The Red House

HOW LONG ARE WE GOING TO LIVE?

"I was so much older then; I'm younger than that now".
Bob Dylan

When building The Red House (TRH) advice proposition, Ruth and I spent some time researching the latest information on mortality statistics. Our clients who have already been through the development of a full lifetime financial plan are always initially surprised with our assumption that our clients will live to age 100! Although this might seem far fetched some further research I have recently come across suggests even more remarkable developments in longevity in the near future.

At a recent workshop I heard a presentation from a gerontologist called Aubrey De Grey where he suggests that the human race will eventually evolve to conquer ageing. Mr De Grey is an eminent scientist in this area and a Cambridge PHD. He did admit that a few years ago some commentators said he was certifiably mad, now they just call him controversial, which as he says, means he might be right! His premise is that ageing is the product of evolutionary neglect not intent. Ageing has never been important enough to worry about as we tended to die from a whole range of other causes before it finally set in. With all the developments in medicine and the current research on matters such as stem cells he now believes that more of the human species will survive so that eventually it is the ageing process that will be the main cause of our demise. Apparently our natural life span, if we do survive all of the slings and arrows of outrageous fortune, is around 115 years. Mr De Grey's thesis is that with the developments that are likely to occur in the next 25 years, those who are in their middle ages now could well have another 30 years of healthy life beyond today's expectations.

Whether we believe this rather challenging view there is no doubt that ordinary mortality statistics are showing an ever increasing life span. The research on which we have built our advice processes is based on the latest data as analysed by leading actuarial practices. Mortality statistics in the past have tended to give a misleading impression as they use the whole UK population. What we have been able to do is to narrow the statistics that relate to the general population and just look at those within a specific cohort. For example TRH clients (with a few notable exceptions) tend to be aged between 45 and 65, affluent, educated and successful in their careers and business (which is why we like you so much!) If one looks at that cohort, the average life expectancy increases compared to the UK population as a whole. For a male age 60, it is 27.6 years, for a female age 55, it is 35.5 years. The tables we are using also give a probability of survival to different ages. A male aged 60 is expected to have a 45% chance of surviving to age 90 and a 13% chance of surviving to age 100. A female aged 55 has a 58% chance of surviving to age 90 and a 38% chance of surviving to age 95. These statistics are based on a large cohort of professional class lives in England. If one then starts to refine TRH group further to those living healthy lifestyles it is not unreasonable to assume that we are looking at a much more extended period of active life for our clients after their normal working life has ceased.

The reason we are so interested in mortality is that it has a real influence on our investment advice. When we are constructing portfolios we are building strategies that are appropriate for both now and for many many years into the future. We therefore need to take a long term view on the key determinant of portfolio performance - asset allocation. All of the research we have done into the long term performance of the major asset classes show that equities will outperform bonds and cash the longer one holds the assets. Short term fluctuations are inevitable as equities are higher risk than the other two asset classes. The very reason they are higher risk is because such fluctuations will occur. This is clearly demonstrated in the decade ended 31 December 2007 which showed the real rate of return (after inflation) for UK assets to be 3.1% for equities, 3.3% for gilts, and 2.5% for cash. Since 1899 there is only one other decade, 1927 to 1937 where gilts outperformed equities at 7.3% to 6.1%. Indeed the last decade has been the third worst performing decade for equities over the last 110 years. (Barclay's equity/gilt survey 2008)

These statistics, as ever, should be put into context. A further informative piece of data from the same survey illustrates the number of consecutive years where equities have outperformed cash and gilts. Over two year periods equities outperformed cash for 72 out of 107 periods, over ten year periods equities outperformed cash for 92 out of 99 periods. There was only one 18 year period where cash outperformed equities.

.

We believe that these long term statistics support our philosophy of building diversified portfolios containing both equities and bonds. They also support our belief that it is nigh on impossible to time markets. The best tactic is to hold these assets classes passively for the long term.

We therefore look forward to celebrating many 100th birthday parties with our clients. Mr De Gray also held the view that the evolutionary effect would also extend 'useful' life as the cell disintegration that causes diseases such as Alzheimer's will be reversed. Just as well, for as Gershwin said 'What good is living if no gal would give in to no man who's 900 years'!

Gareth Marr
The Red House
June 2008

Sources

- Aubrey De Gray presentation to The Pensions Network 06/06/08. For more information see www.mfoundation.org
- Barclay's equity/gilt study 2008
- Spence and Partners life expectancy calculator September 2008

.