



Pension System Risks in Emerging Markets



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Written by:



Rodney Gollo
Founder & CEO
Rhodes Point Advisors

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Introduction

Pension systems are designed to offer financial security and a decent life after retirement. However in developing regions like Asia and Africa, these systems face major risks that could impact their long-term health and whether they can cover enough people.

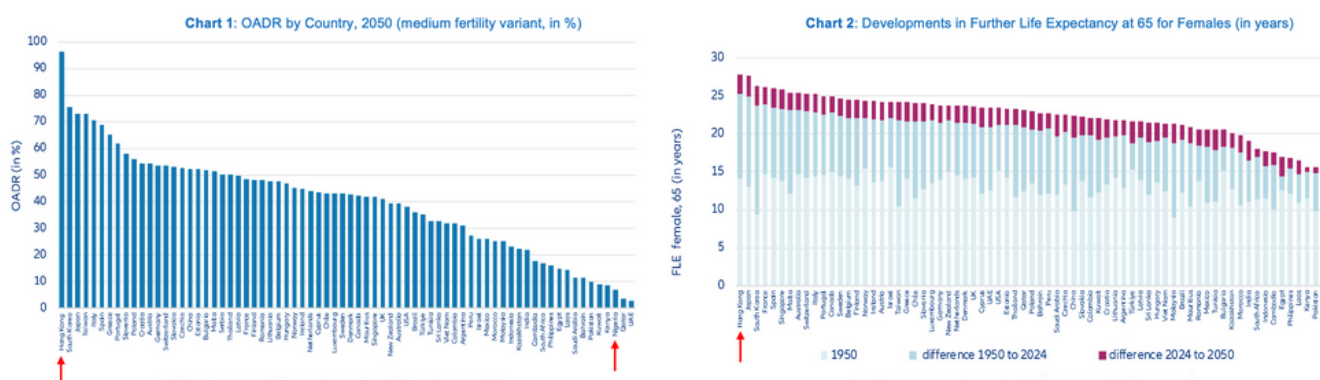
While Asia has the world's oldest population and Africa the youngest, both regions are home to economies set to drive future global growth. How they manage pension risks will have big economic and social consequences. At RPA, we believe two distinct examples demonstrate this: Hong Kong and Nigeria.

Hong Kong: Dependency Ratio

Hong Kong faces a significant demographic risk driven by low fertility rates and high life expectancy. With a very low birth rate (around 0.7 children per woman) and one of the highest life expectancies globally (around 85.6 years at birth), Hong Kong's population is aging rapidly.

This trend leads to a high Old-Age Dependency Ratio (OADR) – **Chart 1 (OADR by Country, 2050)**¹ shows the number of people aged 65 or older compared to the working-age population (15-64). Hong Kong is projected to have one of the highest OADRs in the world by 2050, estimated to rise significantly from 33.9 today.

Meanwhile, **Chart 2 (Developments in Further Life Expectancy at 65 for Females)**² illustrates a female in Hong Kong is expected to live many more years after age 65 compared to those in countries like Nigeria.



1. Source: International Labour Organisation (ILO)

2. Source: ILO

Mandatory and Occupational Schemes

A high OADR puts pressure on pension systems and public finances. Hong Kong operates a multi-pillar retirement protection system, with the Mandatory Protection Fund (MPF), an employment-based retirement protection system for employees and self-employed individuals who contribute a % of their income to an MPF scheme(s). This is supported by voluntary occupational retirement schemes (ORSO) alongside social security schemes.

Under such a system increased life expectancy means individuals need their savings to last for longer. While a high dependency ratio may not directly impact individual MPF balances, it raises the societal risk of ensuring everyone has sufficient resources in old age, potentially increasing reliance on public safety nets if private savings are insufficient.

Going forward, economies like Hong Kong's will increasingly need to consider whether mandatory contribution levels are appropriate, and investment returns sufficient to provide an adequate income throughout what is expected to be a much longer retirement period.

Nigeria: Labour Market and Coverage

In contrast to Hong Kong's aging challenge, a major risk for Nigeria's pension system (and many young, emerging economies) is the vast number of workers in informal employment. Nigeria is already one of the most populous countries (estimated at 238m), and its population is projected to grow significantly by 2050 (estimated to be 359m). However, a large majority of its workforce operates in the informal sector – ranging from street vendors to small, unregistered businesses. As **Chart 3³** and **Chart 4⁴** (Share of Informal Employment in Total Employment, Male and Female) demonstrates, Nigeria has a very high percentage of its workforce in informal jobs compared to many other countries.

Chart 3: Share of Informal Employment in Total Employment, Male (%)

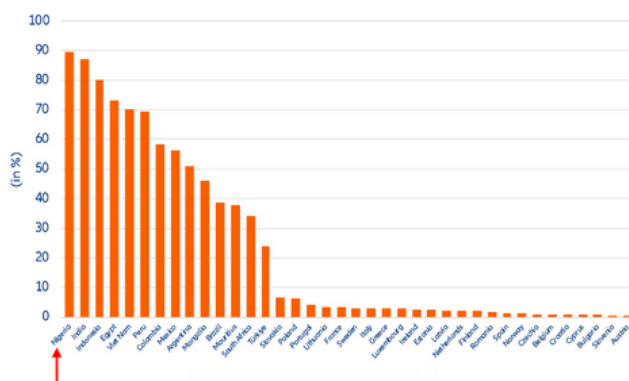
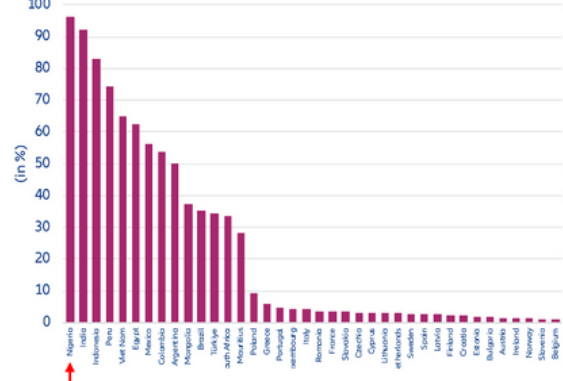


Chart 4: Share of Informal Employment in Total Employment, Female (%)



3. Source: International Labour Organisation (ILO)

4. Source: ILO

Formal pension coverage in Nigeria has traditionally focused on the organised public and private sectors. This leaves a large portion of the working population without access to occupational pensions and often unable to meet the requirements (like consistent contributions) for public pensions. This lack of coverage poses a significant risk of old-age poverty for millions.

Micro Pensions and Technology Adoption

Recognising this, in recent years Nigeria has reformed its pension system to better include informal sector workers through a Micro Pension Plan (MPP). This strategy acknowledges the dispersed nature and irregular incomes of these workers. It involves segmenting the informal sector and developing tailored products and awareness programs, heavily relying on technology for easier registration, contributions, and service.

Countries like India and Kenya, have also introduced measures, often leveraging technology and flexible contribution models, to extend retirement coverage to their informal workforces. We believe such initiatives are likely to become more common across emerging markets.

Conclusion

The pension risks in Hong Kong and Nigeria, though not isolated globally, are profoundly impactful locally. Shedding light on, and managing the intersection of macroeconomic risks and human choices is one of the reasons RPA was founded.

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