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The impact of an ageing world on our society and economy

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The fundamentals of ageing

Populations across the world are ageing

Some developing regions are ageing fastest

Median age, years	1950	2010	2050
World	23.5	28.5	36.1
More developed regions	28.5	39.9	44.5
Less developed regions	21.4	26.4	34.9
Africa	19.2	19.2	24.7
Asia	22.0	28.8	39.8
Europe	28.9	40.3	45.7
Latin America and Caribbean	19.9	27.3	40.6
Northern America	29.8	37.3	40.9
Oceania	27.9	32.2	39.0

Source: UN World Population Prospects: The 2012 Revision.

Globally

- From 1950 to 2010, median age increased by five years
- In the 40 years to 2050, projections suggest, the median age will increase even more, by a further 8 years

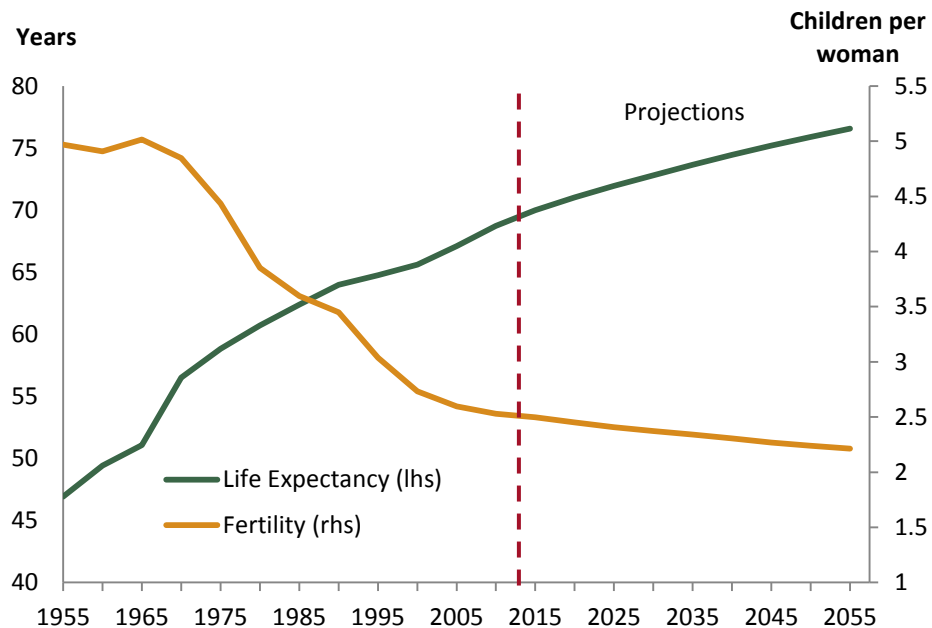
Regionally, there are differences:

- Developing countries are ageing fast:
 - Latin America is the continent set to age the fastest, its median age likely to increase by 13 years by 2050
 - Asia is also expected to age rapidly, its median age increasing by 11 years over the same period
- Northern America, by contrast, is ageing more slowly – its median age increasing by less than 4 years to 2050

Population ageing is the result of two trends plus an anomaly (1 of 2)

The two trends: rising life expectancy and declining fertility

Global life expectancy and fertility rate



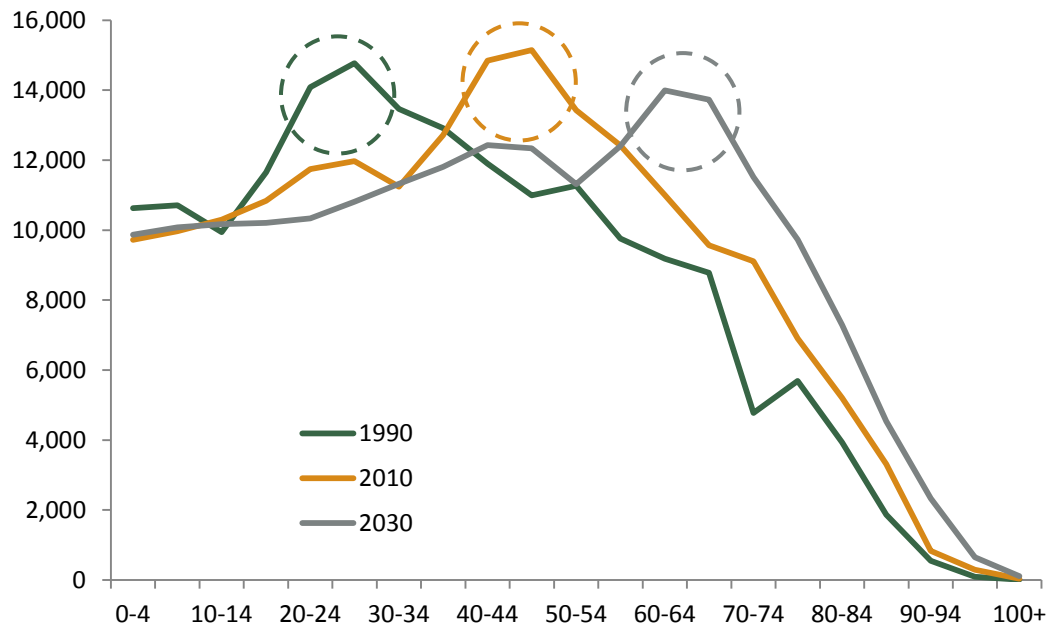
Source: UN World Population Prospects: The 2012 Revision.

- **Global life expectancy** has increased steadily over the past two centuries, by about two years per decade
- Moreover, this trend is not expected to level off:
 - UN projections suggest further increases in life expectancy, by more than 2 months per year until 2050
- **Birth and fertility rates** globally have been falling since the end of the 19th century
- Projections by the UN suggest that, by 2050, fertility rates globally will fall below the global replacement rate of around 2.3 children per woman

Population ageing is the result of two trends plus an anomaly (2 of 2)

The anomaly: the post-World-War-II baby boom

Population by five-year age group, Western Europe (thousands)



- Between 1946 and 1964, the number of births in North America, Europe, and Australasia surged
- As the baby boomers age, this 'demographic bulge' passes through the population, raising the population's median age
- Today, the baby boomers account for more than one-third of the adult population in the US, France, Germany, and the UK
- The first of the baby boomers turned 65 in 2011:
 - By 2030, the whole of this large cohort will be 65 or older

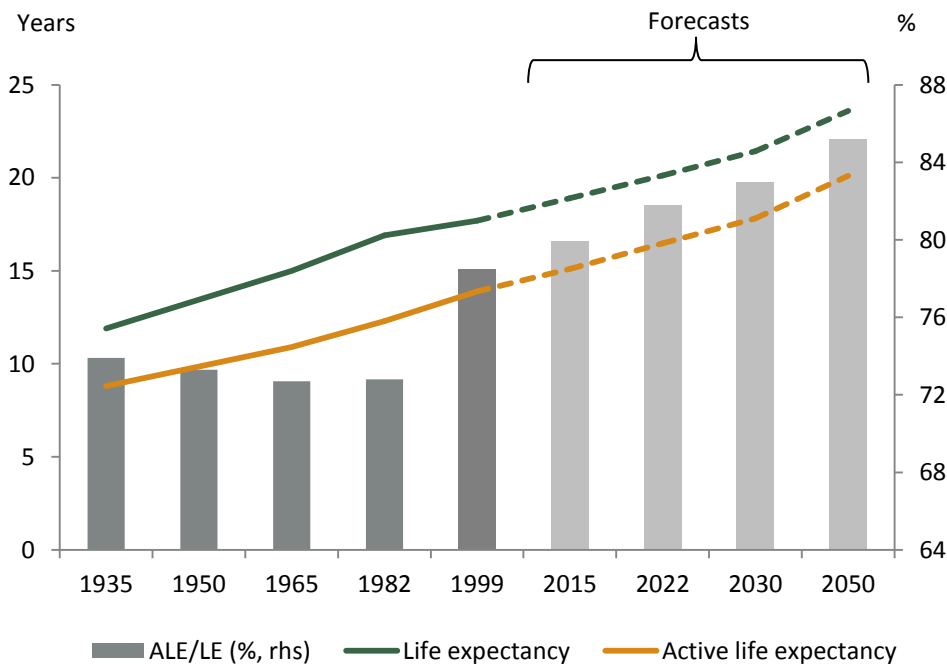
Source: UN World Population Prospects: The 2012 Revision.

Notes: Western Europe: Austria, Belgium, France, Germany, Luxembourg, Netherlands, Switzerland

The 'extra' years of life are, by and large, healthy

Thus healthy life expectancy is increasing broadly in line with life expectancy

Life expectancy and active life expectancy (ALE) in the US at age 65, men and women



- The focus is shifting from considering the *length* of life to considering the *quality* of life
- US evidence is that longevity increase is accompanied by a shorter period of illness and disability (longer active life expectancy)
- Evidence from Europe is more mixed, but apparently healthy life expectancy increases broadly in line with life expectancy
- This suggests that the extra years of life are generally healthy
- This trend may well continue

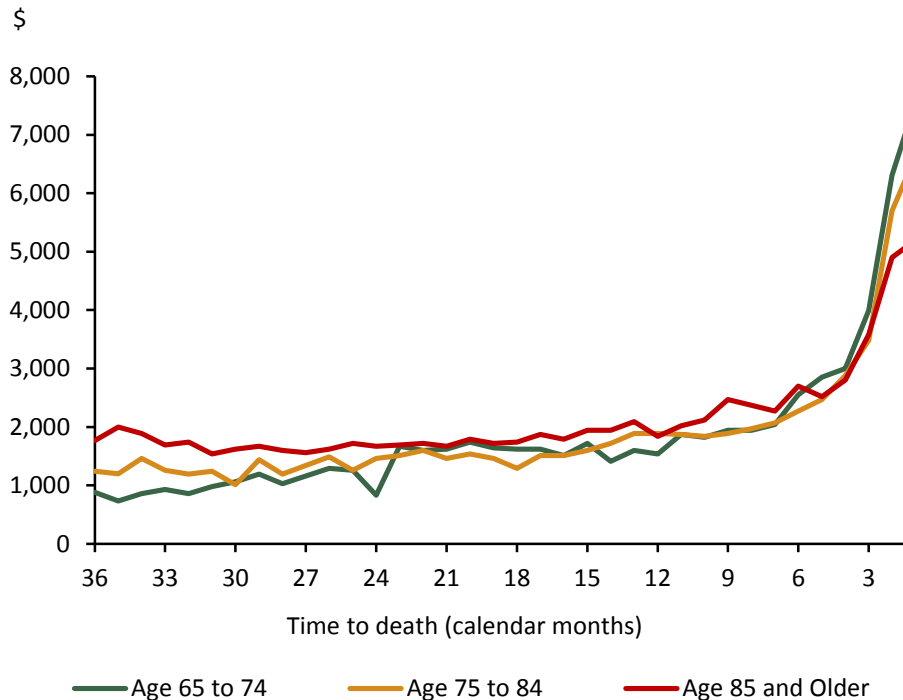
Source: Manton, K. et al. (2006), Long-Term Trends in Life Expectancy and Active Life Expectancy in the US.

Myths of ageing and policy responses

Myth: increased longevity raises healthcare spending

The growing number of older people does, although only to a small extent

Individual health expenditure and death proximity in the US



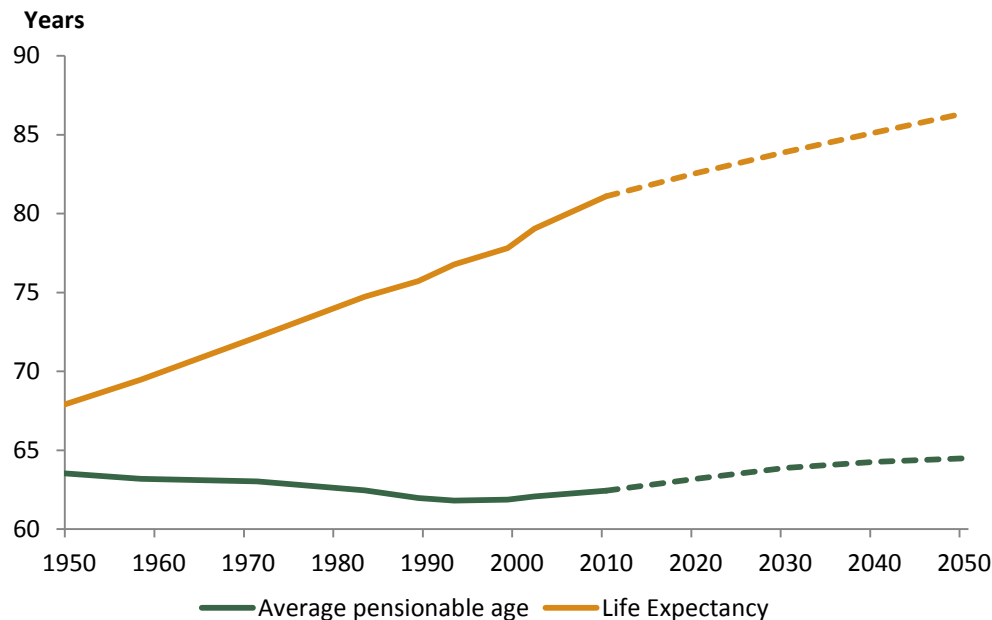
Source: Yang Z. *et al.* (2003), Longevity and Health Care Expenditures: The Real Reasons Older People Spend More.

- Public health spending has more than doubled in OECD countries since 1970, from about 3.5% of GDP to more than 9% in 2012
- It seems set to rise further, by 3pp-odd of GDP over the next 20 years
- The principal reason, however, is not that people are living longer: the bulk of health spending occurs in the last few months of a person's life
- An increased proportion of older people (i.e. the baby boomer effect) does cause an increase in healthcare spending
- But the increase in (healthy) life expectancy by and large does not

Ageing populations do not have to strain the pension system

However, this requires appropriate policy reform

Average ages for men and women for OECD countries



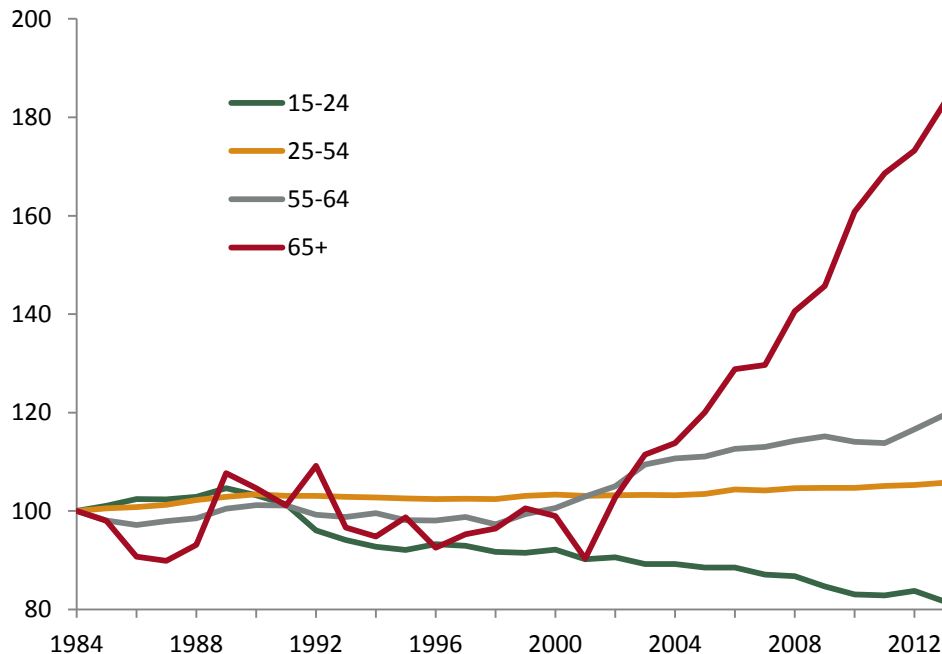
- In most countries, the official retirement age has scarcely changed, notwithstanding rising life expectancy and healthy life expectancy
- Life expectancy is expected to continue rising faster than the pensionable age
- This results in an increase in the average number of pension-claiming years:
 - The problem is compounded by baby boomers
- Pension systems, therefore, need to be reformed to reflect rising longevity:
 - If policy does not evolve to changing (positive) circumstances, the funding gap occurs, and widens

Source: UN World Population Prospects 2013; OECD 2011

Three likely policy responses to ageing populations

Increase retirement age; decrease pension benefits; increase contributions

**Change in UK Labour Market Participation by age group
(Indexed at 100)**



Source: OECD 2013

Policy, particularly in the West, will undergo enormous, continual, change. Policy stands to:

- First, encourage older people to work longer. The retirement age stands to increase progressively:
 - The participation rate of old-age workers has increased rapidly over the past 10 years (see chart)
- Second, decrease pension benefits, which will increase the incentives to continue working
- Third, increase contribution requirements

Given the scale of changes required, all three options stand to be employed, to a greater or lesser extent

Implications of ageing

The impact of ageing on consumption and savings is unclear

But at the aggregate level, it is likely to be rather small

- Standard economic theory posits that people pursue a pattern of life-cycle savings, e.g.:
 - People accumulate assets during their working years, and decumulate them during retirement – thereby smoothing their consumption throughout their lifetime
- In practice however, several studies find that consumption falls significantly at retirement – the so-called ‘retirement-consumption puzzle’:
 - Several explanations have been proposed:
 - First, people use rules of thumb, rather than forward-looking optimising behaviour, to determine retirement saving;
 - Second, retirement could be associated with an unanticipated negative income shock; and
 - Third, a more sophisticated version of the life-cycle model, which suggests that people could be expected to substitute leisure for consumption.
- However, the effect of population ageing on aggregate savings and demand could be expected to be fairly small. The increased number of people aged 65+ in the population could broadly offset the fall in consumption at the individual level
- All that said, there are many uncertainties around future behaviour of older people, especially as the next generation of retirees will be richer than its predecessor

Population ageing has led to shifts in family structures

This change is impacting intergenerational transfers

Population by age group, Western Europe (thousands)



Source: UN World Population Prospects: the 2012 Revision

Notes: Western Europe: Austria, Belgium, France, Germany, Luxembourg, Netherlands, Switzerland

- Due to declining mortality and fertility, population ageing has led to dramatic shifts in family structures, from 'pyramid' to 'beanpole' families, in which:
 - Each generation is smaller;
 - There are more years between generations; and
 - More generations are alive at the same time.
- This has led to profound impacts on intergenerational transfers:
 - People inherit from their parents much later than they used to
 - People in their 50s often have to bear the financial cost of bringing up children later in life, while supporting parents who live longer, and may need expensive care – the so-called 'sandwich generation'

Population ageing has myriad implications for business

Businesses that see opportunities, and adapt, stand to prosper

- Businesses will not be able to avoid an ageing workforce. Many companies are already changing their firm's age structures
- Employing older workers need not necessarily be a burden – they can bring a range of opportunities and benefits, e.g.:
 - B&Q¹ abolished its retirement age and opened two stores staffed by over 50s. A survey of the two stores benchmarked against four other B&Q's found that:
 - Profits were 18% higher;
 - Absenteeism was 39% lower; and
 - Shrinkage was 58% lower
- The age of the average consumer is rising, and the older cohort represents a large part of the market, presenting an opportunity for new firms to enter, e.g.:
 - SAGA: offers insurance and financial services, as well as holidays, for the over 50s market
- Consumer spending profiles of the older cohorts are different from those of younger cohorts, leading to a range of growth opportunities for existing firms, e.g.:
 - Nintendo: released the Wii, specifically the Wii Fit, and Nintendo DS intending to target the older generation with 'exercise' and 'brain-training' games

¹B&Q (2007): *Age, it's only a number*

Conclusion: population ageing should not be seen as a negative

Societies, however, need to adapt to it

- Ageing is often thought of in negative terms. It is common to hear that:
 - An older society means a larger number of older people in poor health
 - There will be too many old people for the working population to support (e.g. pensions and healthcare)
 - Growth will slow due to a large inactive population
- However, these preconceptions generally rest on false assumptions: how can it be that more years of healthy life is a problem?
- Furthermore, from the standpoint both of the individual and of society as a whole, the fact that people are living ever-longer must surely be seen as a positive
- To the extent that an ageing population poses issues for pension and health systems, or companies, the presumption surely has to be that both public and private sectors need to adapt to it
- Population ageing brings myriad opportunities for society as a whole, and for companies in particular. While all companies will be affected one way or another, certain sectors will be 'natural' beneficiaries from population ageing
- Companies that adapt appropriately stand to prosper: those that do not will flounder

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