

Demographics - what does the future hold?

By David O'Connor

Last month I attended a Later Life Symposium where Watson Wyatt presented demographics that caused a minor disturbance in the national press, that lasted for all of 2 days!

The figures presented were, and still are, quite dramatic, the initial headline being that it is expected that the UK population will increase from 61M to 71M by 2031. However it is not just the increase in numbers, but the way the various age groups are split that is a cause for concern. For example in 2007 there were 11.5M people aged under 16 in the UK compared to 11.6M people of pensionable age.

The problem is escalating in that life expectancy is still increasing. In 1978 life expectancy for a male at age 65 was about 15 years; by 2008 this figure had increased to over 23 years. The dramatic difference is due not only to medical advances but an improved standard of living in the country as a whole during the last 50 years.

For example, in 1960 the ratio of workers to pensioners was 12:1; in 2050 it is expected that the ratio could be as low as 4:1.

Solutions need to be found

This will probably lead to a series of tough political decisions. In particular how can the government provide the services for the general population that they have become accustomed to? Some solutions that may be considered are:

- **Increased taxes**
- **Making people retire later**
- **Encouraging people to save more**
- **Transferring the risk to someone else**

No politician wants to make unpopular decisions now to solve problems that may be 10, 20 or 30 years away. Already it is being suggested that the increase in the state retirement age to 68 in 2046 is too low and too late, and more than one commentator has suggested it should be age 70 by 2030. An interesting point as it was at age 70 that the state pension was set when first introduced in 1911.

“Of all the threats to human society including war, disease and natural disaster one outranks all others –the ageing of the human population”

**Jeremy Laurance
(Health Editor, The Independent)**

Just because people are living longer does not mean they will always be in good health. The expectation is that most will have a longer period of ill-health which will lead to a greater need for long term care provision.

Currently 65% of all those people who need care receive funding from the state. The remainder are self-funding having assets above the means tested level of £23,000. The government is encouraging more people to have care at home however the cost of care at home can be as expensive as care in a nursing home with the added cost of maintaining the home as well.

It is a fact that less than 1% of the population has a pension fund at retirement valued at more than £100,000. The average pension fund value in 2008 was £26,000. When you consider that this must last on average for 23 years, some of which are in ill health, is it any wonder that we might be considered to have an almost insurmountable problem?

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What can be done?

It has to be stated that for many it is already too late to sort out the problem by themselves, hence the state will need to continue to provide what services it can. The question is - at what cost to the working population?

For the already retired or those about to retire in the next few years the problems may be more acute. The good news, if there is any, is that over 80% of the country's wealth is in the hands of the over 65's. Most (if not all) of this wealth is in their property. Hence the most obvious asset for people to use to fund their later years is equity in their home. However this goes against the grain for many of the older generation today.

The younger retirees, or those about to retire, often have a different attitude and many seem to be more committed to having a better lifestyle for themselves rather than attempting to pass the wealth down to the next generation.

For the younger population I would advocate that financial education is needed to help them cope with the reality of life as they need to accept that the state will not always provide.

It could be said that a by-product of the current recession is that the credit levels that many of the population are carrying at present will be reduced. This may lead to a more conservative attitude to credit in the future which should be welcomed by all.

Seasons Greetings to all our readers with the wish that the financial climate will improve for everyone next year.



How will financial service companies respond to client needs?

Concern about market volatility will lead to the introduction of more guaranteed/protected products.

Greater emphasis will be placed on products to generate and protect wealth in later life.

There will be greater innovation to make products more flexible to accommodate those who continue to work beyond normal retirement age.

How will Advisers respond?

Adviser must become more specialised and focused on client needs during their working life and in retirement.

They must become better equipped to find financial solutions at each stage of life, and more responsible for highlighting the consequences of inadequate planning towards pension and Long Term Care matters.

Conclusion

Better education, less debt, more diverse methods of long term savings such as pensions, ISAs and/or investments plus advice from specialised advisers may be a viable way to move forward to offer solutions to solving the income/savings gap at or in retirement.

Finally....

I have been a specialist adviser for several years, however recently I have felt quite strongly that I needed to belong to a group of like-minded individuals. Consequently I have gone through the accreditation process under the auspices of the Financial Services Skills Council to become a Later Life Accredited Adviser.

I am now a member of the Society of Later Life Advisers (SOLLA) a young organisation that will hopefully grow over the years to become the financial services equivalent of Solicitors for the Elderly.

On a personal note I was honoured to receive the Citizens Advice Moneyplanner of the Year Award 2009 at the recent Personal Finance Society awards evening.

For technical assistance and advice call:-

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