

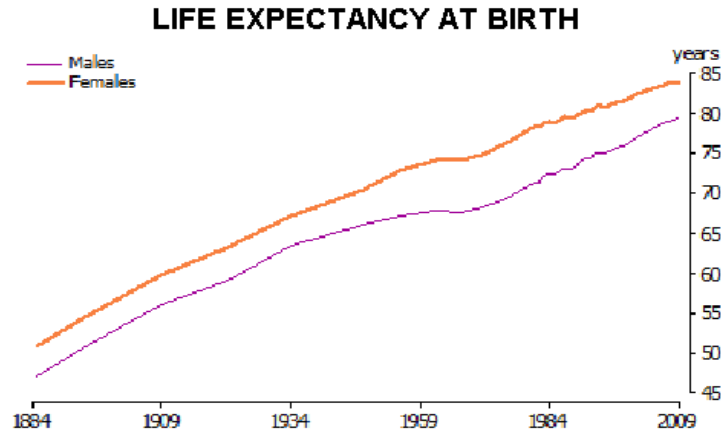
Living to Age 120, the Pensions Dilemma and Other Defined Benefit Conundrums

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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)

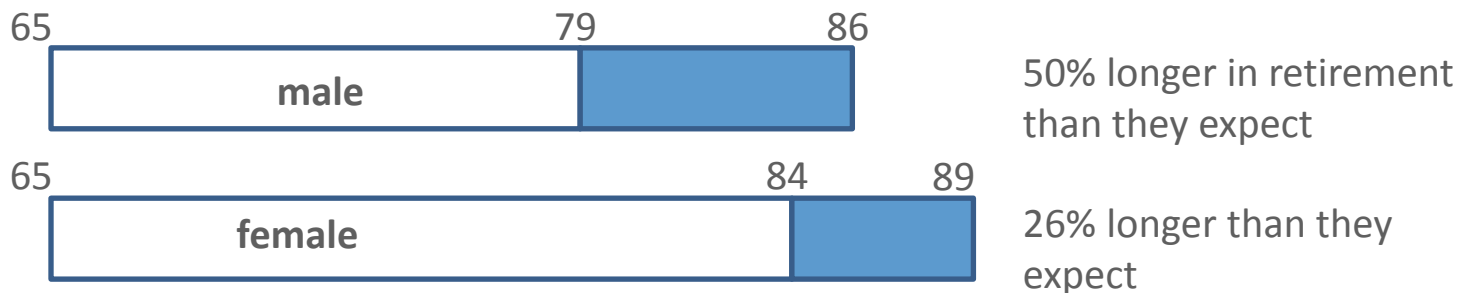
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Perception vs. reality: people significantly underestimate their life expectancy

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.



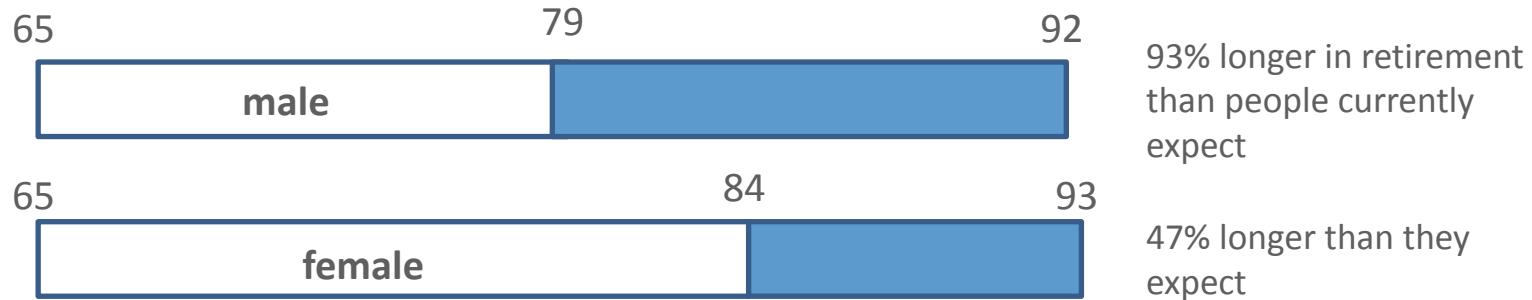
Many current retirees need more money than they think.

*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**- Outlining 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.



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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