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Demographic change - time to take action together to shape the future

Welcome speech at the Berlin Demography Forum

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(translation, original speech in German)

Ladies and Gentlemen,
dear guests,

I would like to welcome you most warmly to the first Berlin Demography Forum. We are delighted to have managed to bring together as hosts important representatives from different areas:

- politics, namely the Federal Ministry for Family Affairs, Senior Citizens, Women and Youth led by Federal Minister Dr. Schröder,
- practice-based academia with the European School of Management and Technology and its President, Professor Rocholl, and
- Allianz as the voice of the business community.

Let me get to the point.

At the beginning of January, Mr. Gerd Bosbach published an article in the *Süddeutsche Zeitung* newspaper entitled: "Why we can look to the future with confidence", criticizing the use of demographic horror scenarios as scaremongering.

I would like to open this forum by admitting that I do not share his confidence. Rather, the way in which we are dealing with the demographic challenges facing us reminds me, in many respects, of how we have handled the debt crisis. There is an insidious trend that everyone has known about for some time, but which has never really been tackled systematically. Instead, everyone pins their hopes on solutions that have been shifted well into the future.

In the case of the gradual increase in debt, hopes are pinned on future growth. But what are we to do to combat the gradual ageing of our society? Here, the general hope is that crèches, migration and productivity growth will do the job.

We have been working on a whole number of important issues in the meantime, and yet no concept on how to really master the challenge has emerged that stands up to scrutiny.

The issue we will be looking at over the next few days lies in the components for this sort of concept. We will be listening to a large number of presentations and contributions that look at the problem of our ageing society from a whole range of different perspectives.

Ultimately, however, any demographic stress test always looks at only a small number of fundamental issues.

- How big is the challenge that we face?
- Do the existing programs address the real problem?
- If the current tools are not sufficient - what next?

The challenge is, in any case, one of epic proportions. With the exception of Ireland, not enough children are being born across Europe, and Germany is one of the countries that is being hit hardest. After all, we have had one of the lowest birth rates in the European Union for decades now.

The birth rate has been hovering around the 1.4 mark for 30 years now, i.e. around 35 percent lower than the level required to keep the population constant in the long term. If birth rates and the number of immigrants remain as they are at present, then Germany's population will have shrunk from the current level of 82 million to 69 million by 2050.

This is compounded by a trend that we should, in principle, rejoice in: thanks to medical advances, life expectancy is climbing by four years every 20 years. More and more people are living to see the age of 80, 90 or more.

This means that Germany is getting older. Our population is already one of the oldest in the world. 17 million people are over the age of 65. This age group has grown from 10 percent of the total population in 1950 to 20 percent, and is set to have increased further to 28 percent by 2030. This means that the trend will accelerate as a logical consequence.

This trend comes hand-in-hand with numerous consequences:

Our ageing society means that more and more people are receiving transfer payments, while the number of people paying contributions is on the decline. This development will have an impact on economic growth. Among other things, it will mean that we will have to work longer, claim our pensions later and that we will be able to spend far less money on social policy, concentrating more on private old-age and long-term care provision.

As a result, healthcare costs and the need for long-term care will take on currently unknown proportions in the future.

One of the reasons why long-term care will pose such a massive challenge in the future, both in financial terms and in terms of the time we will have to invest, is senile dementia. Senile dementia looks set to become a major problem in the future. Today, around 1.2 million people in Germany suffer from dementia, which corresponds to 1.5 percent of the population as a whole. Incidentally, most of these people are currently being cared for mainly by relatives at home. By 2050, this figure is expected to have risen to 2.6 million people, or 3.7 percent of the population, due to our ageing society. After all, the likelihood of developing dementia increases with age - from 5 percent to over 30 percent.

Who is going to pay and care for these elderly people? We cannot rely on the state alone, which has long overstretched its financial capabilities. The scope of tax hikes has also been exploited in full for the majority of the population. In 1950, employees

in Germany were left with a good three quarters of their salary. This fell to just under two thirds in the 1970, whereas now, we are left with around 50 percent.

There are simply too many bad checks in our society that will have to be settled at some point in the future. First and foremost: uncovered state pension commitments. These are part of a system introduced in 1935 for people who worked for 45 years, retired at 65 and then lived for no more than seven years.

In today's world, however, we work for around 30 years, start our pensions at around the age of 60 and people often go on to live until the age of 90.

Professor Raffelhüschen has put the financial obligations incumbent upon the state and the social security system, which have no reserves, at 4.6 trillion euros. This means that Germany's real debt would not total 2 trillion, i.e. 80 percent of its gross domestic product, but more than 270 percent.

What is more, the exceptional monetary policy circumstances that prevail as a result of the unresolved banking crisis are currently also, unfortunately, limiting the ability of the capital markets to take the edge off the demographic problem. We have been living with record low interest rates in Germany for three years now. This means that, after inflation, savers can at best preserve the capital they invest.

The hope that immigration might take pressure of the structurally underfunded social security system and the labor market is a misplaced one, too.

To keep the working-age population stable in the period leading up to 2050, we would need 490,000 immigrants a year. If we want to maintain the current balance between the working population and pensioners, as many as 3.6 million people would have to come to Germany every year. Immigration that remains on this scale for a sustained period is simply not realistic.

Rapidly ageing societies like Germany's, which will face high, currently uncovered, obligations in the future, are therefore working feverishly on how to return to higher birth rates.

This, too, is something I believe to be unrealistic given the circumstances. If things remain as they are, we are asking the impossible of young families. After all, they have to participate more in working life, care for the older generation for longer and have more children themselves - all at the same time.

It is an unenviable task for politicians to clearly articulate all of this bad news and forge a greater understanding of the solutions that will work in the long term. But this would pay dividends in political terms, too. After all, I believe that the series of crises over the past few years have shown that people can see the writing on the wall. They want politicians to come clean and problems to be solved, not shelved. When this happens, they are also prepared to hand out political rewards for an honest approach.

This also brings me to the role of the corporate sector.

Most companies recognized a long time ago that features that allow employees to reconcile family and working life are a key competitive factor.

At Allianz, we are doing everything in our power to accommodate mothers and to ensure equal professional treatment for men and women alike.

We offer flexible working hours, part-time models, sabbaticals and home office opportunities for employees to split their time between the office and their homes. We are also testing virtual offices and making it easier for parents to return to work after parental leave. And it goes without saying that we also run company crèches and vacation childcare programs to make it easier to reconcile work and family life

It is, nevertheless, important for me to emphasize that, despite the commitment of the corporate sector and despite all that we at Allianz, for example, do for our

employees, these solutions can only be supporting measures with regard to the demographic challenge we are facing.

As a result, I would like to include five aspects in the debate, none of which are new per se, but which address the issue that is really important in my opinion:

How can we take pressure off the young generation so that it can breathe and has the strength to raise children and create as much economic growth as possible via productivity, despite rising demands. After all, if the up-and-coming generation refuses to cooperate because it does not feel able to do so, then Germany will not be able to master the demographic challenge.

This brings me to my 5-point catalog of measures.

1. We need clear moves towards the expansion of **full-day schools**.
2. In order to prepare the young generation for the tasks that lie ahead and to take pressure of the social security systems, we should introduce an **obligatory year of community service** to replace military service, which has now been abolished.
3. Moves must be stepped up to switch all pay-as-you-go social security systems over to **funded systems**.
4. We have to do all that we can to get out-patient and in-patient **long-term care facilities** up to humane standards. In this respect, we have to take a very serious look at the growing complaints from long-term care staff about productivity requirements in the system.
5. Finally, we need an **immigration policy** with clear objectives and target countries where, for example, corresponding vocational traineeships can be offered locally to motivate young people to move to Germany.

I am more than aware of the fact that these solutions are not new and that each one of them raises the question of funding. This is one of the reasons why I look forward to seeing which other solutions the Berlin Demography Forum will come up with and whether strong concepts that do not require a huge investment in the future are conceivable.

Thank you very much for your time.