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All hands on deck!

Ladies and Gentlemen,

On any given day, have a look around the marina at Boulogne sur Mer, Scheveningen or Cowes, and you will see two interesting phenomena. The first: a whole lot of beautiful, expensive yachts, so many that you have to ask yourself: Crisis? What crisis? Cruises!

Second, you'll often see, also during the workweek, older men and women with silver grey-hair and a lovely bronze tan on these yachts. They are clearly babyboomers with healthy finances: well-educated, having had good careers and, now, a good retirement – with the same energy as in their younger days. These grey nomads have plenty of years yet!

The ageing of the population takes on two forms.
The first is the description I just gave. Many more people are living to a ripe old age. In the middle of the last century, 6% of the Dutch population was age 65 and older, compared to 15% in 2010.
The second form is the long life expectancy of next generations. Four years ago, the European average life expectancy of men was about 76 and a half [Slide 1]. In 2060, they are expected to live up to the age of almost 86. The life expectancy for women will increase by 7 years to 89. [Slide 2]. In Europe there are large differences between the member states, but everywhere the trend is the same, we are living longer lives. [Slide 3] Once the baby boom generation has passed, our children, their children, and so on and so forth, may even live longer than us. But a longer life costs a lot of money. Not only for pensions, but also for elderly care. And those costs cannot be covered without first taking the appropriate measures.

We don't only live longer, but also differently. More and more, people are living less of a ‘linear’ life of education, work, pension. Studying takes place alongside employment, years may be spent neither employed nor studying but caring for children, and careers last longer because we live longer. Incomes, expenditures and needs are continuously subject to change and fluctuation and therefore suggest for a more individual approach.

A growing working population, expanding economies and relatively few elderly to care for resulted in welfare and a financial surplus: a 'demographic dividend'. But the tide has definitely turned. In the coming years, the ageing of the population is going to catch up with European governments. Their small number of young citizens create enormous financial problems: we are instead facing a ‘demographic deficit’.

The costs of longevity are primarily funded on a pay as you go basis in most European countries. But the rising costs that go along with this are becoming prohibitive for national budgets. All EU countries must economise and the costs of longevity come on top of that. On the other hand, passing the bill onto future generations will put great pressure on the solidarity between generations. Not only that, but this strategy offers little relief when future generations start shrinking.

Let’s examine a few figures.
As I mentioned, Europe is ageing rapidly. The baby boomers, the first of whom were born after the Second World War, are about to retire. [Slide 4]. Eurostat expects this trend to continue for several more decades until 2060. One in five of today’s European citizens is a young person. On average, two out of three citizens is of working age, and slightly less than one in five is of retirement age. The differences between countries are significant. Ireland, for example, has the largest population of young people, just around 27%. While Germany has the smallest, close to 19%. Conversely, Germany has the largest percentage of elderly persons, while Ireland has the smallest.

The ageing population is putting ever increasing pressure on society: in 2050, there will be an average of 2.4 persons to care for each elderly person in the EU. In 2000, this number was 5 – twice as many, in other words: half the number of people. In Spain, this number will be shrinking to 1.7, in Greece to 1.9 and, in Italy, to 1.6. I mention these countries because the impact of the financial crisis is and will most likely continue to be enormous over the coming years.

The scene in the streets will also change. When the number of children is compared to seniors older than 80 years, 2011 shows 100 versus 29. In 2060 this will be 100 versus 80.! There will be twice as many people age 65 and older as there will be children.

I can also illustrate this by the old-age dependency ratio as this is the number of people over 65 compared to number of people between 20 and 64. This ratio will increase by 30% between 2010 and 2060. [Slides 5 en 6]

Let me give you a wrap-up of what we are facing in Europe:

- First of all, we know that in the future, the working population will be too small to support the non-working population, with fewer than two people of working age for every older person. This also creates a problem in the elderly care.
- Secondly, rising longevity costs are becoming too expensive for national budgets.
- Thirdly, our current pension solutions do not match customer needs of a multi-life cycle.

So, measures are essential. Let's have a look at how other parts of the world are dealing with the ageing issue.

Japan is ahead of Europe with a dependency ratio of around 26% in 2000 where Europe showed 21%. It might be interesting how they deal with this and I look forward to the Japanese contribution to the later panel discussion.

The **United States** has always experienced much immigration and a higher birth rate. So, the ageing of the population will have less of an impact there. But let's hear about the US solutions in the next panel discussion.

The Netherlands is known worldwide – and still held up as an example – for its three pillar system. The first pillar applies to every resident of the Netherlands, regardless of employment history, and consists of a pay as you go benefit starting at age 65 – soon to be 67. In the second pillar, 95% of the working-age population builds up an additional, mandatory pension via their employer. This high percentage is achieved because of mandatory participation in industry wide pension funds for all business sectors. Finally, there is the third pillar, where everyone can accrue additional pension benefits through tax friendly saving plans This targeted tax incentive encourages citizens to take responsibility for their retirement. I am convinced that we need this type of three-pillar system to get people to save for their old age as it also diversifies and hedges their pension over three sources. In my opinion, this should be high on the agenda of European policymakers.

EU Commissioner Barnier also believes the Dutch system to be a robust one. And both EU Commissioner László Andor and Edward Whitehouse from the OECD hold up the Netherlands as an example for other European countries. The World Bank also recommends a multi-pillar system, because its various financing angles make the system more flexible and less vulnerable.

But, if no changes are made, the costs of the double ageing of the population will also be impossible to cover in the Netherlands. It will not come as any surprise when I say that these days the promises of pension funds are not as hard as previously expected. More and more risks are being passed on to citizens. The older population will also have to work longer in the Netherlands.

In **Chile** – where I have also worked for ING **-** everyone is required to save for their own pension, regardless of their employer, and the premiums are deposited into their own fixed savings account. Pension savings are mandatory and the employee makes an individual choice in what private pension company it should be deposited. Switching to another pension company is free of charge. The system is fully Defined Contribution investment yields of all pension companies are 100% comparable and published on a monthly basis. This gives transparency, ownership and maximum portability. The government guarantees a basic income if the savings account is not

sufficient. This system is also used – closer to home – by numerous European countries: **Poland, Slovakia, the Czech Republic, Romania and Bulgaria**. Hungary used to have this system, but the Hungarian government decided to nationalise it a year and a half ago. What can we learn from the Chilean and Central European system? It is an attractive option, but you need to make sure it is robust and not sensitive to the political issues of the day. After all, it's all about trust.

More savings and more risks for citizens: what else can be done to deal with ageing issues?

- Migration? Bring in young people from elsewhere in Europe to lower the average age? This of course would only be successful if the sum of all young people in the EU would be higher than the deficit in certain member states. This might be facilitated by a single European pension market optimising portability as in Chile or the US. But the cultural and language barriers within Europe will lead to significant costs of large, structured migration operations.
- A return to the 'extended family'? This means living with the entire family in one house so that we can care for each other. Here, independence and individuality are exchanged for new familial solidarity. In other words, home-based care. This is appealing to a certain degree, but not very plausible from a social perspective.
- New family policies? This would mean making it fiscally advantageous to have more children. When women are given more opportunities to combine family and career, this could lead to a higher birth rate. But, in most European countries, this is not the standard. This would however have little or no impact on the current ageing problem and not show any effect until at least 30 to 35 years later. I can imagine this could even cause a new ageing bubble in the future.
- Just work longer? More people will have to work longer and more hours and will not be entitled to a pension until later in life. We have already started in the Netherlands, and this is also the trend in other European countries.
- Reversed solidarity? Wealthier older people could contribute to their own pension for instance by reducing tax reliefs. The generation between 65 and 75, on average, is the wealthiest generation ever, at least in The Netherlands. Politically, this would be a sensitive issue.

Should we deal with ageing issues on a national basis or can we find solutions from a pan European perspective? Personally, I don't see a single European market for pensions anytime in the near future. All the same, I'm convinced that, in this area, we need to sharpen our intelligence in Europe because the solutions on a national level will remain deficient. After all, what are the consequences of a pay as you go pension system for an almost bankrupt state treasury? Countries with a large pay as you go system experience the greatest challenges from population ageing and the financial crisis. And the younger generations are paying the price. Or the pay as you go problem of one country may be indirectly transferred to another country. This we see to some extent at the moment with the Euro crisis.

The multi pillar approach could bring robustness to the pension systems in Europe when implemented in a way that fits the national setting. Flexibility is a precondition to satisfy the changing needs of citizens. More flexibility means more freedom of choice. Greater flexibility in work relationships, more flexible products from our industry, and the multi-life cycle will make citizens desire more freedom of choice, no matter how you twist and turn it. For the Netherlands, this will put pressure on mandatory participation in the industry wide pension funds. We can hardly expect to place more risks on the shoulders of employees and then not give them the freedom to choose their pension provider freely.

As far as we are concerned, employers and employees should have more freedom of choice, created by us through competition in terms of product quality and flexibility. But I believe that a lack of choice is also related to something significant: it is difficult, if not impossible, to get people interested in their pension rights. Even when the jars are empty, the decades-long reassurance that 'things are just fine' and 'you'll be taken care of' cannot easily be glossed over. I bet that those who get to choose where their pension is invested, will be interested in the costs and benefits. Freedom of choice leads to awareness. And freedom of choice will stimulate competition, keep costs low and raise creativity in this area. I see no reason why we cannot encourage this in Europe.

The insurance industry can play a significant role in providing these solutions, but certainty has a price, and that price is rising. In that context, I'd like to point out a

dilemma: Solvency II, intended as a guarantee for the financial solidity of insurers, can at the same time present a threat to long-term guarantee needs.

2012 is the European Year of Active Ageing and Solidarity of Generations. What this slogan boils down to is that we will have to work longer and that our kids will have to contribute more. This is the hard truth behind this slogan.

Which brings me to my conclusion:
Working longer is the motto. And people are going to have to save more and insure more on their own. Insurers need to make a serious effort to make their products more flexible. Not only that, but we will all have to come up with new pension-care combination products. Governments will have to make it fiscally attractive for people to take responsibility for their old age.
First and foremost, I am an advocate of a multi-pillar system, such as the one we have here in the Netherlands. I would argue in favour of making multiple pillars possible in all EU countries, to ensure less dependency through diversification and to ensure a more robust funding of pensions. A European approach instead of a national one will bring the solution closer. Naturally, insurers play an important role in this process as experts in long-term investments and covering financial risks.

Considering the seriousness of the situation, you cannot help but conclude that it would be unwise for everyone to work on their own individual solution. I would be very interested in hearing the panel members' view on these important challenges facing us in Europe and beyond.

Thank you for your attention.