



THE AGING POPULATION

AND ITS IMPACT ON PENSION SUSTAINABILITY

INTRODUCTION

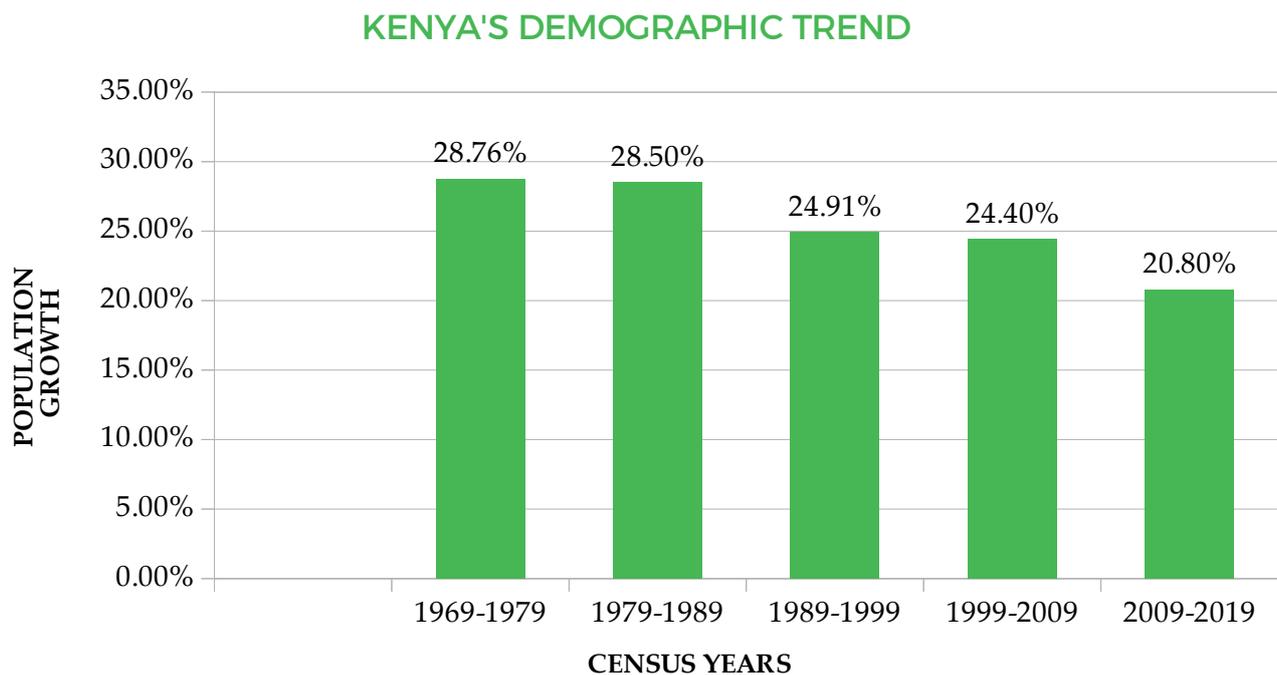
An aging population poses a challenge to the sustainability of pension schemes. While this might not be a threat to the Kenyan population in the short term, the current demographic trends show that it may become a concern in the future. In this article, we will analyze the experience of Japan, a country with an aging population and draw lessons we can use now or in the future to mitigate this potential risk.



Population Growth in Kenya vs Japan

(a) KENYA

From the last five censuses in Kenya, the population growth rate has been decelerating according to the data by the Kenya National Bureau of Statistics as shown in the chart below;

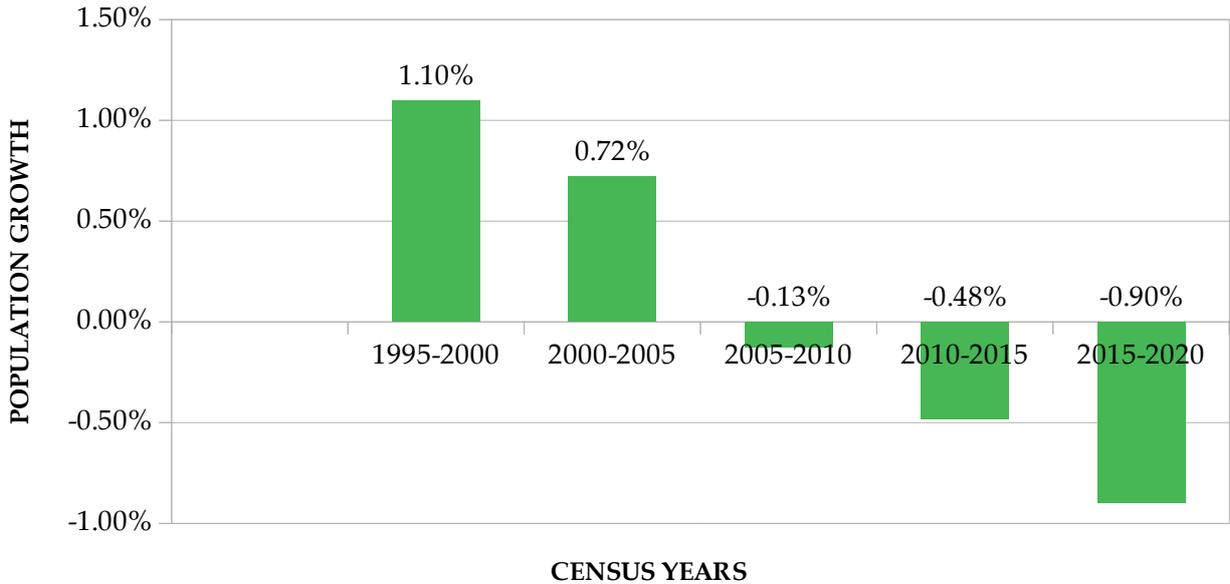


Important to note also is that the Total Fertility Rate (TFR), which is the average number of children per woman has declined from 6.7 in 1989 to 3.4 in 2022.

(b) JAPAN

The population growth in Japan in the last five censuses according to International Monetary Fund(IMF) data is as shown;

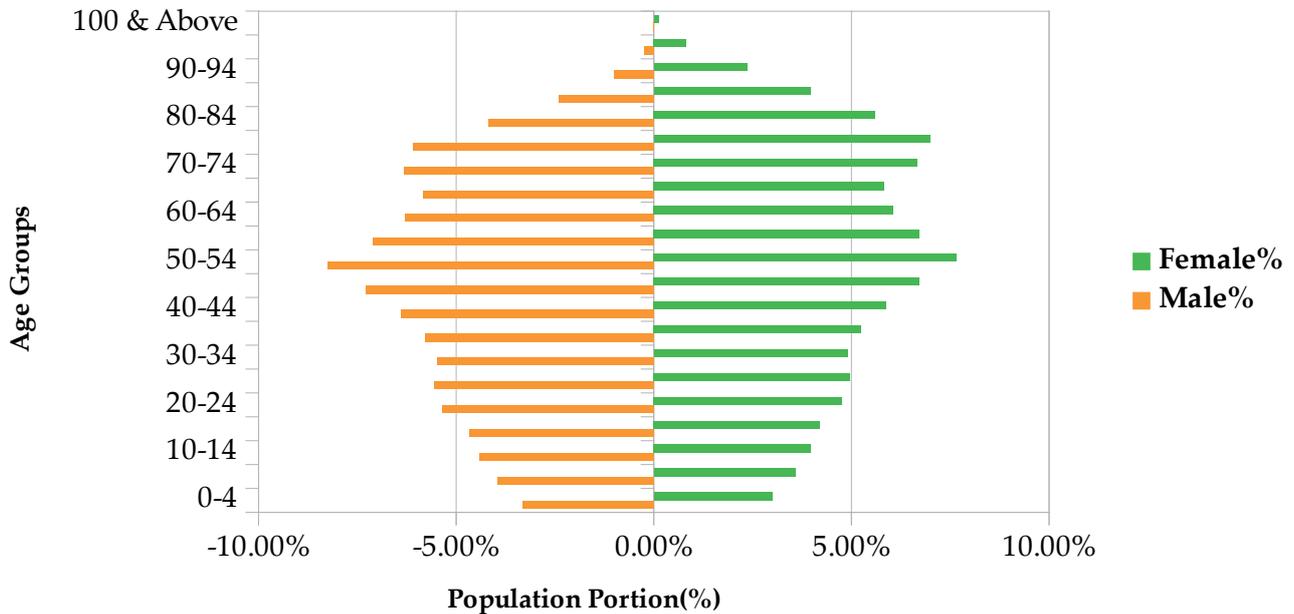
JAPAN'S DEMOGRAPHIC TREND



As seen in the chart, the population growth rate has drastically reduced to negative.

The TFR in Japan was 1.20 in 2023. The country's population pyramid has a narrow base ie; kids aged 0-14 make the smallest segment percentage of the population. The majority fall within the working population (15-64) with those in the pre-retirement stage (50-64) being more. The senior citizens represent the second-largest demographic. The median age as at 2023 was 49.5 Years. The population pyramid based on the population estimates as at 1st February 2025 from the Statistics Bureau of Japan is presented as follows:

JAPAN'S POPULATION PYRAMID



Causes of an Aging Population

a. Decreasing Total Fertility Rate (TFR)

The TFR for both countries has been decreasing. This can be attributed to several factors which may include; Increased knowledge on contraceptives, rise in infertility, constant disregard of family by the younger generation, increased cost of living, poor work-life balance, higher education, increased diversity in workforce, and many more.

b. Higher life expectancy

People are living better healthy lives which is as a result of better health care access. This causes a mismatch with the decreased number of births leading to an aging population. Japan has the highest life expectancy in the world.

c. Emigration

The shortage of young skilled labour in the developed countries including Japan has led to the recruitment of trained workers from African nations, including Kenya. This migration of young professionals may accelerate the aging population locally, as a significant portion of the younger workforce is poached.

Effects of an aging population on pension sustainability

a. Increased Liquidity Requirement

Having a high number of exits in a pension scheme can have detrimental effects on its long-term sustainability. When many people retire or withdraw benefits the schemes make frequent payouts. This increases the liquidity demands on the fund, forcing it to maintain a larger portion of assets in liquid, low-return investments to meet short-term obligations. As a result, the scheme may be unable to invest in long-term, higher-yielding assets that typically offer better returns over time. This limits the fund's growth potential and can weaken its financial position.

b. Lower Pension Coverage

With the reduction of formal workers, there is a reduction in contribution amounts to both occupational and individual pension schemes.

d. Deficits

Constant withdrawals may erode the fund's asset base, leading to potential funding deficits in defined benefit (DB) schemes.

Japan's Mitigation Plans Kenya can Adopt

Amendment of Childcare Leave Act

Starting April 1, 2025 in Japan, amendments to the Childcare Leave Act will require employers to introduce measures that support flexible working schedules for employees raising children aged three years or younger. These measures may include flexible working hours, varied start times, remote work options and more.

The primary goal of these changes is to encourage childbirth and help boost the TFR. Kenya can adopt these measures to promote a healthier work-life balance within the corporate sector to enable employees have more time for family life. Creating an environment where career growth and family life can coexist could inspire more people to consider starting or growing their families hence improving the TFR.

Increased Retirement Age

Starting April 2025, all companies in Japan will be required to raise the retirement age to 65 or above. This initiative aims to encourage older employees to remain in the workforce longer, allowing them to accumulate more contributions and build a sufficient fund to mitigate longevity risk.

Kenya could adopt a similar approach by increasing its retirement age to enhance pension sustainability. Additionally, introducing phased retirement, where employees gradually reduce their working hours while transitioning into full retirement instead of abrupt retirement. This method will help retain experienced workers in organizations and also assist in smooth transition to retirement.

Immigration

Due to labour shortages, Japan recruits skilled workers from African nations, including Kenya. To safeguard its workforce, Kenya should consider implementing policies that regulate emigration. Additionally, high taxation can be a contributing factor driving workers to seek employment abroad. The government should address this issue to retain local talent.

CONCLUSION

In conclusion, an aging population presents significant challenges to the sustainability of pension schemes and economic stability. While this may appear to be a gradual issue, coming up with preventive measures is important. It is encouraging to see increased awareness around financial planning, life choices and family decisions.

However, the declining trend in family formation remains a concern. Solving this requires collective effort through mainly creating an environments that encourages family to thrive. As stakeholders in this issue, we need to collectively contribute to shaping a more sustainable demographic future.



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