Swiss Re

Who pays for ageing?

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.

Executive summary

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 six insurance markets in detail (Australia, China, Germany, Japan, the 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 six 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.

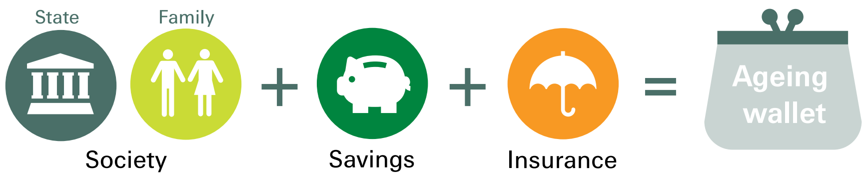
2. **Savings:** Private pension assets and housing

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 Germany, to more family focus in China, to more private savings in the US. Nevertheless, society holds the lion's share across all markets.



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 nearly triple to 1.5 billion people between 2015 and 2050. The global increase in life expectancy paired with the fall in fertility mean that by 2050, 24.6% of the world's population will be over 65, compared with 17.5% in 2015[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

Live secure	Live well (care/health)	Bequeath something
▪ Transition to retirement ▪ Sufficient income and savings buffer ▪ Guaranteed income ▪ Inflation protection	▪ Dental care ▪ Access to medicine ▪ Care at home ▪ Nursing home care	▪ Funeral expenses ▪ Grandchildren's education ▪ Housing ▪ Cash inheritance

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".

The over 65 population will grow by 50% from 2015 to 2050.

[1] United Nations (UN), 2012; 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), 2012; medium fertility projections

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 116 million between 2015 and 2050[4]. That's a 50% increase, and a market ripe for opportunity.

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 six insurance markets: Australia, China, Germany, Japan, the UK and the US. For more on the methodology, see Swissre.com/ageingappendix.

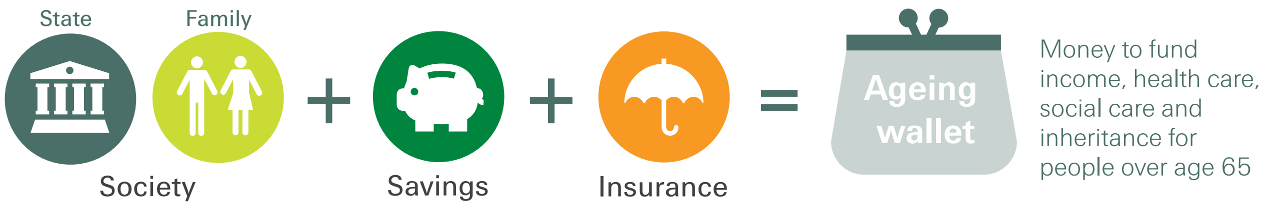
In terms of size, it's little surprise that the US has the largest wallet at a spend of an average USD 66,000 per person over 65. Equally, China has the smallest wallet at USD 15,000 in purchasing power parity. For the other four markets, there is little difference in total spend per capita.[5]

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

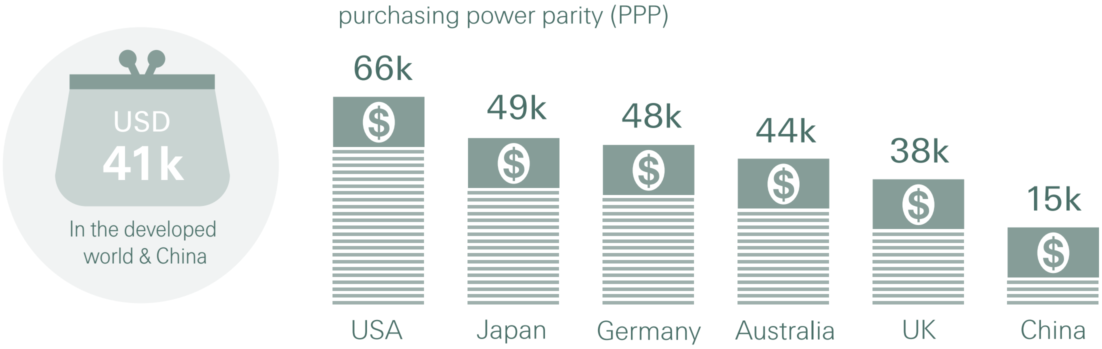
What is the ageing wallet?

The annual amount spent to fund the lives of people over age 65, across three major sources



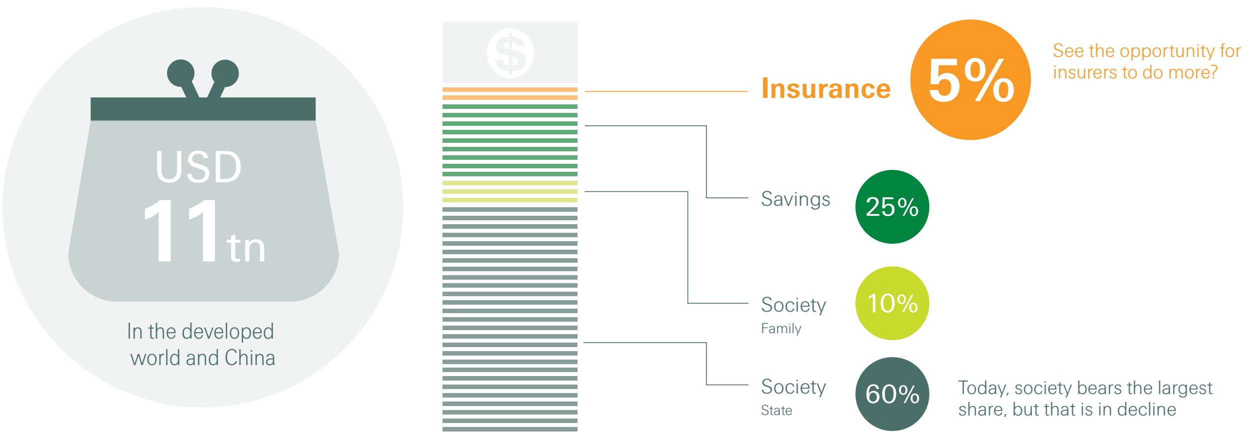
How much does it cost to support a senior?

Average annual spend per person over age 65 by country in USD purchasing power parity (PPP)



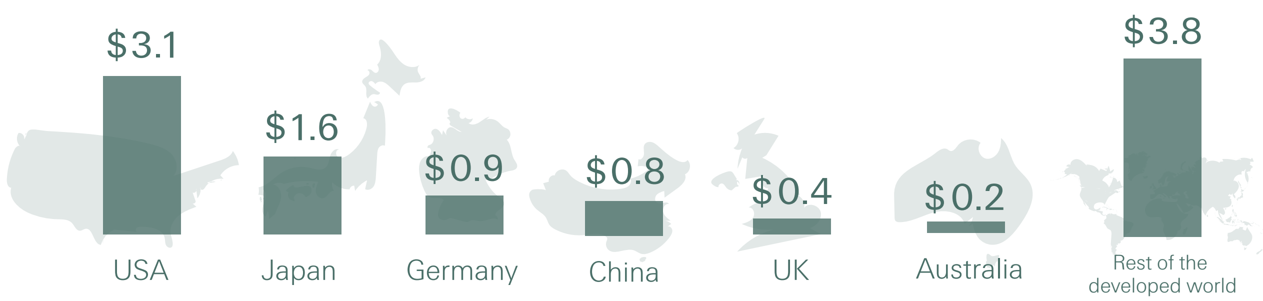
Where does the money come from?

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

Of a USD 11 trillion ageing wallet, insurance has a mere 5% market share.

Insurance is not the "go to" provider for ageing needs (5% share)[6]
Even though insurance is well established in all markets studied (except China), 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 62 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 has looked for ways to encourage retirees to draw down on their assets during their lifetime in light of such findings[7].

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 41% of net private wealth, while it makes up only 23% of the adult population[8]. 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 six 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.

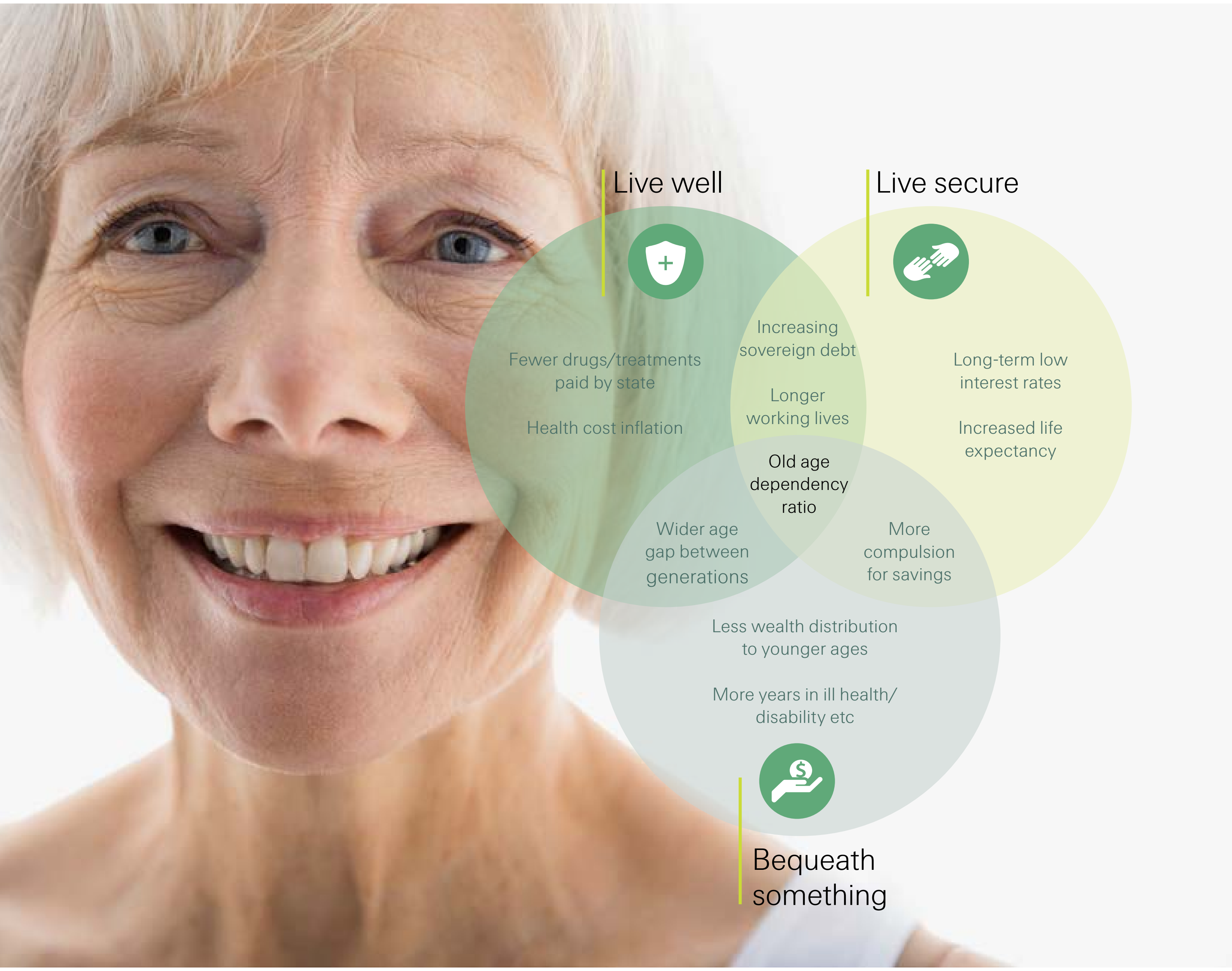
6 Extrapolation through applying wallet to GDP per capita data from World Bank (accessed December 2016) developed markets and insurance weighting via L&H / medical insurance market penetration figures from Swiss Re Economic Research & Consulting, 2016. Results also include China. For further information, 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 % / 5), because weighting by population or wealth would skew results heavily towards the US. Population data from UN, 2012 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



Source: Swiss Re

The family is alive and well in the world of elder care, and insurance should seek ways to complement this rather than "compete".

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 six markets, the average number of workers per person over 65 will fall from 4.2 to 2.6 between 2015 and 2035[9].

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.

[9] UN, 2012 2015-35 medium fertility projections – working age classified as 15-64

Insurance mitigates the need to be over-cautious with savings, which could help the overall economy.

If life expectancy continues to grow as predicted, the need to decumulate this increased savings wealth will be spread over 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:

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

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.

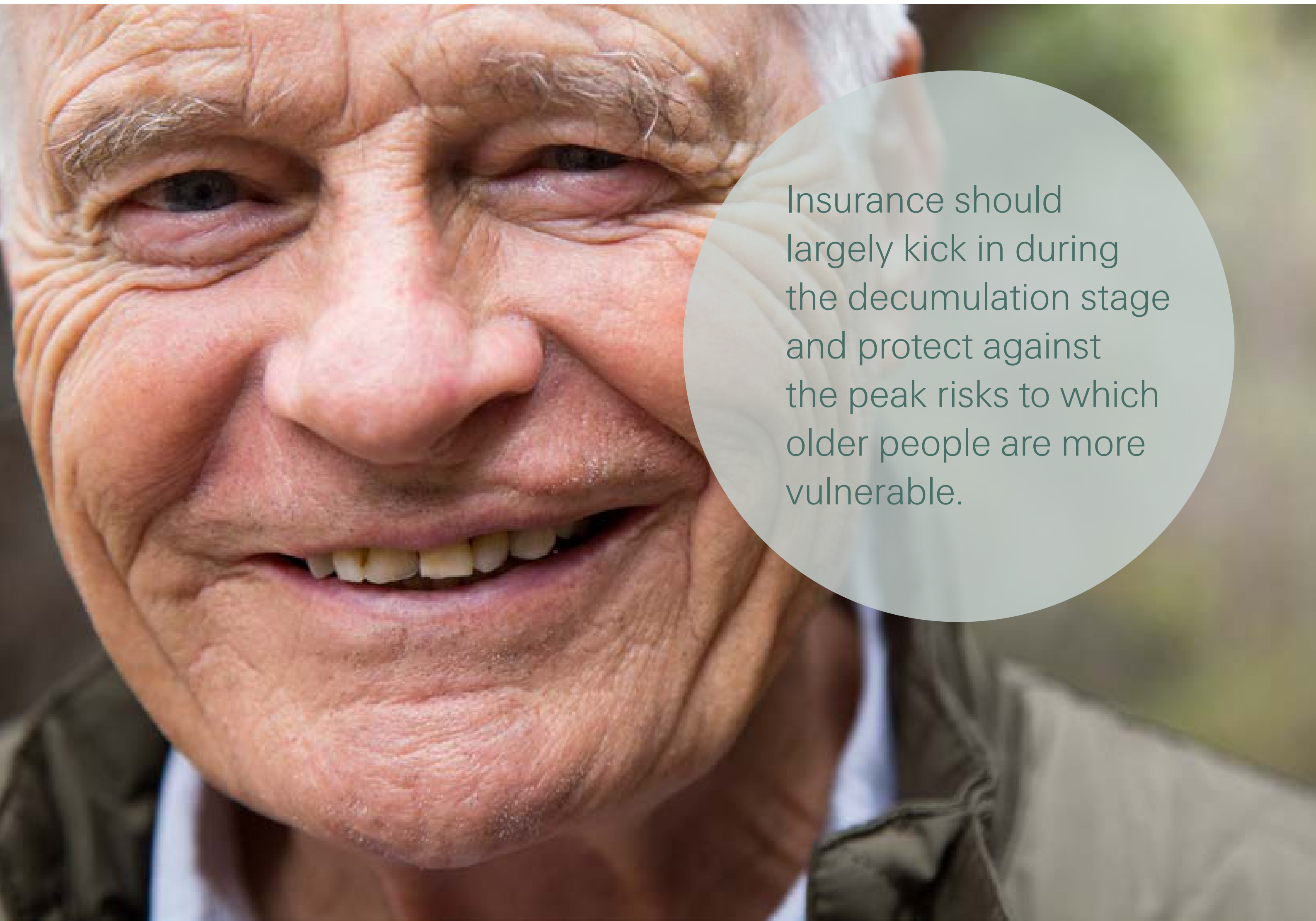
In all markets, the largest line of defence is society, including the state and the family. Welfare approaches are at differing levels of maturity throughout the world. There are various models of societal support: those that are more family oriented, those that provide universal benefits where everyone 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.



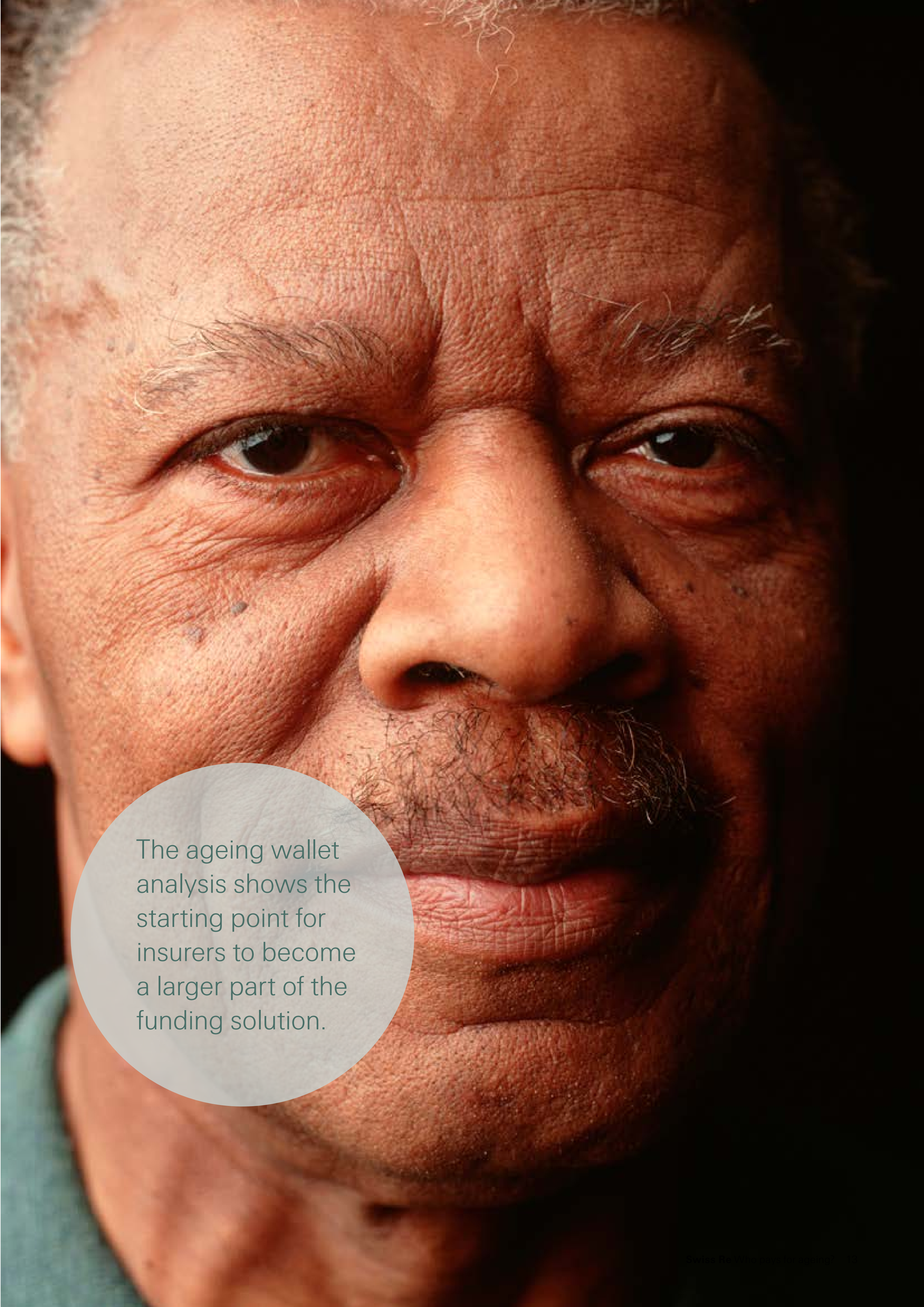
Sources of funding: The later-life resilience model

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



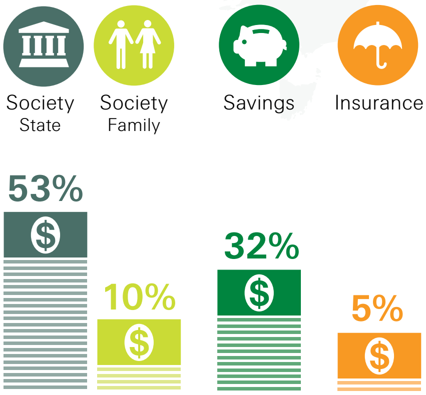
The ageing wallet analysis shows the starting point for insurers to become a larger part of the funding solution.

Six markets, six views: Unique opportunities vary around the world

Analysis by market: The ageing wallet's composition is different for each of the six markets studied, and each one provides unique market opportunities.

Australia

A growing savers' market with new opportunities for insurers



Total spend for everyone over age 65:

USD 0.2 trillion

Average spend per person over 65:

USD 44k

Purchasing power parity

Key facts:

- The smallest market in total, but the fourth largest 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

Wallet composition

Though 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 equal to the US as the highest proportion of private wealth across the six 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 contribution[10].

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 has the most even distribution of wealth across the generations of the five 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

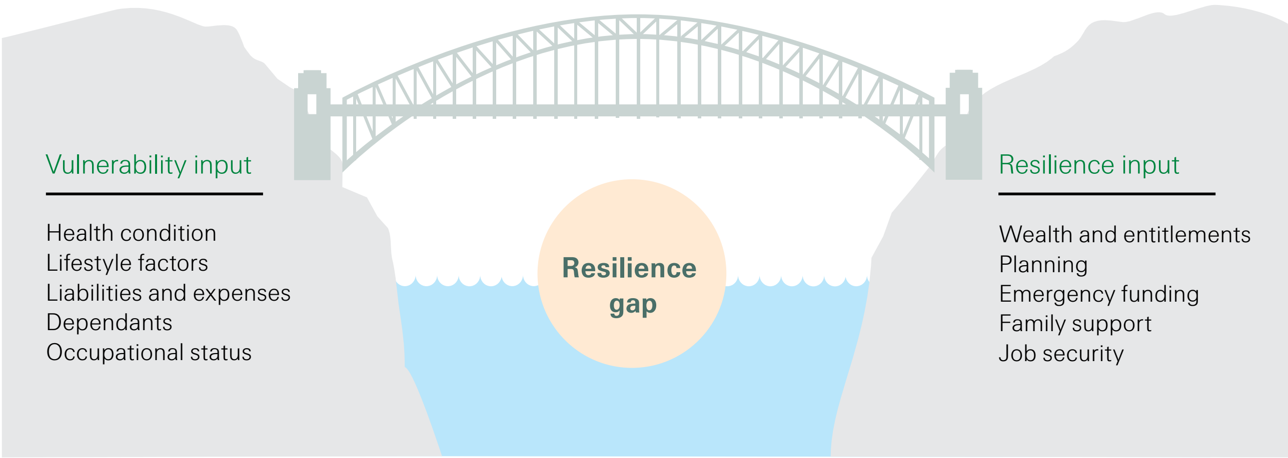
Like all markets, society is a dominant force in Australia, especially in health and care, where the state and family account for 70 cents of every dollar spent on older age needs. Undoubtedly, insurers have short-term opportunities when it comes to securing income in later life, but helping citizens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

[10] Ato.gov.au – accessed December 2016

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.

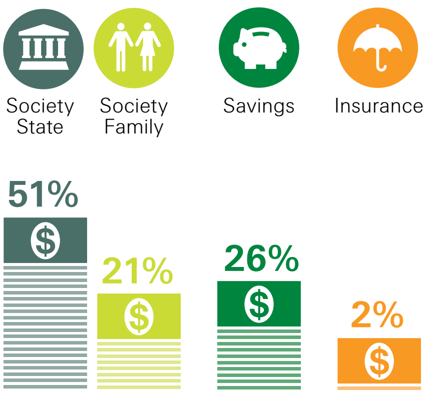


The model shows that people's perceived vulnerability and resilience is usually much higher than their actual level. This is a key challenge for insurers designing propositions that overcome people's bias towards inaction and the reliance on society shown in this report's analysis. Other key insights 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 (eg long-term care, chronic health conditions, outliving retirement income)

China

A rapidly ageing and changing society with a strong family culture



Total spend for everyone over age 65:

USD 0.8 trillion

Average spend per person over 65:

USD 15k

Purchasing power parity

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

Wallet composition

China has the highest level of family support by far, 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[11]. 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[12]. 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[13].

Outlook

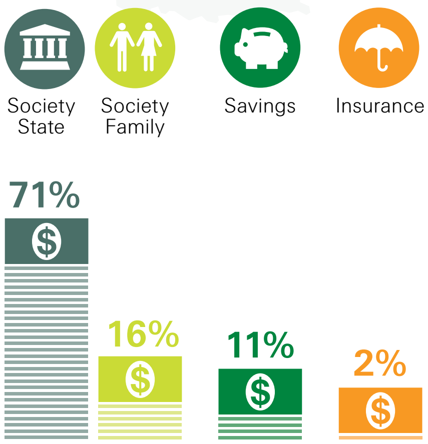
As with more developed societies, the role of the family won't disappear and elders won't simply be abandoned. It's still a legal and moral obligation for the family to ensure the older generation is cared for. Although evidence suggests that many Chinese elders are keen for their children not to provide 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.

[11] data.worldbank.org – accessed December 2016
[12] OECD, 2015
[13] UN, 2012 2015-35 medium fertility projections – working age classified as 15-64

Germany

A culture strong on society's contribution



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

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%: the highest proportion across the six 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[14].

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[15].

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.

Outlook

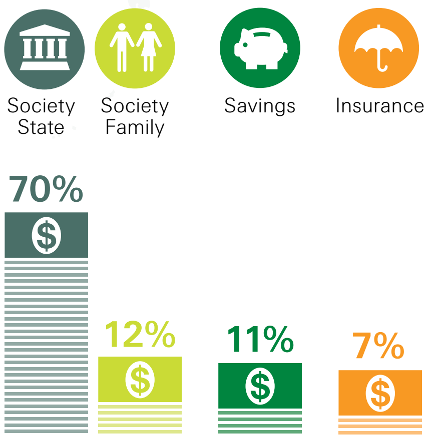
Insurance could play a greater role helping Germany reduce the substantial burden on taxpayers and the family to support older ages. It will be an exciting challenge for the industry to tackle the status quo, and it's going to depend on a thorough understanding of the varying needs of older consumers.

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.

[14] Long-term care in Europe by Edith Bocquaire, in Society of Actuaries Long-Term Care News, May 2016
[15] Axco, 2016

Japan

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



Total spend for everyone over age 65:

USD 1.6 trillion

Average spend per person over 65:

USD 49k

Purchasing power parity

Key facts:

- Second largest wallet behind the US (per capita and total)
- 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

Wallet composition

Japan's ageing market is the largest outside of the US. There's no doubt that Japan's state cover is among the most comprehensive of the six 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[16].

One of the original objectives of Japan's public long-term care system was to relieve the family's burden to provide informal care[17]. 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 six 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 other markets outside of the US.

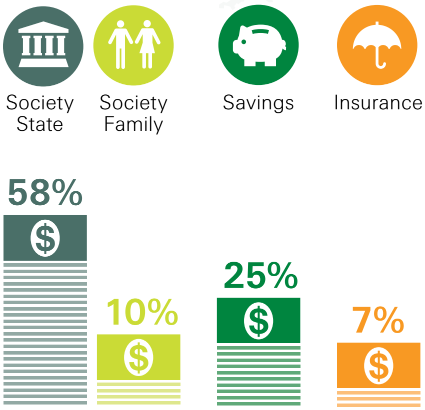
Outlook

Japanese society has witnessed rapid population change in the last three decades as the number of over 65s has nearly tripled[18]. As the most aged of the six markets, Japan is an ideal source for lessons in how best to create value for consumers in later life.

[16] OECD, 2013
[17] OECD, 2011
[18] UN, 2012; medium fertility projections 1985-2015

United Kingdom

An ever changing market with growing awarness of needs



Total spend for everyone over age 65:

USD 0.4 trillion

Average spend per person over 65:

USD 38k

Purchasing power parity

Key facts:

- The smallest of the mature markets on a per capita basis
- Society's share is 68% with opportunity for more private solutions
- State-provided pension is among the lowest with the exception of China
- The long-term care system is in a state of uncertainty
- Increasing awareness of need to self-fund care could offer insurers opportunities

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 were[19].

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 been postponed until 2020.

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.

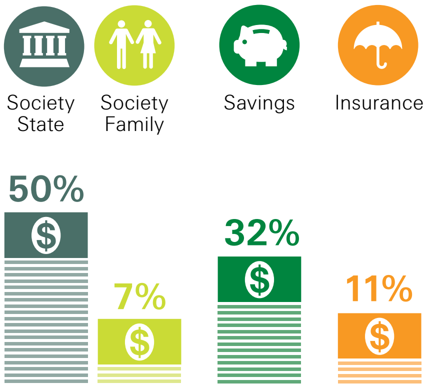
Outlook

These considerable challenges do have a positive side effect. As greater awareness of the need to self-fund care grows, it could offer an opening for insurers who have the best understanding of how to address consumers' varying needs.

[19] Association of British Insurers, 2015

United States

Strong private market with further growth opportunities



Total spend for everyone over age 65:

USD 3.1 trillion

Average spend per person over 65:

USD 66k

Purchasing power parity

Key facts:

- Largest wallet of any market in the world (per capita and 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

Wallet composition

The size of wallet in the US substantially outweighs other markets – both on a total and per capita basis. 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 six markets. Savings at 32% of the wallet means that the US matches Australia as the nation with the highest proportion 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 six 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[20]. 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.

[20] 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.

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