

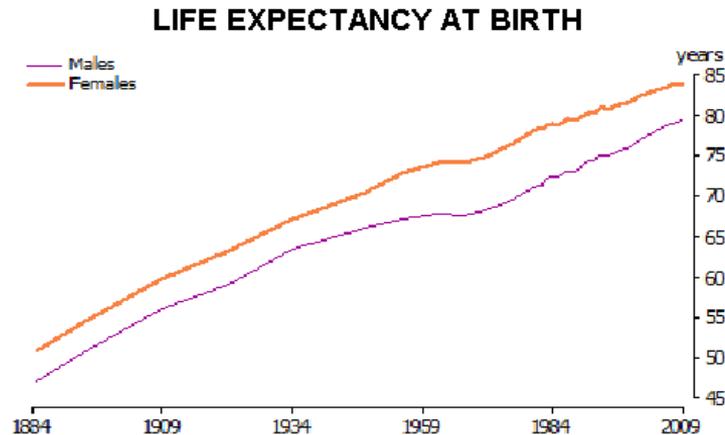
**Living to Age 120, the Pensions  
Dilemma and Other Defined  
Benefit Conundrums**

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# 2014: Superannuation. Beyond the Fringe

## Australian life expectancies have increased relentlessly over the past 100 years

*“Since the late 1800s, life expectancy for Australian boys and girls has increased by over 30 years.”*



Source: ABS [Australian Historical Population Statistics 2008](#) (cat. no. 3105.0.65.001); ABS [Deaths, Australia, 2009](#) (cat. no. 3302.0)

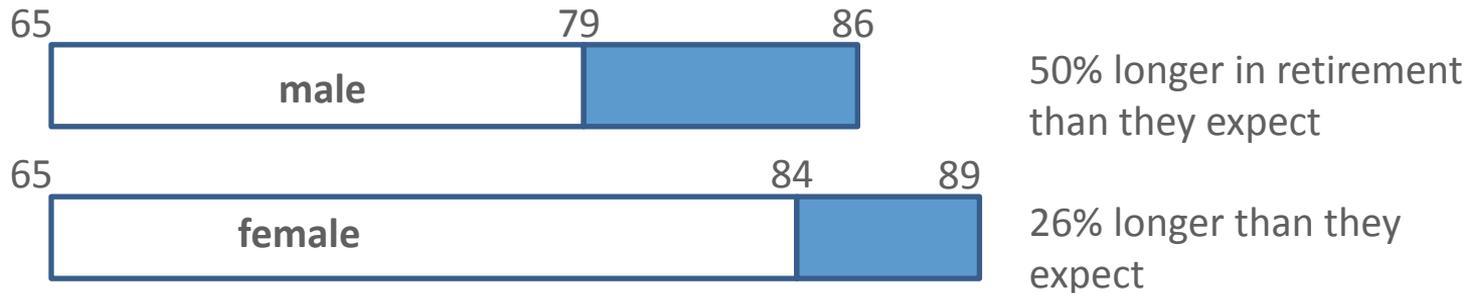
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## Perception vs. reality: people significantly underestimate their life expectancy

People generally focus on the reported life expectancies at birth i.e. 79 for a male and 84 for a female.

**BUT**

Male retirees aged 65 now are projected\* to live until 86 and females to 89.



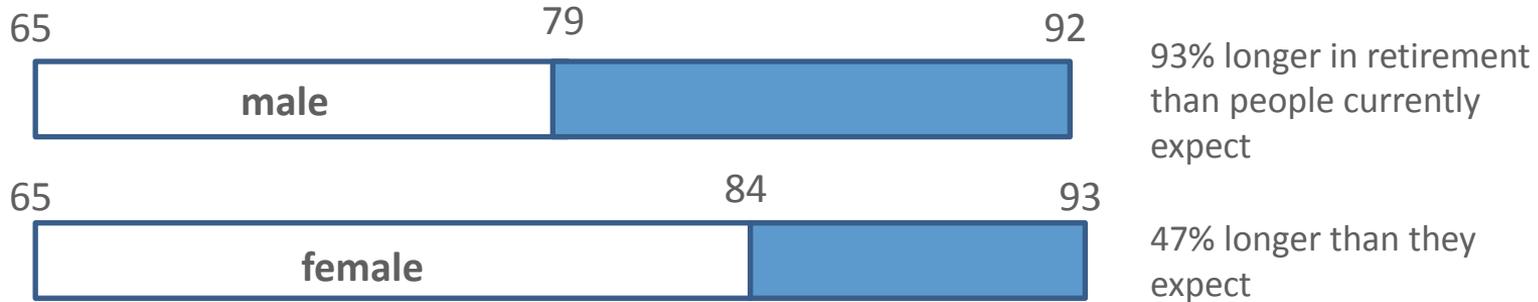
**Many current retirees need more money than they think.**

\*With Cohort life expectancy allowing for faster improvements over the last 25 yrs

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## Continual increases in life expectancy will see future retirees living still longer

In **2050**, people aged 65 i.e. people who are currently 28, will be expected to live\* to age 92 for males and 93 for females.



**And this is the average, many will live longer!**

\*With Cohort life expectancy allowing for faster improvements over the last 25 yrs projected to 2050.

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**And it will probably be a healthy, fulfilling life!**



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## Retirees need to manage a number of specific risks

- **Adequacy**- insufficient savings by retirement;
- **Investment**- capital values eroded by market movements in retirement
- **Inflation**- the retiree's standard of living is eroded over time as income does not keep up with inflation; and
- **Longevity**- Outliving accumulated retirement savings and falling back on the Age Pension. Longevity also exacerbates the above three risks.



**The community as a whole also bears some of these risks.**

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## Investment & longevity risk protection

### Early retirement 65-85

- Fit, active, healthy, variable expenses, want access to capital and flexible payments
- Account-based pension - know how long \$ needs to last

### From age 85 (say)

- Starting to enter frail stage, want certainty, simple arrangements, regular guaranteed income
- Guaranteed income stream e.g. Deferred Age Pension  
tops up Age Pension.



## Insuring Longevity Risk

- No investments match this liability
  - Capital intensive to use shares.
  - Need more long dated Govt and corporate bonds
- Insurance works around averages. Problem when everyone living longer. The average itself is changing.
- Insurance and reinsurance solutions.



## Bottom line – there is no guarantee

- Risk of failure of a provider of longevity products
- Should government offer these products?
- Should retirees be compelled to insure their longevity?
- Policymaking needs to be flexible enough to allow for product innovation



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# Thank you