

Life Expectancy

by [Steve Brown](#)

There is a practice in France called "viager," whereby a person can buy an apartment that is currently occupied, pay the occupant a monthly payment for the remainder of their lifetime and then take ownership of the apartment when the occupant dies. It's a great way to get a home in a desirable location, but there is a hitch of course. Success depends upon how long the occupant lives. There is the story of a man who bought an apartment in Arles (Van Gogh's old haunt) from a 90Y-old widow. Given her age, this sounds like a fairly safe bet, except the widow went on to be listed in the Guinness Book of World Records as the oldest living human at 120Ys of age, and in the meantime the buyer died. The buyer's widow then had to continue the monthly payments to the occupant until her death.

Certainly, no one knows exactly how long they are going to live, but mortality tables do offer some guidance. The latest data finds the U.S. is 35th in the world in overall life expectancy, with females expected to live 82.2Ys and males 77.4Ys as of 2013.

The good news is that while there is no set schedule for when the grim reaper knocks on the door, research finds the longer one lives, then the longer a person is expected to live. That is why there are some extremely elderly people, many of whom need a great deal of care. Right now, people in their 80s and 90s are usually comfortable using professional advisors, such as bank trust departments, to help them navigate their financial lives. Bank trust departments manage their caregivers, pay bills and keep up with taxes and legal needs. But once they pass on and estates are distributed to their heirs, what happens then? This is a real dilemma for many bankers, as this older generation makes up the bulk of customers in many bank trust departments.

Baby Boomers heading into their golden years have typically gravitated to do-it-yourself asset management arrangements with firms like Schwab and Fidelity. Given this generational shift, will bank trust departments shrink and ultimately disappear?

If we had to project, we would say they are likely to shrink for a while, as we can well imagine the Boomers in their 60s and 70s continuing to manage their assets and personal affairs. The question then is what happens when they move into their 80s and 90s? Here too, it seems likely that the Boomers who are comfortable with their banking relationship will leverage the fiduciary services offered by their friendly local bank. It's also plausible that Schwab and Fidelity would begin offering fiduciary services in order to keep these customers. But the nature of elder care is often local, and therefore, it seems like there could be real opportunity for local banks.

A quick check finds there are currently 1,985 financial institutions with trust powers, or roughly 30% of FDIC institutions. Trust fees are a source of non-interest income, but expenses are high because trust services tend to be personnel-heavy and require highly-qualified staff. Getting appropriate advice and help in one's advancing years is very important though. People are living a long time and the longer they live, the more help they need. Bank trust departments should play an important role once the "do it yourself" generation decides it can't manage that well on its own, so now is the time to think about all of this.

As for the case of the 120Y-old apartment occupant, we would say that was exceptionally tough luck on the part of the buyer. It just goes to show that the aging process is unpredictable. One way that community banks can assist retiring Boomers is to remind them that their bank provides services they may well need later on. The key is to help them understand that they'll be better off making financial arrangements now, instead of leaving their future to chance.

BANK NEWS

Reverse M&A

Congressional Bank (\$430mm, MD) will acquire American Bank (\$456mm, MD) for an undisclosed sum.

M&A

Farmers Bank & Trust Company (\$885mm, AR) will acquire 1st Bank (\$311mm, AR) for about \$32mm in cash.

Smaller Footprint

After the latest sale of TX branches is concluded, Citigroup says it will have reduced its footprint by 11% since the end of last year and will only operate in 13 states in the U.S.

Deposit Competition

Credit rating agency Fitch indicates the newly released liquidity coverage ratio that large banks must follow will likely lead them to focus more on generating insured retail deposits given a more modest runoff assumption allowed under the rule. As such, community banks should expect competition for deposits to begin to increase more heavily starting next year.

Rate Hike Timing

FOMC member Jerome Powell said the group may have to move faster to raise interest rates if job and economic growth continue to remain strong.

Liquidity Flood

The European Central Bank seems to have awakened from its long slumber and now realizes it must take drastic action to lift the European economies out of recession/deflation. As a result and following a 0.2% Q2 GDP level, the ECB announced it would: cut its Fed funds equivalent rate to negative 0.20% (banks have to pay to leave money); cut rates on multiple borrowing facilities; will offer banks 4Y loans at low rates provided they in turn increase lending to the private sector; said it would purchase asset backed securities; buy bonds and buy residential mortgages.

Mobile Banking

The Fed reports 75mm Americans use their smartphones for mobile banking.

Hacked

The Wall Street Journal reports hackers may have broken into the Healthcare.gov website.

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