



# The AMBACHTSHEER Letter

Sustainable Pension Design • Effective Pension Management

September 2022

## “YOUR HUNDRED YEAR LIFE”:

### A FILM THAT EXPLAINS WHY AND HOW WE SHOULD RETIRE ‘RETIREMENT’

*“I wanted to shine bright spotlights on how poorly many societies across the globe are dealing with the realities of ageing, as well as on creative solutions that instill purpose and even joy into the aging process. This requires real people and real examples. A documentary film is an effective tool to do this.”*

Theo Kocken  
Chair, Cardano Development Foundation

#### A World Premiere

September 21 will see the World Premiere of a unique documentary film titled “Your Hundred Year Life” at the Ketelhuis in Amsterdam. It is the culmination of a passion project spearheaded by Theo Kocken, founder of the Anglo/Dutch pension and risk management firm *Cardano*, and current Chair of *Cardano Development Foundation*, which promotes and facilitates the development of financial markets in frontier economies. Theo has produced two earlier films titled “Risky Business and the Business of Risk” (2010) and “Boom Bust Boom” (2015), in collaboration with Monty Python star Terry Jones. While on the whole a highly professional, serious production, this new 55-minute “Your Hundred Year Life” film makes clever use of the Python humour presentation style to convey its messages.<sup>1</sup>

What are those messages? I counted three major ones:

1. Demography is Destiny: with the original observation attributed to sociologist August Comte (1798-1857), this is not a new idea. What may be new is the accelerating power of the idea, with increasing life expectancies growing the older end of the age distributions in the developed world, while falling fertility rates are shrinking the younger end of those distributions. The combined impact of these two realities is skewing population age distributions upwards. This has not been built into the design of our retirement income systems.
2. Behavioral Economics Matters: specifically, its research findings indicate that through well-constructed defaults, people can be nudged to do beneficial things without having to think deeply about them, and without having to proactively make difficult decisions to achieve those beneficial ends.
3. Rethink and redefine the Human Life-Cycle: retire the traditional prework/work/post-work life-cycle model and redefine the roles people can take on as they evolve from young...to middle-aged...to older people. Taking this step triggers valuable new ideas and actions people can take over the course of their life-journeys.

Details and colour on how the film addresses each of these three messages follow.

## Demography is Destiny

This is not a new topic. For example, the film traces the history of pension plans back to military retirement bonuses granted in the days of the Roman Empire, the British Empire, and the American Civil War. German Chancellor Otto von Bismarck introduced the first national pension scheme in 1889 with a retirement age of 70 (later reduced to 65). However, at the time, European from-birth life expectancy was 47 years....versus 80 years today.<sup>ii</sup> When President Roosevelt introduced Social Security in the USA 70 years later, he too settled on 65 as the retirement age. By then, US from-birth life expectancy had risen to 60 years versus 80 years today.

The obvious point the film makes is that retirement ages were originally set well-above life expectancies, creating situations where there were relatively many pension contributors and few pension recipients. With the passage of time, living beyond age 65 became increasingly likely, steadily raising the funds required to pay the promised pensions. If, at the same time, falling fertility rates lead to a stagnant, or even declining workforce, the finances of pay-as-you-go social security systems become even more dire. The obvious solution to righting capsizing social security ships is to raise retirement ages in line with life expectancy increases. But as the film points out, raising retirement ages in national social security systems is a political minefield.

While not covered in the film, it is also worth noting that economies with aging populations logically face declining economic growth, capital formation, and investment return prospects. The obvious poster child for this story is Japan. It was a dynamic wealth-creating economy for decades into the 1990s, and has since been on cruise-control with an ageing, slowly declining population, and a low GDP growth, low inflation, and low interest rate environment. Shockingly, its Nikkei stock index reached almost 40,000 in 1990. Today it trades in the 28,000 area, some 30% below its peak 30 years ago.<sup>iii</sup>

## Behavioral Economics Matters

The economic theories based on Adam Smith's 1776 book "The Wealth of Nations" assume economic actors (e.g., consumers, business people) to be knowledgeable, rational, and good decisionmakers. Subsequent research suggests these three assumptions often do not hold in the real world. Nobel Laureates such as Herbert Simon, Daniel Kahneman, and Robert Schiller explain that psychological, cognitive, and social factors often get in the way, leading people to 'satisfice' rather than 'optimize'. Or even worse, leading people to avoid making difficult decisions altogether if they have no immediate impact on their lives.

The film addresses this decision-avoidance problem in the context of the unwillingness of many people to address the financial consequences of aging during their income-earning years. It demonstrates the psychological impact of a visual projection tool that transforms the image of a middle-aged person today into a 'future self' 30 years from now. Watching yourself age by 30 years in 30 seconds focuses the mind wonderfully. Face-to-face with this 'future self', the question of 'what will my life be like 30 years from now?' is transformed from a highly abstract one easily avoided, to the very tangible and real one that should be addressed now.

What about public policy? Can it 'nudge' people to make good financial decisions in spite of their tendency to avoid them until it is too late? A material increase in the 'Pension Adequacy' category of the UK pension quality index score in the most recent *Mercer CFA Institute Global Pension Index* Report suggests the answer is 'yes'. The increase resulted from the passage of the UK Pensions Act of 2008, which was intended to do two things: 1. "Increase worker coverage and savings rates in well-managed collective pension/retirement savings arrangements".....and 2. "Raise the scale and governance quality in pension management organizations". The Act requires employers to enrol all workers without a Pillar 2 plan into a qualifying retirement savings arrangement. However, employees have the option to opt out.

After four years of preparation, auto-enrolment was phased in over the course of 2012-2018. An important part of the pre-2012 preparation was the creation of the *National Employment Savings Trust (NEST)*, which would become the default manager of this new stream of retirement savings.

Today, after a decade of implementation, how are things turning out for this bold UK initiative? In short, very well. Over 10M workers and 1.6M employers are participating in the program, collectively contributing a minimum of 8% of pay. Importantly, 90% of enrolled workers have chosen to stay in the plan. *NEST* has been the major recipient of the new retirement savings stream. It is already managing over £10B for 9M members and 800K employers, with that amount growing by at least £5B/yr. for many years to come. It is the largest of a growing number of well-managed multi-employer master trusts operating in the UK, along with *The People's Pension* (5M members, 99K employers) and *NOW Pensions* (2M members, 30K employers). Clearly, behavioral economics in general, and 'nudging' in particular, can be a powerful public policy tool.

### **Rethink and Redefine the 'Work' Part of the Human Life-Cycle**

This third message of the film may be its most powerful. For example, it addresses the difficulty many aging workers face to remain respected members of the workforce, when 'age' is the most important performance criterion. The self-told stories of Lucille, Sandra, Jonathan, Jane, Minoru, and Jim add up to powerful messages:

- Many people in their late 50s and 60s feel they are sent off to the job market 'scrapheap'. This is despite the fact that many have impressive job experience and continue to be productive.
- When employers do break through the 'aging' blind-spot, they are often pleasantly surprised by the wisdom older workers bring to the work-place.
- At the same time, the older workers themselves 'maintain their self-respect', 'feel useful', and 'experience a new lease on life'.

Academic research supports these 'real world' observations:

- Work groups diverse in age achieve higher productivity scores than groups that do not have this diversity. Japan has formalized the extension of working lives by creating a 'special advisor' position for people over the age of 65. This is not considered a demotion, but an opportunity for 'special advisors' to coach and train new entrants to the workforce. The film showed a wise, experienced car mechanic becoming a 'special advisor', and teaching a new trainee the tricks of the trade.
- Business start-ups initiated by older entrepreneurs have higher success rates than those started by younger entrepreneurs.
- There is an inverse relationship between individual cognitive/social decline, mortality and retirement age. Stated differently, on average, working longer leads to longer lives and better maintenance of cognitive and social skills. The time has come to retire the traditional definition of 'retirement'.
- Japan has traveled even further along the life-cycle by creating 'Silver Centers'. These organizations welcome people who want to continue being active into their 80s, 90s, and even 100s. While they foster social interaction among their members, they also create job opportunities. The film shows a happy, engaged 98yr-old using public transportation to get to her volunteer job helping maintain a public park. Research confirms that the health care costs of 'Silver Center' members are lower than those of non-members.

This last bullet provides a good pivot for moving from the rethinking and redefining the 'work' side of the human life-cycle, to the 'living' side.

## Rethink and Redefine the ‘Living’ Part of the Human Life-Cycle

The key concept in the film here is the idea of an ‘intentional living community’ for people aged 55 and over. The example featured in the film is set in the USA. It is in a condominium setting, with couples or single persons owning their own units. The condominium is self-managed, creating a dual sense of independence, but also of community. For example, food purchases are made in bulk, and meals are communal. Gardening chores are also apportioned on a communal basis. Promoters of this shared approach to living say that it not only builds social interaction and community among residents, but also facilitates sustainability and the cost-effectiveness of scale economies.

Given its potential social and economic power, this *Letter* takes this shared living concept a bit further. The concept came out of the New York City co-op movement of the 1970s. Over time, it evolved into the idea of naturally occurring retirement communities (NORCS), where there are high densities of older residents in a single building. This logically creates the ‘aging in place’ opportunity to provide packages of services targeted at that specific demographic. For example, a project launched by Toronto’s *University Health Network (UHN)* estimates Toronto’s current NORC potential to be at least 300, covering some 41K residents. Design activities are underway to create digital neighbour networks, connected care hubs, and designated social spaces in these NORCS. An interesting twist in this NORC design work is the ‘market’ for it is slowly shifting from the quiet pre-WWII ‘Silent Generation’ to the much noisier and demanding post-WWII ‘Boomer Generation’.<sup>iv</sup>

### Your ONE HUNDRED YEAR LIFE

Theo Kocken has indeed shone bright lights on how poorly many societies are dealing with the reality of ageing, and happily, also on the steps we can take to do better.<sup>v</sup>

Keith Ambachtsheer

#### Endnotes:

- i. *Woody Allen once proclaimed that “90% of life is showing up”. The Theo Kocken-Terry Jones connection provides a good example of this profound insight. Theo showed up to do the Princess Margaret Cancer Foundation ‘Ride to Conquer Cancer’ from Toronto to Niagara Falls in 2010, as did oncologist Dr. Rob Buckman. Both wearing bicycle gear, they met in the Amby’s Aces (our Ride Team) reception lounge. Somehow the Monty Python movies came up in their conversation: both were big fans (and both could recite endless dialogue). Theo learned that Rob had actually done skits with Monty Python star Terry Jones in their Cambridge University days, and that they were still good friends. Would Theo like an introduction to Terry? Yes please! All this led to the World Premiere of “Risky Business and the Business of Risk” starring Rob Buckman and Terry Jones in 2010....the definitive Monty Python treatment of risk management. Not surprisingly, the “Your Hundred Year Life” film has retained some of that Python flavour ....and puts it to good use.*
- ii. *This is an approximation, based on UK data, which was most readily available.*
- iii. *The –30% over 30 years improves to about 0% if dividend payments are included.*
- iv. *To access a video on the UHN NORC project, click on this link: <http://uhnopenlab.ca/work/labs/norc-lab/>*
- v. *For information on accessing THE ONE HUNDRED YEAR LIFE film, email Theo at [t.kocken@cardano.com](mailto:t.kocken@cardano.com).*

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