

Bad for retirees but recession may not be 'really ugly'

BY LEE SIEW HUA
SENIOR POLITICAL CORRESPONDENT

RETIREES will suffer badly from the global financial upheaval that is destroying wealth worldwide.

But governments acted just in time to prop up the global banking system, so the coming recession may not be "really ugly", says the author of a new book titled *The Age Of Aging*.

Mr George Magnus, a UBS Investment Bank senior economic adviser, said this in an interview when he highlighted the distress of older investors and the extent of the global recession.

In the book, the Briton explores the ways in which global ageing is changing the world economy and the planet.

Mr Magnus, 59, told *The Straits Times*: "For people who have recently retired or are just about to retire, the destruction of wealth in terms of housing and pension plans is probably going to be very, very painful."

In Singapore, some retirees risk losing their nest eggs after investing in structured products such as Lehman Minibonds and DBS High Notes 5. These are exposed to the collapsed Lehman Brothers investment bank.

The Monetary Authority of Singapore has asked financial institutions to probe claims of mis-selling, and settle fairly with the more lowly-educated retiree investors.

Mr Magnus pointed to the magnitude of asset losses in the United States, where retirement plans may have lost US\$2 trillion (S\$3 trillion) since the middle of last year, as equity markets and other asset prices declined.



The coming recession may now be less ugly after coordinated last-minute action by governments globally, says Mr Magnus, author of *The Age Of Aging*. ST PHOTO: DESMOND LIM

The plight of retirees is one serious impact of the crisis on ageing societies. Other problems are joblessness and affordability of health care.

Greying nations rely on older workers and women who work part time to fill the labour pool. These groups may be the first to be laid off in a downturn, he said.

Also in the next two or three years, immigration, which is one way for ageing countries like Singapore to address labour and skill shortages, will possibly drop.

"Immigrants don't see the advantage of trying to find work in an economy where there are no jobs."

In Western nations and more mature Asian economies such as Singapore and Hong Kong, health care and age-linked spending will be huge in the next 20 or 30 years.

But government budgets may now be diverted to the crisis.

"As a result of the financial crisis, governments are going to spend huge amounts of money in bank rescue programmes," Mr Magnus said. "This comes at a very inopportune moment. The first of the baby boomers are becoming eligible for their old-age benefits in the US, for example."

In this light, he expects more active state intervention in the economic and so-

cial affairs of nations – whether to manage an ageing society or to organise the capitalist system.

"The financial crisis in a way has acted as a catalyst to bring government back into the mainstream of economic management," he observed, noting the response of leaders in the hard-hit West.

"They've acted just in time to underpin the structure of the global banking system and therefore I don't think we're going to have a really ugly recession."

Still, there will be financial stress. "We will still have de-leveraging – people are still going to pay off debt and sell assets. And we're still going to have a global recession."

Leaders, he said, have to make sure the recession is not so bad that it undermines their rescue of the financial industry.

He recommended "more substantial reductions" in interest rates, "maybe another one percentage point cut", and more fiscal stimulus. "Not necessarily tax cuts, except for the poor, but infrastructure programmes and government spending initiatives that leave long-term positive effects on income and on jobs."

Saving banks from collapse is not the end of the story, he said. "There's still a lot of work to do."