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LONGEVITY INCREASING AND PERSONAL FINANCE

Our increased longevity has inevitable consequences for financial planning. In this article, I will explore some of the latest findings on 'our aging brain' ⁽¹⁾ and share two take-aways for financial planning.

Central to financial planning is the recognition that there are phases in life from the day we were born to the day we move on. Planning, by nature, addresses the future. A key point in financial planning is to get some grip on the life phases to come.

Financial planners use different methods to categorize life phases with an eye on financial planning. One often used identifies the following three phases:



Protection Phase:

The years where our wealth is protected (read: income meeting expenses, insurance cover in place etc.)

Accumulation Phase:

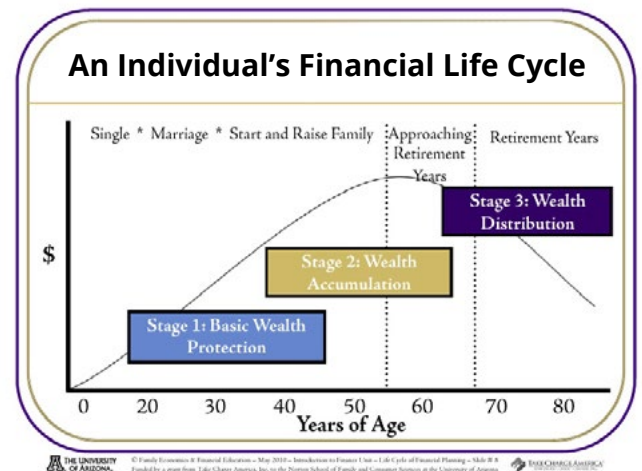
The years where wealth is generated (read: saving & investing for retirement or financial independence)

Distribution Phase:

The years when what has been generated needs to provide income (read: from pension(s) and/or capital and real assets providing income)

Note: there can also be a 4th phase "Conservation" when wealth will pass on the next generation and/or will be donated.

Traditionally, ages were assigned to these phases: *Protection* covered childhood until saving commences in adulthood. *Accumulation* traditionally lasted until age 60-65. *Distribution* typically kicked in at age 60-65. The graph at the right puts this in a picture.



However, our increased longevity has forced financial planners to re-think their models. Between 1920 and 2020 the average human life span doubled! ⁽²⁾

The implications of this increased longevity are huge. For all aspects of our life: work, health and finance – on an individual but also on a societal and government level.

As I have mentioned in my previous articles ⁽³⁾ on retirement: setting retirement age at 65 goes back to the late 19th century, in Europe associated with Bismarck, when few people would age beyond 65.

Increased longevity has also been accompanied by a dramatic increase in the prevalence of Alzheimer and dementia over the last decades.



My angle on this article's topic focusses on a personal finance note and has been inspired firstly by the perspectives shared by some of my clients and secondly by a relatively recent book on the aging process, whose contents are based on the scientific findings at the year of writing (2012): "Our aging brain" by the Dutch professor of cognitive neuropsychiatry at the University of Groningen, Andre Alleman ⁽⁵⁾.

Note: There is some good news here according to a recent (2020) study ⁽⁴⁾. While the number of people in the US and Europe suffering from Alzheimer and dementia still increased over the 2010-2020 decade, this has been due to a larger pool of people in the ages of highest risk. The actual incidence rate declined, possibly because of several medical interventions

Footnotes:

1) and 5) "Het Senioren Brein" by Andre Alleman, Dwaarsligger 702

2) "How Humanity gave itself an extra life" by Steve Johnson, The Health Issue The New York Times 27 April 2021

3) "Retirement/Financial Independence" by Frank van Lerven CFP(R) Published in Golf Magazine Indonesia period: Oct/Nov 2010-Oct/Nov 2011

4) "Dementia incidence declined every decade for past 30 thirty years" 14 August 2020, Nicole Rura Harvard T..M. Chan School of Public Health

Our ageing brain findings

This is a summary of Alleman's key findings regarding our increased longevity. These findings reveal both the challenges which (can) come along with an increase in longevity, as well as some more positive effects:

- 1) The capacity to retain new information decreases when aging. So does how fast we can think, our capacity to concentrate and mental flexibility. The decrease in how fast we can think starts around age 20!
- 2) The decrease in hormone levels play a crucial role in the aging process.
- 3) Between our 50th and 80th birthdays the volume of our brain decreases by 10 percent and our brain becomes 5 to 10 percent lighter.
- 4) Alzheimer's and dementia can be perhaps best be seen as the acceleration of the aging process. Genetic factors play a role as does lifestyle. A lot is still unknown. Being physically active, as well staying mental and social active do help. Age is the most principal risk factor for dementia.
- 5) It has become much easier to make the diagnosis of MCI (the pre-phase of Alzheimer's) – 50% of the people diagnosed do not develop Alzheimer's.
- 6) There are also mental functions which get better over time, like "knowledge of the word" and vocabulary. When aging, by and large, people can manage negative emotions better and are more balanced. Older people, because of their life experience, tend to have more insight in complex social situations: are wiser.
- 7) People older than 60 tend to feel happier than people aged 20-40.
- 8) Moving our body, not smoking, good weight all positively influence the aging process. But none more so than a positive view re aging itself.
- 9) Spirituality, religion and mindfulness have a positive influence on our mental health.



There are two key take-aways for financial planning from Almans findings:

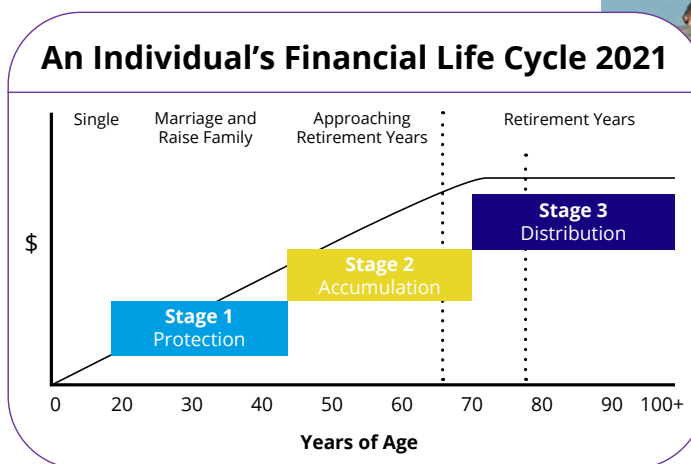
- As life expectancy has significantly increased and continues to be on the rise, so must we plan for *more years of income* to maintain a comfortable lifestyle. The safest way is to project for *assets* (pension plans, capital accounts, social security income) *to maintain its level*, keeping up with inflation.

Note: no-one is comfortable seeing their asset base decreasing in value.

Alongside this, we also need to take a good look at "retirement" age and allow for (possibly many) *more years of working* beyond age 60-65 where income is generated. The latter is not necessarily a bad thing, certainly for those who find happiness in their work.

Lastly my personal perspective as to Almans findings: when we can live longer, healthy in body and mind, we are truly fortunate!

So, an updated Individual's Life Cycle image would look more like this:



- As Alzheimer's and dementia can become serious mental health challenges while we live longer, it is even more important to *bring in a trusted friend, or child* who is fully familiar with one's financial situation. Giving this person a power of attorney on accounts is worth considering.

