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The Flipside of the European Immigration Crisis

By Ronald Klein

The European immigration crisis has been well publicized during the past year or so. Who can forget the images of young families fleeing the war-torn nations of the Middle East packed in rickety boats landing on the shores of Greece? German Chancellor Angela Merkel first openly accepted the immigrants saying: "There is no tolerance of those who are not ready to help, where, for legal and humanitarian reasons, help is due." And later adding: "If Europe fails on the question of refugees, then it won't be the Europe we wished for."

Chancellor Merkel continued to make a strong stand for these immigrants while other European Union leaders were protesting. That is, until an event occurred on New Year's Eve last year in Cologne outside of the Hauptbahnhof, the main train station. It was then that a pack of "drunken men of Arab or North African origin" began assaulting everyone in sight. In all, there were 838 complaints filed, of which 497 were by women alleging sexual assault.

This event turned the tides against Merkel and could potentially cost this once very popular politician, her Chancellorship. She is now changing her stance on immigration as she recently announced a deal with Turkey for it to retain immigrants. But was she wrong in this?

Europe is going through another crisis, one that will not subside any time soon—a pension crisis. As in most, if not all countries of people reading this article, governments and corporations are struggling with funding pensions. Governments are increasing the age of normal retirement. For example, Poland is incrementally shifting the age of normal retirement from 55 for females and 60 for males to age 67 by 2040. Some countries are also increasing contribution rates. Corporations have switched from defined benefit plans to defined contribution plans which places the onus of longevity and investment risk on the employee and, in some cases, they

are cutting benefits for those already retired or "buying them out" with a lump sum.

The reasons for this crisis fall into four main buckets:

- Increased longevity—life expectancy at age 65 continues to move up every year.
- Poor investment returns due to the financial crisis of 2008 and continuing low interest rates. Some governments also imposed stricter investment regulations after the financial crisis that require pensions to be invested in more conservative vehicles.
- Granting benefits that were too rich in good times without sufficiently funding the liability—a problem for both public and corporate pensions.
- Much lower than expected birth rates.

Lower than expected birth rates is something that very few economists foresaw. It could be the result of more women entering the workforce. It could be because of the financial crisis causing many families to be conservative with family sizes. It could also be because child-rearing aged women are children of baby boomers and wanted smaller families. Most probably it is a combination of these factors and many more.

Regardless of the reason, the ratio of workers to people over age 65 is plummeting in Europe and is projected to continue falling. In Germany for example, there are about 170 state pension contributors for every 100 retirees drawing benefits. This is projected to decrease to about 110 per 100 by 2050. For Spain the current number is about 190 per 100 going down to about 120 per 100 in 2050. Similar trends can be seen for Italy, Poland and France.

In fact, the birth rates are so low in Europe that if it was not for increased longevity, the population of Europe would be declining. This is quite alarming in itself. Maybe Europe can impose a mandated four-child policy. If China can impose a maximum, maybe Europe can impose a minimum!

Economists had also not factored in major immigration shifts into their calculations. Of course, there are always additional items not factored in, such as a cure for cancer (worsening the trend) or a major pandemic that affects the elderly (improving the trend), but let us focus on immigration here.

Let's assume that the 1.3 million immigrants that entered Europe from Syria, Afghanistan, Iraq and other countries in 2015 are relatively young. Let's also assume that they begin to assimilate in the country to which they emigrated to in all ways (this is probably the most difficult assumption currently). They will need accommodations, food, schools, cars, televisions, cell phones, etc. These drivers require immigrants to work which will help the economy and help increase the ratio of workers to retirees.

In short, once past the initial pain, immigrants could be the boon that the European economy needs. Can countries see past some early problems to enjoy future gains? This is unlikely. Politicians have an uncanny ability to focus on the next election in favor of preparing for the future. Indeed, if politicians thought about the future, Europe wouldn't have this pension crisis to begin with. In an ideal world all pension benefits, whether public or private, would be fully funded. A waning work force would not be such a serious problem. Of course, as the current cohort of baby boomers passes away, there will be more of a steady state condition, unless of course, there is another baby boom.

Europe should take a hard look at the long-term benefits of immigration. Not only would it help millions of people in need, it may also save the public and private pension systems of many countries, or at least prolong the solvency of the current funds. Is it possible that politicians could realize this? It is possible but I fear that a forward thinking politician would be quickly voted out of office before he or she completes the task.

Could this be an opportunity for the actuarial community to point out the benefits of immigration? Actuaries do not need to make the social arguments for or against immigration. We could simply point out the potential financial benefits to politicians. Running projections is what we do best.

While the focus of this article is on Europe, the same problems exist around the world, including in the U.S. The U.S. was built on the talents of immigrants, but European nations are not as open to the acquisition mentality—opting more for organic growth. We know from the business world that when organic growth does not happen, one of two things will occur: 1) the company will have to make an acquisition, or 2) the company will be acquired. While I do not foresee the acquisition of a European country in the near future, I have been wrong before. Immigration could be a solution to the problem and should be considered.

In conclusion, the European immigration crisis may not be a crisis at all. It could be just the opposite—a solution to a looming problem.

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