



# Retirement incomes and longevity risk

*Insights into key issues*

MFG Longevity Solutions

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# Longevity Risk

*Why the big deal?*

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# Why the big deal...



## ... because its complex...

- > The risk of “running out” is impossible to manage using account-based investment products alone
- > Extremely long time-frames must be taken into account
- > Customer’s behavioural biases and other “real world” issues need to be understood and accounted for

## ... and important!

- > 1.9 million baby boomers... 124 thousand retiring each year for the next 15 years
- > Many are “borderline” self-sufficient so there is a high “marginal utility” for getting retirement incomes right



# Key insights

Global best practice thinking on the issues behind longevity risk and retirement income strategies

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# Key issues behind longevity risk



## New thinking - what's required for retirement income products & strategies

### Measuring longevity risk

- > Life doesn't end at life expectancy!

### What retirees want & need

- > The importance of flexibility – retirees understand it better than actuaries!

### Sequence of returns

- > In retirement incomes is not just what you get, its also how you get there!

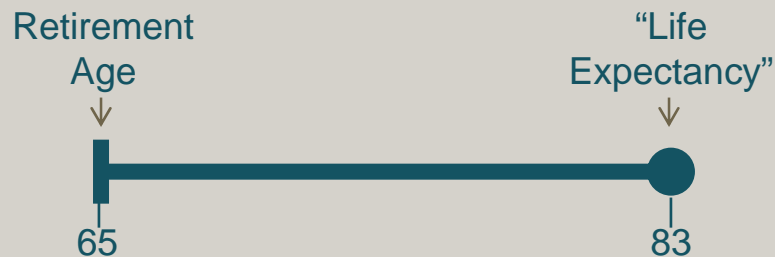
### Robust long term strategies

- > Simple is good but not an excuse for dumb!

# Longevity risk is routinely underestimated



## What's the right planning timeframe?

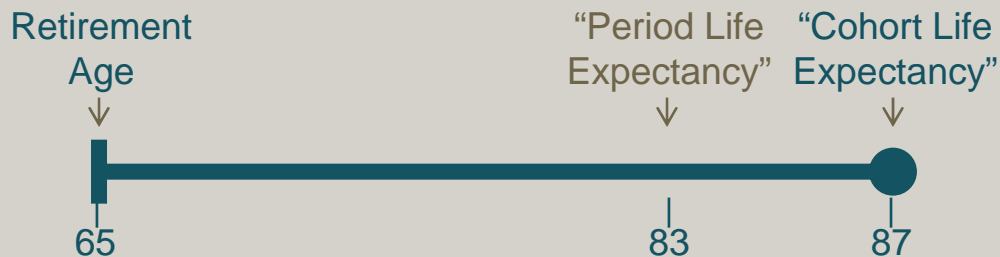


The Australian Government Actuary publishes life expectancy stats based on mortality rates at each age **at today's rates**

# Longevity risk is routinely underestimated



## What's the right planning timeframe?

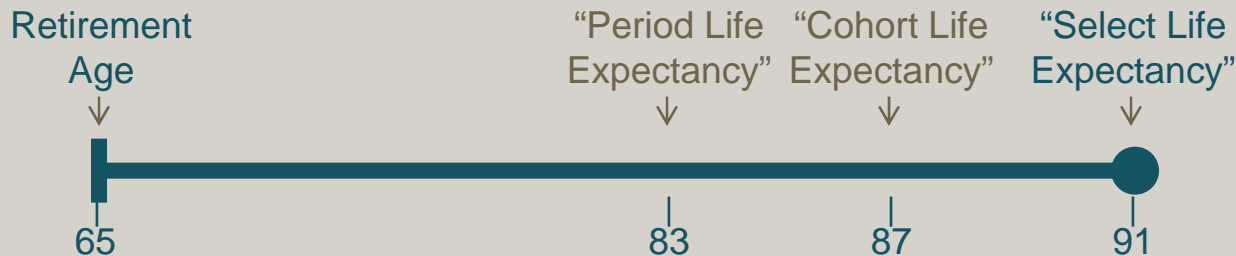


...but mortality rates are improving quickly. This calculation reflects the *speed* but not the *acceleration* of improvement.

# Longevity risk is routinely underestimated



## What's the right planning timeframe?

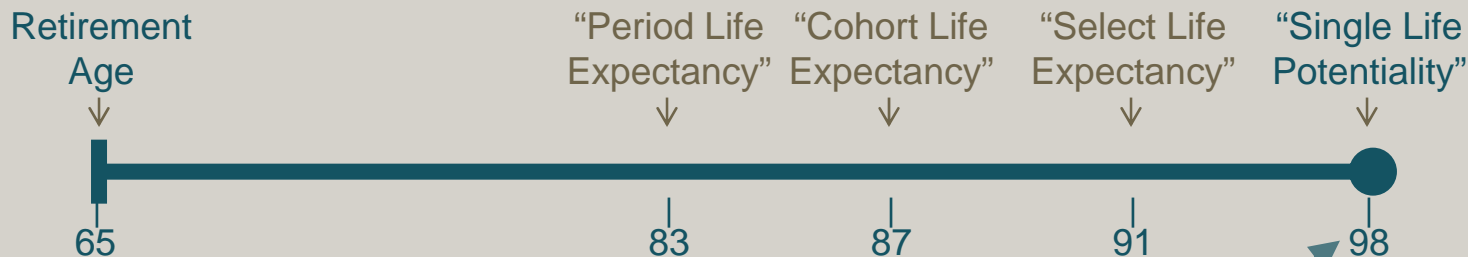


Account Based Pension clients who express any interest in longevity issues are automatically a "select" population – Australian research shows they are **likely to have mortality 50-60% lower than the Australian average!**

# Longevity risk is routinely underestimated



## What's the right planning timeframe?



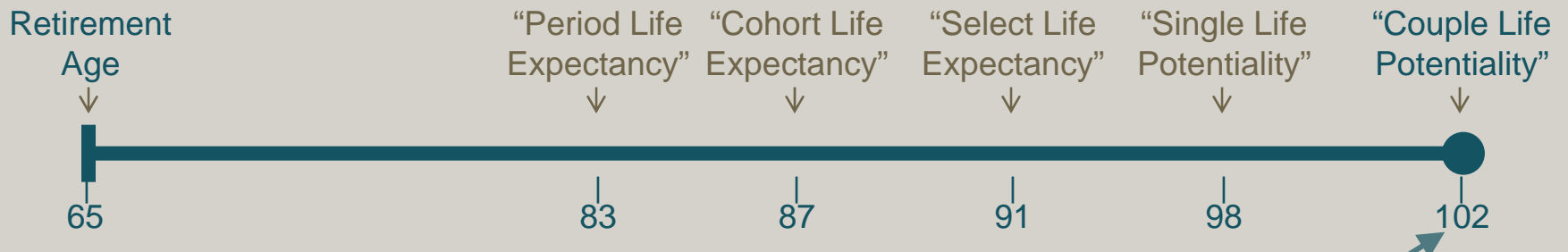
The major flaw with “life expectancy” is that ~50% of people are expected to still be alive at this point!

We believe planners should use “life potentiality” – the point in time where there is only a 10% chance of survival

# Longevity risk is routinely underestimated



## What's the right planning timeframe?



... finally, the vast majority of pensioners are members of a couple. There is a **40% chance that at least one member of a couple lives to age 95!**

# Longevity risk is routinely underestimated



## What's the right planning timeframe?

Retirement

Age



65

"Period Life

Expectancy"



83

"Cohort Life

Expectancy"



87

"Select Life

Expectancy"



91

"Single Life

Potentiality"



98

"Couple Life

Potentiality"



102

Robust retirement income plans for pensioners of average health **need to consider the risk of living to age 100...** particularly if the pensioner is a member of a couple

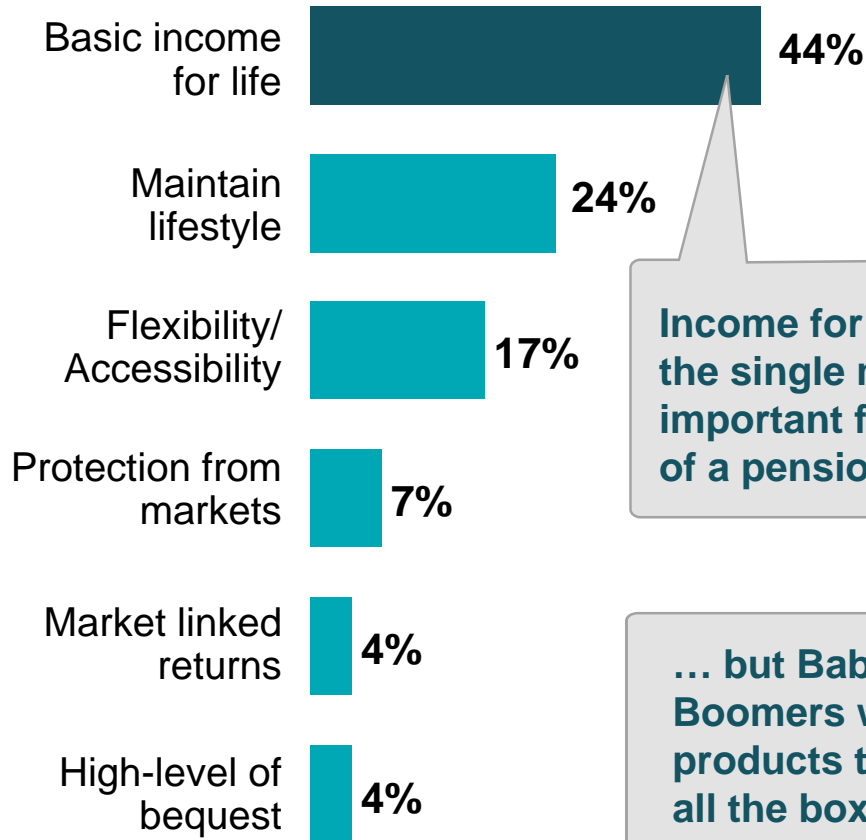
... finally, the vast majority of pensioners are members of a couple. There is a 40% chance that at least one member of a couple lives to

**age 95!**

# What do retirees want?



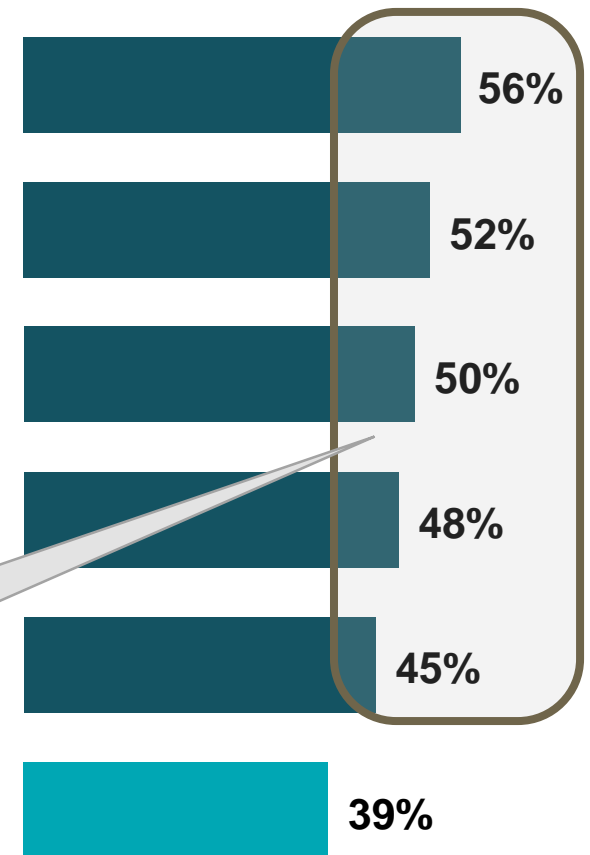
## MOST important pension feature?



Income for Life is the single most important feature of a pension...

... but Baby Boomers want products that “tick all the boxes”

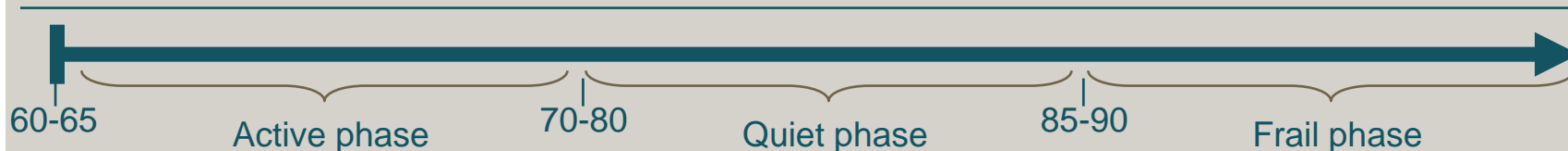
## ALSO an important feature?



# What do retirees need?



## Phases of retirement



- > Some part time work
- > Increased expenditure on leisure
- > Housing upgrade

- > High and flexible income
- > Returns to beat effects of inflation

- > Some unpaid charity work
- > More frugal lifestyle
- > Increased spending on health needs

- > Lower income needs
- > Lower risk appetite

- > Activities limited due to restricted mobility
- > Further increase in health needs
- > Nursing home

- > Income to provide for basic needs
- > Access to lump sums