Who pays for ageing?

7 new markets now included
How the older population’s needs are funded and why opportunity exists for insurers

There’s no doubt that our growing ageing population could represent a major market opportunity for financial services. Of all the sources that help fund a longer life, insurance has only a single-digit share.

If insurers want to increase their ageing business, they will need to find new ways to provide relevant and attractive new paths to financial security for older people, rather than purely fight for market share among traditional competitors.

The ageing wallet analysis shows the starting point for insurers to win the hearts and minds of older consumers and their families, and become a larger part of the funding solution.
This study shows the total amount spent on people aged 65 and over to supply their income, provide for their health and social care, and cover the inheritance they aim to pass along. It covers 13 insurance markets in detail (Australia, Canada, China, France, Germany, Hong Kong, Italy, Japan, Netherlands, Poland, South Korea, UK and the US).

The study considers everyone who pays, across these three major sources:

1. **Society**: Care provided by the family and funding by the state

   **Society bears the largest portion** – approximately 70% (60% state; 10% family). Each of the 13 markets has a different mentality towards, and reliance upon, state provision. However, the costs of public provision are projected to become unsustainable if current policies don’t change in the face of demographic shifts and other factors, such as high sovereign debt.

2. **Savings**: Private pension assets and housing

   **Savings account for a quarter of the ageing wallet**. Though small in comparison to society’s share, private savings are increasingly important. As wealthier people tend to preserve their savings to guard against uncertainty and unknown long-term needs, they often don’t reinvest in, and benefit the overall economy directly.

3. **Insurance products**: Annuities and medical cover

   **Insurance has a fractional share of the ageing wallet** – around 5%. Today the industry is generally focused on selling products like annuities and attempting to create a market for traditional long-term care insurance.

   These results differ by market, from more social reliance in France and Germany, to more family focus in Poland and China, to more private savings in Hong Kong and the US. Nevertheless, society holds the lion’s share across all markets. Little is revealed simply by analysing geographical proximity – distant markets can still have a similar wallet structure for very different reasons.
The current funding system will find it harder to meet the needs of our “new” older society. An uncertain life expectancy, increasing health and care needs, and other sociodemographic trends will bring substantially higher costs. More people will be vulnerable to lower standards of living due to insufficient funds available in case of major personal catastrophes such as chronic disease.

Re/insurers can provide relevant and useful solutions that are accessible to consumers, mitigate some of the costs of ageing and effectively compensate people when things don’t go according to plan.

Insurance can be an effective line of defence against ageing risks. The largest defence is currently provided by society, which lays the formal and informal foundation to basic needs such as a minimum income or family care. Accumulating savings over a longer working life also offers an important line of defence, which is traditionally used to finance a more comfortable standard of living in later years. Insurance can smooth the decumulation phase, helping to protect against outliving one’s savings, unexpected health shocks, care needs and wider family issues.

The life and health industry’s current solutions only partially address these opportunities. Our collective success relies on a more thorough understanding of the very heterogeneous ageing population, and the various pathways to older age. Insurance’s ability to support successful ageing as part of a wider ecosystem, which also includes charities, technology providers and others, is another important factor.

The insurance industry can increase its share of wallet and its overall value to society by creating solutions that will:

1. Complement, not compete with what a family provides
2. Help fill the gap created by declining state support
3. Provide a financial safety net that increases people’s confidence to spend and support the economy
Investigating the funding sources for older people’s lives

**As the ageing population increases, the working age population decreases**  
It’s a triumph of medicine, public health and human progress: the world’s total older population will more than double to 1.5 billion people between 2020 and 2050. The global increase in life expectancy paired with the fall in fertility mean that by 2050, 15.8% of the world’s population will be over 65, compared with 9.4% in 2020.\(^1\)

Ageing societies bring new challenges and changing social dynamics. Among them:

- New pathways to retirement that may include longer working lives, second careers, or midlife breaks for retraining or altruistic purposes
- A need for more savings or continued working income to support a longer life
- Greater risk of disability and non-communicable diseases, which in turn brings catastrophic financial costs to individuals, their family and society. For example, global dementia cases could nearly triple to 130 million by 2050 and their associated costs are projected to rise by over 20% to USD 1 trillion between 2015 and 2018.\(^2\)

Needs in later life will naturally differ by local market, but can broadly be divided into “live secure” (day-to-day income), “live well” (health and social care) and “bequeath something” (provide an inheritance to the next generation) at a global level.

**Examples of ageing financial needs**

<table>
<thead>
<tr>
<th>Live secure</th>
<th>Live well (care/health)</th>
<th>Bequeath something</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transition to retirement</td>
<td>Dental care</td>
<td>Funeral expenses</td>
</tr>
<tr>
<td>Sufficient income and savings buffer</td>
<td>Access to medicine</td>
<td>Grandchildren’s education</td>
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<tr>
<td>Guaranteed income</td>
<td>Care at home</td>
<td>Housing</td>
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<tr>
<td>Inflation protection</td>
<td>Nursing home care</td>
<td>Cash inheritance</td>
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</table>

Source: Swiss Re

People rely on a combination of society (including support from the state and their family), their own savings, and insurance to address these financial needs:

- **Society** provides the basic foundation – a level of universal “guarantee” for those least able to afford provisions. While state support is fairly consistent in more developed markets, the family’s share is often larger in emerging countries.
- **Savings** fund daily expenses (income from eg pension drawdowns or dividends, additional to society’s provision) and also catastrophic events (eg care), by using up accumulated assets where income is insufficient.
- **Similarly**, insurance products are used to provide income (annuities) or fund extraordinary expenses through products like medical cover.\(^3\)

The re/insurance industry has primarily focused on the needs of working age individuals, where the pooling of risks provides more diversification, lower health risks make claims less likely and products are more affordable. But as people live longer, will they have enough income and wealth to live securely? Re/insurance has a critical role to play to ensure the answer is “yes”.

\(^1\) United Nations (UN), 2017, medium fertility projections  
\(^2\) Alzheimer’s Disease International, 2015  
\(^3\) The model accounts for this by ensuring that any private expenses are deducted from the wallet to demonstrate how these ageing needs are funded. Details on the methodology can be found at Swissre.com/ageingappendix  
\(^4\) United Nations (UN), 2017, medium fertility projections
Investigating the funding sources for older people’s lives

By addressing the need for greater resilience of the over 65s, the industry could access an underserved market. While the number of traditional insurance customers (those age 30-49) in the developed world will fall by about 40 million, the over 65 population will grow by 100 million between 2020 and 2050. That’s a 50% increase, and a market ripe for opportunity to close the Protection Gap.

A better understanding of how today’s “ageing wallet” is paid for will help policy makers and financial service providers plan for the future:

- What is the annual expenditure for each person aged 65+ and how is this split between society, savings and insurance?
- Which trends will impact the future “share of wallet” of today’s funders?
- How can the public and private sectors address the challenges of the future?
- What role could re/insurance play?

From problem to potential:
Insurance can grow from a weak starting position

What is the ageing wallet?
The amount spent on funding the lives of people over age 65 across three major funding sources: society, savings and insurance.

What does the wallet pay for?
Everything a senior needs, including income, health care, social care, and their financial legacy to the next generation.

In this report, the ageing wallet is analysed across 13 insurance markets: Australia, Canada, China, France, Germany, Hong Kong, Italy, Japan, the Netherlands, Poland, South Korea, the UK and the US. For more on the methodology, see Swissre.com/ageingappendix.

In terms of size, it’s little surprise that the US is among the largest wallets with a spend of an average USD 66,000 per person over 65 – second only to the Netherlands with USD 70,000. Equally, China has the smallest wallet at USD 15,000 in purchasing power parity. For the other four markets, there is little difference in total spend per capita.

In the developed world and China, we spend USD 11 trillion annually to support everyone over age 65.

5 Purchasing power parity USD per annum 2015
What is the ageing wallet?
The annual amount spent to fund the lives of people over age 65, across three major sources

Money to fund income, health care, social care and inheritance for people over age 65

How much does it cost to support a senior?
Average annual spend per person over age 65 by country in USD purchasing power parity (PPP)

Where does the money come from?
Total annual spend for everyone over age 65 in USD PPP

How do the costs vary by market?
Total annual spend for everyone over age 65 in USD PPP trillions

Source: Swiss Re
Insurance is not the “go to” provider for ageing needs (5% share)

Even though insurance is well established in all markets studied (except China and Poland), it still plays a very small role in financial security for older people. The insurance portion is primarily annuities, whole life mortality insurance and medical products in some markets. Despite several attempts to create a substantial market demand for traditional long-term care insurance, that solution still remains largely a niche product.

Society dominates the wallet (70%)

Even in supposedly more “privatised” markets, the government and the family dominate extensively. Family and friends are the primary source of care across all analysed markets: informal care accounts for 10% of the overall ageing wallet. What’s more, for every dollar spent on long-term care, the family provides 54 cents. It’s clear that the taxpayer provides by far the largest proportion of funding in later life, covering 60% of all expenditure.

Savings play an important role (25%)

Though small in comparison to society’s contribution, private savings are increasingly important. There’s a growing need to accumulate more private savings before retirement and, until now, the general philosophy has always involved spending these savings in a post-retirement “decumulation”.

Though there are wealth and income disparities in all age groups and markets, there’s evidence of people aiming to preserve their wealth after retirement, reflecting concern that social benefits might be withdrawn. People spend below their means because they’re uncertain about how long they’ll live and how much they’ll need. As wealth is not immediately reinvested, this creates a new challenge for the national economy. For example, Australia’s government is establishing for ways to encourage retirees to draw down on their assets during their lifetime in light of such findings.

As more accumulated savings remain with the aged after they retire, the overall balance of wealth shifts beyond what might be expected. For example, across the mature markets, the generation aged 65 and over owns approximately a third of net private wealth, while it makes up only 21% of the adult population. This increasing disproportion creates inequality, making it more difficult for future generations to save and for society overall to prosper. Analysis of each of the 13 markets can help understand their differences and similarities, and the various areas in which insurance could improve its starting position.

There is a varying degree of “state provision mentality” across all markets. The costs of older age public pensions, state health care and social care are projected to rise to unsustainable levels.

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6 Extrapolation through applying wallet to GDP per capita data from World Bank (accessed December 2016) developed markets and insurance weighting via L&H / medical insurance market penetration figures from Swiss Re Economic Research & Consulting, 2016. Results also include China. For further information, please see the methodology details at Swissre.com/ageingappendix.

7 For example, Australia Government Productivity Commission’s 2015 Research Paper on Housing Decisions for Older Australians.

8 Based on age ≥15 population; simple mean of markets (ie total % / 13), because weighting by population or wealth would skew results heavily towards the US. Population data from UN, 2017 medium fertility projections; wealth data from various sources.
Growing an ageing insurance market

As the senior population expands, we can expect a higher overall expenditure on the 65+ generation. The aggregate market will therefore be even larger than today’s annual USD 11 trillion across the three sources of funding.

However, trends such as high levels of sovereign debt and health cost inflation suggest that spending will not increase at the same rate as the population. The size of the ageing wallet per capita, therefore, will likely decline and more people will potentially have a lower standard of living due to economic circumstances, personal choice or a major event like the onset of a chronic disease. Other trends indicate what might happen to the shares of wallet in the future.

Sociodemographic trends with impact on ageing

- Fewer drugs/treatments paid by state
- Health cost inflation
- Old age dependency ratio
- Wider age gap between generations
- Increasing sovereign debt
- Longer working lives
- More compulsion for savings
- Less wealth distribution to younger ages
- More years in ill health/disability etc
- Long-term low interest rates
- Increased life expectancy

Source: Swiss Re
Society’s share is likely to fall

There’s a common misconception that families – particularly in western cultures – have little interest in caring for their elderly. However, the share of wallet analysis reveals a much stronger sense of reciprocity in society.

Demand for informal care is quickly outpacing the supply due to several factors such as:

- People are living longer
- There are fewer children to provide care
- More women (who traditionally provide care) are in the workforce

In the face of these challenges, insurance can act as an enabler for alternatives.

The ratio of working-age to elderly people will decline substantially, which will impact the ability of governments to provide benefits. Across the 13 markets, the average number of workers per person over 65 will fall from 4.2 to 2.4 between 2015 and 2035.

Passing on more responsibility to the individual provides the potential for an insurance market to grow its share of wallet, acting as an enabler for alternatives. In addition, there is potential for risk sharing between the government and the re/insurance industry. An example is the large longevity transaction between Swiss Re and the UK’s Royal County of Berkshire Pension Fund in 2009.

Savings set for a substantial rise

Lower interest rates and fewer productive people of working age are both likely to impact the growth of savings at an individual level, although their share of the ageing wallet will grow as more people save. That’s because more governments need to reduce their expenditure, making it highly likely they will pass on more risk from their balance sheet to individuals, eg by introducing various levels of compulsion for retirement savings.

Governments can help reduce their expenditure by incentivising citizens to save more and to buy insurance that protects against potential high-cost events in later life.

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8 UN, 2017 2015-35 medium fertility projections – working age classified as 15-64
If life expectancy continues to grow as predicted in many markets, the need to decumulate this increased savings wealth will be spread over many more years. This in turn puts the ability to fill the gap at risk and makes it harder to pass wealth along to future generations.

Some insurers issue savings products, but already face intense competition which is likely to grow. Other providers can partner with insurers to help savers protect themselves against unforeseen events.

The need to smooth consumption and encourage decumulation in retirement is important for the wider economy. Insurance can help make it happen by expanding the product range that gives people greater security and the confidence to be able to spend without fear of outliving their income source. This will stimulate better equality across generations, which is important for society at large and helps insurers grow their share of the ageing wallet.

Insurance can grow its small share if it evolves the current approach

The potential for more years of poor health or disability and the uncertainty surrounding those scenarios could lead to a more important role for insurance in private market provision. Success depends on striking the right balance between risk access, mitigation and compensation for both consumers and re/insurers:

### Factors

<table>
<thead>
<tr>
<th>Factor</th>
<th>Consumers want to ...</th>
<th>Re/insurers should ...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Access to risk</td>
<td>choose among a wider range of products for homogeneous needs</td>
<td>become more comfortable to take on older age risks via new products</td>
</tr>
<tr>
<td>Mitigation of risk</td>
<td>smooth costs during later life as savings are decumulated</td>
<td>acquire sufficient volume and breadth of risks to smooth liabilities</td>
</tr>
<tr>
<td>Compensation for risk taken</td>
<td>finance unexpected events to maintain the highest possible quality of life</td>
<td>steer revenues and risk/operational costs to ensure shareholder commitment in the long run</td>
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</table>

If it only offers up the same “old” style solutions, the re/insurance industry will have limited success in increasing its share of wallet. Growth in areas such as annuities and mortality is currently hampered by a prolonged low interest rate environment and more years of retirement to fund, which make products appear less attractive. In addition, successive attempts at growing traditional long-term care insurance have seen limited success, at best. For those with a savings offering, there is potential for growth albeit in a price-driven, increasingly regulated market.

Re/insurers can view themselves as one of the important lines of defence in protecting people against the financial risks of ageing.

The trends indicate society’s lion’s share of the ageing wallet will decline over time.
In all markets, the largest line of defence is society, including the state and the family. Welfare approaches are at differing levels of maturity throughout the world. There are various models of societal support: those that are more family oriented, those that provide universal benefits where everyone receives the same minimum level of healthcare or income for example, and those that only support the people least able to afford private solutions. This report shows that no single system dominates in a market, but instead they follow different “hybrid” approaches.

The next line of defence is savings, accumulated over an extended working life. This can help provide a more comfortable lifestyle and fund the aspirational aspects of people’s senior years. Savings can also be used to “top up” where societal support is insufficient or to purchase services where family or state services are lacking. However, savings are highly prone to shock events in later life and will be insufficient for the majority who live longer.

Insurance should largely kick in during the decumulation stage and protect against the peak risks to which older people are more vulnerable across the needs spectrum to "live secure, live well and save something to bequeath". For example:

- Outliving one’s income
- Major health events
- Requiring care, either at home or in an institutional setting
- Ensuring funeral expenses are covered

These defence lines correspond to funding sources and people’s needs. The trends indicate society’s lion’s share of the ageing wallet will decline over time. Insurance has an opportunity to enhance products that smooth consumers’ risks, acting as a viable alternative or complement to savings.
Sources of funding: The later-life resilience model

The three main sources that provide protection to seniors can help build their resilience to risk. Private savings and insurance solutions will need to be sufficient to counteract future changes in levels of societal protection.

The ecosystem of later-life support (examples)

Insurance should see itself as part of a wider ecosystem which can enable successful ageing. The ecosystem not only includes the three sources of funding, but also charities, technology providers and others.

Source: Swiss Re
The ageing wallet analysis shows the starting point for insurers to become a larger part of the funding solution.
Australia

A growing savers’ market with new opportunities for insurers

Wallet composition

Though one of the smallest market in overall size, Australia is the fourth largest per person aged 65+.

The strength of savings in Australia’s share of wallet is particularly noticeable. At 32%, it’s among the highest proportions of private wealth across the 13 markets. This can be explained by two factors in particular: Australia’s culture of home ownership and the renowned superannuation system for retirement savings.

Market overview

Australia has substantial housing and funded pension wealth among the over 65s. Superannuation has required employers to contribute into a retirement fund since 1992, so most over 65s will only benefit from pension savings to an extent. Minimum employer contributions have risen gradually from 3-4% to today’s 9.5%. This means that in 2015, a 75-year-old who retired at 65 would have been in the compulsory system for 13 years and for each of those, he or she would have received an average of 7.3% annual salary as an employer contribution10.

We should witness a future “cohort effect” where better-funded retirees draw down on their savings and ease the growth of the future financial burden. In fact, despite a substantial amount of wealth still concentrated among older people, Australia, along with Canada, has the most even distribution of wealth across the generations of the mature markets – another positive effect of superannuation.

A challenge growing out of the superannuation system is the individual uncertainty of how long the funds will last. Those with small funds may quickly run out of money, and those who have more may try to preserve their wealth to avoid outliving their income source. This has caused Australia’s government to create new incentives for guaranteeing income, which creates opportunities for insurers.

Outlook

Like all markets, society is a dominant force in Australia, especially in health and care, where the state and family account for 70 cents of every dollar spent on older age needs. Undoubtedly, insurers have short-term opportunities when it comes to securing income in later life, but helping citizens “live well” also offers future avenues for growth.

Key facts:

- One of the smallest markets in total, and average in per capita terms
- Market with highest proportion of private savings at 32%
- Superannuation retirement system will benefit future generations in particular
- Society still the major provider of health and care
- Short-term opportunities for insurers in supporting the “live secure” need

Case study:

Retirement Resilience Index helps develop and target solutions
Swiss Re combined the life stage and macro/demographic dimensions described in this report with insights on how increased longevity affects needs, risks, challenges and opportunities of Australia’s retirees and their families.

The resulting “Retirement Resilience Index” scores the retirement vulnerability and resilience of Australians over time to help insurers develop and target solutions for ageing-related risks.

The model shows that people’s perceived vulnerability and resilience is usually much higher than their actual level. This is a key challenge for insurers designing propositions that overcome people’s bias towards inaction and the reliance on society shown in this report’s analysis. Other key insights include:

- Access to informal care or financial support is the largest contributor to resilience – in line with the family’s share of wallet
- 10% of Australians are well placed for retirement, with a resilience level well in excess of their average vulnerability, while 27% of the population are vulnerable to events that could derail retirement ambitions
- The remaining 63% have a manageable resilience gap, and are likely to benefit from additional protection against ageing risks (e.g., long-term care, chronic health conditions, outliving retirement income)
Canada

A savings market with possibilities for insurance

Wallet composition
Canada is similar to the UK and Australia in its wallet composition with a 65:35 ratio of public vs private solutions. The state’s 57% weighting is thanks in part to a generous national health system, while private savings (30%) are the result of high home ownership and pension savings. It’s through senior health products and income annuities that insurance has largely established its 5% share.

Market overview
Between 2015 and 2025, Canada’s over 65 population will grow by 2.4m people (40%), causing a loss of more than one working-age citizen per older person. This drop from an advantageous 4.2 workers to 3.0 ratio in a single decade presents challenges for the system. Longer working lives could help alleviate some of the impact, but the decision not to go ahead with rises to the state pension age will mean other solutions are required.

Without initiatives to dramatically increase later life working voluntarily, increase immigration or achieve a higher birth rate, the state will need to reduce expenditure or raise taxes. An example of how challenging this would be is that Canada’s fertility rate is 1.6 births per woman – well below the 2.1 needed to maintain current population levels.

But Canada is a nation with strong provision for its older citizens and less reliance on society than nations favouring a more social model. This means many of its seniors are comfortable with private solutions – especially savings products – although private solutions account for just 18c of every dollar spent on social care where the family takes most of the strain.

Outlook
Over-reliance on family and state for social care could cause a widening funding gap as the population ages and this is one area where the insurance industry could find opportunity. Forward-thinking insurers who focus on the diverse consumer needs in the growing over-65s segment – rather than a traditional risk-led approach – could deliver new avenues towards growth for Canada’s insurers. Finding ways to complement the significant savings assets is one interesting avenue.

Key facts:
- High public healthcare contributes to society’s 65% share
- Housing wealth and private pension wealth boost savings/assets
- Older population growing at fast pace
- Insurance growth potential as public finances are challenged
- Finding ways to complement savings could offer growth potential

Total spend for everyone over age 65:
USD 0.3 trillion

Average spend per person over 65:
USD 47k

Purchasing power parity

\[ \frac{\text{USD 0.3 trillion}}{\text{USD 47k}} \]

11 UN (2017), medium fertility projections – working age classified as 15-64
12 data.worldbank.org, accessed July 2018 – Fertility rate, total (births per woman), 2016 figure
China

A rapidly ageing and changing society with a strong family culture

Wallet composition

China, along with Poland, stands out in terms of family support, with informal care contributing more than a fifth of the wallet. In addition, the savings culture in China means a quarter of expenditure is taken up by this category. Insurance starts from a very low position with just a 2% share, although China is the least mature of the six insurance markets.

Market overview

Over the forthcoming years and decades, those who have gained the most from China’s economic prosperity will reach retirement. China’s annual GDP per capita growth has not been below 6% since 1990. Today, the Chinese typically retire between age 50 and 60, depending on gender, and the type of employment and this young threshold creates serious national challenges.

Since 1998, China has required employee pension contributions and significantly revised these requirements in 2006. This means future retirees are likely to benefit even more from improved savings than today’s cohort.

China’s review and decision about retirement age will be crucial to how it maintains economic prosperity. It seems almost certain that people will work and save for longer, so the fact that insurers are looking at ways to help secure people’s retirement income is promising.

China is well known for its culture of “filial piety” – where the younger generation cares for the old and this explains the family’s large share of the ageing wallet. However, this structure is particularly vulnerable with the vast changes in China’s demographics including patterns of low fertility and rural-to-urban migration. The historical “one child” birth policy and intense economic expansion will alter today’s structure beyond recognition. In fact, today’s ratio of 7.7 working age people to each person over 65 will become a mere 3.4 to one within two decades.

Total spend for everyone over age 65:
USD 0.8 trillion
Average spend per person over 65:
USD 15k

Outlook

As with more developed societies, the role of the family won’t disappear and elders won’t simply be abandoned. It’s still a legal and moral obligation for the family to ensure the older generation is cared for. Although evidence suggests that many Chinese elders are keen for their children not to provide care, this is not realistic. Insurance could however increase its small share by serving as a complement to this family dynamic. Insurance’s 2% proportion is largely accounted for by health products. This will be a focus for many older people, who don’t want to rely on differing quality of care by region. Innovations like cancer-only critical illness products for seniors have proved popular. With demand likely to grow for private “live well” solutions, similar thinking can provide the reassurance necessary for China’s rapidly ageing population.

Key facts:
- The smallest wallet on a per capita basis
- Family provides one-fifth of the ageing wallet
- China is reviewing its current young retirement ages
- Today’s support structure is vulnerable with seismic demographics shifts
- Insurance’s small share could see growth in the “live well” category

14 OECD, 2015
15 UN, 2017 2015-35 medium fertility projections – working age classified as 15-64
France

A market with high awareness

Wallet composition
France spends the most on its over 65 population of any European market analysed aside from the Netherlands. French seniors are mainly reliant on a generous society, with 84c of every Euro being provided by the state or the family — in absolute monetary figures, the most of any European market.

Private savings do play an important role, but insurance’s share is just 3%, largely thanks to supplemental health cover.

Market overview
France has a high level of housing wealth and household savings among its over 65s, but suffers from low contributions toward private pensions. Its pension assets-to-GDP ratio is just 6.2%, compared to the UK and the Netherlands — both in excess of 100%. Despite this, French citizens can expect 75% of their net working life income in retirement, which partially explains the state’s large share of the wallet.

France has an important advantage over many other nations analysed thanks to a fertility rate of two births per woman. Although this dropped below 1.75 in the mid-1990s, it’s still higher than the current 1.6 average across the European Union and has been consistently higher than peers for decades.

Birth rates, coupled with a history of net inward migration, means that there is a relatively stable working-age population. According to the UN, the point at which the ratio of French workers to those age 65+ drops below two will be 2070, 35 years later than neighbouring Germany.

However, France’s national debt is much higher — most recent figures show 97% compared to Germany’s 64% — and with retirement ages among the lowest in Europe, the current model is under pressure.

Outlook
With 1.3m policyholders of long-term care insurance products, the industry’s share of the over 65s’ wallet is likely to increase as the population ages. But with a growing gap between what the government provides for care and what it actually costs, insurers will need to innovate and differentiate in an increasingly competitive market.

Other opportunities could arise if the government seeks to reduce its substantial share of the wallet in areas, including pension income and health.

Key facts:
- Large society share at 84%
- Home ownership important to seniors
- Higher than average birth rate and immigration maintains working-age population
- Insurance growth potential as public finances are challenged
- Expanding long-term care insurance market is insurance’s principal opportunity

Total spend for everyone over age 65:
USD 0.7 trillion

Average spend per person over 65:
USD 59k

Purchasing power parity

References:
16 Willis Towers Watson 2016 Global Pension Assets Study
17 data.oecd.org, Net Pension Replacement Rates, accessed July 2018; 2016 figures — the OECD average for women is 62% and 63% for men
19 UN (2017), medium fertility projections — working age classified as 15-64
20 eurostat, accessed August 2018 — 2017 General government gross debt. The EU average is 82%
21 Fédération Française de l’Assurance, 2016
Germany

A culture strong on society’s contribution

Wallet composition

The overall contribution of society is the dominant force in Germany’s ageing wallet, contributing a major 87%. Of this, the state provides 71%; only France has a higher proportion across the 13 markets. The state system for income, health and social care pays generous benefits. What’s more, most private savings are currently being accumulated among younger generations, so the current wallet includes just 11% in this category.

Market overview

The renowned social insurance system for care is enhanced further by friends and family. In the public system, recipients can choose between services or cash. Interestingly, despite services offering twice the financial value, the cash option is twice as popular, partly because it can be used to reimburse informal carers. Private wealth only accounts for 11% of the wallet, yet is likely to grow as more enter retirement with employee savings. In fact, there’s increasing pressure for employee savings to operate under an auto-enrolment setup and, although not currently compulsory, 90% of employers with more than 100 employees offer pensions.

The bulk of insurance’s very small share is in health coverage. Premiums have some guarantees in later life which provide an element of subsidisation to the next generation. This means that older people tend not to switch providers.

Total spend for everyone over age 65:
USD 0.9 trillion

Average spend per person over 65:
USD 48k

Purchasing power parity

Key facts:

- The third largest wallet (per capita and total)
- Dependence on society is the largest: 87% share
- The social long-term care system is further supported by the family
- Private wealth is comparatively small, but growing with employee savings plans
- Insurance has a fractional share but could grow as a complement to public system

Outlook

Insurance could play a greater role helping Germany reduce the substantial burden on taxpayers and the family to support older ages. It will be an exciting challenge for the industry to tackle the status quo, and it’s going to depend on a thorough understanding of the varying needs of older consumers.

Top-up private insurance is moderately popular, so there could be some appeal for products that enhance the public system when cash is insufficient. There could be a greater “recipient mentality” in Germany, so complementing and enhancing the public system could help increase the role insurance plays to support the ageing.

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22 Long-term care in Europe by Edith Bocquaire, in Society of Actuaries Long-Term Care News, May 2016
23 Axco, 2016
Hong Kong
An ageing society with growing innovation in health products

Wallet composition
The Hong Kong ageing wallet has the highest proportion of individual savings (38%) among all markets in Swiss Re’s analysis. This is mainly driven by housing wealth, household savings and private pensions. And private provision doesn’t stop at savings – senior health products account for the vast majority of insurance’s 6% share.

Market overview
As more of the growing affluent classes enter retirement with sufficient assets, Hong Kong might become even less reliant on society. The privately-run Mandatory Provident Fund (MPF) savings vehicle was founded in December 2000. This means we should witness a similar cohort effect as with Australia, whose Superannuation fund was founded eight years earlier. Their experience demonstrates that a greater number draw down on greater savings accumulated over a greater period of time.

Between 2015 and 2040 the proportion of those over 65 will more than double. Hong Kong’s rapidly-ageing situation – vs the “slow creep” in many European markets – has allowed them to put in place the framework for a vibrant private market.

Currently, the wealthier seniors tend to employ domestic home help for social care support. Those of lower economic means tend to rely on a combination of government provision and informal family care. Interestingly, Hong Kong has the highest proportion of people in institutional care in the developed world – and the quality of nursing home care is a growing area of concern for its citizens. Locals are increasingly aware that demographic pressures will likely disrupt this model over a relatively short time period as demand outstrips supply.

Outlook
Insurers could capitalise on these conditions and Hong Kong’s appetite for innovative health solutions and further address the needs of their seniors. Hong Kong is fortunate to be able to begin with the genuine needs of the ageing consumer, rather than “importing” poorly selling products. Helping people who need care to remain in their own home; new solutions to complement savings and addressing various retirement income needs could provide channels to introduce more innovative insurance products.

Key facts:
- Lower share for society at 56% compared to other markets
- High level of savings and housing wealth
- Rapidly-ageing market with strong private infrastructure
- Family and government provide for majority of social care needs
- Innovation in care and savings could offer new opportunities for insurers

Total spend for everyone over age 65:
USD 0.03 trillion

Average spend per person over 65:
USD 24k

Purchasing power parity

UN (2017), medium fertility projections – 2015: 11.6%; 2040: 23.7%
Asia Care Group (2018)
Italy

A small insurance market with potential

Wallet composition

Italy is similar to France in the proportion of who pays for the ageing, but with a lower amount spent per capita. However, this is higher than the global average and in line with other European peers.

When it comes to society, the state’s 73% contribution is mainly accounted for by “pillar one” pension benefits and, although the family only accounts for 11% of the overall wallet, they cover the majority of social care provision in monetary terms (53c per Euro). Insurance’s 1% share is among the lowest in the world.

Market overview

Second only to Japan in terms of the proportion of people aged over 65, Italy is feeling the weight of its elderly population. The 132% debt to GDP ratio of this Southern European market will add additional strain to the affordability of the state contribution to the ageing wallet.

The ratio of the working age population to people over 65 will fall from 2.9 to 1.5 between 2015 and 2050 – only Greece and Portugal will see a lower ratio in Europe. With such a decrease, family care of the elderly will face challenges against the need to increase the pool of taxpayers. Proposals to increase Italians’ retirement ages in the future are a subject of intense debate. Any age rises will alleviate some of the pressure, although this won’t be enough to address the issue on its own.

The private wealth weighting of older Italians is average against other markets in the study, but will likely grow as the retired community expands. However, private pension contributions are low – Italy spent 16.7% of GDP on pension benefits in 2013, but just 0.4% came from private sources. This compares to an OECD average of 9.4% and 1.5% respectively. With shifts towards a more defined contribution based retirement income model, Italian workers will need to fund a gap if they are to receive the benefits enjoyed by today’s retirees.

Outlook

Insurance can benefit as Italy reduces its burden on taxpayers and the family to support the nation’s seniors. Through an in-depth consumer understanding, the industry could bring innovative, attractive solutions to a growing population. Complementing family support and bringing more options to help savers could be two areas where insurers can find avenues towards growth.

Key facts:

- Highest society share at 84%
- Insurance share among the lowest in the world
- Drastically shrinking working-age population
- Wealth increasingly concentrated in older population
- Private pension contributions are low
- Insurance growth potential as public finances are challenged

Total spend for everyone over age 65:
USD 0.6 trillion

Average spend per person over 65:
USD 44k

Purchasing power parity

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26 UN (2017), medium fertility projections – working age classified as 15-64
27 Eurostat, accessed August 2018 – 2017 General government gross debt. The EU average is 82%
28 UN (2017), medium fertility projections – working age classified as 15-64
29 OECD (2016), Pension benefit expenditures: public and private from Pensions at a glance, 2017
30 IPE, July-August 2018 edition – Italy’s public pensions: Unfinished business?
Japan

The “oldest” market with great lessons for creating value for later in life

Wallet composition
Japan’s ageing market is worth USD 49K per over 65 – the highest in Asia. There’s no doubt that Japan’s state cover is among the most comprehensive of the 13 markets (70%) and this accounts for the disproportionately large 82% society share (which includes a 12% contribution from family).

Market overview
Despite a lower retirement age of 60 – with incentives to work to 65 – Japan is second only to South Korea when it comes to working into later life in the OECD. Around 50% of men and 30% of women work beyond their 65th birthday, which means extended employment plays a key role in later-life provision.31

One of the original objectives of Japan’s public long-term care system was to relieve the family’s burden to provide informal care. Since its introduction in 2000, this system has been relatively successful in achieving this objective, but informal care still accounts for 12% of Japan’s wallet.

Japanese private wealth is the most concentrated among over 65s of all 13 markets, and yet the share of savings is only 11%. The extent of public provision is clearly a factor behind this and – when it comes to health – there is more insurance provision than out-of-pocket expenditure by a ratio of almost four to one. Japan is the only market to display such a favourable bias towards insurance.

Although the insurance category includes modest amounts for the desire to provide income or bequeath wealth, it’s health that accounts for the majority of the 7% insurance share. Japan has had success with cancer-only critical illness plans and there does appear to be more of a later-life “insurance culture” than most markets.

Outlook
Japanese society has witnessed rapid population change in the last three decades as the number of over 65s has nearly tripled.33 As the most aged of the 13 markets, Japan is an ideal source for lessons in how best to create value for consumers in later life.

Key facts:
- Largest wallet in Asia on a per-capita and total basis
- Comprehensive state support
- Second only to South Korea for working at older ages
- Largest concentration of private wealth among over 65s
- The most aged of the markets, Japan is a source of lessons for other markets

Total spend for everyone over age 65:
USD 1.6 trillion

Average spend per person over 65:
USD 49k

Purchasing power parity

31 OECD, 2013
32 OECD, 2011
33 UN, 2017; medium fertility projections 1985-2015
The Netherlands

The biggest spender per over 65

There is generous state provision, private savings are considerable and it is only the family that has a relatively low proportion of the wallet (5%) compared to other markets. Insurance also captures a reasonable share (7%) thanks largely to annuities and – to a lesser extent – senior health cover.

Market overview

The state pension and private pension savings – especially through former employers – are considerable among Dutch over 65s. According to the OECD, retiring in the Netherlands means an average net income equivalent to 101% of pre-retirement earnings. This is in comparison to an OECD average of 63%.

In addition, older people’s housing wealth and household savings are the highest of all markets analysed.

The generous health system and the highest amount spent on social care help to ensure what appears to be an incredibly secure later life. As the Netherlands is working to raise its retirement age from 65 to 68, it is also working to protect this system.

Yet the model is at risk, with sweeping changes to social care. There will be more emphasis placed on municipalities for provision and likely a greater need for personal contributions toward care in one’s own home.

Key facts:

- The world’s largest wallet on a per-capita basis
- Generous state benefits for older population
- Significant wealth in private pensions and housing
- High share of insurance compared to other markets, mostly due to annuities
- Reducing reliance on society for long-term care could provide opportunities for insurance

Outlook

With the ageing population’s extensive private wealth, the Netherlands is among the most exciting potential insurance markets in our ageing world. There could be some projection assumptions that skew the model, but there’s no doubt the opportunity is substantial. The greater requirement to self-fund social care in one’s own home could be a good chance to increase insurance’s share of this large market.

Total spend for everyone over age 65: USD 0.2 trillion

Average spend per person over 65: USD 70k
Poland
A market with high reliance on informal care

Wallet composition
Poland has the highest proportion of informal care (24%) in any market, including China (20%) where filial piety is still a strong cultural component. This is not surprising given the low amount of funds dedicated to – and saved by – Poland’s over 65 population. If anything, the total spend is masked by the ppp measure. In addition, insurance’s 1% could be a nuance of the model and the real figure closer to zero.

Market overview
By the middle of the century, Poland’s proportion of over 65s will grow to 29.2%, making it one of Europe’s ageing giants, up from a starting point of 18.3% in 2015. While its ageing rate is not as rapid as markets in Asia, China is the country closest to Poland in terms of who pays for ageing.

China’s epithet that it “will be old before it is rich” could also be applied to Poland. China has experienced more economic growth than Poland with an 11.0% CAGR in GDP growth over a decade providing a greater financial “shock absorber” for the situation. However, Poland’s growth at 6.7% CAGR over the same period is impressive in that it’s nearly twice the average of its European Union counterparts.

In light of this growing prosperity, more savings, longer working lives and other preparations for later life are vital if Poland is to ensure a smooth transition as its ageing population grows. The reversal of the increases to the nation’s state retirement age could be seen as a setback.

Total spend for everyone over age 65:
USD 0.1 trillion
Average spend per person over 65:
USD 20k

Purchasing power parity

Key facts:
- Highest proportion of informal care across markets analysed
- Very low levels of wealth for current older population
- Growing ageing population
- Increasing prosperity can help transition
- Increasing awareness of need for protection away from informal care
- Insurance can grow from very low base

36 UN (2017), medium fertility projections
37 Compounded annualised growth rate (CAGR) 2005-15 from gross domestic product (GDP) per capita PPP (current international $) data.worldbank.org, accessed August 2018. European Union is 3.4% pa
South Korea

A rapidly ageing society with potential for wider insurance coverage

Wallet composition

South Korea has a strong reliance on informal family care. In spite of a strong mandatory social insurance solution, for every Won spent on social care, ~60% is accounted for by the family. Savings are slightly lower than average in terms of percent (22%), but still a substantial component of the wallet. Due to assumptions in the model for health linked to medical cover, the contribution of insurance (4%) could be slightly underestimated in a market where senior critical illness cover is growing in stature. However, in sensitivity analysis, the maximum share taken by insurance would not be more than 6%.

Market overview

South Korea’s public pension spending is low compared to other countries, but will grow owing to one of the world’s highest life expectancies.

The gradual increase of state pension age from 61 to 65 by 2033\(^\text{38}\) will help stem some of this growth, but more solutions will be needed for the nation with the lowest fertility rate in the world (1.2 births per woman)\(^\text{39}\).

There is a clear cultural factor behind a high family contribution to the wallet and this will remain a key influence in the shape of the nation’s future later-life long-term care needs. But South Korea’s rapid ageing means that the nation is in the process of losing an average of one working-age person per individual aged over 65 every five years. In other words, the number of people aged 15-64 will fall from 5.6 to 2.6 per older citizen between 2015 and 2030. That’s three times the average rate across developed countries\(^\text{40}\). With the demands on the economy, family care will become an option for fewer people and alternatives will be required.

Outlook

Insurance is well-placed to fill the gap opening rapidly thanks to the decreasing ratio of older people to working people. With over a million over 60s’ cancer products in force\(^\text{41}\), South Korea has been at the forefront of rethinking insurance for the older generation. But this innovation nation needs to continuously seek new ways to ensure the financial, physical and mental wellbeing of its rapidly-ageing population.

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38 OECD (2017), Pensions at a glance country profiles: Korea
39 data.worldbank.org, accessed July 2018 – Fertility rate, total (births per woman), 2016 figure
40 UN (2017), medium fertility projections – the average rate across “more developed regions” is 0.36 every five years.
41 KIDI, 2017
United Kingdom
An ever changing market with growing awareness of needs

Wallet composition
The UK is a market ripe for private solutions to grow and replace some of society’s share of wallet, which is 68%. This includes the National Health Service (NHS), public pensions and family.

The state-provided pension is among the lowest of the developed markets despite recent improvements. Instead, UK consumers rely on a combination of housing wealth, private pensions and annuities – at least for the moment – to supplement this.

Market overview
Recent government changes, known as “pension freedoms”, have lessened the effects of historical compulsory annuitisation. These changes have already caused a significant fall in annuity premiums, with sales down by approximately two-thirds of what they were42.

Auto-enrolment into an employer pension and future increases to the retirement age mean that the wallet will likely shift further towards savings. Australia’s current picture could be, at least in part, a window into the UK savings future.

When it comes to care, the UK is in a state of uncertainty. The low asset threshold to determine eligibility for public funding suggests fewer people will qualify. In addition, proposals to raise the asset level and implement a cap on individual spending have now been discarded.

Family and friends already provide a substantial amount of care for seniors in the UK, and there’s a danger they’ll have to shoulder an increasing amount of the burden if relevant solutions can’t be found.

Total spend for everyone over age 65:
USD 0.4 trillion

Average spend per person over 65:
USD 38k

Key facts:
- The smallest of the mature markets outside of Asia on a per capita basis
- Society’s share is 68% with opportunity for more private solutions
- State-provided pension is low against comparable markets
- The long-term care system is in a state of uncertainty
- Increasing awareness of need to self-fund care could offer insurers opportunities

42 Association of British Insurers, 2015
United States

Strong private market with further growth opportunities

Wallet composition

The total wallet in the US substantially outweighs other markets. Between family contributions, social security and the state-funded Medicare health system, the society component (57%) is significant. However, insurance (11%) has its highest share in the US among all 13 markets. Savings at 32% of the wallet means that the US ranks among the highest proportions in this category.

Market overview

Savings products and a culture of home ownership are well established in the US. As the standard retirement age increases, the volume of savings should grow and could relieve some of society’s expenditure.

Insurance claims a much larger share in the US for various reasons: a relatively successful annuity market, Medicare supplemental products and the tax benefits of whole life mortality products. If anything, the US numbers inflate the overall insurance share of wallet across the 13 markets.

Long-term care insurance accounts for just 3% of the total spent on care, compared to the substantial 58% provided through informal care. This has the potential to change with some innovation.

New business premiums for traditional long-term care insurance fell by 18% per annum between 2011 and 2013 thanks in part to higher prices and fewer providers and distributors. Yet chronic illness and long-term care accelerated benefit riders grew by 36% each year, after starting from a low base. These products pay out a portion of whole life insurance early if the insured can’t perform certain activities of daily living, ensuring the consumer will either benefit from the rider or bequeath on their death.

Outlook

Insurers could find new ways to grow their world-leading share of the wallet thanks to government proposals to help more people secure a lifetime income in retirement, along with opportunities for innovation in health and long-term care.

Total spend for everyone over age 65:
USD 3.1 trillion

Average spend per person over 65:
USD 66k

Key facts:

- Largest wallet of any market in the world (total)
- Largest contribution from personal savings and insurance
- Sales of traditional long-term care insurance are declining
- Sales of chronic illness and LTC benefit riders are increasing
- Opportunities exist in retirement income and health/care innovation

43 Society of Actuaries, 2015 for ABRs; LIMRA, 2014 for LTCi
A growing older society calls for new solutions from the industry. These solutions – and the resulting larger share of wallet – depend on a better understanding of these heterogeneous populations and the many different pathways people take on the road to retirement.