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# Demographics: From Turning Point to Investment Opportunity

At the end of October 2011, the Earth is expected to welcome its 7-billionth citizen. The baby will most likely be born in Asia, and probably be a little boy. The global population has been growing at a breathtaking pace: it has taken just 100 years for the world's population to quadruple from 1.65 billion to today's nearly 7 billion. Considering that, after the number of people crossed the 500 million mark in 1500, it took more than 300 years for the population to double to one billion people in the first half of

the 19th century, this development is all the more remarkable. One particular trend, however, has been increasing in importance: since peaking at 2.1% in 1968, the growth rate has been slowing down and, due to lower birth rates, stood at just 1.1% in 2010.<sup>1</sup>

This inevitably means that although the population on our planet will seemingly carry on growing, especially in Asia and Africa, it will age in two respects: birth rates are falling while life expectancy is rising. Since 1950, worldwide average life expectancy at birth has increased by 4.6 months per year, from 45.4 to 68.2 years. Higher standards of living, improvements in hygiene and medical progress have made key contributions to this trend. The rise in life expectancy has been greatest in Asia, where it has increased by almost 30 years in the past 60 years, from 39.9 to 69.6 years. [Source: UN Population Division]

We believe, that we are living at a demographic turning point, forcing us to question whether our pension systems will be able to cope with. In many of the world's industrialised countries, reforms have brought about a reduction in the levels of state pensions while creating incentives to build up provisions privately for old age. This is a trend that demands more initiative from individuals to build up a cushion of assets, on which they can draw a supplementary

World population growing more slowly but aging twice as fast.

income in their old age. As a result, there is a greater burden on individuals than in the preceding decades to take personal responsibility for their long-term financial security.

But hardly anyone realises that their biggest financial risk is likely to be their own life expectancy. You can see this if you imagine ten friends from school deciding to retire when they are 67. When will the first of these friends die? The first will probably die after just six years, i.e. at 73. And the last? Not until he has been a pensioner for 34 years at 101!<sup>2</sup> These are the figures for Germany. And the variation in life expectancies is not much different in the US, where it ranges between 69 and 99 years.<sup>3</sup>

Please find more information on demographics and pension systems here

Capital Market Analysis  
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In other words, should we not consider the longevity risk greater than the investment risk? This question is all the more pressing in view of the global switch we see from defined-benefit ("DB") to defined-contribution ("DC") pension plans, which means that the risk of expectations exceeding actual benefits falls more and more on the individual.

One thing is certain: this demographic turning point represents a major challenge for pension systems. But it is a global megatrend and so creates an investment opportunity as well: since it is global and will likely play out over decades, there are likely to be shifts in demand that forward-looking investors should be anticipating. For instance, population growth in the emerging markets, which usually goes hand-in-hand with strong economic growth, is likely to boost the trend towards ever scarcer resources.

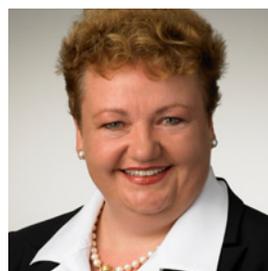
And this is precisely where our triad of publications, arising from cooperation between Allianz Economic Research, AllianzGI International Pensions and AllianzGI Capital Market Analysis, is putting its money:

- We shall first investigate the demographic turning point from a global perspective.
- Next come the major trends in the pension systems, with a particular focus on their sustainability,
- after which we shall change tack. In the third part of the series the turning point in demographics is no longer viewed as a threat: instead we shall be looking for the investment opportunities it creates.

One thing is certain: we are all affected by demographics. The quicker we adjust to that fact, the better.



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## Imprint

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<sup>1</sup> Cf. UN Population Division, World Population Prospects, 2010 Revision

<sup>2</sup> According to the 12th Population Projection by the German Federal Statistical Office

<sup>3</sup> Allianz Global Investors (Allianz GI) Center for Behavioral Finance based on mortality tables from the Internal Revenue Service ("IRS")

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