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Ageing disgracefully

One area in which doctors and their patients share a common goal is to be able to age gracefully. Health and adequate financial preparation go a long way to meeting this goal.

My parents lived to a ripe old age. They spent their latter retirement years happily in a retirement complex flat. The price and desirability of units in this complex were determined by their size and situation. North-facing units were warmer and had less road noise and those that were situated on the upper floors had better views. The waiting list to get into the complex was long and new occupants were invariably offered one of the less desirable units. As units became vacant there was a pecking order for those who wished to upgrade and could afford to do so. This sometimes took on an element of the macabre as those eager to upgrade watched with anticipation the decline of fellow inhabitants (as in other situations in our mortal existence, this was a more obvious example of what I called 'while there is death there is hope'). But the familiar model of retirement is in need of revision.

Blame it on Bismarck

'Retirement' as we know it today is a recent historical phenomenon. People used to work until they dropped, but could be retired due to injury, illness or other incapacity. Otto von Bismarck, the German Chancellor, is credited with introducing the world's first old-age security programme in the late 1800s. Workers were taken out of their work at 70 years of age, and this was later lowered to 65. This was not as generous as it appeared, as 65 was pretty well the life expectancy at the time. Since World War II the developed world saw unprecedented economic growth and the retirement age was adjusted downwards to 60 and even 55 years. This was fine while economic growth continued and there was a large pool of younger workers to support the smaller number of the aged. (In some developing countries the retirement age has also been adjusted downwards, not because people can afford to retire, but to make room for young people who would otherwise be jobless.)

However, life expectancy in developed countries is now higher than at any other time in history. Together with a declining birth rate this ageing of society has led to serious concerns in the developed world about how to cope with the epidemic of ageing people. More people are entering retirement, and they are living longer. A smaller proportion of younger people will therefore be required to look after and fund an increasing proportion of the elderly. A person reaching the age of 60 years in reasonable health can expect to reach 80 years or older. The safety nets of social securities and pensions that were taken as rights that all individuals could rely upon in their retirement have now become a threat to major corporations and even to countries. For example, one important reason for General Motors being unable to compete with the likes of Toyota is that its unit costs are inflated because of massive pension commitments to retirees. Many European countries are concerned about the deficit facing their economies as they try to meet the expectations of an increasing proportion of retirees.

The pension pinch

Pensions are funds built up during working life to provide an income during retirement. Previously the most common type of corporate or state pension fund was a 'defined benefit' whose payments were based on years of service. But because these funds were incurring increasing deficits as they needed more money to last longer, the responsibility has increasingly been shifted to the individual in the form of 'defined contribution' funds. Life assurance companies that manage a large share of pension funds report that the vast majority of people will have insufficient money to see them through their retirement. The *Sunday Times* recently reported alarmingly that a study showed that nearly half of all South Africans can't – rather than won't – save money.[1] Such retirees will then be dependent on their children or the state for survival.

But how much is enough? Financial advisors often ask pensioners how much they *need* in order to adjust their pension investments accordingly. It would be better if they advised on the basis of how much the pensioner was able to *afford*, as people are often hopelessly too optimistic about their capacity to fund their expectations. A good financial advisor is essential for most of us to plan our futures, but we should all also make it our business to be fully informed in order to be able to act rationally on such advice. Assuming good health and a reasonable expectation of longevity, the financial papers provide helpful hints that include the following:

Start early. This aspect receives the most attention, as the beneficial effect of compounding the returns of even modest savings over a long period can be quite surprising.

Put away enough. This is an aspect that we often underestimate, and if we start late the proportion of our income that must be invested for our futures becomes much greater.

Invest wisely. Growth of one's investments is essential while saving for retirement and when retired. The *Sunday Times* reported that most South Africans prefer their money to be secure even if in the end growth is lower. But taking a long-term view, as we must, a good proportion of one's investments must be able to grow, and equities and property are therefore preferable to money in the bank.

Draw modestly. As a rule of thumb one should have 15 - 20 times one's annual income needs (excluding one's home) available at retirement at 65 years of age (more if younger and less if older). The trick is to titrate our drawings during retirement so that we do not outlast our funds. Retirees who have invested their retirement funds in a 'living annuity' may be reassured to know that their heirs may inherit whatever is left. But if the prudent limits of withdrawal are exceeded, funds could be exhausted before they die and it could be considered a 'dying annuity'. What is a prudent withdrawal limit? Assuming retirement at 65 years, it is recommended not to exceed withdrawal of 7% of total investment capital per annum.

Health

Old age comes with its ailments and diseases, usually classified under the 'lifestyle' rubric. Of these cardiovascular disease tops the list, while the locomotor system, including worn joints and osteoporosis, and visual impairment may result in much morbidity. But it is the mental ailments that are perhaps the most distressing. Some memory loss is common, hence Friedrich Nietzsche's saying 'The advantage of a bad memory is that one enjoys several times the same good things for the first time.' The Internet Encyclopedia, Wikipedia,[2] notes that Alzheimer's disease is the most frequent type of dementia in the elderly and affects almost half of all patients with dementia; 2 - 3% of persons aged 65 show signs of the disease, while 25 - 50% of persons aged 85 have symptoms of Alzheimer's and an even greater number have some of the pathological hallmarks of the disease without the characteristic symptoms. The proportion of persons with Alzheimer's begins to decrease after age 85 because of the increased mortality due to the disease, and relatively few people over the age of 100 are affected.

Despite the litany of old-age ailments, increasing numbers of the elderly stay in good physical and mental shape for much longer than previously.

Old. Smart. Productive

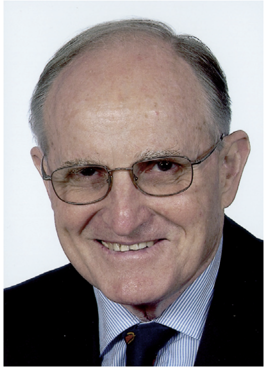
Examples abound of people who remain highly productive well beyond the notional age of retirement. Alan Greenspan, the USA Federal Reserve Chairman, at 79 years occupies a pivotal post that influences the economies of the world. Donny Gordon (now 'Sir'), who started Liberty Life in South Africa, is active in his second career in his 80s as a property giant in the UK.

A review in Business Week[3] found that the greying of the workforce could be better news than we think. Society would benefit by tapping into their talents; employers would benefit and the problem of pensions would be easier to solve. Far from wearing people down, work has been shown to keep them mentally and physically fit. This has several implications, including enabling older people to participate in educational programmes, and other incentives such as flexible working hours and opportunities for mentoring and research.

In the light of these profound demographic shifts, David Stein reviewed the new meaning of retirement.[4] The traditional notion of retirement may be replaced with lifelong working – in various positions and in varying amounts of time throughout adult life. Retirement as a permanent separation from work is being replaced with the idea of second careers. The three most frequently cited reasons for returning to work included 'financial need', which in some cases meant money to help the children as well as to meet financial needs, 'liking to work' and 'keeping busy'. Work provides social meaning through providing income, status and personal achievement; structures time; and provides opportunities for interpersonal relationships.

Stay hungry. Stay foolish

Older workers represent a rich source of experience, accumulated knowledge and wisdom. In South Africa, with our shortage of skills, harnessing this expertise would benefit all of society, and we should embrace the opportunity by tapping into this huge potential. Steve Jobs, CEO of Apple Computer and Pixar Animation Studios, in an inspiring address to students at Stanford University, exhorted them to 'Stay hungry. Stay foolish'.[5] Since chronological boundaries to retirement no longer make sense, this could apply equally to all ages. Let's take up the challenge and enable our people to age disgracefully.



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1. *Sunday Times* 2005; 20 November.
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5. Jobs S. Stay hungry. Stay foolish. *Fortune* 2005; 5 September: 22-23.