was coined in the 1970s in Japan. It is defined as all economic activities designed to meet the needs of people over 50 and brings together sectors of health, banking, automotive, and housing, and others.⁶

Background Information

Sub-topic 1: Assisting the elderly with the use of online financial services and promoting social inclusion.

Sub-topic 1 discusses the financial and social exclusion of the elderly. Both sections provide an overview of the current global reality, its challenges, and some policy suggestions advanced by experts so far. These are primarily targeted at countries already experiencing an aging population; hence, while

⁴ The WHO.

⁵ Honecker and Chalmers.

⁶ Oxford Economics.

these are global trends, they are primarily targeted at middle- higher-income countries. Lower-income countries may 1) not yet experience such urgent needs to tackle the aging issue 2) lack the funds and the institutional framework to implement them. Policies for low-income countries will be discussed at length in Sub-topic 3. Lastly, as these are only broad suggestions, each country should further research what is most suitable given their existing network.

Financial exclusion

The issue of financial exclusion refers to the elderly (though this trend is seen within the cohorts aged 80 years and above) who struggle with their routine financial tasks. New technologies include credit cards, ATMs, and online banking. Instead, a study in the UK shows that people in their 80s/90s have a tendency to use cash, even depending on family members to conduct financial transactions for them. The majority of those interviewed reveal drawing out a supply of cash every week. Although the rates of ATM use are slightly higher, only 9% actively use online banking. The most frequent reasons that explain these behaviors were 1) not having/using the internet 2) worries about making mistakes and being judged 3) well over half the sample feeling concerned about fraud and security (fraud, theft) 4) seeking social/physical contact rather than virtual screens.⁷ It is safe to assume that the skepticism towards the banking sector has strengthened since the 2008 Global Financial Crisis, from the fear of the unknown felt by the elderly.

To some extent, this skepticism for online finance can be justified. Statistically, the elderly are exposed to greater risks of fraud. In recent years in Japan, a phenomenon known as "ore-ore sagi" ("it's me it's me scam") has surfaced, characterized by phone scammers who prey on the technological and emotional vulnerabilities of the elderly.⁸ Technological reliance does lower the opportunities to get outside and interact with others, favoring isolation. Finally, the cognitive decline from aging may make online transactions not as efficient. This turndown of online finance by the elderly is unfortunate given that its remote aspect may offer a solution for people with weaker mobility to preserve their financial independence. More generally, technological advancements are said to increase an economy's potential output, and so a decrease in technology is not advisable either.

The OECD and other institutions have advised policies to combat financial exclusion. Firstly, it is for the government and the financial institutions to work together and improve the design of products/services. These include the replacement of complicated PIN codes with bio-security (fingerprint and face recognition systems) and the redesigning of ATMs to make them more age-inclusive. Secondly, shared communication between the citizen, the institution but also the

⁷ Future Horizons Conference - The Ageing Population and Financial Services.

⁸ The OECD.

caregiver (often relatives and friends) and insurance providers should be promoted. If trusted advisors possess sufficient knowledge of relevant financial information, taking appropriate measures in the event of an emergency should become easier.⁹ Similar measures, targeted to groups at high risk for financial exploitation, include money management programs, in which daily assistance is provided to make basic financial transactions.¹⁰ However, as these are simply suggestions, there is a stronger need to specify the logistics, set an agenda, and eventually translate them into binding laws.

Social exclusion

Old-age social exclusion includes but is not limited to social isolation, financial insecurities (presented above), income instability, poor housing/homelessness, poor access to public services (hospitals and transport), and ageism. Figure 2 presents a framework of how old-age exclusion encompasses all aspects of an individual's life. By utilizing this multidimensional framework, the international community should strive to find innovative solutions (beyond the solutions presented below). Figure 2 shows that exclusion is a direct factor behind the global higher depression and poverty rates among the elderly.

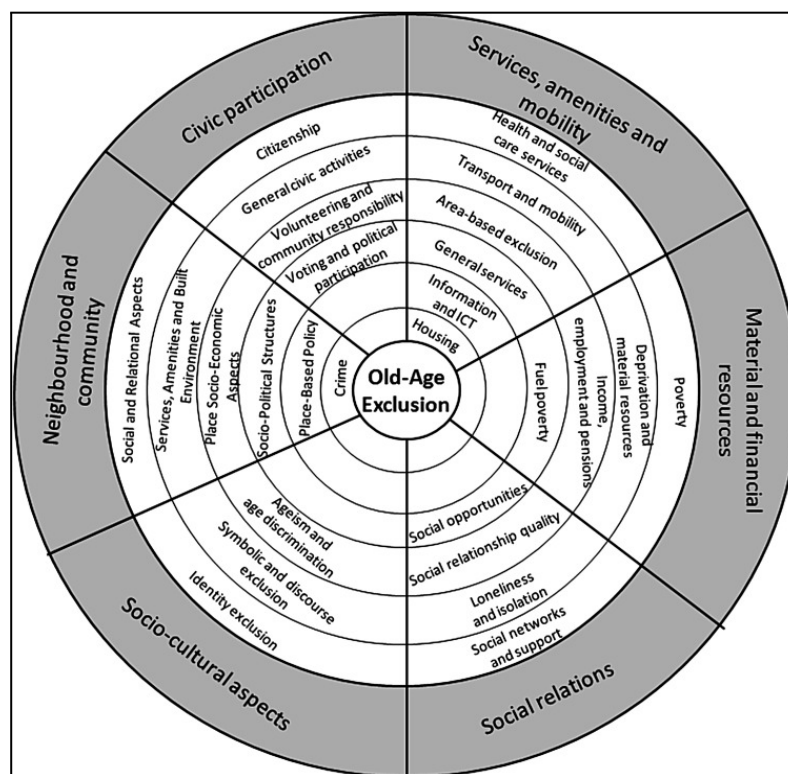


Figure 2: Old-age exclusion framework depicting interconnected domains and sub-dimensions¹¹

Each government attempts to support the elderly through a range of social policies: Financial

⁹ Ibid.

¹⁰ Pillemer.

¹¹ Walsh.

assistance may include affordable pensions and healthcare, such as Medicare in the US. Community initiatives promote engagement through social activities and amenities. In many countries, legislation and education campaigns are promoted to combat ageism. The degree of assistance varies depending on the individual's risk factors. A great extent of government spending should be allocated to put these systems in place. A considerable challenge is that often, the caregivers are the ones committing elder abuse, either relatives or staff in long-term care facilities. In these cases, the carer will silence the victim from speaking up, making it harder for others to spot the signs, and creating a vicious cycle. This behavior partially stems from certain family members who feel obliged to sacrifice themselves and commit to unpaid/informal caregiving, and hence there is a need to acknowledge their burden as well. This is not to say that care facilities will solve this issue; not only do the elderly face similar, if not worse mistreatment, but the elderly may also feel isolation from identity loss and other psychological tolls. The recent allegations of patient abuse and staff negligence in France's retirement houses highlight such issues.

In combating the cycle explained above, no major solution has proven effective yet. Nonetheless, some studies recommend a series of preventive measures to limit elder abuse, thus may be a basis for policy-making. Firstly, a helpline system that provides both intermediate counseling and longer-term follow-ups is advised. A successful case is the national network of helping centers created by ALMA France.¹² Secondly, it is argued that multidisciplinary teams, which consist of health and care professionals that come together to coordinate an elder's care, may promote social integration.¹³ In the future, the objective will be to incentivize the prospects of those jobs and encourage the flow of expertise. Community-based support has gained attention in recent years, such as Japan's policies of community-based integrated care.¹⁴ These signal high hopes for sustainable development and may offer a long-term solution to combat social exclusion. Finally, innovative technological means to improve allocative efficiency and lessen the caregivers' burdens should be continually investigated. This goes without saying that technology should not lead to a situation in which human caregivers are entirely replaced by AI robots, and become the only companions of the elderly.

Sub-topic 2: Safeguarding funds through strategic reallocation of the government budget.

"Sustainable social and financial resources" can be defined as resources that support the needs of the elderly without compromising the well-being of the younger generations. Hence, sub-topic 2 refers to each government 1) reallocating its budget in the needed sectors 2) safeguarding resources for the long term.

¹² Pillemer.

¹³ Ibid.

¹⁴ Sakota.

Reallocating the government budget in the needed sectors

Currently, most developed countries' fiscal budgets are allocated towards social security, national defense, and education (excluding debt servicing). Figure 5 below shows Japan's current account expenditures, in which social security includes spending on pensions, retirement, and disability benefits, among others.

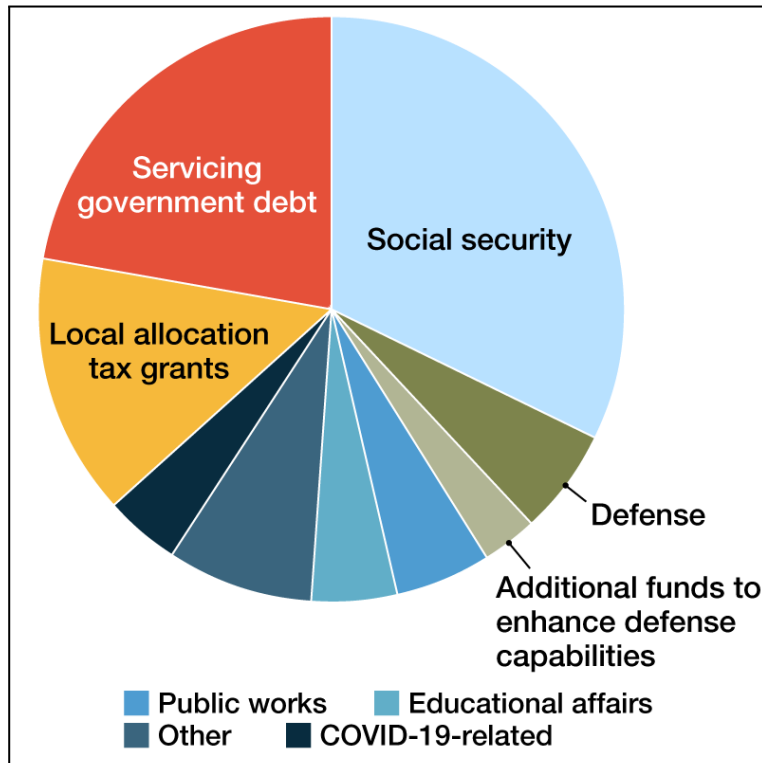


Figure 3: Japan's 2023 current account expenditures breakdown¹⁵

Moreover, across many countries, it is shown that governments spend more on pensioners than any other age group. Therefore, while governments may already be spending a significant sum of money to tackle this issue, the quality of those systems are not always guaranteed.

Safeguarding the budget for long-term planning

In order to finance those resources, some governments have run a budget deficit, arguably beyond the levels of sustainable debt. Japan, the US, and other Western European countries have particularly alarming debt-to-GDP ratios. For the young generations, this may already negatively affect their well-being (not enough funds for education). In the long run, this might also compromise future government spending on social security if governments become too caught up with debt servicing (as shown in Figure 3 above, Japan's debt servicing already amounts to about a quarter of its fiscal budget). Then, do the negative externalities on the youth imply that the funding of social and financial resources is

¹⁵ Nippon.

unsustainable? Not necessarily so, but there is an increasing need to strengthen governments' budgetary discipline.

Trends seen in policymaking to tackle this have been childbirth grants, investments in education, pension reforms, and the development of the silver economy. In both developed countries (Japan, Australia) and in lower-income ones (the Baltic countries, China) governments are offering incentives for increased child births and better-paid maternity leave for women's empowerment.¹⁶ The EU long-term budget includes investments in programs such as Erasmus+ and the European Solidarity Corps, to increase the number of exchange students within the Union.¹⁷ Broadly, these aim at increasing the labor force in the long term and balancing out the currently skewed dependency ratio. The development of the silver economy may offer better-tailored jobs for the elderly and thus an improvement in workers' productivity. Not only will this be a sustainable social resource, but it will also have indirect benefits such as greater tax revenues from increased consumption. Pension reforms should also be considered. In doing so, governments need to ensure that labor-intensive jobs and those who have worked longer are treated with equity. Furthermore, any change should be gradually implemented so that it does not result in political instability, such as the case in France in the spring of 2023. In addition to the government aims outlined above, this would ameliorate the oversaturation of pensions.

Sub-topic 3: Designing preventative measures in low-income countries to mitigate the future effects of an aging population.

Sub-topic 3 outlines the often disregarded, separate issues faced by developing countries in dealing with demographic changes. It then proposes the basis for policymaking as well as the role of the international community in ensuring the availability of funds (and their correct use).

¹⁶ Wilt.

¹⁷ The EU.

The challenges faced by developing countries and some possible solutions

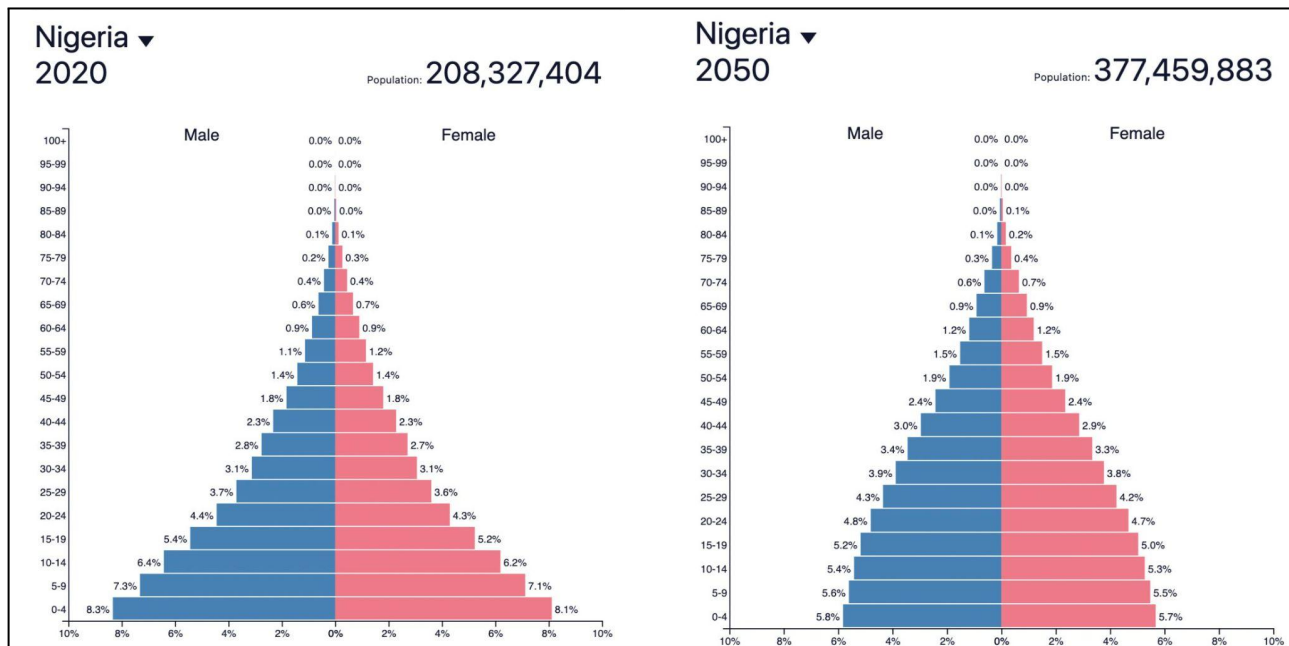


Figure 3: Nigeria's population pyramid in 2020 (left) versus 2050 predictions (right)¹⁸

In the coming decades, the population of developing countries in Africa, Asia, and Latin America will age. Much of the discussion thus far has been on developed countries, yet developing countries face the dual task of high fertility with population aging. Figure 3 shows Nigeria's population pyramid in 2020 and the 2050 predictions in relative terms (%). They are also more vulnerable to demographic changes; the causes range from infectious diseases, uncontrolled reproduction, and high illiteracy rates. To some extent, this also includes countries such as China, which, despite having one of the biggest economies in the world, still stagnates in terms of GDP per capita and also faces the issue of an aging population. While the immediate goal of Nigeria and other governments should be to slow their rapid population growth, this will inevitably accelerate population aging. Hence, there is a combined need to plan the long-term aging of their current youthful populations. In the DTM, this means a transition from stage 1 to 2-3. (This report will primarily focus on population aging). However, Figure 4 highlights the underwhelming proportion of public transfers as a source of finance in developing countries, especially compared to the developed ones. This mirrors the lack of institutional frameworks to provide social security.

¹⁸ PopulationPyramid.

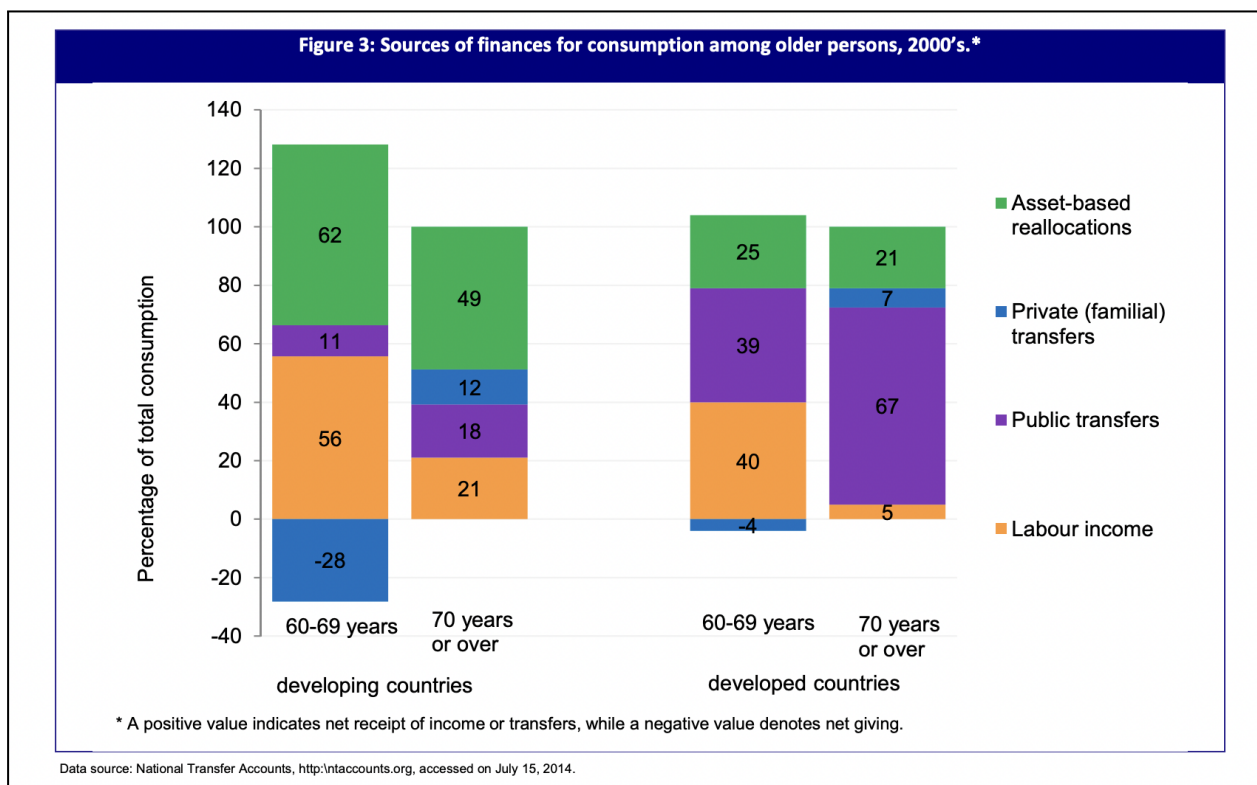


Figure 4: Sources of finances for consumption among the elderly.¹⁹

Many of the policies to combat population aging in developing countries parallel the ones suggested for economic growth and development. The IMF reiterates the importance of human capital investments. Combining education and R&D will hopefully shift the structure of those economies from labor-intensive industries to capital-intensive ones. This should benefit diversification, increase the population's well-being, and sustain per capita economic growth despite declines in the share of the labor force. Investment in infrastructure should promote the creation of smart cities and age-friendly facilities.²⁰ Of course, improvements in healthcare would help fight chronic diseases and better family planning. With evidence showing that women live longer worldwide, women's empowerment should also be a priority. Regarding finance, despite its aging population, most of them are still in their 50-60s. Hence, there is still a possibility to improve old-age financial literacy. For example, microfinance is often cited for its positive effects on active aging.²¹ Through microfinance, middle-aged/older adults may choose to pursue less physically demanding work and/or self-employment. Early measures to increase the population's financial literacy could also lead to an increased use of online banking.

These offer some measures to mitigate the effects of population aging in developing countries. Still, structural issues need to be addressed, such as where the government revenues should come

¹⁹ The UN.

²⁰ Bloom.

²¹ Leung.

from or how to prevent those funds from being corrupted. For governments, their main source of revenue is taxes; in countries with persistent unequal wealth distribution, governments should first aim to tax the richest. Where this is not the case, indirect taxes on demerit goods may be an alternative, however, as indirect taxes are regressive in nature, this may disadvantage the poorest populations such as the elderly. Other sources are taxes on firms and social insurance. Once more, there is a fundamental necessity to improve human capital in order to implement an effective tax system.

The role of the international community

Additionally, the international community should support developing countries in achieving their aims. The UN's International Support Measures for Least Developed Countries (LDCs) and other UN bodies work on programs to develop human capital and infrastructure.²² The World Bank Group's International Development Association (IDA) is one of the largest sources of assistance for LDCs and channels multilateral funding.²³ If they are correctly used, official development assistance (ODA) is also welcome. The international community also holds the responsibility to oversee the effective allocation of these funds and prevent corruption. Although this is a complex issue that requires a separate report of its own, Transparency International's suggestions include: separating law enforcement branches, strengthening the role of auditing agencies and requiring disclosure of budget information, and preventing international loopholes in the law that enable corrupt officials to hide their financial gains offshore. Finally, countries in stages 4-5 of the DTM should welcome migration inflows from elsewhere. Not only will this help reduce their countries' dependency, but it will also equilibrate their population pyramids, creating more employment for the youthful workforce. While bearing in mind the risk of causing a brain drain, emigration should help developing nations grow economically and mitigate the effects of their current youth aging in the future.²⁴

Major Countries and Organizations Involved

The Population Division of UN Department of Economic and Social Affairs (DESA)

The Population Division of the DESA conducts research, supports intergovernmental processes, and brings greater awareness to the issue of population change in relation to sustainable development.

UN Population Fund (UNFPA)

UNFPA partners with governments, agencies and the civil society to improve the lives of the young and women in LDCs. Closely connected with the SDGs, they focus on family planning and women's empowerment in relation to demographic changes.

²² The UN.

²³ The World Bank.

²⁴ The UN.

World Health Organization (WHO)

WHO works worldwide to promote health, keep the world safe, and serve the vulnerable. WHO is particularly concerned with improving the health of the elderly and establishing a health care system.

Japan

Japan is perhaps the most impacted country by this issue. Indeed, it is notoriously famous for its aging population, where one-tenth of its population is 80 years and older, and high debt-to-GDP ratio.

Timeline of Events

September 25 2015, adoption of Sustainable Development Goals (SDGs)

The 2030 Development Agenda was adopted by 193 countries of the UN General Assembly.

2021-2030, the UN Decade of Healthy Aging

WHO describes the UN Decade of Healthy Aging as “an opportunity to bring together governments, civil society, international agencies, professionals, academia, the media, and the private sector for ten years of concerted, catalytic and collaborative action to improve the lives of older people, their families, and the communities in which they live.” It aims at increasing the awareness of the issues that come with an aging population.²⁵

Relevant UN Treaties and Events

- The UN Principles for Older Persons by the UNGA (Resolution 46/91)
- Sustainable Development Goals (SDGs)
- The UN WHO Decade of Health Aging (2021-2030)

Previous Attempts to solve the Issue

The complex nature of issues such as financial and social exclusion of the elderly makes it impossible to fully resolve the problem. However, as noted throughout the report, the UN, UN-affiliated organizations (WHO, the UN Economic and Social Council, the UNDP), and other regional conferences are tackling this ongoing issue.

Possible Solutions

Although demographic challenges are often disregarded as domestic concerns, this report highlights the need for international cooperation in tackling these increasingly relevant issues. Particularly, countries that already have an aging population could share their experiences and expertise with others. Possible solutions to tackle each issue were included in their respective sub-topics.

²⁵ The UN.

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