Modern retirement monthly

What if you live to 100? | 1 May 2018

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- Global investors are optimistic about living to 100 years of age.
- Their optimism is well-founded – investors are increasingly likely to live into their 90s and perhaps to 100.
- Healthcare and long-term care are important parts of longevity planning.
- Investors may need to take steps to ensure their investment strategy is appropriate to meet their long-term objectives

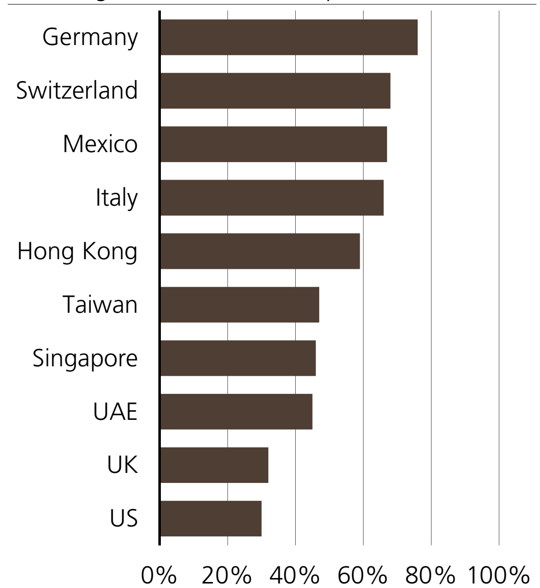
The 2Q18 UBS Investor Watch report, "The Century Club," found that investors globally are optimistic about their chances of living a long, healthy life. Even so, the promise of longevity brings financial anxiety, particularly in regard to the cost of healthcare. In this Modern Retirement Monthly, we take a look at some of the main conclusions from Investor Watch and discuss how investors can better integrate longevity into their plans.

Finding #1: More than half of wealthy investors expect to live to 100 years

More than half of wealthy investors expect to live to 100 years. In the most optimistic countries, like Germany, Switzerland, Mexico, and Italy, over two-thirds of investors have 100 years in their sight lines. Americans and Britons are less optimistic, but nearly a third of investors in the US and the UK expect to live to 100 (see Fig. 1).

Despite the regional gaps in expectations around life expectancy, investors everywhere are optimistic – at least compared to the longevity experts. For instance, even though investors in the US are the least optimistic about living to 100, their expectations still far exceed the estimates used by most actuaries, insurance companies, and demographers.

Fig. 1: Investors are optimistic about longevity
Percentage of investors who expect to live to 100



Source: UBS Investor Watch 2Q18. Available here: https://www.ubs.com/microsites/ubs-investor-watch/en/home.html

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Most investors are aware that median life expectancies have increased steadily over time. Throughout the first part of the 20th century, the bulk of life-expectancy increases came from improving childhood mortality. Over the last 50 years, much of the gain in life expectancy has actually occurred for individuals over the age of 65 (see Fig. 2). Some people refer to this extension as a "longevity bonus," since it comes at the end of life. Currently, median life expectancies, at the age of 65, range between 80 and 90 for much of the world.

One additional aspect of longevity that has changed is that while women still have longer life expectancies than men, the sex gap has been decreasing since the 1970s. Post-65 life-expectancy gains have also been more substantial for men than women over the last 40 years (see Fig. 3).

Instead of focusing on median life expectancy, we prefer to focus on the top half of the life-expectancy distribution when developing financial plans. Although none of us know exactly how long we will live, prudent planning requires that we incorporate the "risk," from a financial standpoint, that we will live long lives.

Despite increased longevity, the Century Club might be elusive. Based on current actuarial tables, retirement-age men and women have a 2% and 6% chance, respectively, of living to 100 years. Even though those probabilities sound small, the likelihood of at least one spouse living to 100 is getting closer to 10%. Younger individuals have a better chance. The actuarial probability of living to 100 for a couple born in 2000 is currently estimated to be about 15% (see Fig. 4).

Even so, if 100 remains extreme, 90 is the new normal. Twenty-five percent of retirement-age individuals can expect to live into their 90s. For a couple, that means there's a 40–50% chance of one or both making it into their 90s.

Finding #2: Health is more valuable than wealth

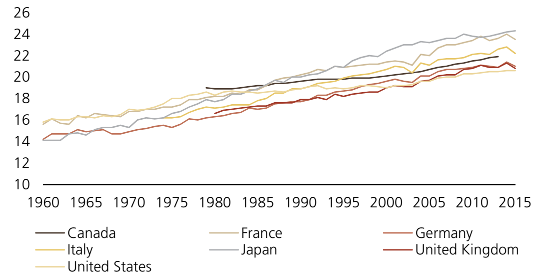
The Investor Watch report found that health is the top priority, and concern, for wealthy investors. Individuals and households generally increase healthcare spending as they get older. Wealthy investors also report that they spend nearly half of their healthcare dollars on preventative measures. Perhaps even more striking, investors said they would sacrifice large amounts of their wealth in order to extend their lives.

Comprehensive financial planning should include an analysis of likely healthcare costs in retirement, but investors should also include the spending they are doing on preventative measures in their retirement plans – particularly if they intend to maintain or accelerate those expenses in an effort to extend their lives.

It's also important to include potential long-term care expenses, particularly in countries or areas where public long-term care insurance is means-tested or nonexistent. Long-term care is not medical care, but provides assistance with activities of daily living, like eating, bathing, dressing, toileting, transferring, and continence. Our research on the

Fig. 2: The "longevity bonus" continues to increase

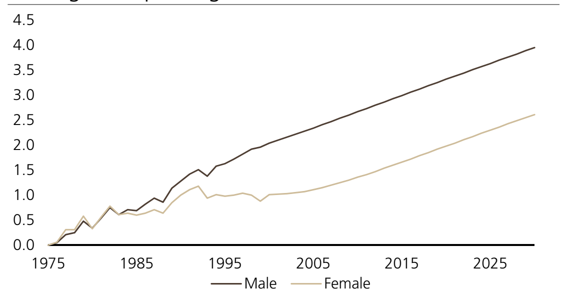
Post-65 life expectancy for G7 countries



Source: OECD, UBS

Fig. 3: Men's late-life longevity gains have outpaced women's

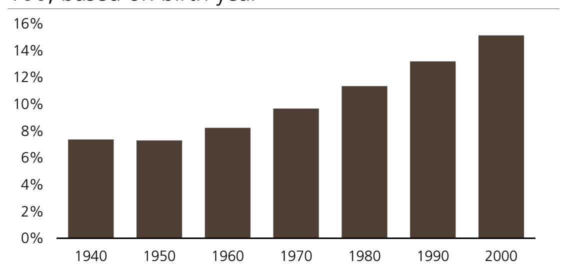
Years gained post-age 65, 1975–2030 (forecast)



Source: Social Security Administration, UBS

Fig. 4: The Century Club is becoming more likely

Actuarial probability of at least one spouse living to 100, based on birth year



Source: Social Security Administration, UBS

US system, which is means-tested, has shown that some households will spend USD 500,000 or more on long-term care (see Fig. 5), particularly if they live to 100.

Finding #3: Investors believe working longer ensures well-being

Nearly 80% of wealthy investors said they believe work has a positive impact on health. Medical research on the impact of extending working careers and personal longevity is mixed, but investors certainly need to think about how they manage their careers – and their personal human capital – in the context of increased longevity.

Human capital refers to one's unique skill-set that enables them to be productive in the labor market. By leveraging that human capital over longer periods, households can save additional money to prepare for an extended retirement. In other words, working additional years has a two-pronged effect: it provides additional time to accumulate savings and also reduces the number of years one is reliant on savings for living expenses.

In addition to working longer, it's important to focus on maintaining and protecting our human capital. Loss of human capital – whether due to erosion of employable skills, disability, or early death of one member of the household – can be devastating to that family's long-term financial plan unless appropriate safeguards are in place.

Finding #4: Longevity is prompting investors to act differently

All in, most investors should be optimistic about living into their 90s and possibly to 100. But increased longevity impacts investment and retirement planning. In fact, 91% of investors told UBS that they are already making changes to their financial plans based on longevity.

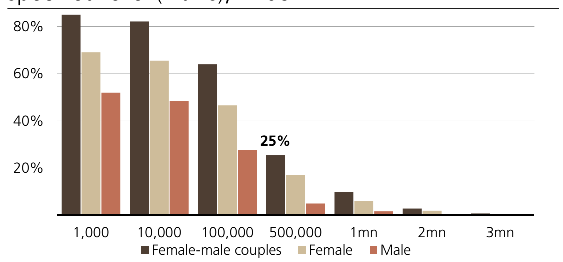
For investors concerned about the financial burden of increased longevity, the first place to start is a financial plan. Financial plans can test the viability of a retirement strategy over extended periods. The planning process can also uncover potential risks, such as inadequate healthcare saving, or direct the investor to a revised investment strategy that provides a higher probability of success. Finally, updating your plan on an ongoing basis is an important way to ensure you stay on track.

Additional resources

Longevity isn't just about financial well-being and healthcare. Over the last two years, I've had the pleasure of presenting at various UBS events with Dr. Laura Carstensen, who, in addition to a long list of accomplishments, serves as the founding director of the Stanford Center on Longevity. Her book, "A Long Bright Future: Happiness, Health, and Financial Security in an Age of Increased Longevity," provides a unique and compelling vision for how we should all think

Fig. 5: 25% of couples will spend more than USD 500,000 on long-term care

Probability of total long-term care expenses above the specified level (x-axis), in USD



Source: UBS. See the UBS CIO report "Long term care: What to do now" for more information on this analysis. https://www.ubs.com/us/en/wealth/research/your-wealth-and-life.html about getting the most out of our longevity bonus. I've personally handed out dozens of copies, and I can't recommend it more strongly.

I also recommend an interview we did with Joe Coughlin, head of MIT's AgeLab, in our 2014 report, "Navigating Longevity." In the interview, he encourages us to spend time thinking through the day-to-day implications of longevity through three simple questions: 1) Who will change your light bulbs?; 2) Where will you get an ice cream cone?; and 3) Who will you have lunch with?.

Michael Crook

Appendix

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