The new old
The new old

Ageing populations could be a boon rather than a curse. But for that to happen, a lot needs to change first, argues Sacha Nauta

"NO AGE JOKES tonight, all right?" quipped Sir Mick Jagger, the 73-year-old front man of the Rolling Stones (pictured), as he welcomed the crowds to Desert Trip Music Festival in California last October. The performers' age range was just one year below Sir Mick's, justifying his description of the event as "the Palm Springs Retirement Home for British Musicians". But these days mature rock musicians sell the festival naked in an estimated $60m.

There are many more 70s than there used to be, though most of them are less of a draw than the Stones. In America today a 70-year-old man has a 2% chance of dying within a year; in 1960 this milestone was passed at 5%. In 1950 just 5% of the world's population was over 65; in 2050 the share was 8%, and by 2050 it is expected to rise to 16%. Rich countries, on which this report is focused, are greying more than the developing world as a whole. China, which is already declining the way to get old: the share of over-65s in the 1624 is set to increase from 16% in 2010 to 23% by 2050. This has knock-on effects in older age groups too: Britain, which had just 16 centenarians in 2001, now has nearly 11,000.

Globally, a combination of falling birth rates and increasing life-spans will increase the "old-age dependency ratio" (the ratio of people aged 65 or older to those aged 15-64) from 23% in 2010 to 33% by the end of the century. To listen to the doomsayers, this could lead not just to labour shortages but to economic stagnation, asset market meltdowns, huge fiscal strains and a dearth of innovation. Spending on pensions and health care, which already makes up over 16% of GDP in the rich world, will rise to 21% by the end of this century if nothing is done, predicts the IEA.

Much of the early increases in life expectancy were due not to people living longer but to lower death rates among infants and children,
Making longer lives financially more viable requires a fundamental rethink of life trajectories

sick and inactive. Today’s 65-year-olds are in much better shape than their grandparents were at the same age. In most EU countries, the dependency ratio from age 20 to 64 is growing faster than life expectancy itself, suggesting that the period of diminished vigour and ill health towards the end of life is being compressed (though not all academics agree). Yet in most countries the age at which people retire has barely shifted over the past century. What is needed now, through the first formal pensions in the 1880s, payoffs from age 70 (later reduced to 65), life expectancy was 45. Today in the world 95 per cent of the population in China retired at age 60, and in good health. Even yet that date is still seen as the starting point of old age.

The peak cohort of American baby boomers turns 60. As they approach retirement in unprecedented numbers, small tweaks to retirement age and pensions will no longer be enough. This special report will look at different approaches to ageing, but the most significant is likely to be the effect of improvements in health and longevity, and the way that this is likely to alter the economic prospects for all individuals.

The shape of things to come

OECD countries

Population over 65

FAR EAST

5

5

25

25

20

20

10

10

5

5

0

0

Source: OECD

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Working on

Footloose and fancy-free

The recently retired may have a promising future as entrepreneurs andiggers

In the shadow of towering apartment blocks in

Eurasia

and Rifle,_cat, a suburban of Seoul, employees of CJ Logistics, a large South Korean delivery company gather at the local welfare centre. A truck pulls up and the group, mostly men in their 70s, leap to their feet to unload packages. “It’s far better than staying at home,” says Bae Hee Lee, a chubby 77-year-old who in his younger days ran a Bedfellow business. Like so many of his generation in this country, he has no pension and lives largely on his savings, so the 800,000-900,000 won ($800-900) he makes from this job is welcome. He cannot imagine himself ever leaving.

There are drawbacks to older workforce. It admits a local superior; they carry fewer boxes and are sometimes slower than their younger colleagues. But since the company pays its employees per delivery, that does not matter, and the unhurried chat of this side of the business, the “Senior Parcel Delivery Service”, seems to appeal to customers.

In the rich world, and especially in Europe, the debate about retirement tends to focus on intergenerational conflict, pay-as-you-go public pension systems means that the young, in effect, are paying for the old. But if older people were to carry on working in retirement, the economic boost would benefit young and old alike, generating extra growth. The average 65-year-old in the rich world can now expect to live for another 20 years, half of them free of disability. If people in “older” countries, such as Germany, Japan and Spain, were to delay retire-

Special Report: The Economics of Longevity

Rale and hearty

After all, that is how it ends up to do his job as houseware 2014


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causing large numbers to take early retirement even as life expectancy was rising. At the same time fertility rates were dropping, conceiving the up risk of future labour shortages. By the 2050s government and employers realised they were making pension promises they would not be able to keep. The idea that there is only a finite number of jobs to go round the “grip of labour”... was more widely exposed as a fallacy. It became fashionable to argue that “we must work till we drop.”

A work ethic like no other

The baby boomers are, by far, the wealthiest generation ever. Deeply ingrained that employers shun this group and business and the financial industry undersell it.

What’s in a name?

The history shows that identifying a new life stage can bring about deep institutional change. A new focus on childhood in the 1820s paved the way for child protection laws, manda-

tory schooling and a host of new businesses, from toymaking to children’s books. And when teenagers were first singled out as a group in America in the early 20th century, one of the main reasons was to act as a source of revenue, thanks to their willingness to work part time and spend their income freely on new goods and services. Such life stages are social constructs, but they have real consequences.

This report will argue that making longer lives financially more viable, as well as productive and enjoyable, requires a fundamental rethink of life trajectories and a new look at the as-

sumptions around ageing. Longevity is now widespread and needs to be planned for. The pessimism about ageing popula-

tions is based on the idea that the moment people turn 65, they move from being net contributors to the economy to net recipi-

etents of benefits. But if many more of the elderly are economically active, the process will become much more gradual and nu-

anced. And the marriage that serves these consumers will expand if businesses make a better job of meeting their needs.

The most important way of making retirement financially sustainable will be to shift savings. They would be more likely to run out of time. But much can be gained, too, by improving retirement pro-

ects. The financial industry needs to update the life-cycle model, on which most of its products and advice are based. Longer lives require not just larger pots of money but more flexibility in the way they are used.

As defined-benefit pension schemes become a thing of the past, people need to be encouraged to set aside enough money for their retirement, for example through auto-enrolment schemes. It would also help if some of the better-off pensioners spent more and saved less. They would be more likely to do that if the insurance industry were to improve its offerings to protect older people against some of the main risks, such as de-

dementia or to live to 120. Many people’s biggest asset is their home, and the unhurried chattel of this side of the business, the “Senior Parcel Delivery Service”, seems to appeal to customers.

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Even for the oldest people, there will be clever technology to help them make the most of the final stage of their lives, enabling them to age at home and retain as much autonomy as possible. Perhaps surprisingly, products and services de-

veloped mainly for the young, such as smartphones, social media, connected homes and autonomous cars, could also be of great benefit to the older old.

But the report will start with the most obvious thing that needs to change for the younger-old: Ageing. Ageing is not an end point the after the second world war, Britons preparing for retirement were told that “your economy needs you.” Then, from the scarfs onwards, they stand many fellow Europeans were urged to make way for the young,
hundreds of former finance and insurance professionals, mostly in their 60s or 70s. "Carriers and brokers have a huge talent problem," says Shane van Doorn, 78, a partner at the firm’s 75-year-old founder. He realised boomers were retiring from the workforce but didn’t want to stop working; so now he helps them.

**Startup generation**

The boomers are also becoming entrepreneurs. In America between 1955 and 1965, 68% of male baby boomers were self-employed, according to the Kauffman Foundation. In Britain 45% of new founders are over 50, and almost 40% of those who are still working are entrepreneurs, according to Technology.voyage, which says as much about the limitations of conventional workplaces as about these senior entrepreneurs’ entrepreneurial spirit.

In Japan and South Korea, which are among the world’s fastest-ageing societies, large companies tend to get rid of older workers as they approach 60, and many of those workers then start a business. Some employees, like Hyundai, now also help older workers make the transition to life as an entrepreneur, with the support of their employers’ job-security policies. They need to recoup the business case for older workers," says Laura Carstensen of Stanford University. That requires a few myths about older workers to be tackled, namely that they are less able-bodied, inventive and productive than younger ones. It has been true for years, but both the workplace and the workers have changed. Over the past decades the pace at which workers are physically not as fast as they used to be, but that doesn’t mean they are any less productive.

Whether older workers are less productive than younger ones is harder to say. In fields where physical prowess matters, such as sports, it’s obvious. But in many areas performance actually doesn’t necessarily decline with advancing age. And even in jobs where it might, there are always ways of getting around it. As Gemma Sernodoss, head of diversity at Deutsche Bank in Germany, explains: "In operational work older employees can be slower, but when they get up for that with fewer mistakes, in total they are no less productive. If we had teams with only older people, they’d be too slow; if we had teams with only younger ones, there’d be too many mistakes." The bank’s answer is to deploy multigenerational teams.

The bank also found that older worker’s contribution is more likely to show up in group performance than in individual work. In a study of older workers in Japan and Portugal around one grandmother in five provides daily care for a grandchild, estimates Karen Glaser from King’s College London. That frees parents to go out to work, having huge impacts on child care. In Britain unpaid older caregivers save the state around £65,000 a year, according to Age UK, a charity. Apart from providing support within the family, a quarter of older adults also aspire to doing some voluntary work after retirement, according to a recent study by Age UK. In America the over-55s formally volunteered 3 hours 51 minutes in 2016, making an economic contribution worth $96bn, says the Corporation for National and Community Service, a federal agency. A number of other studies have found that this benefits not only the causes they work for but also their own physical and mental health.

But there is another way in which older people support the economy by spending their money.

**The other gig economy**

ROCKS are not different from the rest of us: they too, need to work for longer to maintain a decent standard of living in retirement. Previous generations could rely on sale rates and salaries to fund their pensions, but today’s situation has largely closed them off such revenues, so the workers have to get back on the road. That involves new financial risks. Rock stars have always been relatively risky; one study suggests that their earnings are 50% higher now than they were in the same age of the same age. Now that revenues from concerts have become so much more important, the potential payoffs for tour organisers have ballooned. That applies as well as for the person looking to make a living at any age, and those who may not always have treated their bodies as temples.

The rest of their finances come in.

Concert organisers and others who depend on rock concerts are now more get older. Film studios take out similar cover for mature stars. Disney must have been relieved to have a rock star, who died at the age of 60 last year before completing filming on all the "Star Wars" films she was contracted for, to trigger a claim which could go up to $30m.

Rocks themselves are also taking out insurance against the most common ailments that could stop them from carrying on. Aiding from abroad, typical caution can be used to include light employment (all that electrical equipment in the back), and there are now more likely to pay for the monotonous and loss of hearing. The Rolling Stones’ lead guitarist, Keith Richards, who is 73, has insured his hands for $1m. Unquestionably, are more likely to pay for for the more likely to pay for the European, where their work for such a physical and mental health needs. But there is another way in which older people support the economy by spending their money.

**Consumers**

**Don’t call us silver**

From adventure travel to dating websites, older consumers display restless young tastes

"There’s nothing wrong with bingo and chicken," says Tom Kamber, before explaining why you won’t find either in the senior centre he runs in Manhattan. Instead, members of the Seniors and Unskilled Group, who are driving the trend of other digital gadgets to play with, though most head straight for a wall of computers to check their Facebook accounts or shop online. A group of 9 seniors, some in their 60s, and their 80s, 70s, in sports, fashion, around their fitness coach. No one would be interested in an Online dating site that could be more likely to meet a man if she were in predominantly male activities such as mountain biking or golf.

Women spend more on trying to find someone than men, because in the higher age groups there are more than them. For the rich and middle-class women, over 50, they are more likely to be single. In 2014 nearly three-quarters of...
Finance

Your money and your life

As lives get longer, financial models will have to change

In 1965 ANDRÉ FRANÇOIS RAYRAFF, a 47-year-old lawyer who lived in Paris, made the deal of a lifetime. Championed by financial advisor Pierre Aragot, Raffray bought an apartment in Adès, he persuaded the widow living there if he paid her 2,500 francs (then about $500) a month until she died, she would give it to him. It was all going to change. Since she was old and not well, it seemed like a safe bet. Thirty years later Mr Raffray was dead and the widow, Jeanne Louise Calmette, was still going strong. She then eventually passed away at 123, having become the world’s oldest person, the Raffray family had paid her more than twice the value of the house.

Underestimating how long someone will live can be costly, as overgenerous governments and indebted private pension schemes are discovering. They are struggling to meet promises made in easier times. Public pensions are still the main source of retirement income for the elderly, but the fact is that there are big differences between countries (see chart, next page). In both America and Britain public provision makes up around 40% of second retirement income. In Spain, it is 55%, in some European countries it can be 60% or more. When it makes up a big share of total pension income, as in Italy, Portugal and Greece, a shrinking workforce will inceasingly struggle to finance a bulging group of pensioners.

Private pension schemes, which supplement state provision, in many cases offer no defined-benefit plans, where workers know what their take on the risk. Such schemes are good for employers but tricky for individuals, who become personally responsible for ensuring they do not outlive their savings. The new stage of life now emerging between work and old age adds a further complication. To accommodate these changes, the financial industry needs an overhaul. First, it has to update the rigid three-stage lifecycle model on which most of its products are based. Second, it needs to re solve two opposite but equally troubling problems: undersaving during working life and over-saving during retirement. The first puts pressure on public provision, the second leads to underconsumption as cash is left under the mattress. Third, a more creative approach is needed to the range of assets that pensioners can draw on, including their homes, which have so far played little part in provision for old age.

In a “multi-stage life, the idea of hitting a cliff edge retire ment at 65 and then living off an annuity is outdated,” says Alastair Byrne, from State Street Global Advisors, a money manager. Its clients, many of whom intend to work past normal retirement age, are asking for more flexibility to get at their savings at a younger age. They also want a secure income for the last phase of life. “It is not at all obvious that the traditional pension industry, which still sees life as a three-stage even, will survive this transition,” says Andrew Scott of the London Business School.

Nothing in the kitty

Many people simply do not save enough. Roughly 40% of Americans approach retirement with no savings at all in widely used retirement accounts such as IRA or 401ks. In Britain 50% of women and 75% of men between 55 and 65 have no retirement savings, according to Aegon. Yet with the demise of defined-benefit schemes, the increase in the retirement age and the steady rise in life expectancy, most of today’s workers will retire with less to save than their parents did. Some of them do not earn enough to put aside, and others, in the mind: they consistently underestimate how long they will live and overestimate how long their money will last. As more people become self-employed, getting them to save for their old age becomes ever more important.

One solution is to allow retirement funds to be used more flexibly, which may encourage people to save more. But nudges are unlikely to be enough. “People need a push,” says Mynugu Reddy, from Samsung Research and Development Centre in America. In Britain, one of the most financially risk-averse countries, the idea of taking a quarter of old age pension even very little care towards the end of life but face costs in excess of £200,000.

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Most countries will need to find a mix of public and private provision to pay for long-term care costs. A well-functioning insur ance market should be at its heart, but care insur ance has mostly failed to take off. American providers who piled into too enthusiastically in the 1990s got burnt when customers did not need care at all, and are still haunted by the experience. Low rates of return on bonds have not helped.

Every country has its own particularities, but four common factors help explain the market failures. First, the future of public care is uncertain. Second, despite or because of this, many people do not need insurance because the state or their family will pay them. Third, the market is subject to “adverse selection” - the likelihood that insurance will appeal only to those most at risk of needing care. And fourth, care costs are unpredictable and could spin out of control in the future. As a result, insurers either avoid the care market altogether, or charge exorbitant premiums and add lots of restrictions.吉他

As with any big risk, people need to be able to make protection work. The easiest way to achieve this is to make insurance compulsory, as in Germany. One alternative is auto-enrolment in a public plan, or a minimum level of cover that is added into earnings, a method with which Singapore is experimenting. At a minimum, some government intervention—such as providing a backstop for the most catastrophic risks—seems to be required for the market to establish itself. But perhaps the biggest problem is that government policies change.

Insurers could help, not least by offering more hybrid products such as life insurance with the option of an advance on the payout if customers need care, or annuities that pay a lower-than- usual income but convert to a higher-than-usual rate if approved care levels are not reached. Such a product may be a need for clearer guarantees against unexpected premium hikes. Most importantly, though, insurers need to persuade people to enroll long before they are likely to require any care.

By far the most common reason for someone needing long- term care is that they are suffering from Alzheimer’s disease, some oth- er form of dementia. Globally around 45m people have dementia. Without a medical breakthrough this number could grow to 12m by 2050, according to the World Alzheimer’s Report. One study found that people suffering from dementia accounted for roughly three-quarters of all care home residents worldwide.

In the absence of other options, for many people the ultimate insurance is their home, though few homeowners see it as such. One in ten in England and Wales and a fifth in the United States, and one in four in France, have a mortgage on second homes. This is especially common in countries where the average income for the elderly is high but the cost of living is low, as in the US or Canada. Depending on where people live, how much they earn and whether they have family willing to care for them, one of the key financial risks of ageing can be end of life care expenditure. A 90-year-old American has a better-than-even chance of ending up in a nursing home, estimate Michael Hurd and Chao, from Samsung Research and Development organisation in America. In Brit- ain an official review in 2010 of long-term care reckoned that a quarter of older people in Britain needed some very little care towards the end of life but face costs in excess of £200,000.
The longevity dividend
A blessing, not a burden

How to make the most of ageing populations

For MOST OF history humans lived only long enough to ensure the survival of the species. Today babies born in the West can expect to see their grandchildren have children. With more time come more opportunities for work and pleasure, enriching individuals, societies and economies alike. Whether mankind is able to embrace this "longevity dividend" will depend on how those opportunities are used.

By the early 2050s the state of health of American men aged 65, as reported by themselves, was as good as that of 60-year-olds in the 1970s; 70 really does seem to be the new 60. This report has argued that if employers, businesses and financial services adapt to make far more of such people, big economic benefits can be launched.

The other great opportunity is on-demand services. Cars, grocers, tailors, hairdressers and concierge doctors at the touch of a smartphone could all be a boon to older people. Boomers are already familiar with such services, so once they become less mobile they will just use them more. Lyft, a ride-hailing service, is already trying to recruit older customers by offering senior-friendly ways to book a smartphone. Trials have shown that on-demand ride shares can reduce lateness and no-shows for medical appointments.

On-demand care services could make an even bigger difference. Traditional care companies are inflexible, typically insisting on a six-month or more contract. So many hours, Seth Segel, a former Google employee, got so frustated with this that he launched Honor, a tech-enabled care company through which carers can be booked round the clock, via an app, on a pay-as-you-go basis for whatever care is needed.

In recent years the company has raised $62 mn in venture capital and operates in 12 American cities. Other entrepreneurs are looking at demand nurses and light help and in and around the home. Such services would not only make it easier for elderly people to stay in their homes, but also provide the work for the younger old looking for gigs. The challenge will be to make the economics stack up.

Demand for this kind of technology will only increase as populations age, but until funding mechanisms can be found, it will be available only to those who can pay for it outright, thus increasing inequality. In future doctors might prescribe all kinds of preventive technology-based services for older people at risk, just as they prescribe preventive pills today. Government may well have a role in this, but the obvious funders are insurance companies: they, too, have much to gain from prevention.

Encouragingly, in every centre for seniors visited for this report, from New York to Seoul, the most popular classes were in the use of smartphones and tablets, often sponsored by telecommunications companies that are offering "silver plans" to older people who do not use them. Whether insurers and health-care providers do not come up with a funding model, tech and telecommunications companies may earn their lunch, too.

The multitudes the little things can cause big trouble is a fairly basic version of a smart home can make it a big difference to the growing number of older people who live alone and wish to stay where they are. Reinout Engelenb, of Semaxa, thinks the main value of such systems is "catching little things before they become big disappointments and big costs for the provider."

Increased toilet visits can flag up a urinary tract infection, changes in gait can predict an impending fall, the leading cause of death from injury among older adults. By picking up such things early, the algorithms can alert the elderly or their caregivers to the need for the carer to make a visit or remeasure.
fits for everyone could follow. There are striking parallels between the longevity dividend now in prospect and the gender dividend that became available when many more women started to enter the labour market in the 1970s. The last stage of life could also be greatly improved by letting more people retain their autonomy, often with the help of technology.

But for all those benefits to be realised, two things need to happen. First, employers must adapt to an ageing workforce. Although the gig economy and self-employment have been helpful in allowing older people to carry on working, the fact that they are so widely used suggests that traditional employers are often insufficiently flexible to accommodate this new group.

The business case

Ageist recruitment practices and corporate cultures can be big impediments to keeping older workers employed. Nearly two-thirds of this group surveyed in America said they had witnessed or experienced age discrimination at work, according to the AARP, a lobby group for the over-50s. Legislation can help, but the best hope is for employers to recognise that offering opportunities to older workers is smart business rather than a social duty. Academics have found that older people in multi-generation teams tend to boost the productivity of those around them, and such mixed teams perform better than single-generation ones. Companies that have taken this advice to heart, such as Deutsche Bank, report fewer mistakes and positive feedback between young and old.

As one of the world’s oldest countries, Germany offers other encouraging examples. “It used to hurt in all the usual spots,” says Andreas Schupan, grabbing his back, elbows and shoulders. Aged 47, he has worked on a production line at BMW, a carmaker, for over 20 years. Now a computerised cart does most of the lifting for him, and he hopes to stay on for another 20 years.

The second thing that needs to happen is for the benefits of longer, healthier lives to be spread much more equitably. As things stand, greater longevity is something of a lottery that favours the well-off and the well-educated. Not only do people in the rich world live significantly longer than those in poor countries, but huge differences in lifespan persist even among rich-country dwellers. In America the difference in mortality rates among those with and without a college degree has been widening for the past 20 years.

Across the OECD, the average highly educated 25-year-old man can expect to live eight years longer than a contemporary with only a basic education (see chart, previous page). In Britain a baby girl born between 2012 and 2014 in Richmond, a wealthy area in south-west London, is not only likely to live 3.4 years longer than her equivalent in Tower Hamlets, a run-down part of east London; she will also enjoy 14.5 more years in good health, estimates Britain’s Office for National Statistics.

The causes of such gaps in life chances between haves and have-nots are well known. Smoking, obesity, air pollution, drugs and alcohol consumption all have a strong, and in some cases growing, influence on differences in life expectancy: where people live, says Fabrice Murtin of the OECD. The best way to level the playing field is to invest in public health, offer universal access to health care and provide high-quality education for everyone. Unsurprisingly, in countries such as Canada or Sweden, which attach great importance to such matters, the gap in life expectancy between the most and the least educated people is much narrower than it is in America.

Individuals will also have to take more responsibility for unlocking their own longevity dividend. In a survey of Americans conducted by researchers at Stanford University, 77% of respondents said they wanted to live to 100, but only 42% claimed to be making a real effort to get there.

Given the right input from governments, employers and individuals, it should be possible to stretch the increasingly productive in-betweener stage and compress the dependent period at the very end of life. But that last stage will always remain costly and the state will probably continue to pick up most of the tab.

Estimates of life expectancy over recent decades have regularly proved too conservative. Some demographers already think that children born in the rich world today will routinely make it to 100. With vast sums being pumped into fields such as stem-cell research, regenerative medicine, biomedical technology and genomics, human lives could stretch well beyond that. If that happened rapidly, it could prove highly disruptive. Economies would suffer, social tensions could erupt and progress on gender equality might be reversed as many more women were obliged to become caregivers for the elderly. To avoid such ill effects, societies and economies must start in earnest to prepare for those longer lives right now.

Older people in multi-generation teams tend to boost the productivity of those around them

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