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HOW LONG WILL YOU LIVE?

INSIDE

BY GRAHAM HAND

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The demographics of how long we will live reveal some surprising statistics, especially in Australia. We frequently hear about people living into their nineties, and even one hundred years or more, but we read less about the other side of the demographics: how short many lives will be.

According to the Australian Bureau of Statistics, the life expectancy median for males born in 2022 was 81 years and for females, 85 years. But what about the expected years of life remaining for a person at a given age? The statistics overlook people who are already living and old. There will be many people alive now who will not reach 81 or 85 years.

If age 81 concerns anyone due to its life brevity, it is worth preparing for a future that makes the most of life's opportunities now. The remaining expectancy might be 20, 30 or 40 years but nobody knows. A person born in 1955 to 1960 may expect to live until they are 70 or so but they may live an extended time. The longer someone lives, the longer they can expect to live.

The main message is that 81 is the expectancy, or median for men, at birth, not for a 81-year-old now. A person born in 1992, about 30 years ago, had a life expectancy of 74 years for males and 80 for females, a gap of almost six years. The Beatles were fresh on the stage and at the start of their lives, but 'When I'm 64' was considered old.

Maybe dying at the age of 65 to 70, even now, is not so unreasonable based on the original expectations.

Deaths in Australia, 2021

This latest expectancy based on deaths (not expectancy based on birth) in 2020-2022 included the three years of COVID and it is reflected in the death rates. The death rate before 2022 was lower than in previous years due to preventative measures during the pandemic. But in 2022, the number of deaths in Australia rose to almost 200,000 in one year, up from 171,469 the year before. Australia should not expect as many as 200,000 in future years for a while but the number will be up there eventually.

The latest statistics on deaths from the Australian Institute of Health and Welfare (AIHW), 2021, shows death by age with a median of 79 for men and 85 for women. These numbers are based on the 2021 data including the 171,469 in 2021 deaths during the COVID period.

The statistics published by the ABS (due in a few months) for the end of 2024 will cover the 2023 year, and it will be revealing whether Australia holds the 200,000 deaths year level.

Back to the detailed in the 2021 AIHW data, when total deaths were 171,469, with 89,397 men and 82,068 women, drawing out the statistics for men shows:

- 4.4% of men died before the age of 40
- 10.3% of men died between the ages of 40 and 59
- 13.3% of men died between the ages of 60 and 69 (that's 28% by 69)
- 23.8% of men died between the ages of 70 and 79 (that's 52% by 79)
- 31.1% of men died between the ages of 80 and 89 (that's 83% by 89)
- 17.1% of men died over the ages of 90

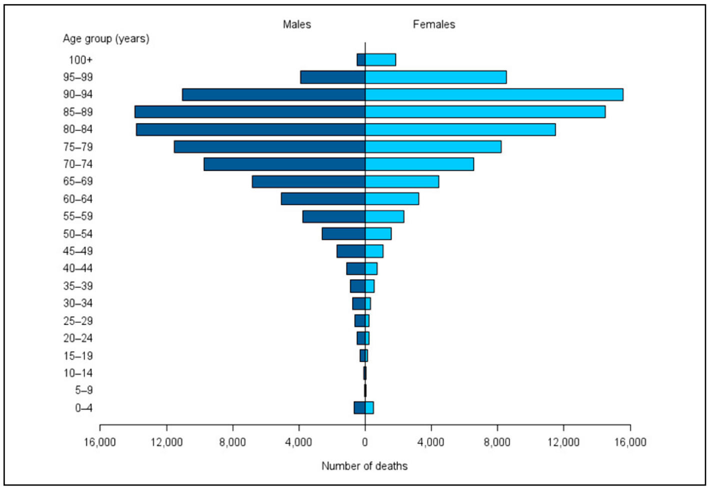
% of males in deaths by age group, 2021.

Age group	Males	% died
0–4	651	0.73%
5–9	66	0.07%
10–14	92	0.10%
15–19	326	0.36%
20–24	498	0.56%
25–29	623	0.70%
30–34	766	0.86%
35–39	894	1.00%
40–44	1,125	1.26%
45–49	1,725	1.93%
50–54	2,595	2.90%
55–59	3,749	4.19%
60–64	5,084	5.69%
65–69	6,811	7.62%
70–74	9,737	10.89%
75–79	11,518	12.88%
80–84	13,797	15.43%
85–89	13,925	15.58%
90–94	11,016	12.32%
95–99	3,885	4.35%
100+	514	0.57%
	89397	**100.00%**

Note: *Year refers to year of registration of death. Deaths registered in 2021 are based on preliminary data and are subject to further revision by the Australian Bureau of Statistics (ABS).*

Source: *AIHW National Mortality Database.*

Deaths in Australia by sex and age group, 2021



Source: AIHW National Mortality Database; Table S2.1.

While plenty of males in particular are living beyond the age of 69 and 79 - that is, people alive now, not their current expectancy - but also a surprising number of 28% are expected to die before they reach the age of 70. While cures for many diseases such as cancer and heart conditions are improving, everyone should consider what life will be like with earlier health problems.

Also consider the 'average' couple. She is typically two years younger than her husband but lives longer, with a period of dependency. On average, he dies several years before she does and she has often been the carer. She becomes dependent after he dies which is one reason why there are many more women in aged care.

Life expectancy and an aging population

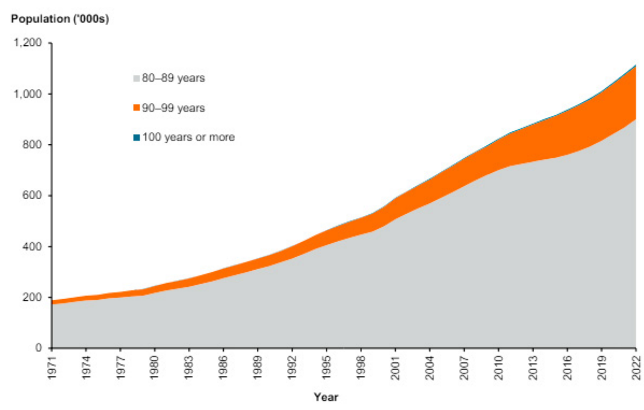
In the 1960s, men lived 14 years less and women 11 years less than now (which in my case, was only 67 years at birth). Remarkably, between 1964 and 2021, the median age at death increased from 68 years to 79 years or 11 years longer, but the vast majority of people now expect to live well beyond 68 years.

(And the world was a vastly different place when Australians born at the beginning of the 20th century had a life expectancy of 51 years for males and 55 for females).

Changes in Australia's demographics have other surprises. In 1971, people aged 80 years or more made up only 1.4% of the population, but that is now 4.3%. Instead of 188,819 people over 80 in Australia in 1971, there were 1,115,297 in 2022.

Figure 1 shows the increase since 1971 (and I was born in 1957, so that's 14 years). While the median life expectancy of men is about 80 now, half of them will live beyond 80 and half will die by this age.

Figure 1: Elderly population by year and age group, Australia, 1971–2022



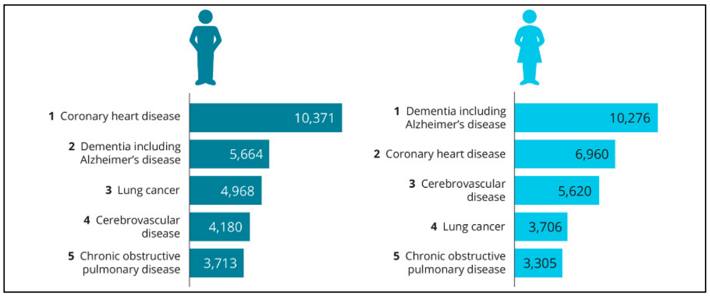
Note: Data for this figure are available in Supplementary Table S1.
Source: ABS 2022b.

Leading causes of death

There are numerous differences in the reason men and women die, with men of coronary heart disease (10,371 (12%) deaths) and women from dementia including Alzheimer's disease (10,276 (13%) deaths). The chart below shows the five leading categories.

The leading causes of death also vary by sex and age. For example, chronic diseases feature among people aged 45

Leading underlying causes of death in Australia, by sex, 2021



Source: AIHW National Mortality Database; Table S3.1.

and over, while death among younger people up to the age of 44 includes accidents and suicides.

Other implications of ageing and death

Another reason to understand both the ages and causes of deaths is to help to design a better superannuation system. There are an estimated five million Australians in or approaching retirement and drawing down their pensions. Balances and liquidity needs to meet their members' requirements although neither super funds nor SMSFs know when the money will run out.

While many large super funds such as REST and Hostplus can be confident their members will continue as net investors through all their years, other funds will remain in net outflow. Funds need to know the characteristics of their members, especially as many will switch to cheaper ETFs as their balances build.

Despite millions of members, most large super funds do not know their clients. They certainly don't know the needs of their partners and families, and the problem becomes more acute the older the member. These funds need to understand the potential for longevity, plus know the correct legal treatment when their members die at the age of 65 to 75 and beyond.

Concluding remarks

This article focusses on the ages at which people die rather than longevity expectations when they are born. How to live longer and how to ensure a retiree does not run out of money are subjects for another day.

Life expectancy statistics from the ABS have a reference period of 2020 to 2022 and were released on 8 November 2023. The next release is 8 November 2024 so the numbers in this article are not as out of date as they may appear.

Thanks to demographer David Williams for his comments on his My Longevity website (www.mylongevity.com.au). And if anyone is offended by the title of the article, deaths in Australia and how long people will live are referenced by the ABS in its reports.

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Starting your child's education fund with ETFs

BY ANNABELLE DICKSON

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Your child's journey of exploration starts early - from dissecting flowers to building robots, each achievement reveals their potential. As parents, we want to nurture this curiosity, and a quality education unlocks even more possibilities.

Nevertheless, the soaring costs of education coupled with the current attention given to this topic in the news is causing significant concerns for many families.

This guide equips you to navigate these expenses and build a roadmap for your child's future. We'll explore costs, savings options, and the role exchange-traded funds (ETFs) can play.

The price tag of education

Education costs in Australia vary by type, program, and lifestyle choices. Here's a snapshot (figures are annual averages unless stated):

Primary school:

- Government schools are free with voluntary contributions paid by parents[1].
- Catholic and private schools can be as much as $2,561 and $8,511 respectively depending on the state[2].

Secondary School:

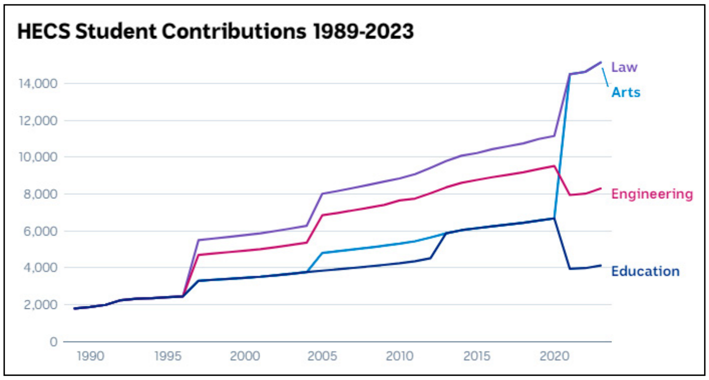
- Public schools are free with voluntary contributions paid by parents.
- Catholic and private school fees can range anywhere from $1,500 to upwards of $30,000 annually,[3] depending on the state.

Vocational education:

- There isn't data about the average cost of vocational education for domestic students, but some courses are free while a Diploma of Accounting for example from TAFE Digital costs $2,850[4].

Post-secondary education:

University tuition fees range from $4,000 to $15,142 per year and have grown significantly over the past three decades as shown in the chart below[5].



Sources: Australian Broadcasting Corporation, Australian Government

Incidentals and living expenses:

- The above data only considers tuition costs and school

fees. It doesn't account for incidentals such as books, electronics and uniforms.
- Living expenses add another layer of cost. The government estimates international students need $24,505 annually – a helpful benchmark for potential living expenses if your child moves out[6].

The benefits of starting early

Even with a public school education and university aspirations, factoring in living expenses, the total cost could easily exceed $100,000. With student loan debt averaging $26,5007 starting an education fund early has its perks:
- Financial readiness: Be prepared to support your child's dreams.
- Beat inflation: Grow your savings to keep pace with rising education costs.
- More choices: Help your child pursue their desired path.
- Reduced debt: Minimise student loans, giving your child a head start financially.

By starting early, you grow your funds and teach your child valuable lessons about saving and investing.

Building your child's education fund: options to consider

ETFs can serve as an excellent choice for building a child's education fund. They provide access to both growth and defensive assets, are cost-effective, liquid, and can also be a great way to get kids to learn about investing.

Choosing the right option

Consider these factors when deciding which options best suit your strategy:
- Time horizon: How long until your child needs the money?
- Commitment: How much time can you dedicate to managing the portfolio?
- Risk tolerance: How comfortable are you with market fluctuations?

You should also make a plan that establishes guidelines around:
- Regular contributions: A consistent savings plan based on your family's budget.
- Portfolio reviews: Periodically assess your portfolio's performance and asset allocation.
- Investing education: Involve your child in age-appropriate discussions about investing.

Practical thinking: How much to invest?

Predicting the exact cost of your child's future education is tricky. Life throws curveballs, and education costs can fluctuate due to policy changes and inflation.

Maybe your child chooses a trade, reducing anticipated future expenses drastically. Whilst, aspirations for a prestigious university could significantly increase costs.

Let's use an illustrative example to illustrate the point:
- Your child is a newborn.
- You envision them pursuing law at the University of Queensland, where current tuition for a four-year Bachelor of Law is $15,423 annually8. You assume they'll live at home while studying.

Calculating the future cost:
- Current cost: $15,423/year * 4 years = $61,692
- Future cost projection (assuming 3% education inflation for 18 years plus the four year study period):
- Future annual cost: $15,423 * (1 + 0.03)^18 = $26,257 in the first year
- Future total cost: $26,257/year indexed at 3% over 4 years = $109,848

Investment strategy:

With $10,000 upfront and a diversified ETF portfolio with a 7% p.a. expected return, a weekly investment of $40 could potentially help your child reach their education goal (not including taxes or fees).

Change the equation:

We initially assumed the child would live at home. But how does the projection change if they move out, using the government's annual cost of living guidance of nearly $25,000?

To move out and study would add $100,000 more to their costs over four years, which works out to $178,059 in 18 years assuming 3% inflation led by rent increases. The total cost for the same degree then spikes to $287,907 ($109,848 + $178,059)!

Notes:
- This is a simplified example only, and is designed to get parents to engage in long-term thinking and discuss how best to provide for their children using realistic assumptions.
- We assumed 3% annual price increases, reflecting the upper end of the Reserve Bank of Australia's inflation target framework of 2-3%.
- Actual costs and returns may vary, and our examples don't account for factors like scholarships and bursaries your child may receive, and the probability of them working.

ETF ideas for your child's education fund

Saving for your child's education is a great way to give them a head start. You want your investment strategy to grow alongside them. Here's how some Betashares ETFs can be a good fit, considering both growth potential and a potential learning opportunity for your child:

- A200 **Australia 200 ETF**: A200 aims to track the performance of an index (before fees and expenses) comprising 200 of the largest companies by market capitalisation listed on the ASX. Think of companies your child might already know, like Woolworths or CBA. It can be a fun way for them to connect the brands they use with the stock market.
- NDQ **Nasdaq 100 ETF**: NDQ aims to track the performance of the Nasdaq 100 Index. The Nasdaq 100 comprises 100 of the largest non-financial companies listed on the Nasdaq market, and includes many companies that are at the forefront of the new economy. Think of tech leaders like Apple, Google, and Meta - companies that will no doubt play a big role in your child's life.
- DHHF **Diversified All Growth ETF**: DHHF aims to provide low-cost exposure to a diversified portfolio with high growth potential, that may suit investors with a high tolerance for risk. The ETF provides exposure to approximately 8,000 equity securities listed on over 60 global exchanges, in one ASX trade. It can be a potential "set and forget" option for parents, but for kids, it can be fascinating to see the level of diversification between so many different countries, sectors and companies.

Conclusion

Investing in your child's education lays a strong foundation for their future. Beginning the journey early, exploring various avenues, and considering options like ETFs can significantly ease the path to realising their academic dreams while imparting essential financial wisdom.

However, this guide serves as a preliminary step. Navigating education expenses, particularly amidst the unpredictability of inflation, your child's choices, and governmental policy shifts affecting course fees, can make planning complex.

Thus, seeking guidance from a financial adviser about how best to approach this issue and create a long-term education fund for your child can help parents gain the confidence they need around how best to help their children.

BetaShares is a leading Australian fund manager specialising in exchange traded funds (ETFs) and other Funds traded on the Australian Securities Exchange (ASX). Since launching their first ETF more than a decade ago, BetaShares has grown to become one of Australia's largest managers of ETFs.

The Australian generational wealth divide

KEY POINTS

- The angst around generational wealth inequality in Australia reflects significant asset price appreciation in older household groups (mostly Baby Boomers) while growth in wealth for younger households like Millennials has been lower.
- The increase in asset prices that has fuelled the growth in household wealth is mostly the result of good luck from the 40-year decline in interest rates that lifted equities and home prices. The chronic housing supply shortfall has also impacted, in the case of home prices.
- High wealth inequality is an issue because if it dampens living standards across generations it can cause resentment and social instability.
- Addressing the housing demand/supply imbalance is the best government policy response that can help this issue.

BY DIANA MOUSINA

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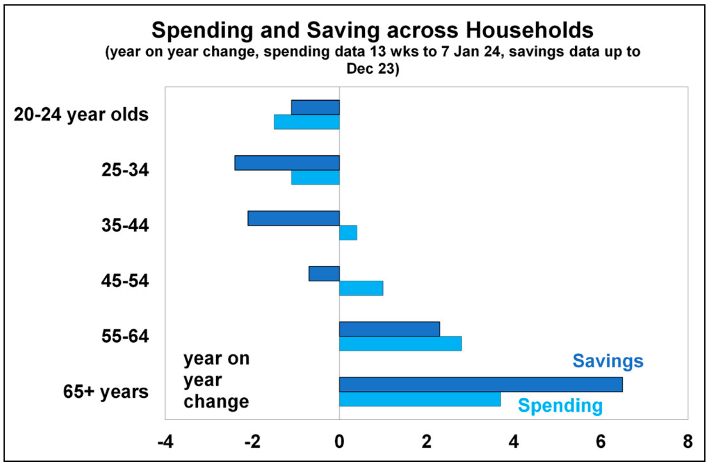
Introduction

Household wealth or net worth is a measure of a household's assets less its liabilities. Household wealth always generates a lot of interest in Australia which probably comes down to the obsession with housing. Around 70% of household wealth is tied to the value of the home (made up of land and dwelling). In the short-term, changes in household wealth can have implications for household savings and spending, through the "wealth effect" as households can draw on their wealth holdings to fund consumption or other asset purchases. In the long-term, household wealth has an important bearing on retirement savings, reliance on the aged pension and living standards. In this Econosights we look at the current issues in Australia around the generational divide in household wealth.

Income and wealth across generations

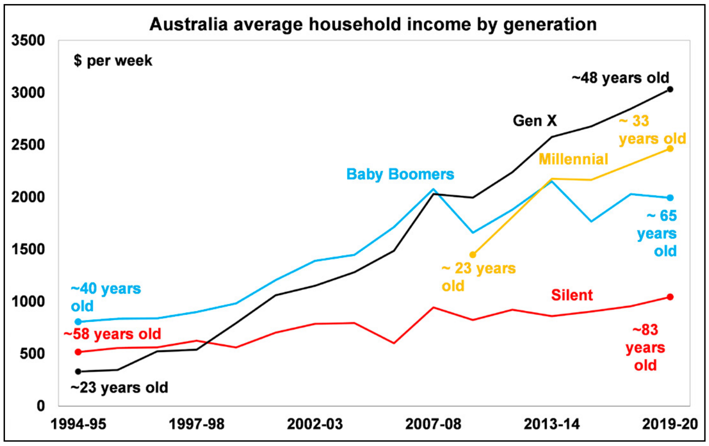
Comparisons of wealth inequality across generations has been a popular topic of debate in Australia, from popularised slogans like "OK Boomer" to generalisations about the "smashed avo eating" millennial and Gen Z generations. This has also extended into the debate around the recent impact of interest rate hikes. Interest rate changes always affect households with a mortgage the most (30% of households have a mortgage in Australia). But in this current interest rate tightening cycle which started in 2022, the impact of rate hikes has arguably been felt more unequally because of large differences in the stock of housing debt which has been made worse by increasing interest rates after a long period of falling rates. Younger households are more likely to have taken out taken out large mortgages in recent years (at low interest rates), which now need to be serviced with higher interest rates which eats into disposable income. In contrast, older households' disposable income has not been hit as much because this group tends to have small or little housing debt and can draw down on their savings to fund spending (rather than using savings to fund mortgage repayments).

The chart below from the Commonwealth Bank's profit result earlier this year demonstrates this divide. It looks at the difference in savings and spending across the various household groups. It shows that savings for younger households (those aged under 45) have fallen relative to a year ago and spending growth has also been low. In contrast, older households (those aged over 45) have been increasing their savings and spending (which makes sense with high savings rates available thanks to interest rate hikes) indicating little impact flowing to those groups from rising interest rates. This divergence in spending and savings across the different ages reflects the fall in disposable income for younger households paying off mortgages as a result of higher interest rates.



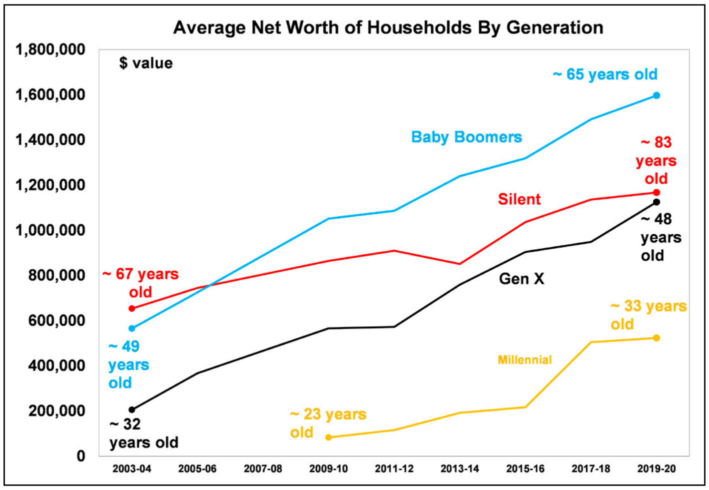
Source: CBA, AMP

The Australian Bureau of Statistics gives data on annual household income and wealth through time. Using this data, we have looked at household income and wealth by generation (based on the midpoint of their year of birth). The next chart looks at average household income by generation, through time. It is self-explanatory that incomes increase with age, with the fastest pace of income growth from when people reach their mid-30s into their early 50s in line with career progression before flattening out into older age as households retire and drawn down on the government aged pension and/or their superannuation savings to subsidise spending. Gen X incomes started exceeding the Baby Boomers from 2008, as Gen X households enter the peak point of their career and experience higher incomes. Millennial incomes now also exceed Baby Boomers and will exceed Gen X in under a decade when Millennials reach middle age.



Source: ABS, AMP

Like income, household wealth also increases through time. The chart below looks at average household net worth by generation. Each generation has enjoyed an increase in wealth over time (allowing for the fact that the data only goes back to 2003 so it's hard to see the starting point for the Silent and Boomer generations). But the growth in Boomers' wealth has been arguably better compared to other generations, which has lifted the ratio of the wealth gap between the older and younger generations.

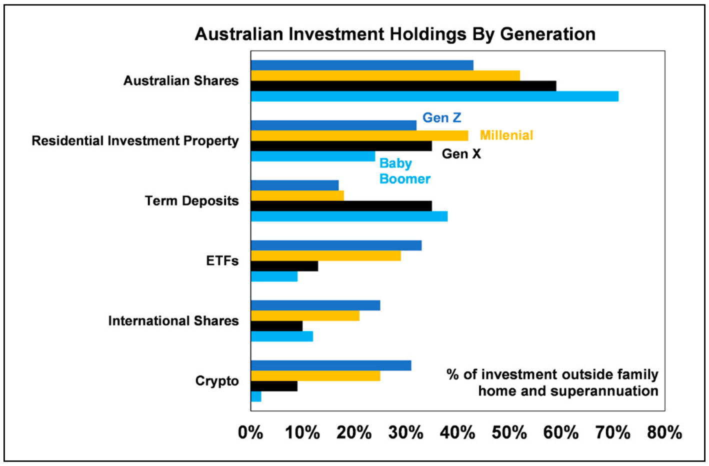


Source: ABS, AMP

The growth in wealth for the Baby Boomers has been down to good luck in asset price, with ~8% growth in home prices over the last 30 years (which has meant that it used to take 6 years to save for a 20% deposit whereas now it takes nearly 11 years), over 9% growth in Australian equities over the last 30 years and the steady rise in the superannuation contribution from 9% in the early 2000's to 11.5% this year which is a form of forced saving. The Australian tax system has a favourable treatment of housing (through the capital gains tax discount, negative gearing and exclusion of the family home from the aged pension test), but has not been the main driver of asset price growth.

The wealth of older households does eventually get passed down to the next generation, so there will be a big transfer of wealth from Baby Boomers to Gen X. Older households do appear to be helping their family members now more than in previous times. Some findings suggest that around 60% of new first home buyers are accessing help from the bank of mum and dad (which should actually expand to be the bank of mum and dad and grandparents) and is becoming a top 10 lender in the market. But, relying on the wealth of parents or grandparents creates inequality because it is not available to everyone.

Every generation faces its own challenges. However, the economic environment can make significant differences to income, savings, retirement and therefore lifestyle. Despite the negatives on the wealth front, the young generations are entering the labour market at a time when conditions are tight (which should mean easier access to work although the youth unemployment rate has been rising in Australia) and flexible work means more job opportunities. High wages growth also means that starting incomes for young people are attractive. The younger generation also has a better ability and accessibility to invest in a broad range of assets and seems to be taking on riskier investments. The chart below shows that Gen Z are much more likely to hold riskier investments of cryptocurrencies, international shares and exchange traded funds (or ETFs) compared to older households. This allows for large potential upside but also more downside if things go wrong. The greater risk tolerance of Gen Z reflects the more secure and materially comfortable economic environment they have grown up in.



Source: ASX, AMP

Implications for policy

The increasing divide in wealth between older and younger household groups is difficult to address because it mostly involves a period of good luck for the Boomer generation which can't be undone. What can be solved by policy is an improvement in housing affordability. Addressing housing affordability is important because households that hold large debt burdens are a financial stability risk in times of rising interest rates and poor economic growth, especially if the unemployment rate increases. It could also mean that through time more households enter retirement with mortgages which puts pressure on government aged care spending. Although, it is also tricky to "fix" affordability because to make housing cheaper for Millennials, Gen Z and future generations would require a significant drop in home prices which hurts those already invested in housing and has broader negative implications for the economy. The main policy solution to improve affordability is to increase housing supply, to avoid putting excess upward pressure on home prices and rents.

Addressing housing supply issues can be done through providing incentives for older households to downsize, releasing more land, speeding up approval processes, encouraging growth in regional centres and investing in infrastructure in those areas. A broad review on the tax system is also needed, by looking at the capital gains tax concession, negative gearing and whether it should be limited. Although, changing tax policy related to housing now also won't actually fix the current affordability problem and risks denying growth in wealth for future generations.

Other tax issues that could be looked at also include reducing the reliance on personal income taxes by broadening the GST (otherwise there will be an increasing reliance on Millennials and Gen Z to fund the retirement of older generations), abolishing stamp duty in favour of a land tax, looking at extensive superannuation tax concessions and considering an inheritance tax, wealth tax or gift tax.

AMP Limited provides banking, super, retirement and advice services in Australia and New Zealand, supporting over one million customers and employing approximately 3,000 people.

Q&A: Ask a Question

Question 1

When we stop working, how much income will we need to live comfortably in retirement?

The amount of income you will need really depends on your current age, desired retirement age, lifestyle expectations, healthcare costs and inflation. You then need to consider your retirement income and where it will come from, for example, will it be funded by the Age Pension, your super, personal investments, or a combination? A comfortable retirement for a single person retiring at 65 has been calculated by the Association of Superannuation funds of Australia (ASFA) as being $50K per year or $70K combined for a couple until life expectancy.

The best and more precise way of working out how much you need is to work with a financial adviser. They can help you assess your financial situation, estimate future expenses, consider potential income sources, and create a personalised retirement strategy.

Question 2

Some friends of ours have recently started getting the Age Pension. We would also like to apply for this. Can we get it?

To be eligible for the Age Pension, you must meet a few criteria. The qualifying age is currently 67. You must be an Australian resident and have been here for the last 10 years, with at least 5 years of those being continuous. There is also an assets test & income test you must meet. There will be different thresholds for this depending on whether you are single or a couple and whether you have any dependents.

It's important to know that the rules and eligibility criteria for the Age Pension can change, so it's a good idea to look at the latest information on Services Australia and consult with financial adviser who can guide you through the process.

Question 3

I've recently changed jobs and realised that over time I may have lost super accounts with money still in them. Is there a way of finding them, even if I don't have any paperwork?

Yes, you absolutely can! There are several ways you can go about this even if you've misplaced the paperwork. Firstly, try checking your old payslips and tax returns. Your previous employers' details may be listed on there and you can contact them directly to see if they have any records of your contributions. If this doesn't work, you can search for missing super with ATO online services through MyGov. Here you can also check that your super has been paid.

If you do locate missing accounts, we strongly suggest you seek an adviser to determine whether it is appropriate to consolidate them into one fund, as there may be unintended consequences such as a loss of insurances when you complete the consolidation.

If you have a question that you would like to see answered in **Wealth Adviser**, please send it through to **centraladvice@wtfglimited.com.**