Addressing the Reality of Living Longer

Life expectancy is increasing and birth rates are falling, resulting in more savers than spenders. Planning for your retirement and building assets for the future is crucial, and needs to start now. – By Richard Herberth

With life expectancy increasing by approximately one year every five years[1], expectations of retirement are being reshaped and the number of older people in work continues to grow. Indeed, one in five Americans over 65 are already in employment, with one in 12 over the age of 75[2]. In Singapore, the employment rate for over 65s was 27% in 2018[3]. This is partly a product of culture and increasingly necessity. The trend does not look set to change any time soon.

Given low interest rates and lower return expectations[4], many will struggle to save enough by their mid-60s to support themselves for an extended retirement period. Furthermore, demographic changes are expected to keep rates subdued, as a fall in birth rates and rise in life expectancy have resulted in more savers than spenders. As more wealth is accumulated by older investors, they compete for returns, resulting in lower returns on wealth. Retiring in one's 60s or earlier might become the exception rather than the norm.

However, a shifting population pyramid suggests dynamism in new areas and fresh investment opportunities. Healthcare, medical appliances, personal care services, robotics and other technologies support independent living, financial services, leisure and property – morphing together to reflect grey spending power. The number of funds targeting these sectors demonstrates the growing popularity of the longevity investment theme.

Facing the reality of a multi-stage life

Planning and building assets for all life stages is crucial. Ideally, planning should start early, concentrating on growing tangible assets to outpace inflation. Developing intangible assets, such as networks of friends, should not be overlooked as well, since transferrable skills, knowledge, mental and physical health and openness to change will all be needed for a rich later life.

Long-term financial planning

Individuals will have to take greater financial responsibility and plan. Currently, it can be time consuming to find answers to even the most basic questions.

People welcome flexible retirement planning options, but often underestimate or are not aware of the complex investment choices they face. Many retirees by default hold savings in cash or may be unrealistic about their drawdown product's potential performance.

The planning process could become easier, making it simpler to monitor and control what is held in investment portfolios. An eventual move to a single online portal would enable individuals to keep a close eye on metrics like their own life expectancy and net wealth.

A holistic view of assets and liabilities, better engagement through technology, and simpler investment choices with clear, understandable outcomes are key to empowering people to take action, understand their financial position and have a sense of how to improve it. This could deliver the transparency needed to achieve greater financial flexibility.

Income options for a longer life

Sophisticated multi-asset portfolios offer one option. Unlike fixed income, these products rebase as equity markets rise. Nevertheless, these products are often not indexed, sometimes with caps on annual withdrawals, and are likely to be relatively costly as the assets are combined with an insurance wrapper.

People entering retirement still have very long-term horizons and should consider taking advantage of illiquid strategies with predictable income in their investment portfolios to enhance returns and diversify from public markets. A drawdown product with around 15 to 20% allocation to illiquids such as private debt, infrastructure and real estate, could potentially add years of income, compared with a similar multi-asset portfolio 100% invested in public-market strategies.

Retirement-targeted bonds could also be considered.[5] These instruments differ from conventional bonds in that, instead of paying coupons and a lump sum at maturity, they offer a secure income for an agreed term. Investors could acquire bonds to cover their income needs in retirement, probably in the later stages of accumulation, before switching to an annuity for late life.

Investment circles, where individuals pool assets and then receive a lifetime income greater than that from an annuity, are also being explored.[6] Modern tontines, an annuity shared by subscribers to a loan or common fund, are designed for those who want to convert a pension pot into lifetime income. Some have the advantage of paying longevity dividends to living members, drawn from the assets of those that pass away before them. Although this is still in its early days, they may have the flexibility to include property, and the option to retain assets to pay a legacy.

Living with longevity

Longer lives have changed the nature of work and retirement, bringing some practical challenges. To make the most of retirement in the future, it might be best to shelve assumptions about what retirement means. Taking action early will make it possible to transition between life stages more comfortably and set the foundation for the long term.

1. Lynda Gratton and Andrew Scott, The 100-Year Life (Bloomsbury, 2016).
2. Lynda Gratton and Andrew Scott, 'The corporate implications of longer lives', Sloan Review MIT, Research Feature, Spring 2017
3. Ministry of Manpower, Singapore, "Labour Force in Singapore Advance Release 2018". https://www.mom.gov.sg/newsroom/press-releases/2018/1129-labour-force-in-singapore-advance-release-2018
4. 'We'll live to 100 – how can we afford it?', World Economic Forum, May 2017.
5. 'A new retirement bond', Financial Adviser, 4 September 2018.
6. 'Minimising longevity and investment risk while optimising future pension plans', ARC Webinar 2018.

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