Exploring Retiree Mortality

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The Actuaries Institute has prepared a research paper to encourage debate around the development of products that help protect retirees from what might be their greatest risk - longevity.

The paper, *Exploring Retiree Mortality*, comes in response to the Australian government's decision to stimulate industry development of post-retirement products.

These products aim to provide income for retirees for the length of their retirement, ensuring their savings stretch to match their lifespan. They are known as Comprehensive Income Products in Retirement (CIPRs), or the *MyRetirement* framework.

"There's so much conjecture around how much money you need to live well in retirement and, in Australia, the market for these products has been slow to advance," said Barry Rafe, President of the Actuaries Institute. "But longevity risk is a very real issue for retirees especially with increasing life expectancy.

"Our aim was to find as much data as we could, so that we can help new providers design and price products appropriately," Mr Rafe said.

"We'd like to see a robust debate around what could be offered, and how those products are offered, so that people are more likely to take them up."

Actuaries Institute Chief Executive Elayne Grace said: "The key to growing deep pools in the CIPR market, which is the path Australia has chosen, is developing the right framework for that market to grow robustly.

"There is unfortunately a shortage of Australian data covering retirement income products because of an historic focus on products such as Account-Based Pensions, where there is no longevity protection," Ms Grace said. "That poses difficulties in making assumptions about what will deliver the greatest benefit to retirees."

The best set of data came from the UK, where the annuity pool is deep and diverse. In the UK, retirement benefits had to be converted to an annuity or a pension. Although this requirement has been relaxed, a significant market remains.

Analysis of the UK data provides some insights for the Australian market.

Not surprisingly, the analysis confirms the significant selective effect on mortality rates of voluntary purchase of these products. Typically, those who choose to invest in pooled retirement income products have longer life expectancies (lower mortality rates) because those in poor health do not purchase a product that could see them lose their capital on death. Longevity can also impact perceptions of value-for-money as longer life expectancies increase the price (reduce the return) of the products. This will be a particular issue for women who have longer life expectancies than men.

The data also show a distinct socio-economic effect. Those with larger benefits (funds to invest) have longer life expectancies. This could not be quantified in detail but has important implications because those with larger benefits are more likely to have the ability to devote a portion of their benefit to a CIPR and those with lower benefits will want to ensure they receive fair value.

Data tables on life expectancy for purchasers of annuities, including voluntary purchasers, are therefore crucial to ensuring fairness for customers and a deep and sustainable annuity market develops.

"Mortality tables will help CIPRs get off the ground and therefore the Actuaries Institute is very interested in supporting the development of this data," Ms Grace said.

"This report is a stepping stone. Funds will need to develop CIPRs and this research will help funds minimise the risk of getting pricing and design wrong, which in the long run will undermine the development of a deep and stable market."

This report was prepared by Rice Warner, on behalf of the Actuaries Institute, and funded by a donation from David Orford.

A full copy of the report is available **here.**

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