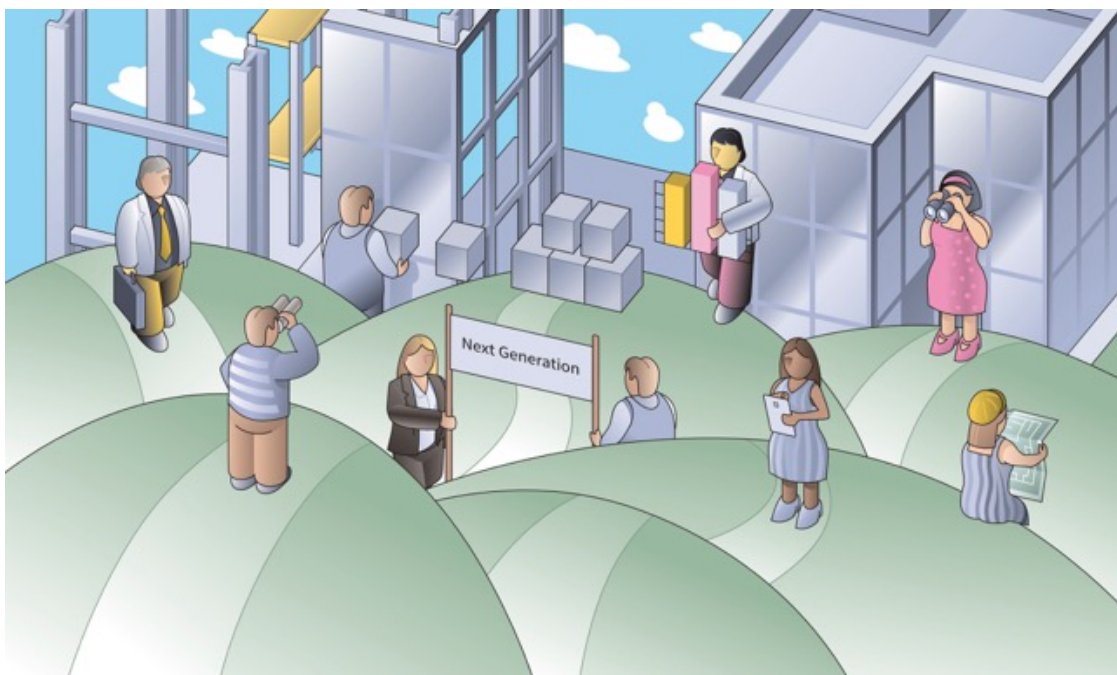


## Views from Generation Y



### **Demographic change in Switzerland: How might it be in 2060?**

Author: Lucas Binggeli

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

### Introduction

The 100-year life becomes reality: over half of today's children in developed countries such as the US, UK, Germany, Switzerland and France will live to crack the magic three-digit limit (University of California, Berkeley & Max Planck Institute for Demographic Research, 2017). Responsible for this longevity are three main drivers: knowledge, science and technology. They have steadily increased life expectancy over the last 200 years (Cutler, Deaton & Lleras-Muney, 2006). Whether a longer life is perceived as a gift or as a burden depends on how humanity copes with it. What is certain is that the classical 3-phase life course model of childhood, employment and retirement is outdated, and more agile solutions must be found in order to live a happy, fulfilled and financially stable life in the era of longevity (Gratton, 2011, p. 127f.).

However, there are big differences in life expectancies and associated issues among countries. Therefore, this paper focuses only on the possible implications of a 100-year life in Switzerland. To be more precise, it will examine what our future life courses could look like from now until 2060. This is the year when people born in the mid-1990s would officially retire according to today's social security system.

### About longevity

Life expectancy at birth has remained relatively stable at 24 years for at least a millennium. However, since the late 18<sup>th</sup> century one could observe a stable increase of two to three years every decade. With no sign of slowing down, this phenomenon is assumed to continue. A child born today in France, Italy or the US has a 50% chance of living 107 years (Gratton & Scott, 2016, p. 16f.). The main drivers of longevity are knowledge, science and technology. Innovation in these arenas leads directly to better healthcare and indirectly to higher overall productivity, which enables healthier living conditions, including better nutrition, housing and sanitation (Cutler, Deaton & Lleras-Muney, 2006). Given that, it is understandable why even today considerable inequalities can be observed between more and less developed countries. For example, in 2019 the citizens of Japan had an average life expectancy of 84 years. By contrast, the inhabitants of the Central African Republic have a life span

which is 30 years shorter. This enormous discrepancy can be explained by the high child mortality rate and poor health conditions in the Central African Republic. To clarify, many developing countries with historically low life expectancies are rapidly catching up. Today life expectancy is increasing all over the world – but with different dynamics (Roser, 2019).

### Longevity in Switzerland

In 1960 life expectancy for both sexes at birth was 71.2 years; today it is 83.8 years. In 2060 it is expected to be around 92 years (Federal Statistical Office, 2019a). The combination of increasing life expectancy and stagnating birth rate is the reason for the ageing of society in Switzerland and has a significant impact on the relative age structure (Rufer & Groth, 2018). Figure 1 illustrates that in 2020 about 19% of the Swiss population are 65 years and older. This number will rise to 29% by 2060. In absolute numbers this is an increase from 1.7 million to 3.3 million elderly people and amounts to a percentage increase of 94%, i.e. almost double (Rufer & Groth, 2018 and Federal Statistical Office, 2019a).

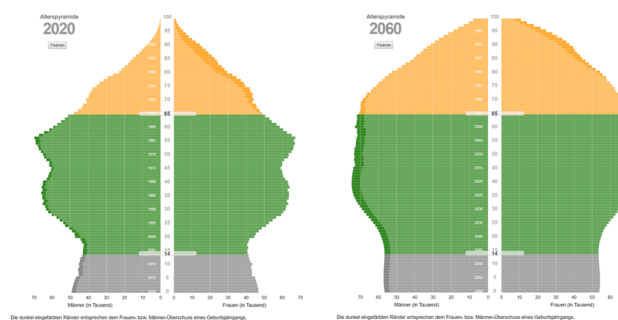


Figure 1: Age distribution 2020–2060 (Federal Statistical Office, 2019a)

### Childhood in 2060 (0–14 years)

The median age of Swiss citizens is estimated to be 47.8 years in 2060. This is 5 years older than in 2020 (Federal Statistical Office, 2019a). The development towards an ageing population is illustrated in Figure 1. The share of children under 14 stays stable at about 14% over those 40 years. In the same time period the relative portion of people aged 15–64 years declines from 67% to 59%. As already discussed, the population of people over 65 will increase significantly (Federal Statistical Office, 2019a).

This will have several implications and will transform Switzerland into a different society: more old people will be present in all situations of daily life. For example, the majority of grandparents will still be alive, active and likely to take care of their grandchildren. This could have a vast impact on the childcare system and foster a three-generation household where both parents have a paid job. Why it is likely that both parents will work will be discussed in the section “Old adults in 2060”. The topic of “longevity” could also become a part of the curriculum at school. Given that the gap between young and old will rise, children may need to learn how to interact with older people in certain situations. However, there are no studies or convincing theories that childhood will be massively affected by the new longevity.

### Young adults in 2060 (15–24 years)

Every young adult must make important decisions which set the course for their future. In Switzerland, one such decision is whether to do an apprenticeship or apply for a university degree. In 1996 only 22% of the population had tertiary education; today this proportion has more than doubled. But more importantly, there is no sign that this upward trend is levelling off; it is estimated that in 2040 more than 55% of the population will hold a tertiary degree (Federal Statistical Office, 2019b). But why is this important and what does it have to do with longevity?

As already noted, it is a fact that many people will live longer. In order to finance these additional years people will most probably need to work longer and this is a very sensitive issue (Gratton & Scott, 2016, p. 47). The concept of completing education and subsequently working in a related field until retirement, without attending any major continuing education, will be thoroughly outdated in 2060 (Gratton, 2011). People will increasingly seek opportunities to change career paths during their working life and to experience new challenges in different settings. Today’s Swiss education system already supports diverse career paths, but even more flexible, individual solutions will be required in 2060 (WDA Forum, 2018). A point to consider when choosing a particular education path is that due to rapid changes in technology and business environment, customer preferences will change, and new ecosystems will emerge. It is impossible to predict what the economy will look like in 2060, but it is very likely

that industries that profit from longevity will gain in importance.

Nevertheless, not all working-age people will attain a higher education level or be eager to exploit the lifelong learning idea. This has two main implications. First, there is a strong correlation between education level and life expectancy. In Switzerland, the gap is estimated to be at least 5 years (OECD, 2017). Secondly, the social gap between educated and less educated people will become more significant and will threaten the desired cohesion of the country.

### Adults in 2060 (25–65 years)

Adults in 2060 will face many additional issues due to their 100-year life. Saving for retirement will become more critical, periods of work will become more demanding and job requirements will change repeatedly over time. However, it would be misleading to focus only on financial aspects and classify adults purely as production assets who make sure that the economy does not collapse (Gratton & Scott, 2016, p. 67). Without a doubt money is important, but for most people a rewarding life also includes supportive friends, a great family, and good physical and mental health. There are different concepts that try to explain how happiness in life is defined and how one can achieve it (Rufer & Groth, 2018). The compelling approach of Gratton and Scott focuses on how to plan a long, happy and productive life in the era of longevity. They state that the key will be to find a balance between money and so-called intangible assets, as this creates substantial synergies (Gratton & Scott, 2016, p. 67ff.). Examples of intangible assets include relationships, skills, knowledge, mental and physical health.

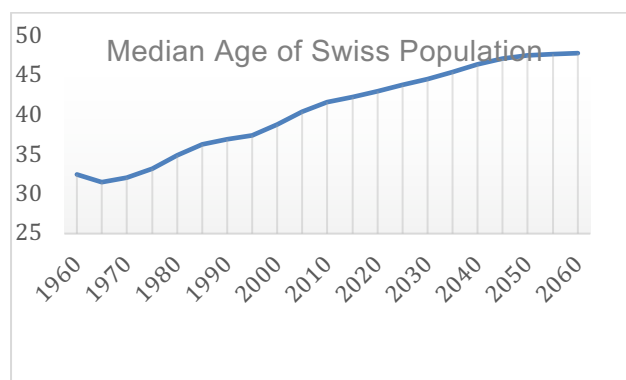


Figure 2: Median age distribution 2020–2060 (Federal Statistical Office, 2019a)



The political system is another intangible asset. As seen in Figure 2, the median age of Swiss citizens is estimated to be 48 years in 2060 (Federal Statistical Office, 2019a). When excluding people without the right to vote the mean would rise to over 55 years. This could lead to a political system that does not appropriately represent the concerns of younger citizens. For example, votes on long-term investments and reforms that lead to a reduction of pensions could be rejected since older people – who have the majority of voting rights – have other political preferences (Winkler, 2015). A current example can be observed in the vote on Brexit. Most people under 40 years wanted to stay in the EU, while citizens over 40 years had the tendency to vote to leave (Umunna, 2018).

A solution to this societal challenge could be to cluster voters into three age groups (e.g. 18–30 years, 31–50 years, 51+ years). Each group would have 1/3 of the voting power and therefore the votes of younger citizens would be given more weight.

### Old adults in 2060 (66–80 years)

One of the most critical questions regarding a longer life is how to finance it. Today's retirement system with its three pillars was established in 1972 and is enshrined in the federal constitution. It was composed with the age structure of that time in mind. In 2060 there will be relatively more retirees and relatively fewer people of productive working age compared to the early 1970s (Federal Statistical Office, 2019a). This demographic shift brings the current system to its limits and new approaches must be found. The two most likely solutions are to increase retirement age or to encourage people to save more assets during their time in employment (Gratton & Scott, 2016, p. 27f.).

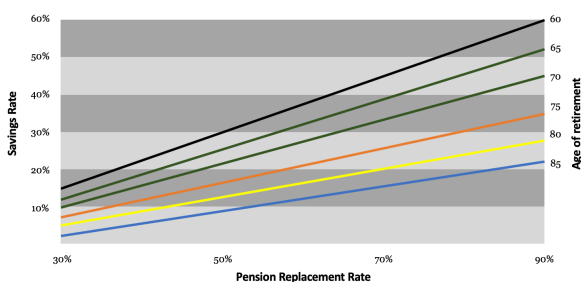


Figure 3: Savings rate, pension replacement rate and retirement age for a 100-year life (Gratton & Scott, 2016, p. 42)

Figure 3 shows how much capital individuals would have to save in order to get a certain percentage of their average labour income at a certain retirement age, in a 100-year life scenario. According to this calculation a person who intends to retire at 65 years would have to save 25% of his/her monthly income during his/her entire working life in order to get a pension which is as high as 50% of his/her final salary (Gratton & Scott, 2016, p. 41f.). As saving such a considerable amount during the entire working life is unfeasible for most people (e.g. low-income employees) the option of a longer work life will become more probable. It is important to understand that Swiss people will age healthier than ever before. This means elderly people will still be in good mental and physical shape and therefore will be capable of working productively for longer than ever before (O'Connor, 2016). This does not mean that citizens must work a full-time job until 80 in order to finance their retirement. The advantages of more flexible working models, where people can reduce their workload and retire gradually, include more personal autonomy and control. New models can also foster intrinsic motivation (Span, 2018). Another approach would be a retirement defined by contribution years or type of work instead of determined by a fixed age. This would benefit people with a lower education level such as construction workers or other physically hard-working people, who could retire earlier than highly educated people who most often do not have physically demanding jobs (Fischer, 2019).

### Pensioners in 2060 (81–120 years)

In comparison to 2020, citizens in 2060 will have on average a decade longer to live (Gratton & Scott, 2016, p. 16f.). This implies that pensioners will still be spry as they enter the last stage of their life.

In the last few years, companies have become more aware of this profitable customer segment and offer, for example, travel arrangements that are adjusted to the needs of these pensioner cohorts (IBISWorld, 2017).

Furthermore, non-medical service providers are on the rise and help elderly people to age with dignity. Special senior apartments and caregivers are just two examples (Groth, 2013). It is likely that in 2060 the range of services will be even more diverse.

But there are also downsides. Scholars observe that family ties are weakening and note that taking care of older family members is often perceived as a burden (Groth, 2013). Chronic diseases like dementia affect not only the sick person but also his/her whole social circle. To witness a close person losing control is often described as heartbreaking. Additionally, there are high financial costs that must be covered either by the state or through public sources (Groth, Klingholz & Wehling, 2009).

## **Conclusion**

Longevity has effects on all stages of our lives and will change the absolute and relative age structure of Switzerland. This has various implications: children can spend more time with their grandparents and young adults will have the opportunity to change career paths much more frequently than ever before. To finance longevity in a sustainable manner new retirement models must be found and adapted to the needs of an older workforce. However, it is not only capital that is needed to live a longer life, but also intangible assets such as supportive friends, a great family, and good physical and mental health.

In the future, pensioners will still be active and non-medical service providers will offer a wide range of services. Due to weaker family ties and the increasing risk of suffering from a severe disease, it is likely that public institutions will have to take care of retirees at the end of their life. These costs must be covered by the state or through public sources.

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