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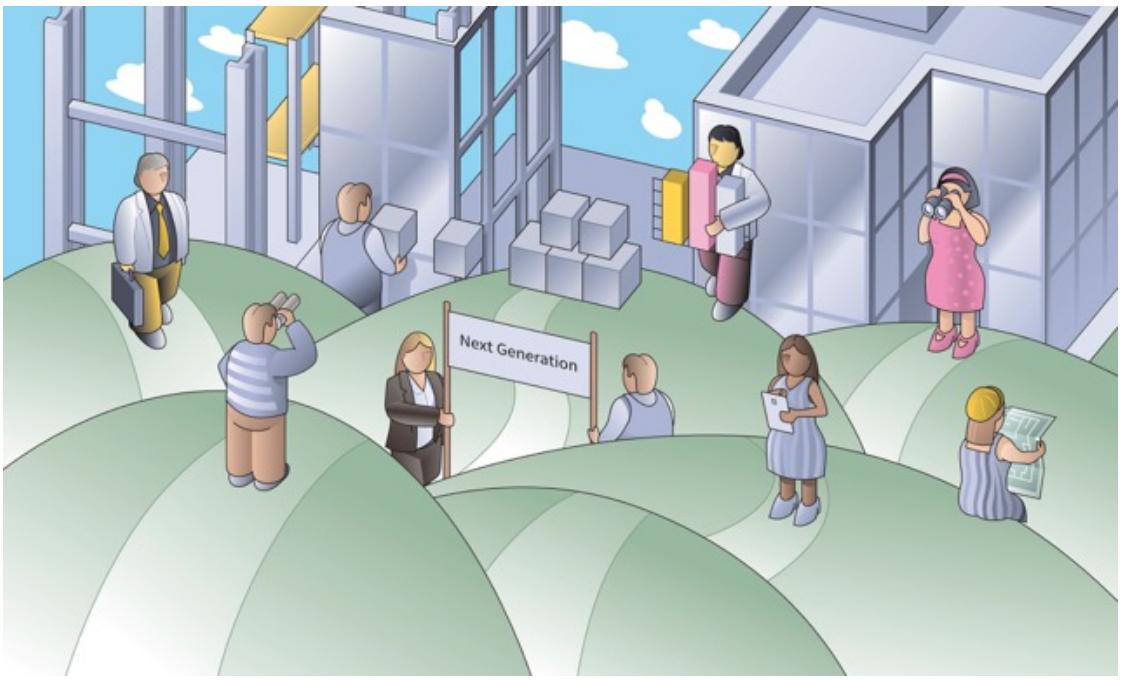
Views from Generation Y



Demographic Change in Switzerland – How might it be in 2060?

Author: Patrick Friedli

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Introduction

Demographic change is a topic that is often neglected by the majority of society. It is a continuous development influencing our present and especially our future life. Therefore, this paper will give an overview of the main aspects of people's lives that will change as a result of demographic movement, with special focus on a potential 100-year life in Switzerland. The increase in life expectancy that Switzerland has experienced in the past few decades marks a significant factor in demographic movement, with unpredictable consequences. This demographic shift will shape Switzerland's future society. In this paper, the conventional 3-phase model of youth, family/work and retirement will be questioned in order to find more agile solutions for upcoming societal challenges. The foundation of this paper lies on the scientific facts about demographic movement and assumptions about what a life course might be like in 2060. To bring a practical aspect to this paper, a group of high-level executives in the life sciences and pension sectors have been interviewed in order to capture their opinion regarding major changes in the future. Some of the assumptions made in this management summary are based on insights drawn from their opinions.

Demographic movements in Switzerland

Over the past few decades, life expectancy in Switzerland has increased significantly. While people born in 1960 had an average lifespan of 70 years, life expectancy in 2060 is forecasted to be 89 years. By contrast, fertility rates have demonstrated a different trend over the last 40 years and remain steady with a birth rate of 1.6 in Switzerland (Federal Statistical Office, 2019a).

This development was initiated by the increasing impact of science and technology, as well as an improved understanding of how to apply these resources. As a result, Swiss people age more healthily due to well-balanced nutrition, varied and frequent physical activity and access to world-class healthcare and health products (Cutler, Deaton & Lleras-Muney, 2006). This leads to a growing gap between numerical and biological age. Whereas numerical age is the number of years a person has been alive, biological age refers to how old a person feels and seems. On average, the gap between biological age and numerical age has grown 5 years per generation in recent decades. Consequently, people can be more productive over their lifespan as they remain in better shape and can therefore still work even at an advanced age (O'Connor, 2016).

Questioning the status quo of education and social security entitlements in Switzerland

Education

Even though education is already a fundamental part of Swiss society, the demographic change will force people to engage with it more. Due to the extended life course and the rapidly evolving economy, individuals will constantly have to adapt to changing environments. As a result, the future education system will not end after secondary school or university. In 2060, there will be new options to enable life-long access to further education. It is scientifically proven that people in Switzerland with higher education tend to live 6 years longer than those with lower education (OECD, 2017). Therefore, the Swiss education system needs to adapt to those circumstances and should give everyone the same opportunity to participate in educational enhancement. Otherwise, the gap between higher and lower levels of education will increase even more, which will lead to greater inequality in the country (Lutz, Butz & KC, 2014, pp. 14–17).

Pension system

While the retirement system today is set up to work for a numerically balanced society, the ongoing demographic shifts are causing a disequilibrium. The growing number of retirees will increase the burden on contributors to the statutory pension scheme. Whilst in 1970 there were 3 persons in the labour force for every pensioner, there are only 1.8 employed persons per retiree nowadays (Federal Statistical Office, 2019a). This shift in society's different age layers is not the only cause of the forthcoming funding bottleneck; another reason is the increase in recent decades of the average life expectancy. Therefore, reflection and reorientation will be vital to the reorganization of the life phase of retirement.

As a consequence of the 100-year life, the utilization period of pension payments will be around 35 years for every second person born today. This duration has more than tripled compared with for a person born in 1945 (Gratton & Scott, 2016, pp. 33–41). With this enormous increase

in the number of years in which retirees draw their pension, the current pension system will not be able to withstand the mounting pressure. There are ongoing contentious debates in the Swiss parliament about the age of retirement and the amount to pay out (Schäfer, 2019). Both solutions are dependent on the government implementing legislation regarding the pension system. The main reason why pension system adjustments lag behind what is required is that terms of office in the Swiss parliament are relatively short compared with the long-term challenges of demographic movement (Schäfer, 2019). Plans to recalibrate the pension system involve curbing the current system, a policy that will most probably harm the re-election prospects of the politicians responsible.

Voting systems

The Swiss voting system is also confronted with new challenges. The median age of eligible voters in 2060 will be around 55 years old (Federal Statistical Office, 2019a). This indicates an excessive voting power for older people, which could lead to an underrepresentation of the concerns of younger Swiss citizens. For instance, initiatives to restrict the pension system could be rejected because of the voting power and interests of older people who are most immediately affected. This trend has already reached other countries in Europe and can be observed, for instance, in the Brexit referendum. Whereas most voters under 44 wanted to stay in the European Union, the proposal to leave was accepted due to the voting power of people over 44 (Curtice, 2018). One solution against this problem could be to cluster voters into groups. For example, there could be different groups defined by their age (e.g. 18–35, 36–55, 56+). Each group would then have a voting share of 1/3 of the total vote. With this approach, there may be a chance to better take the opinion of young people into account in the political process.

Changes in life courses by 2060

Childhood

While the share of children under 14 years old will remain stable over the next 40 years, the population stratum of people over 65 will grow from 19.1% today to 29.5% in 2060. This also induces a significant decline in the relative share of people between the ages of 15 and 64 by approximately 10% (Federal Statistical Office, 2019a). This change in society's composition has implications for parenting children. The increasing number of older people could result in an evolving childcare system, where grandparents and even great-grandparents want to spend more time with their grandchildren. Involving the grandparents could also be a tactic used by parents to shift capacity from family life to work. This could result in changed family patterns with a new distribution of roles within a three-generation household.

Young adults

The biggest change in the life course of young adults will most likely be in the realm education. As discussed above, individual education will henceforth continue throughout the whole lifespan and will not only be limited to school attendance in youth. The basis for this lifelong education is set in the early stage of life, for example with the decision whether or not to pursue a university degree. In the last 25 years, the number of university graduates has doubled in Switzerland. According to the Federal Statistical Office, this upward trend will continue. It is estimated that in 2040, more than 55% of the Swiss population will finish some kind of tertiary education (Federal Statistical Office, 2019b). The decision to graduate could be economically important when it comes to future employment. Earlier generations tended to spend their working life in one type of work (Gratton, 2011, p. 320). As the duration of working life could extend to 60 years, switching career path is an option that many individuals will consider. Demographic movement is also a factor that affects labour markets. Due to the increasing number of elderly people, the healthcare sector will grow (Federal Statistical Office, 2019c). It can be inferred that education will not only occur during youth but will rather be a development woven into different periods throughout the working life. Nevertheless, the guiding foundation for the education career will most probably still be defined in the early stages of life. Technology, the business environment and customer preferences will continue to rapidly change in the lead up to 2060. Therefore, those factors are worth considering when it comes to choosing a field of study.

Adults in employment

As a consequence of the pension dilemma, citizens are left taking responsibility for the majority of their own pension and for saving money independently.

Figure 1 illustrates how much money a person must save in order to retire at a certain age. Under the assumption of a 100-year life, an individual would need to save around 25% of their salary in order to live on 50% of their final salary once retired. And that figure of 25% is only for the pension; other expenses like paying off a mortgage are not included. It is hard to imagine setting aside such a sizable amount of a monthly salary just for retirement, particularly for people who have to support a family.

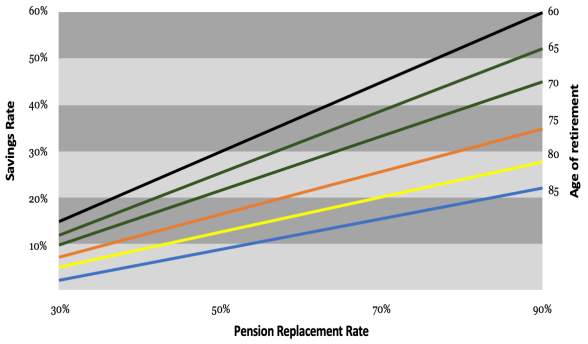

Figure 1: Savings rate and retirement age for a 100-year life (Gratton & Scott,2016)

Money and professional careers will certainly be a key priority, but private life and leisure will also be of significant importance to most people. Finding the balance between money and intangible assets will be one of the main challenges for adults in the workforce (Gratton & Scott, 2016, pp. 67–69). Furthermore, better physical and mental health enhances performance in professional life. This means maintaining relationships and being physically active are prerequisites for a happy and productive life. Therefore, employers should provide as much flexibility as possible to facilitate a healthy lifestyle.

The old-age workforce

Due to the current pension dilemma, people need to work longer or need to save more money during their time in employment. With an increasing lifespan, people do have the ability to work longer and can thus accumulate more productive working hours (O'Connor, 2016). This does not necessarily mean that people have to work full time until they are 80 years old in order to finance their pension. The solution could rather be found in a model in which people start to retire gradually. Such a retirement could start at the age of 55 with a continuous reduction of working time until the age of 75, at which point one could enter final retirement. This model offers many advantages; for example, it could allow people the time to slowly get used to retirement, a status many people struggle to adjust to. Also, older people are looking for more autonomy and control over the pace of their work. They also like to provide their expertise purposefully rather than just for earning money. A change in mindset to look for work with a more meaningful purpose can activate the intrinsic motivation that encourages people to work longer (Span, 2018).

The old-age workforce is in transition towards retirement within the next few years. Formed of the so-called baby boom generation, born between 1946 and 1964, they are ending their professional careers and entering retirement at age 65. As the term "baby boomers" already implies, this generation is characterized by its high birth rate compared with other generations.

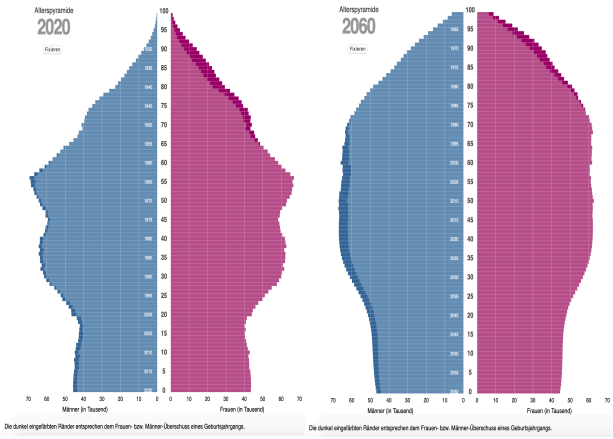

Figure 2: Age distribution 2020–2060 (Federal Statistical Office, 2019a)

Figure 2 shows the changing age distribution of the Swiss population. It illustrates that the number of people retiring is much higher than the number of people moving up to working age. This movement is one cause of the pension dilemma that Switzerland will experience until 2060. However, in the year 2060, the demographic structure of Switzerland will settle to a steady level, as shown in Figure 2. This implies that the pension problem will most probably resolve itself eventually. Until 2060, though, this movement is going to cause great difficulties.

Retirement

Not only children but also the retired population will be affected by the family structure of 2060. As discussed before, three-generation house-

holds could become more common, and grandparents could become highly involved in the everyday life of their children and families. Their role in the family will become more central, which could also help structure their day-to-day lives during retirement.

With advanced age, retirees will also be confronted with more health problems. Even though people will live longer, at a certain time, their bodies will still suffer the symptoms of age. Chronic conditions – dementia being a stand-out example – will pose serious threats to the welfare of older people. Not only is the sick person affected, but also their family and friends who will have to deal with the declining health of their loved one. There is also a high burden of care, which has to be carried either by the state or through public sources (Groth, Klingholz & Wehling, 2009). How the body reacts to a 100-year life is still not properly investigated and therefore remains a mystery for now, but there will definitely be ramifications for the healthcare sector.

Conclusion

Longevity has already changed societies in developed countries and will certainly continue to disrupt many existing systems, including in Switzerland. This trend has several implications: the family picture will change, shifts in career paths will occur more frequently and education will not be finished until retirement. In order to finance longevity, new retirement models must be developed and adapted to the needs of an older workforce. The economy will change, and agile sectors will be best placed to profit from these unprecedented demographic movements. A 100-year life does not only rely on monetary success but also on intangible assets like good physical and mental health, as well as a social circle with encouraging friends and a happy family.

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About the author

Patrick Friedli worked for the BMW Group in supply chain management and did a consulting traineeship at PwC in the field of financial services. Currently enrolled at the University of St. Gallen, he is pursuing his Master in Accounting and Finance. After his degree, Patrick wants to work in M&A. The analyses and opinions presented in this article are his own.

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