Milking long life

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LIVING LONGER

There is a trend for people to live longer. Statistics for England and Wales for example, show that the average life expectancy for someone aged 65 has increased from 12 to 20 years since the end of World War II.

Some obvious explanations for this are developments in medicine, working conditions and living conditions. Education and opportunities for improvement of lifestyle factors such as exercise, diet, hygiene and smoking have also played a role.

While the effects of various specific causes of death rise and fall with time, the net result has been fewer deaths than would have previously been the case – just one example is an observed reduction in cardiovascular disease. Of course such a trend cannot go on for ever, but it's very hard to predict the future direction – it's clearly within the bounds of possibility that advances in medical science could reduce the number of deaths from any given condition, and such developments can appear quickly.

As with all statistics, we must take care when trying to draw conclusions however. It's not the same everywhere in the world and for all segments of the population: a lot depends on factors such as the availability of healthcare and public education campaigns. In South Africa, the impact of HIV distorted the population averages although the success of treatment campaigns is now coming through.

It can also be expected that the trend to live longer will not be consistent over time: the impact of obesity is one counter-trend for example, and a current issue in the United States is a reported increase in the effects of opioid abuse.

The impact of the human genome project remains to be seen, but the capacity for this to further extend human lifespan is clear.

Interestingly, there is evidence in some parts of the developed world that the rate of improvement is slowing down, although it's not yet clear if this is a blip in the data or an actual change in the trend.

GENERAL IMPACT

One clearly observed result is for retirement ages to rise: for example, the retirement age for women in the United Kingdom rose from 60 to 63 between 2010 and 2016 – and will rise further to 68 between 2037 and 2039. Another example is in Russia where recently (late 2018/early 2019) there has been a vigorous reaction to government plans to raise the retirement age for both men and women by several years.

There could well be a positive effect on the economy from the many who will stay healthy and productive for longer. The rising age of retirement would mean increased employment, economic production and tax collection. Interestingly, old-age care is a relatively peopleintensive industry which may mean greater employment opportunities for suitably trained younger people as more survive to older ages.

The notion that working longer will take jobs away from youngsters may also not materialise. We could for example see the continued emergence of a “silver Rand” market – gyms, holidays, and financial services tailored specifically for the needs of an increasing number of older people, are just a few examples of possible development areas.

Working longer will also drive a need and demand for further education or retraining at different stages of life – a spur to the training industry.

IMPLICATIONS FOR FINANCIAL SERVICES

In the face of extended lifespan it may be difficult for people to retire in the traditional 60 to 65 age bracket – working longer may be a necessity to ensure that savings are not eroded too quickly after retirement.

On the other hand, working longer will allow greater time to build up a sizeable pot of retirement savings. In the past we have spoken of people having at most 40 years in which to save enough to retire at age 65. Maybe retirees of tomorrow will have been able to save for longer than that – apart from the additional money saved, the impact of compound interest over a longer period would greatly boost retirement capital.

Living longer doesn’t take away the need to accumulate sufficient money to live off in later years. For those in the earlier part of their lives, the uncertainties about how long they will work and how long they will live after retirement are key risks. More than ever, a sustainable long-term investment strategy is needed.

The use of tax-advantageous retirement funds is an area where government policy interventions will likely continue to facilitate the efficient accumulation of capital.

Another important issue is the need to keep reviewing the projection models and assumptions that underlie our expectations of the financial future.

Innovation can also be expected from the insurance industry. Two examples would be the need for life insurance and disability income protection insurance to extend to older ages.

Changes would also be likely in healthcare products.

CONCLUSION

Predictions over long periods into the future are of course unlikely to be accurate, and one senses there may be an outer limit for human lifespan. With more people living longer we will learn more about the diseases and afflictions of old age and the human body’s limits.

For many years I have been saying that in the light of the myriad of uncertainties we face, the right approach is to save as much as you can, as tax effectively as you can, for as long as you can; invest for inflation-beating growth; and take care not to overpay by way of expenses. This is going to be truer than ever as we move into the future.