

What happens when the old outnumber the young?

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An ageing population strains welfare states and healthcare systems, presenting a fiscal risk to a number of countries.

p.04

At a glance

- The world's population is ageing as a consequence of colliding factors including falling birth rates and rising life expectancy.
- An ageing population will bring about a number of challenges while also representing an important economic opportunity.
- Businesses and investors have the chance to tap into a long-lasting trend. This trend has ramifications for a number of sectors, including healthcare, technology, and financial services.
- An ageing population will undoubtedly result in greater spending requirements when it comes to healthcare. This already represents one of the largest expenses for governments worldwide and is creating a demand for innovation and efficiency.
- Part of cost-saving measures include supporting the development of new technology solutions to help relieve the pressure on healthcare systems. New solutions are emerging which aim to help people manage their own health.
- This generation, is also facing a potential shortfall of professional financial advice at a time when it is needed the most. The changes to retirement provision in particular have been accompanied by greater choice and complexity, emphasizing the need for face-to-face financial advice.
- Society will need to adapt in order to effectively provide the kind of support the older generation requires. Companies which are well-aligned with the needs of this demographic will find themselves tied to a rapidly growing market.
- Certain sections of society will be more affected by this demographic shift than others. These represent areas of opportunity for investors looking to harness the potential of a long-term structural trend.

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Sectors which are most vulnerable to the effects of an ageing population are those which are most likely to present important economic opportunities.

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What happens when the old outnumber the young?

The world's population is ageing as a consequence of colliding factors including falling birth rates and rising life expectancy. An ageing population will bring about a number of challenges while also representing an important economic opportunity.

Virtually every country in the world is experiencing growth in the number and proportion of older persons in their population. This is set to become one of the most significant social transformations of this century and beyond. The UN anticipates that by 2030, the number of people in the world aged 60 years or over will have grown by 56%, to reach 1.4 billion. By 2050, the global population of older persons is projected to more than double its size relative to 2015, reaching nearly 2.1 billion.¹ The World Health Organisation (WHO) predicts that one in six people will be over 65 by 2050.²

An ageing population will affect nearly every aspect of society but some sectors will be more impacted than others. Older people are more reliant on the healthcare sector, for example, than other age groups. While some of the proposed solutions to deal with this extra demand appear fairly universal, challenges also differ depending on the country in question.

This development presents a number of economic opportunities. Today's baby boomers and seniors are estimated to hold up to three-quarters of wealth in some countries.³ A number of firms are recognising the potential benefits of catering for the older generation. We believe that companies that focus on innovation to address the needs of today's retiree community are in line for above-average organic revenue growth.

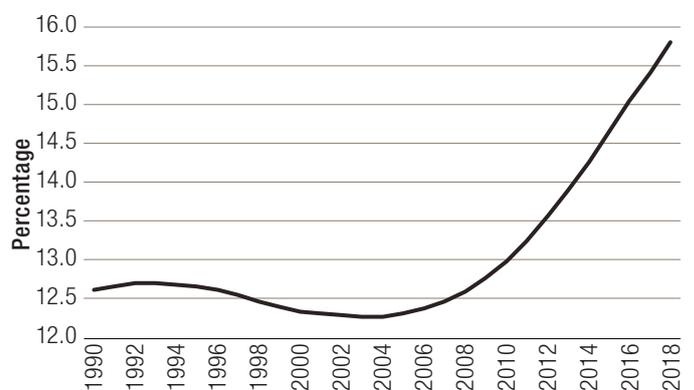
Businesses and investors have the chance to tap into a long-lasting trend.

Population ageing is a global phenomena

The United States is a significant market experiencing population ageing. The number of older people (65 and over) is soon expected to outnumber children for the first time ever.⁴ The proportion of people aged 65 or more has been steadily growing in size for decades but has accelerated in recent years. A number of factors are affecting the demographic composition of the US, including greater longevity of its residents, along with a decline in the size of the average family unit. As a result, the number of older people has risen from 13% of the population in 2010 to 16% by 2017.

This trend is expected to become increasingly pronounced, and the 2030s are expected to signal a milestone in the nation's history. It is now believed that one in every five US residents will be of retirement age by 2030. By 2035, the US Census Bureau anticipates there will be 78 million people aged 65 or more, compared with around 76 million under the age of 18. By 2060, the bureau anticipates an extra 20 million older people. The implications of this development are enormous and stand to place pressure on infrastructure and services.

FIG. 1 USA POPULATION AGED 65 AND ABOVE (% OF TOTAL POPULATION)



Source: World Bank.

This is not limited to the US by any means. The situation is similar in the UK where the number of people aged 65 or more is growing at a faster rate than any other age group.

Figures from the Office for National Statistics (ONS)⁵ show that around one in five people were 65 or older in 2018. This is set to increase to one in four people within the next 30 years. Within the next 50 years, this demographic is expected to swell by an additional 8.2 million people – roughly equivalent to the current population of London. At 204 million people, this age group would account for 25% of the total UK population.⁶ This has far-reaching implications for almost every aspect of UK society.

¹ https://www.un.org/en/development/desa/population/publications/pdf/ageing/WPA2015_Report.pdf

² <https://www.un.org/en/development/desa/population/publications/world-population-prospects-2019-highlights.html>

³ <https://am.lombardodier.com/contents/news/investment-viewpoints/2019-1/september/silver-spending.html>

⁴ <https://www.census.gov/newsroom/press-releases/2018/cb18-41-population-projections.html>

⁵ <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/ageing/articles/livinglongerandoldagedependencywhatdoesthefuturehold/2019-06-24>

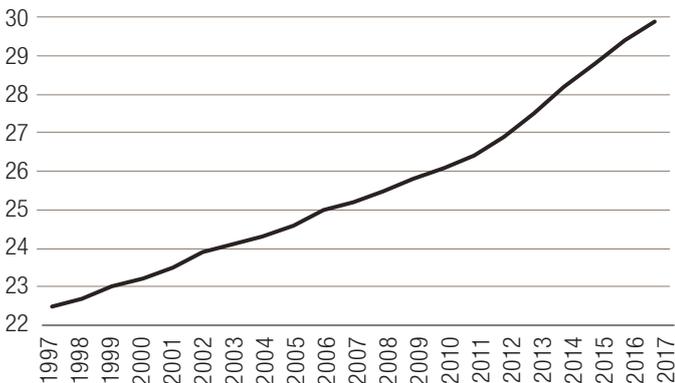
⁶ <https://www.ons.gov.uk/peoplepopulationandcommunity/populationandmigration/populationestimates/articles/overviewoftheukpopulation/august2019>

The European Union (EU) is also experiencing an ageing of the general population that is expected to continue for years to come. The number of over-65s has been rising as a share of the population for a number of years. Around 17% of the EU population was aged 65 or more in 2008, and this had risen to more than 19% within 10 years. The total population of the EU stood at around 511 million in 2016 and official projections suggest it will reach 520 million by 2070. At the same time, older people will make up an increasingly significant proportion of the population: the largest single age group will be 70-74 for women and 50-54 for men by 2070. In fact, older people are expected to make up as much as 25% of the population by as soon as 2030.⁷

Old age dependency ratio

One important consequence will be an increase in the old-age dependency ratio, as shown in the graph below. The ratio illustrates how many people are over the age of 65 relative to those aged between 15 and 64. This offers a rough idea of how many economically active members of society there are to support more vulnerable members.

FIG. 2 OLD AGE DEPENDENCY RATIO IN EUROPE 1997-2017(%)



Source: Eurostat.

In the US, there were four and a half working-age people in 2010 to support each older person, according to official figures. By 2030, this will have dropped to three people for every older person. Taken in the context of greater longevity, there will be fewer working people to support older people at a point where time in retirement is at its longest. The time spent in retirement has already risen from an average of 14 years in the 1950s to more than 20 years today.⁸

In the UK, there have been around 3 older people for every 10 working age people between 16 and 64 in recent years. Over the next 20 years, this is expected to increase to four older people for every 10 working age people.⁹

In the EU, the working age population – those aged 15 to 64 – is expected to drop between 2016 and 2070. The working age population looks set to decrease by 12% over this period, from 333 million to 292 million.¹⁰ These projected changes reflect assumptions on fertility rates, life expectancy and migration flows. There were five persons of working age for every person aged 65 or more in 2008. Today, there are three. By 2070, this looks set to fall to just two.¹¹

⁷ https://ec.europa.eu/info/sites/info/files/economy-finance/ip079_en.pdf

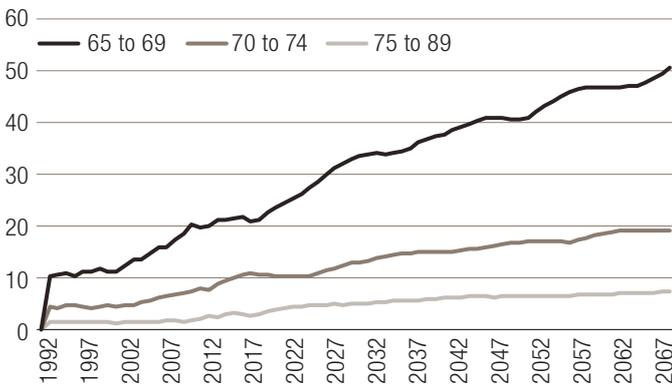
⁸ <https://www.census.gov/content/dam/Census/library/publications/2014/demo/p23-212.pdf>

⁹ <https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/ageing/articles/livinglongerandoldagedependencywhatdoesthefuturehold/2019-06-24#an-alternative-to-the-old-age-dependency-ratio>

¹⁰ https://ec.europa.eu/info/news/economy-finance/policy-implications-ageing-examined-new-report-2018-may-25_en

¹¹ <https://ec.europa.eu/eurostat/web/products-eurostat-news/-/DDN-20180508-1>

FIG. 3 HISTORICAL AND PROJECTED ECONOMIC ACTIVITY RATES BY AGE GROUP, UK, 1992 TO 2067



Source: Office for National Statistics (ONS).

What will change?

An ageing population puts unprecedented pressure on public services. Governments worldwide are preparing for this eventuality by changing the rules surrounding retirement. In the US, the retirement age will gradually increase until 2023 and there are currently active discussions around raising the age of eligibility for Medicare from 65 to 67. Older people require a greater degree of support and the onus is increasingly shifting from the state to the individual.¹²

The UK government has been aware of this situation for some time and has been working to raise the age at which the state pension can be claimed ever higher. The state pension age is set to rise from 65 to 67 by 2028 and further still to 68 by 2046, in order to relieve some of the pressure on public infrastructure. It is of little surprise that older people are working for longer. In fact, the percentage of people who are aged 65 or more still in employment has doubled since 1998.¹³

EU leaders are also preparing for this eventuality by encouraging older people to start their own businesses.¹⁴ The EU notes that one effect of this initiative will increase demand for the type of space sharing facilities which serve as workplaces for the older adult.

Healthcare

An ageing population will undoubtedly result in greater spending requirements when it comes to healthcare. This already represents one of the largest expenses for governments worldwide and is creating a demand for innovation and efficiency.

An ageing population strains welfare states and healthcare systems, presenting a fiscal risk to a number of countries. This is particularly pertinent considering that research shows that while baby boomers are living longer than their parents' generation, they are on average doing it in worse health. Researchers have found that the baby boomer generation is more likely to be obese, to have diabetes, or suffer from high blood pressure than the preceding generation. The rate of disability is higher and so is the prevalence of chronic disease.¹⁵

Healthcare is a priority sector for the exact reason that older people are more reliant on it than other age groups. In the EU, figures from Eurostat reveal that people aged 50 and over accounted for nearly 70% of all inpatient hospital days in 2013. This is despite the fact that this age group accounted for 40% of the population at the time. The EU anticipates an increase in demand for health and social care.¹⁶

The US spent about USD 3.5 trillion on healthcare in 2017. Healthcare accounts for a greater proportion of total expenditure among older Americans than any other group – 13% compared with an average of 8%. People aged 65 or more paid out an average of USD 5,994 to cover their healthcare costs in 2016. Insurance alone cost USD 4,159.¹⁷ One in four Medicare beneficiaries – or around 15 million people – currently spend more than 20% of their income on premiums and medical care.¹⁸ Health care costs are a fact of life in the US, even when Medicare is available since it does not cover all expenses incurred through the healthcare system. Figures from the American Association of Retired Persons (AARP) show that 44 million beneficiaries – some 15% of the total population – are covered by Medicare. The number of people without any form of health insurance at all increased to 28 million in 2017, according to the US Census Bureau.¹⁹

¹² <https://money.usnews.com/money/retirement/social-security/articles/the-social-security-retirement-age-increases-to-66-5-in-2019>

¹³ <https://www.ageuk.org.uk/information-advice/money-legal/pensions/state-pension/changes-to-state-pension-age/>

¹⁴ https://ec.europa.eu/eip/ageing/commitments-tracker/d4/olderpreneurs-older-people-and-enterprise_en

¹⁵ <https://www.cardiosmart.org/News-and-Events/2013/02/Baby-Boomers-Less-Healthy-Than-Previous-Generation>

¹⁶ https://ec.europa.eu/info/sites/info/files/economy-finance/ip079_en.pdf

¹⁷ <https://acl.gov/sites/default/files/Aging%20and%20Disability%20in%20America/2017OlderAmericansProfile.pdf>

¹⁸ <https://www.commonwealthfund.org/publications/issue-briefs/2017/may/medicare-beneficiaries-high-out-pocket-costs-cost-burdens-income>

¹⁹ <https://www.census.gov/library/stories/2018/09/who-are-the-uninsured.html>

Healthcare spending in the UK totalled GBP 197.4 billion in 2017, equivalent to around GBP2,989 spent per person, according to the ONS. This figure also represents 9.6% of the UK's gross domestic product (GDP).²⁰

Long-term care

One area that is of particular importance to the older generation, and that is often paid for out of pocket, is long-term care. Adults who live well into retirement will generally require some form of care on a longer-term basis. An investigation by the National Alliance for Caregiving and the AARP actually found that adults in the US can expect to spend a longer period of time caring for their parents than their children.²¹

Long-term care is going to become more of a priority for this older generation, especially in the context of the prevalence of health complications. But it appears that older people are less able to rely on family for this support, particularly to the extent that it is required on a full-time basis. This is especially true for women, given they generally live longer than men. Around 20% of adults between the ages of 65 and 74 live alone in the US. This figure rises to 40% for adults aged 85 or more.²²

Data from the US Census Bureau shows that people over the age of 85 are far more likely to be a resident of a nursing home, or some equivalent group facility. The US is already facing shortage of nursing home beds and, by 2050, a shortage of 18,000 beds is expected. On the one hand, this signals the urgent need for greater investment in senior living facilities. On the other, it shows how important it is to fund the development of alternative facilities.²³

This is a significant expense for the average person in the UK too, as around 10% of people at age 65 will have to contend with lifetime costs in excess of GBP100,000. In addition, it is believed the UK could soon run out of care home places for older people needing specialist care.²⁴ This demographic change urgently demands greater investment in care facilities as well as viable alternatives such as smart home technologies.

Technological solutions

Part of cost-saving measures include supporting the development of new technology solutions to help relieve the pressure on healthcare systems. New solutions are emerging which aim to help people manage their own health. The number of self-care apps added to app stores worldwide between 2014 and 2018 rose from 1743 to 3444 – a 97% increase.²⁵

The EU is particularly keen on developing alternative solutions presented by the digital revolution. For example, healthcare professionals are increasingly using electronic patient records and digital systems to facilitate the patient journey and improve prevention. It is expected that these advancements stand to relieve pressure on the healthcare systems at the same time as they increase the quality and efficiency of care.

As with other Western economies, European leaders also recognize the potential for smart home technologies to alleviate the pressure on social and health services. Adaptations which are specifically made to the home to facilitate the elderly have reportedly improved the quality of life for an estimated 90% of recipients. These adaptations have the express outcome of allowing older people to remain in their homes for longer.

More than 50 million households in the EU are expected to exhibit some form of smart home technology in the near future²⁶ and this market is expected to reach USD 51.77 billion by 2020.²⁷ For older people, technological products and systems can contribute to greater mobility and less dependency, and increase the capacity for self-care. Sensors, for example, can be used to check that the normal living patterns are followed.²⁸ There are ambitious plans on this front, such as development of robot companions that remind older people about eating, drinking and taking medicines, and that also offer structure throughout the day.²⁹

Over the Atlantic, such is the demand for these facilities that the smart home health care market in the US is expected to grow from USD 4.5 billion in 2017 to USD 30 billion by 2023.³⁰

²⁰ <https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthcaresystem/bulletins/ukhealthaccounts/2017>

²¹ <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC4179206/#R36>

²² <https://www.census.gov/content/dam/Census/library/publications/2018/acs/ACS-38.pdf>

²³ <https://assistedlivingtoday.com/blog/nursing-shortage-what-the-future-holds-for-nursing-homes>

²⁴ <https://www.theguardian.com/society/2019/jun/06/uk-running-out-of-care-home-places-says-geriatrics-society-chief>

²⁵ Generation Investment Management 2019

²⁶ https://ec.europa.eu/info/sites/info/files/economy-finance/ip079_en.pdf

²⁷ <http://ec.europa.eu/research/innovation-union/pdf/active-healthy-ageing/silvereco.pdf>

²⁸ Smart Houses – The European Challenge to Ageing.

²⁹ <https://ec.europa.eu/digital-single-market/en/news/mobiserv-project-providing-robotic-carers-and-smart-systems-elderly>

³⁰ <https://medium.com/p-s-intelligence/smart-home-healthcare-size-is-predicted-to-grow-to-30-billion-by-2023-efd60838e5dc>

Prevention of ill health is key to maximizing years in retirement and also helping relieve the pressure on the healthcare system. To the former, technological solutions aimed at promoting better health and facilitating exercise are set to grow in tandem with the older demographic. The healthcare wearables market is projected to reach USD 60 billion by 2023.³¹ This covers a range of health related products including fitness trackers, medical devices and smartwatches. There is also a growing market for personalised medicine and nutrition that help support active and healthy ageing.

Financial advice

Seniors and members of the baby boomer generation control an increasingly significant proportion of global buying power. Figures show this demographic own almost three-quarters of wealth in developed countries. Over 50s in the US, for example, are estimated to control 70 percent of disposable income.

All this amounts to a rapidly growing, increasingly wealthy generation, which is facing a potential shortfall of professional financial advice at a time when it is needed the most. The changes to retirement provision in particular have been accompanied by greater choice and complexity, emphasizing the need for face-to-face financial advice.

Recent pension reforms in the UK, for example have opened up new avenues for both financial services and consumer spending. Previously, older people could decide to take 25% of their pension in a tax-free lump sum, and explore other options to provide a long-term income. The introduction of pension freedoms meant that people are free to take the whole lump sum, and the other 75% is taxed as income.

This means an increasingly large demographic is in possession of a larger lump sum than previous generations. Financial service companies have an important role to play here but there are already signs that the industry is struggling to cope with demand. The number of UK financial advisers has fallen from 200,000 to around 30,000 over the space of twenty years. There is considerable scope for growth here, considering the circumstances.

Greater pension freedoms also have implications for the consumer discretionary sector. A report by the Resolution Foundation found that people aged 65 or more are spending a growing proportion of their income on recreational activities, while other generations are scaling back. Over the past decade, this demographic has increased their consumer spending by around 4.4% a year – faster than any other.³²

Demographics: an area for economic opportunities

The age composition of populations worldwide is gravitating towards an increase in the proportion of older persons. This will create a series of challenges for society, especially around the provision of public sector services such as healthcare. It will invariably continue to create demand for greater private sector involvement as governments look to share the burden.

Sectors which are most vulnerable to the effects of an ageing population are those which are most likely to present important economic opportunities. As older people are encouraged to stay in work for longer, this will create demand for training programs and workspaces which are specifically tailored for this generation. As healthcare becomes overburdened, the need for private insurers, assisted living facilities, and technological supplements will grow. Greater wealth concentration among the oldest members of society will drive demand for wealth managers and investment specialists, not to mention for providers of consumer discretionary goods and services.

Society will need to adapt if it is to effectively provide the kind of support the older generation requires. Companies which are well-aligned with the needs of this demographic will find themselves tied to a rapidly growing market.

Certain sections of society will be more affected by this demographic shift than others. These represent areas of opportunity for investors looking to harness the potential of a long-term structural trend.

³¹ <https://www.wearable-technologies.com/2019/01/healthcare-wearables-market-to-reach-60-billion-by-2023-says-juniper-research/>

³² <https://www.resolutionfoundation.org/app/uploads/2019/06/Intergenerational-audit-for-the-UK.pdf>

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