WHAT IS THE LONGEVITY CRISIS AND HOW DOES IT AFFECT ME?

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Who would have thought that living longer could have such a negative impact? Here's why. It all started 80 years ago, when those that had survived World War Two went out and celebrated. Birth rates around the world spiked and the 'Baby Boomer' generation was born.

Generally defined as the time period between 1946 and 1964, the baby boom saw a surge in birth rates alongside a dramatic decline in death rates due to advances in medicine and public health. This combination led to rapid population growth in many high-income countries, which influenced their societies for generations.

They were preceded by the so-called 'Silent Generation', born between 1928 and 1945, who were lucky to enjoy almost full employment and prosperity into their later life. They and the Baby Boomers typically worked and stayed in the same country, and they paid into the social security system. This meant there were more people were paying into the system than drawing from it. Think of it as a triangle, with the Boomers at the base and the Silent Generation at the tip.

Move forward to 2010, and with life expectancy steadily rising and Generation X, 1965 to 1980, also starting to retire, that triangle started taking on a very different shape. More so because the new working populations of Millennials (1980 to 1994) and Generation Z (1995 to 2012) function very differently – they switch employers, take work breaks and are much more internationally mobile throughout their working life.

All this means there is no longer a steady money inflow into the system to sustain the ever-growing number of pensioners and potentially saving for future liabilities. At the same time, life expectancy has continued to increase over the generations, and Gen Z are expected to live to 100!

Now countries have an inverted triangle. With a big pensioner population that could be retired for over 20 years and a new working population that is mobile and may not pay into the system for 40+ years. And even if they do, they could live to 100, which is a huge financial liability that most countries simply can't afford. This is the 'longevity crisis' and pensions, as we've known them, are changing.

Governments of many countries are already beginning to act with the introduction of 'automatic enrolment', which makes it mandatory for companies to provide a workplace pension and for employers and employees to pay into it. New Zealand and Italy in 2007, UK in 2012, Poland and Lithuania in 2019, Guernsey 2024 and Ireland in 2025.

The effect in these countries has been dramatic and it will spread because no country can afford what's coming. There will be a lag and it will only be the Generation Alpha (2013 to 2025) onwards who start to save as soon as they join employment that potentially won't have a funding gap. That is assuming that countries act quickly.

It is the shift change. Responsibility for retirement planning is now firmly in the hands of the individual and it is not something people should delay. Even starting small is still starting to save for your future – but you can increase the amount as and when you can afford it. You need to think of your pension as investing in your future self. It's a backpack you take with you throughout your life and as your circumstances change you can increase or decrease contributions.

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The consequence of delaying can have a big impact on the outcome if you want to have a choice about:

- What age you retire – do you want to be forced to keep working because you can't afford to retire, especially if you have a physical job?
- Type of retirement – do you want choice about if and where you go on holiday? If you don't prepare, your decisions may be about whether you eat or heat.
- Now that house ownership is more difficult, you may be potentially preparing to pay rent when you stop working – another financial burden that needs planning.

Unless you are already financially secure, every working individual needs to start saving now, as early as possible and as much as you can afford. It is never too late and it's never too early. For Gen Z onwards, you should assume that there will be limited access to state benefit, and it will probably be means tested. Anything you do get will be a bonus and should certainly not be relied on.

This may all seem gloomy but there are reasons to be cheerful. For those with time on their side, there are three superpowers working for you:

1. Compound growth – Compound Growth on Vimeo
2. £/€/$ cost averaging – Pound Cost Averaging on Vimeo
3. Time

For those working in countries when auto-enrolment kicks in, you can save easily via payroll and benefit from employer contributions (free money) and tax relief.

For internationally mobile workers, there are flexible international options via payroll and also individual products where you can consolidate your savings and your pension savings will keep pace with you and your laptop.

The good news is that the Sovereign Group has expertise across all aspects of pensions planning:

- Governments – we work with governments to deliver simple and effective auto-enrolment workplace pension schemes that enable employers to meet their legal requirements by putting eligible employees into a 'qualifying' workplace pension and then contributing towards their retirement.

- Companies – we work with employers, whether they need to save for their gratuity benefits in the Middle East, or have a mobile staff or a multi-country footprint and want to harmonise benefits for simplicity and economies of scale while also delivering on their duty of care. We also provide approved domestic workplace pensions in Jersey, the Isle of Man and Gibraltar, with Malta in the pipeline.

- Individuals – if you're based in the British Crown Dependencies or Gibraltar and want an approved pension plan, or if you're internationally mobile and want a portable pension, we can assist. Or maybe you're already retired and have moved away from UK and want to transfer out your UK pension into a QROPS or QNUPs. Again, we're here to help.

Sovereign is a leading international provider of personal and occupational pension schemes, known for its innovative products and consistent service. We have offices in over 20 countries worldwide.