

Harnessing the second dividend in emerging Asia: the contribution of savings & pensions

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Harnessing the second (or savings) dividend requires decent incomes from several potential sources

Potential sources of the second dividend

- **Labor income**, including at older ages
- **Savings & asset accumulation**
- **Family support**
- **Pensions** to ensure financial security at older ages & promote long-term savings for economy

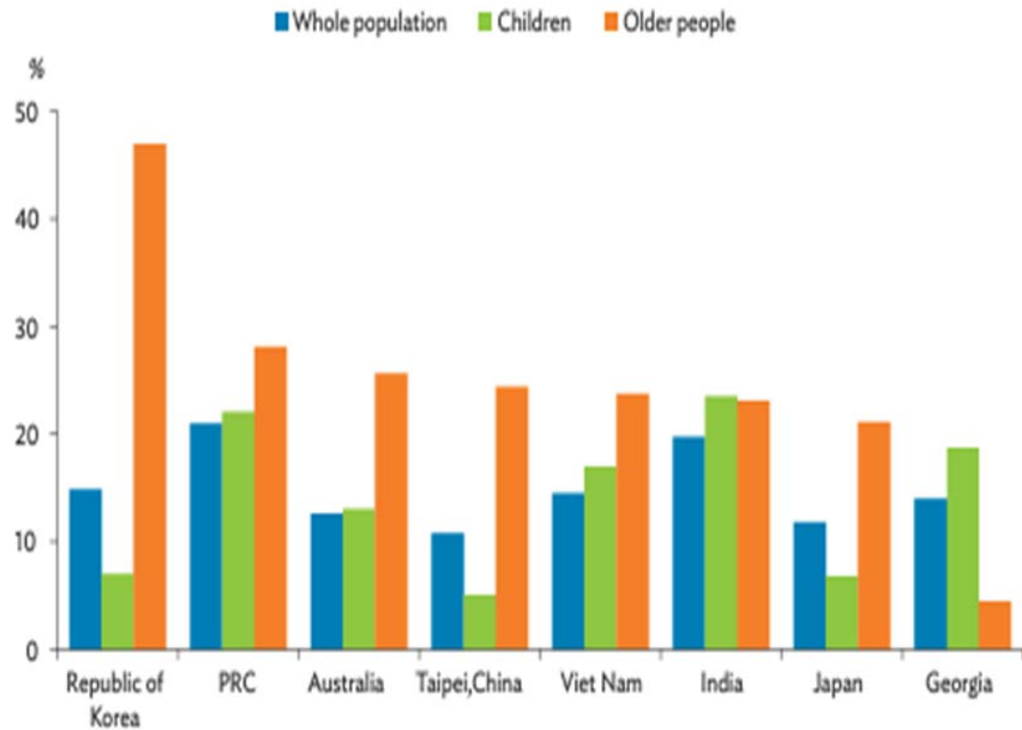
Drivers of the second dividend may be facilitated or compromised in different ways, including:

- For labor incomes, due to informality and poor health, reducing labor force participation, productivity, human capital deepening & labor earnings
- For savings & asset accumulation, by low financial inclusion, low financial literacy & savings depletion due to income shocks
- For family support, by shrinking family size, changing household structure & shifting social norms
- For pensions, by low coverage, poor adequacy, and/or pension system unsustainability

First, poverty & inequality patterns by age in Asia suggest inadequate incomes & savings across life for many

In Asia, older people are often poorer than the general population

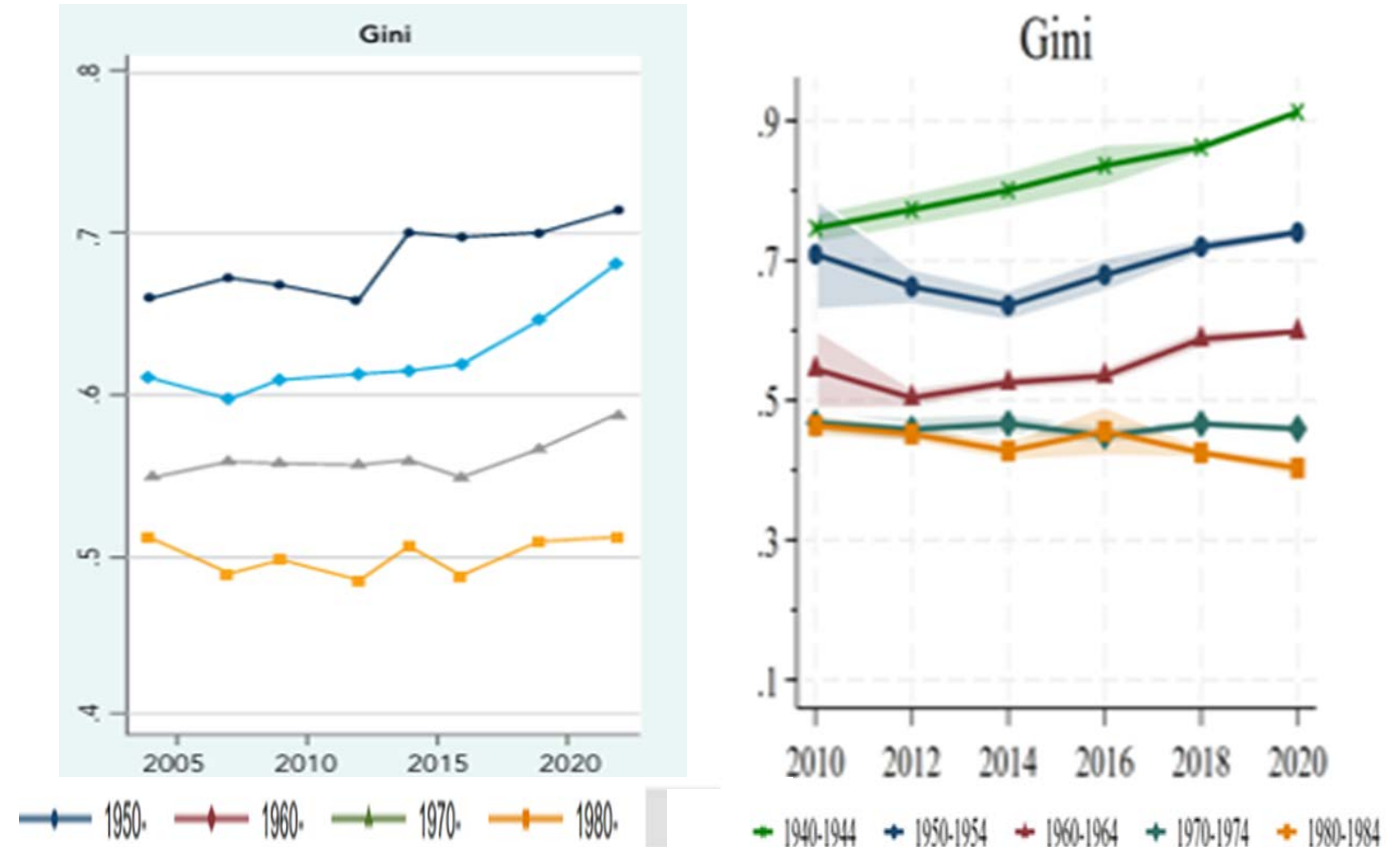
Share of people with less than half median disposable income, latest year %



Source: ADB, 2024

Where social protection is inadequate, inequality is higher among older population cohorts

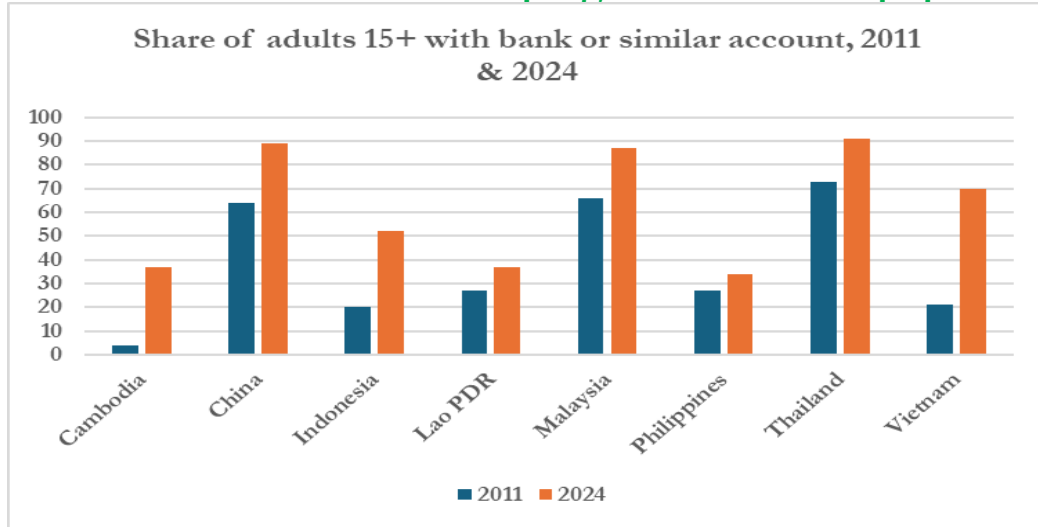
Within-cohort Gini coefficient by birth cohort, Malaysia (left) & Vietnam (right)



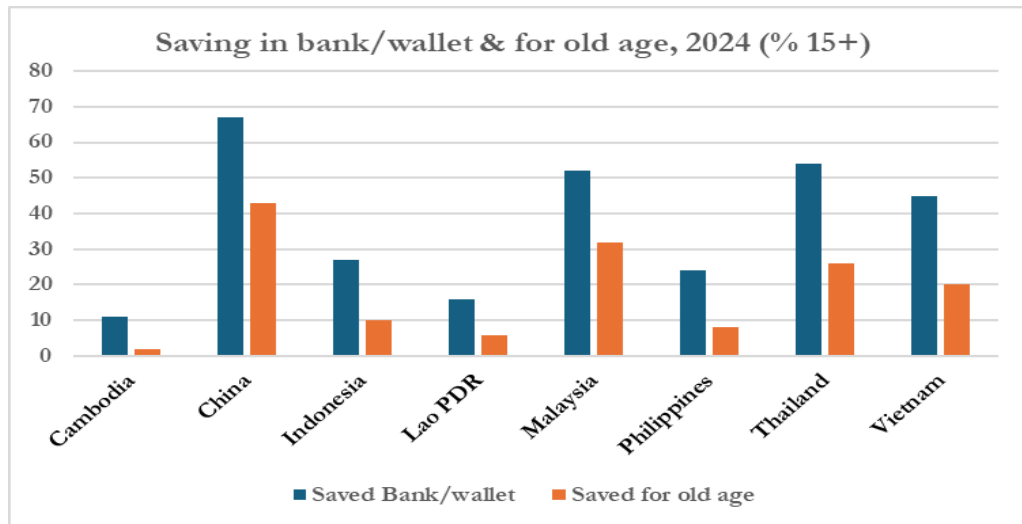
Sources: Rongen et al; CEPAR

Foundations of saving & financially secure ageing: progress on financial inclusion, but less on savings behaviour & financial literacy

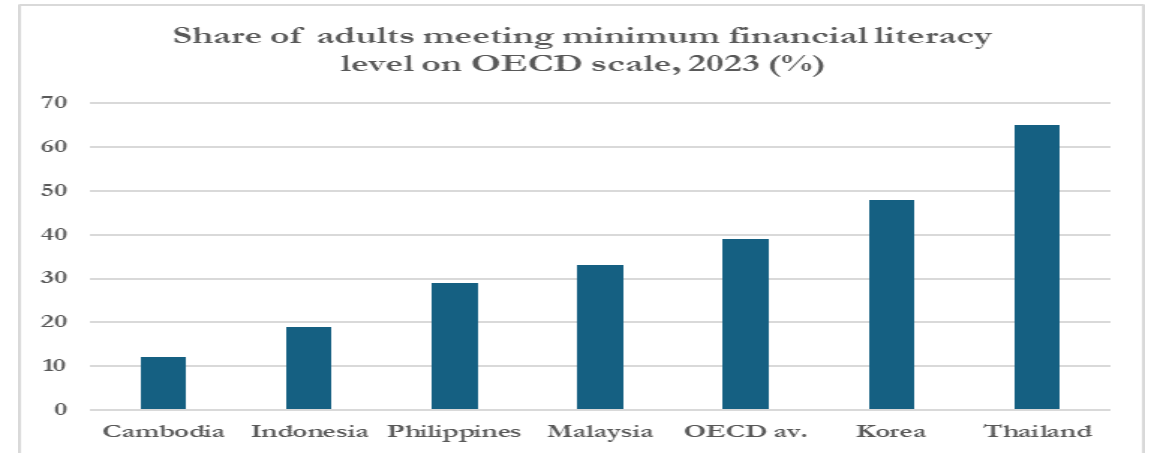
There has been considerable progress in banked population



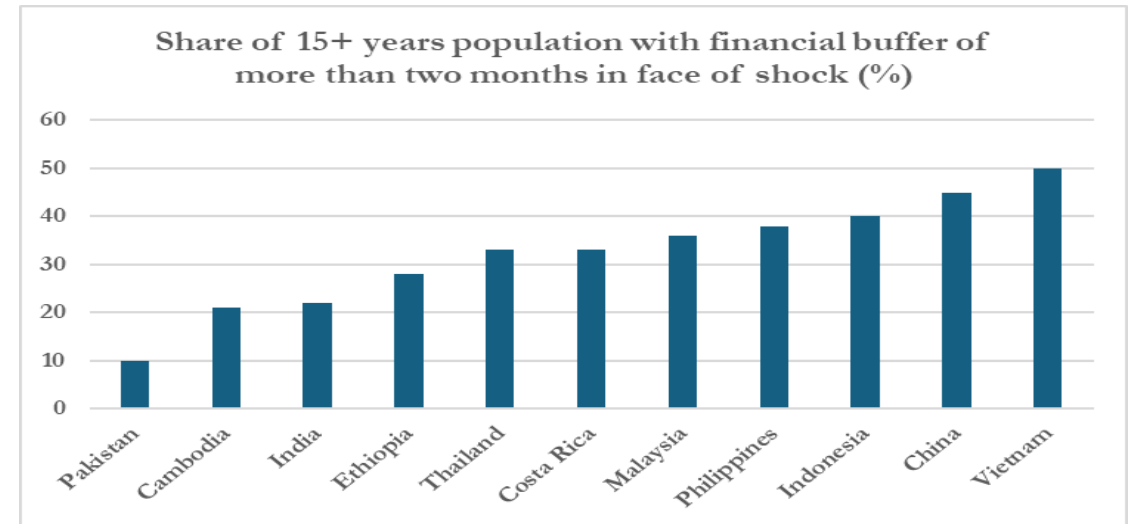
But formal savings more limited & minority save for old age



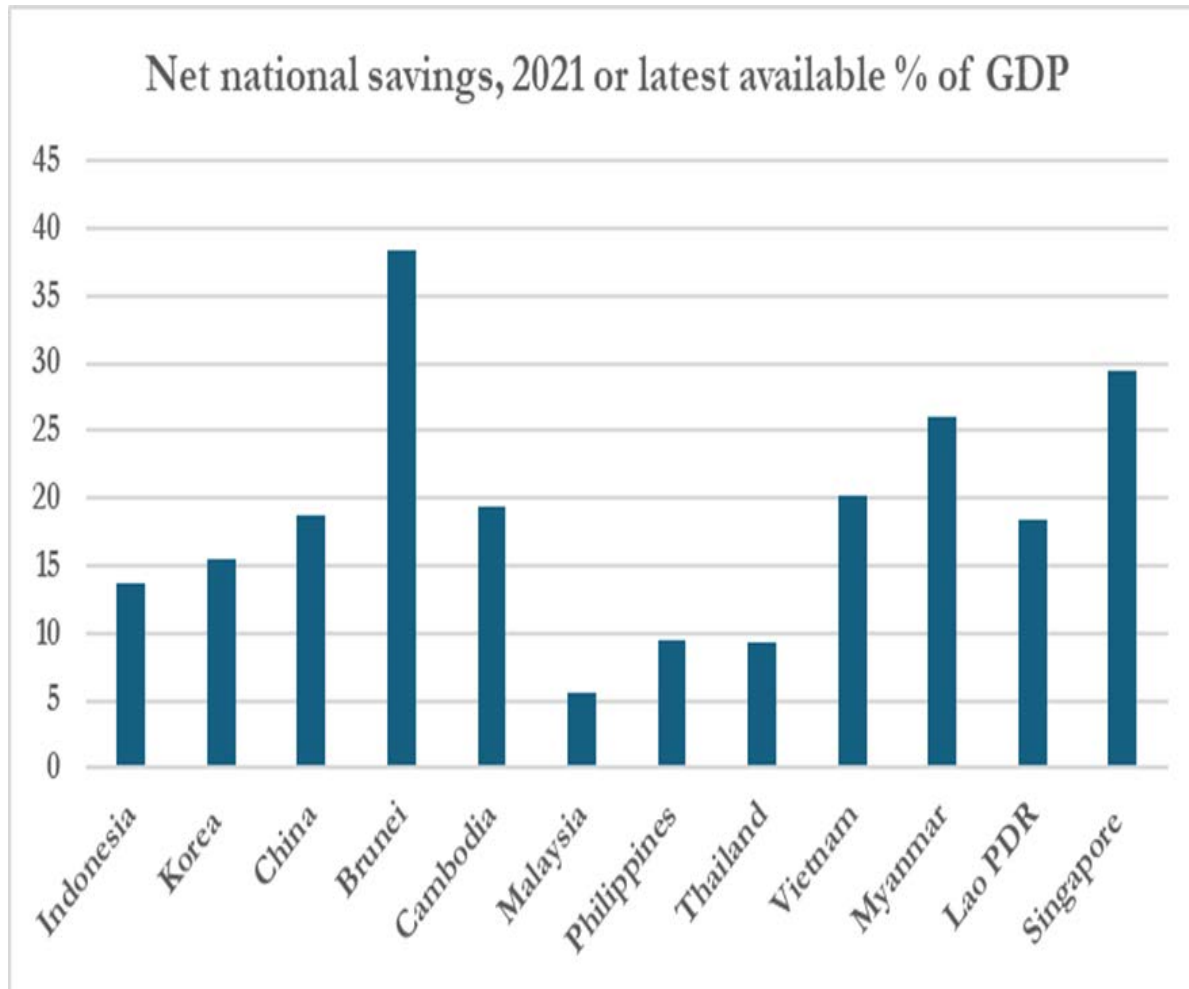
And financial literacy mostly remains low (OECD 2023)



Large majority lack adequate financial buffers in the case of shocks



Despite that, aggregate savings rates in much of Asia are quite decent – but concentrated & probably often precautionary



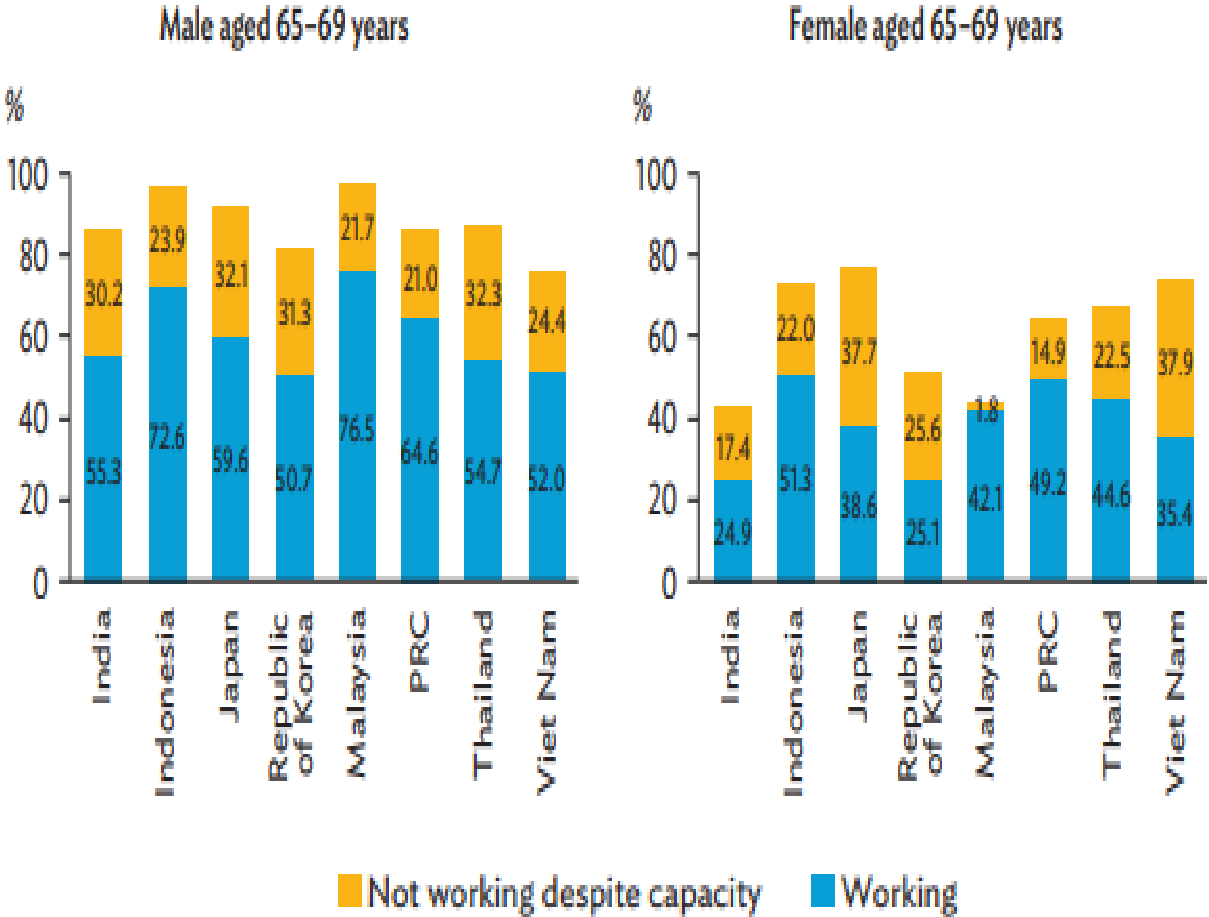
Source: World Bank

- Significant shares of HH have *negative* net savings – e.g., China 2019 c. 1/3 & Thailand 2020 c. 60%
- Limited empirical & qualitative studies suggest saving as precautionary against health/care costs & due to fewer children (Imrohorglu & Zhao, 2017; IMF for China)

Overall, people in Asia work long and hard – but despite that, there remains substantial untapped health capacity to work at older ages, resulting in lost growth potential

Untapped work capacity by gender, 65-69, latest available year

Increase in GDP if untapped work capacity of 60-69 year olds fully utilized, % of GDP



Indonesia	0.3
Korea	1.5
Malaysia	0.2
China	0.4
Thailand	0.9
Vietnam	1.1
Japan	1.4

Source: ADB

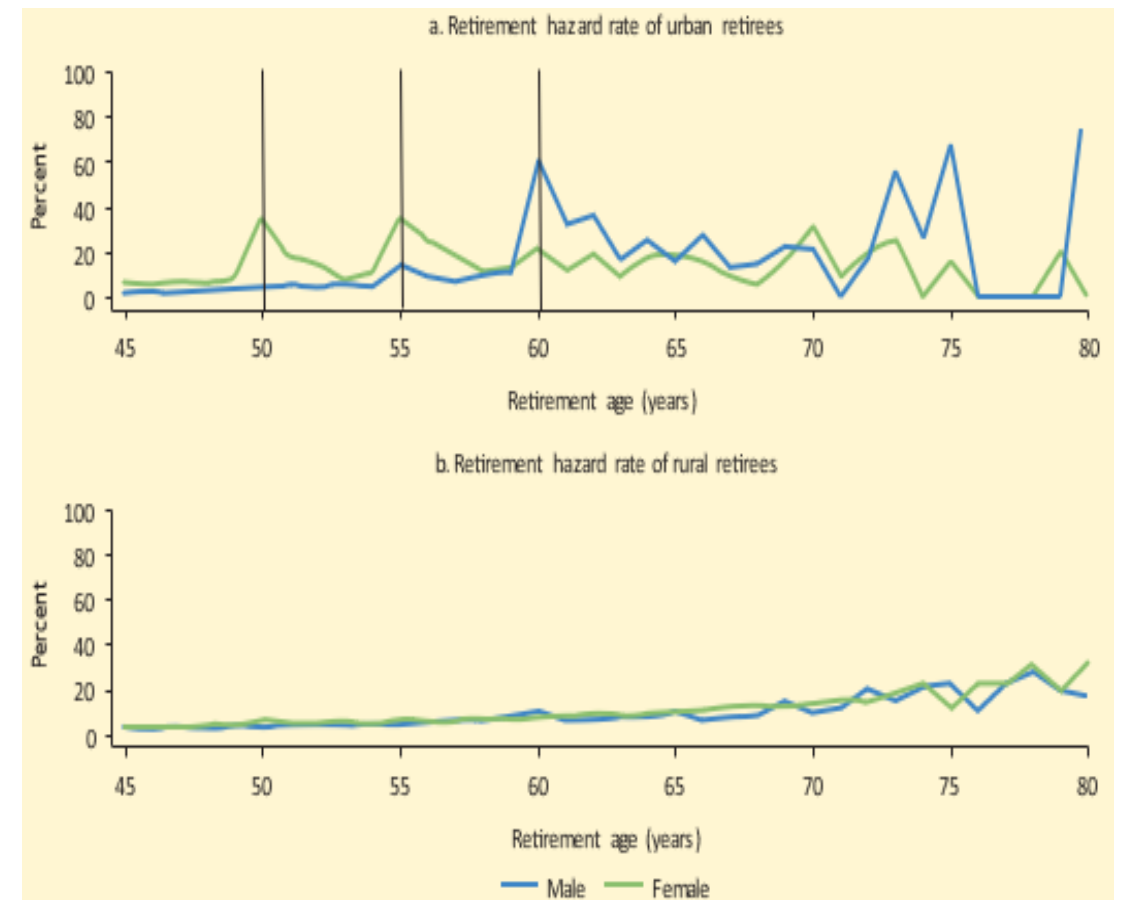
Pension systems & labor policies often contribute to formal sectors workers withdrawing from work earlier or moving to lower productivity employment – compromising lifetime savings & the second dividend

This can happen through several channels:

- low & fixed retirement ages with low effective retirement ages relative to demographics & even lower for women in some (e.g., China, Vietnam, Lao, Mongolia, Uzbekistan), motivated in part by the under-development of formal aged care systems & liberal early retirement provisions
- Pension eligibility rules which require workers to stop formal sector work in order to collect their pension (e.g., China)
- Labor laws & workplace practices which discourage flexible & remote work which is often preferred by older people

As a result, the most productive workers (& higher savers) are those most likely to withdraw from the labor market earlier

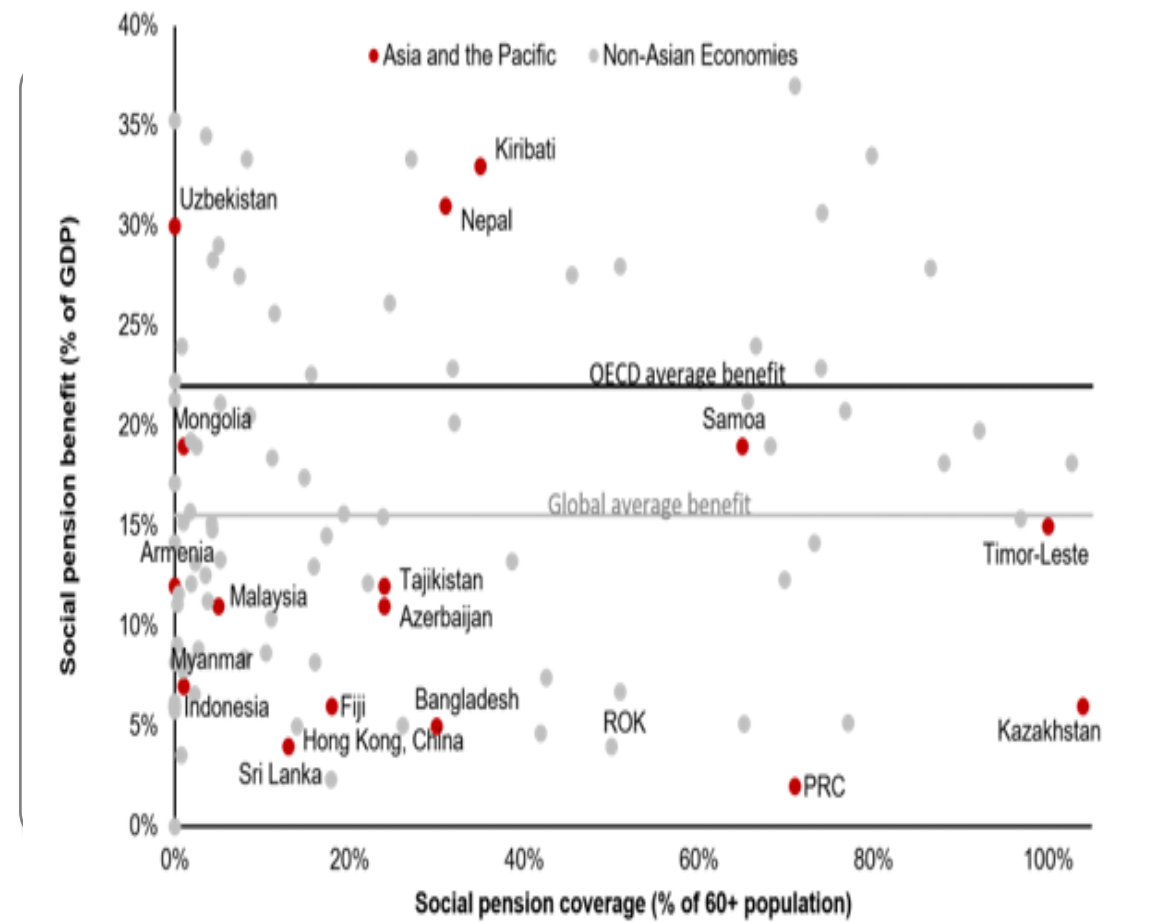
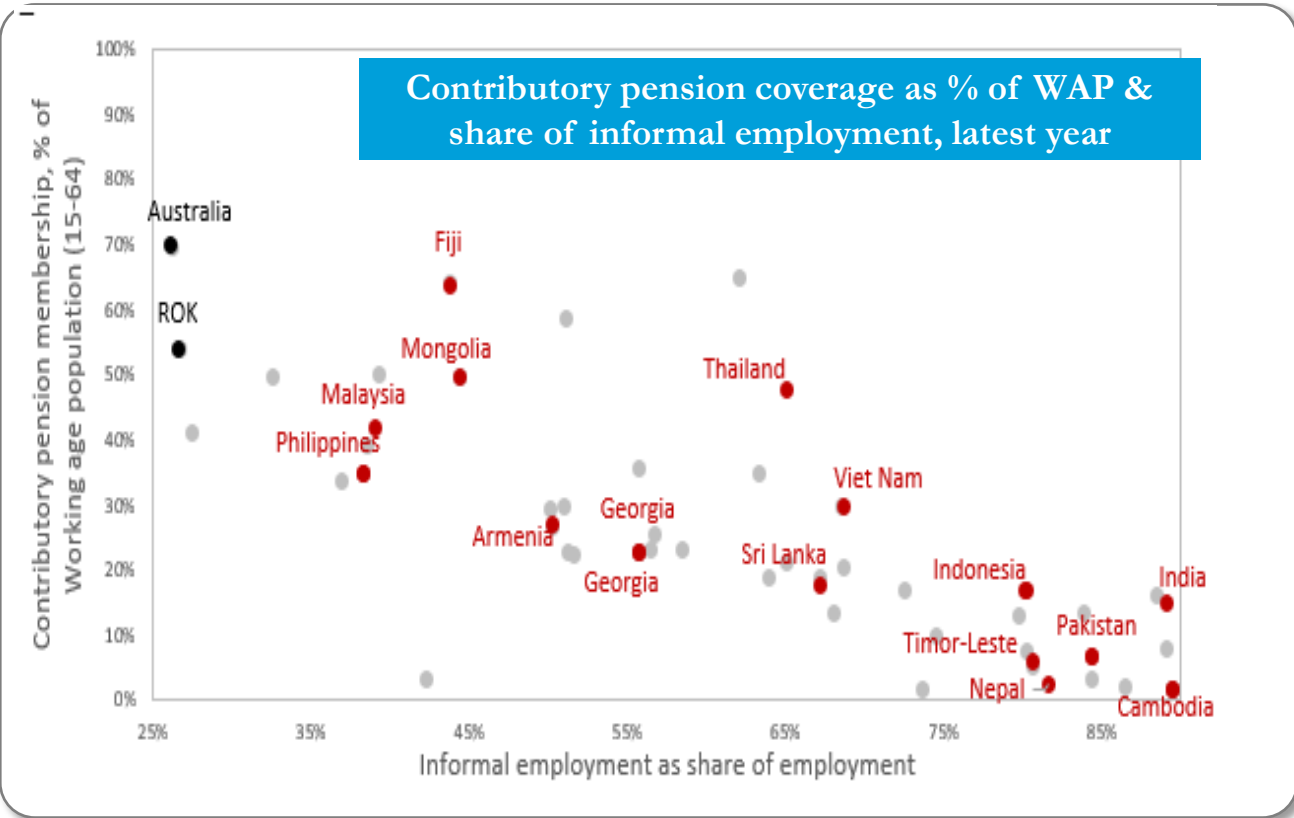
China's pension system design incentivizes early retirement for urban workers



Contributory pension coverage across emerging Asia remains stubbornly low in the face of high informality & social pensions only partly fill the gap & have low adequacy

Participation is low and has increased only modestly in recent decades, with exception of informal sector schemes

Social pension coverage as share of WAP and adequacy as % of GDP per capita

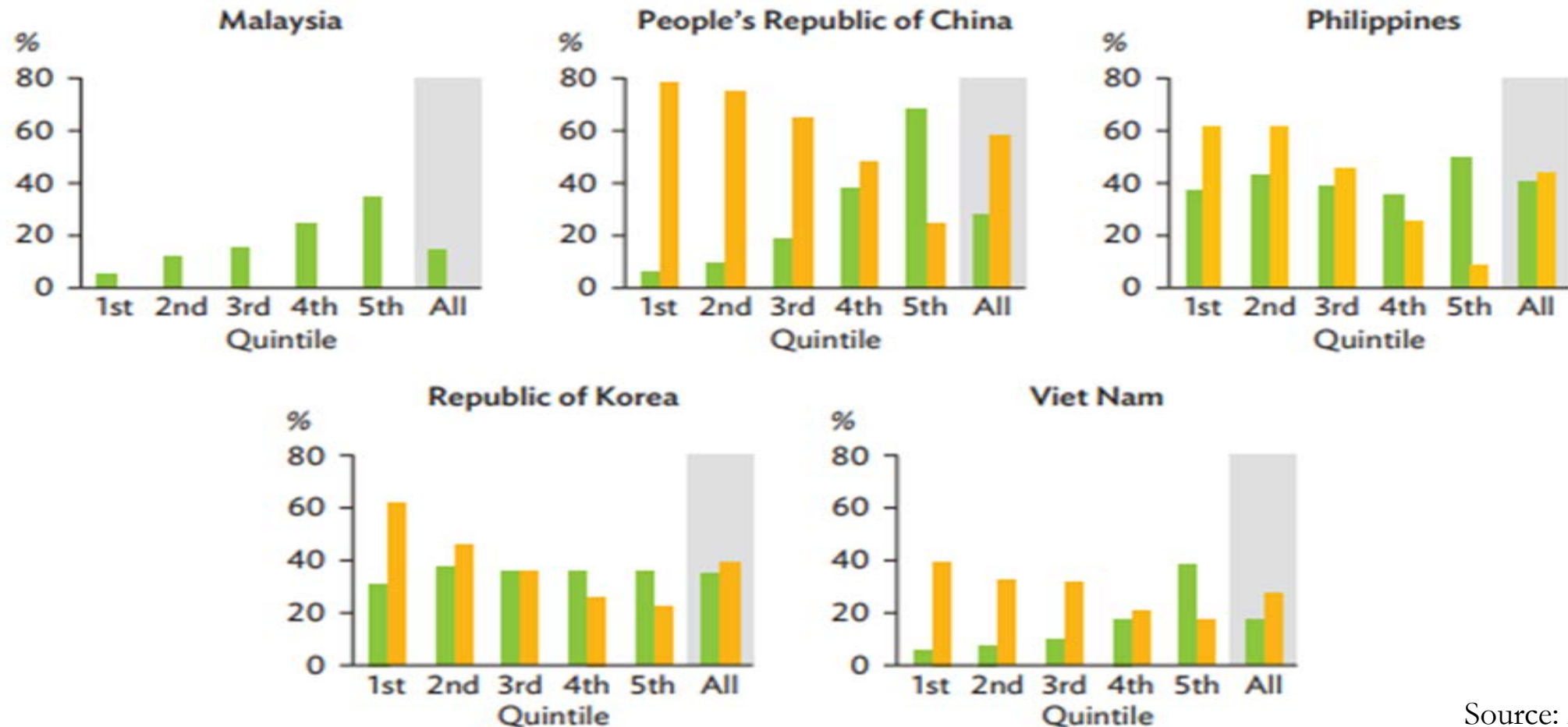


Low female LFPR & higher informality mean female coverage is often much lower than population average

Source: Chomik et al, 2024 – India benefit is national level benefit for 60-79 year olds

Contributory pensions are largely received by the better-off & low social pensions by poorer households, but large “missing middles” of non-poor uncovered people

Receipt of contributory pension (green) & social pensions among 60+ (yellow)



Despite low coverage, formal DB schemes have challenges of sustainability as ageing accelerates & DC schemes challenges of adequacy

Defined benefit/PAYGO systems in Asia face major sustainability issues, including:

- Rapidly rising system dependency ratios of pensioners to contributors
- Low retirement ages relative to increased life expectancy – even with ongoing reforms
- Very generous civil service pensions
- Lack of automatic adjustment mechanisms to help balance contribution revenues & expenditures
- For some countries, low contribution rates

Defined contribution systems mostly face adequacy challenges, due to:

- Generous early withdrawal rules
- Low withdrawal ages & lump sum withdrawals
- Conservative fund investment rules in many countries
- Low contribution density across working lives

As ageing accelerates, DB schemes will require deeper reforms & more diverse financing sources

In brief...

- Progress has been made in building some of the foundations for capital deepening that can help realize the second demographic dividend

BUT...

- Given the rapid pace of population ageing in most Asian countries, some key building blocks to promote savings & human capital deepening are lagging, with labor market informality at the core of the deficits, creating inequities which will limit aggregate capital & human capital deepening
- Pension systems will need more fundamental innovation & reform as ageing accelerates if they are to provide more equitable, adequate & sustainable financial protection at older ages & contribute more effectively to realizing the second dividend