

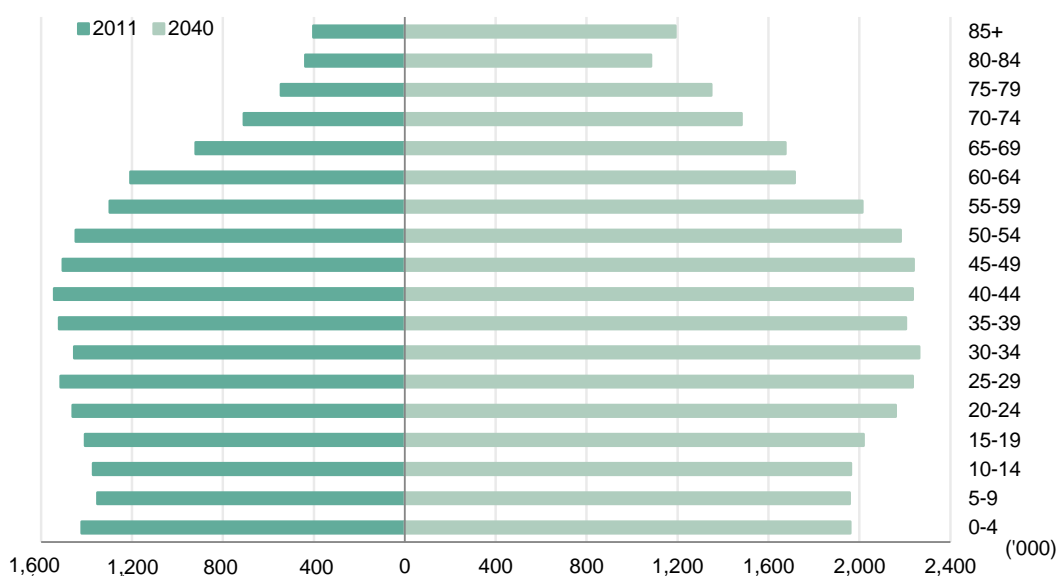
Funding the golden years – not just about superannuation

By Tim Rocks, Head of Market Strategy and Research

Growing old brings a variety of associations – retirement, downsizing the family home, grandchildren... But it also has practical associations, like managing the physical and mental concerns of age. When you consider that by 2040, 6.8 million Australians will be over 65, representing 20% of the population, and all accessing a variety of aged care services like retirement villages, nursing homes and hospitals, catering to this demographic provides wide opportunities for investment.

A global issue

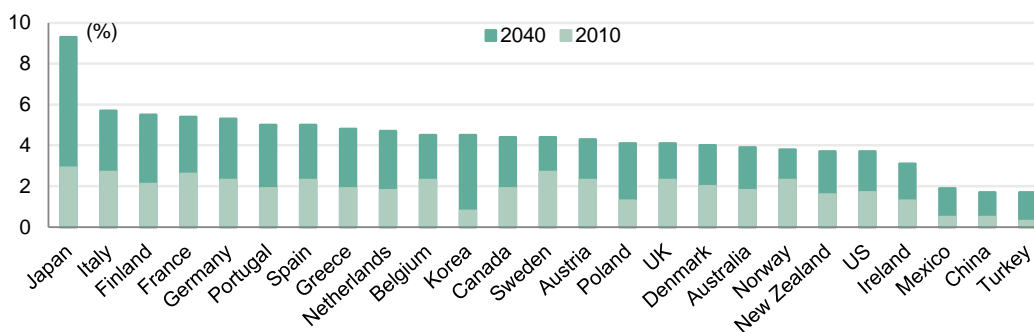
The Australian population age structure



Source: ABS

An ageing population is not just unique to Australia. The effect is most stark in Japan where almost 10% of the population are projected to be over 85 years by 2040. United Nations’ population projections estimate that by 2040 there will be 320 million people over the age of 65 years in developed countries, up from 200 million in 2010.

Proportion of population over 85 by country



Source: United Nations

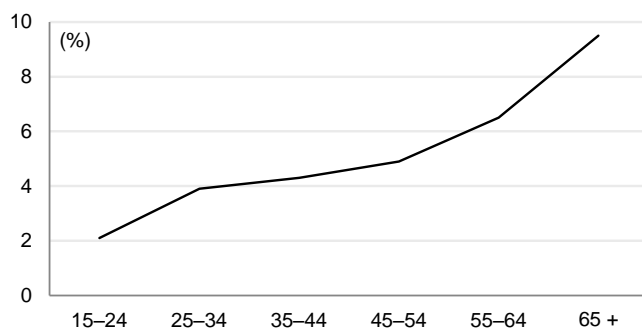
An ageing population has a number of economic consequences, including lower economic growth per capita, and a significant strain on government finances through pensions and healthcare spending. There are also

interesting implications for investors. There are a range of stocks in the Australian market that will likely be particularly affected and which will be the focus of this article.

Healthcare

The healthcare sector is the largest beneficiary of an ageing population. It will come as no surprise that medical care and health expenses become a greater proportion of weekly expenditure with age.

Medical care as share of household spending by age group



Source: ABS

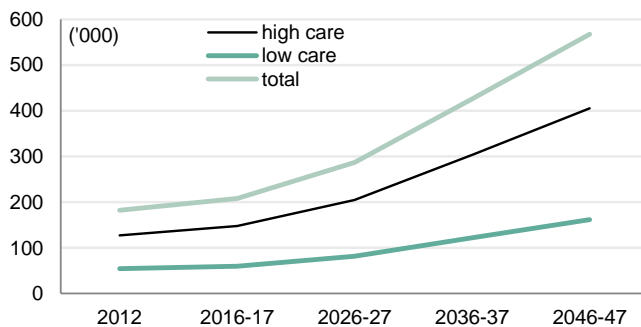
There are many types of listed companies that will likely benefit in this sector.

- **GPs and Diagnostic companies** should see an increase in volumes, given that the frequency of visits to GPs and use of diagnostic testing increases with age. Governments typically spend 2.5 times more per person on the over 65s than on the rest of the population. Primary Health Care and Sonic Healthcare Limited, both have exposure here.
- **Private hospitals** such as Ramsay Health Care and Healthscope would also benefit from rising hospital demand.
- **Medical device companies** should also benefit such as Cochlear (deafness), Resmed and Fisher & Paykel Healthcare (sleep apnoea) and Lifehealthcare (hospital supplies).
- **Medical research companies** that are focused on chronic diseases such as dementia, arthritis, cancer and diabetes are also likely to benefit. Some smaller, speculative companies in this space include Bionomics (drugs for cancer, anxiety and dementia), Mesoblast (developing stem cells to treat diabetes, kidney disease and arthritis) and Sirtex Medical (treatment for liver cancer).

Housing

Demand for retirement villages, residential aged care and home care should also rise as a result of an ageing population. Favourable demographics and the increase in prevalence of dementia will drive the demand for high-care places over the coming decades. Over the next five years, 225 new residential aged care beds will need to open each week to meet projected demand. Under the current ABS projections, this number increases to 270 beds per week by 2050.

Projected demand for aged care beds



Source: Department of Health, Productivity Commission (2008)

Note: 2012 data are actuals

The lifecycle of housing demand during retirement years can be split into three distinct stages.

- **Retirement villages.** Several listed Australian companies run villages using different models. Some, like Lifestyle Communities and Aveo Group manage villages, while others, like Ingenia Communities Group, are converting several caravan parks into retirement communities.
- **High-care centres.** There is rapid development in this section of the market at present. Examples of companies operating residential aged high-care facilities include Estia Health, Japara Healthcare and Regis Healthcare.
- **Post-life.** Operators of cemetaries, crematoria and funeral parlours, like InvoCare, will need to accommodate the increased demand for their services.

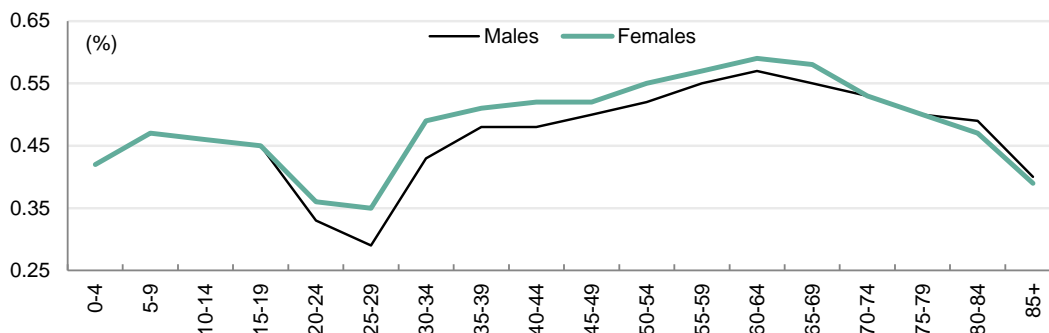
Financial services

Demand for a range of financial products changes with age.

- Investment managers and financial advisers will benefit from providing services to households as they switch from strategies to grow their money to drawing down on their nest egg. Banks may benefit from this as they already offer these services.
- **Annuities providers** will benefit from greater demand for their products, as people look to extend the longevity of their assets so they have enough to live on in retirement.

However, the ageing effect is negative for life and health insurers. Many retirees let their life and health insurance policies lapse. As a result the proportion of the population that holds life and health insurance declines significantly after 65. This decline in use of health insurance also has implications for state healthcare which will need to expand considerably to manage the growth of the retiree population.

Proportion of persons holding private health cover, June 2014



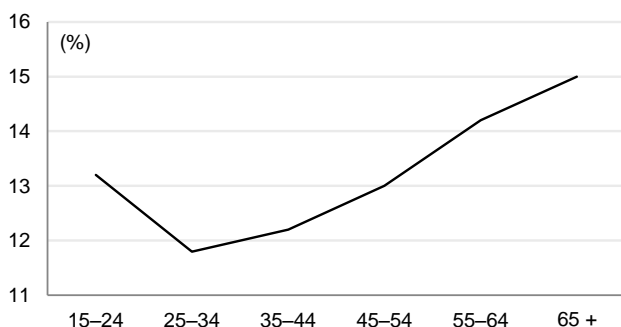
Source: Private Health Insurance Administration Council

Consumption

Consumer expenditure generally declines substantially with age, presenting headwinds for consumer stocks. Instead, the 65+ age group spends the greatest proportion of their weekly budget on recreation and this has increased steadily over the past two decades.

This supports the outlook for tourism and gaming. Flight and airport companies like Qantas, Virgin and Sydney Airport or accommodation companies like Mantra stand to benefit, while gaming beneficiaries would be betting companies like Tabcorp Holdings or Tatts Group, and casinos like The Star Entertainment Group, Skycity Entertainment Group and Crown Resorts.

Proportion of weekly expenditure on recreation by age group



Source: ABS

Note: Data from the latest household expenditure survey (2009-10)

Though an ageing population may be a concern for governments, many companies have recognised the value of servicing this group. As the population continues to grow, companies that have positioned themselves to manage this and cater to their needs stand to benefit from these demographic changes. So investing in those companies in an investment portfolio could be an interesting opportunity – and on a lighter note, with age, one of life’s few certainties, you could consider it an investment for your own golden years.

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