Population Aging and Roles of Financial Markets

Population aging can, directly or indirectly, affect macroeconomic variables including economic growth, public finance, and asset markets. They also can change household behaviors regarding consumption and savings in various ways. The purpose of this study is to address the challenges of an aging society by exploring macroeconomic risks and household risks that population aging may cause, and suggesting roles of financial markets to help the government (public sectors) and households to manage them.

While this topic is important because the baby-boom generation approaches retirement and the group of people aged 65 and older will increase unprecedentedly fast in Korea during the next several decades, which will shrink social insurance systems for pensions and medical care due to the fiscal sustainability, little work has been done on population aging-related risks especially from the perspective of financial markets.

Main results are as follows. First, the government may need to reconsider the appropriate sharing of risks between the public, private, and household sectors, although shifting more risks to households. Second, financial intermediation function of financial markets should be enhanced to support economic growth by dividing economic resources more efficiently. Third, a variety of financial instruments (private pensions and private medical insurance plans) are required for households to convert their savings into a dependable income stream during retirement.