

International Longevity Risk Study Increases Focus On FSI Response

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- **Study supports measures to increase pension contributions**
- **Encourages introduction of lifetime income guarantee products**
- **Criticises policy “tinkering”**

The Actuaries Institute of Australia today said an international study of longevity risk reinforces the need for essential reforms to safeguard the retirement income system for current and future Australians.

Prepared by the Actuaries Institute, the American Academy of Actuaries, and the Institute and Faculty of Actuaries in the UK, the new paper entitled “The Challenge of Longevity Risk: Making Retirement Income Last a Lifetime” noted that there is a ‘political appetite’ in each nation for changes to their respective retirement income systems.

The international study supports measures to increase pension contributions, encourages the introduction of lifetime income guarantee or “intelligent default products”, and criticises “tinkering” with current measures which further confuses those nearing and in retirement.

It also favours innovation by product providers amid a flexible regulatory framework while noting that “changes to the retirement income system cannot be undertaken without consideration also of pension costs, aged care costs and all sources of potential funding, including housing wealth”.

Estelle Pearson, the president of the Actuaries Institute, said: “To its credit, the Australian Government has recently committed to far-reaching reforms of our superannuation and pension system.”

“While these measures are not yet enacted or indeed spelt out in significant detail, there is now a framework in place to correct what needs to be fixed and to improve what needs to work better,” Ms Pearson said.

“The paper underlines the significance of the Government’s response to the Financial System Inquiry, particularly its commitment to enshrining the objective of the superannuation system in legislation and assessing the appeal of ‘intelligent default’ products for retirees,” she added.

The American Academy of Actuaries, which has recently launched its own White Paper on financial sustainability, said longevity risk is not well understood by many people and this can have significant implications for retirement income.

Ken Hohman, international secretary of the American Academy of Actuaries, said: “We hope to bring attention to longevity risk and ways to address it, and to examine public policy approaches to improve lifetime income options for a secure retirement.”

Ms Pearson said the Actuaries Institute has been at the forefront of public policy groups which consistently provide detailed and incisive assessments of longevity risk and its implications for Australia’s retirement income system.



She said the Actuaries Institute was ready to assist the Government and the Productivity Commission on further significant reforms such as development of the Comprehensive Income Product for Retirement (CIPR).

“The introduction of these intelligent default products will provide greater income security and protection for many retirees who now face the prospect of outliving their savings,” Ms Pearson added.

The international paper identifies five principles to frame the challenges of managing longevity risk:

- **Adequacy**—Accumulating adequate savings over the course of one’s working life is crucial.
- **Information**—People need information on saving and managing savings, not just at the point of retirement, but leading up to and beyond it.
- **Flexibility**—It is critical that regulation be sufficiently flexible to reflect individuals’ different retirement needs and their varying capacity to exercise choice.
- **Equity**—As far as possible, governments and regulators should ensure that decumulation is fair and that the concept of “fairness” is understood.
- **Sustainability**—Changes within a retirement income market should enable a long-term sustainable market to develop.

Download a copy of *The Challenge of Longevity Risk: Making Retirement Income Last a Lifetime* [here](#).

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About the Actuaries Institute

As the sole professional body for Members in Australia and overseas, the Actuaries Institute represents the interests of the profession to government, business and the community. Actuaries assess risks through long-term analyses, modelling and scenario planning across a wide range of business problems. This unrivalled expertise enables the profession to comment on a range of business-related issues including enterprise risk management and prudential regulation, retirement income policy, finance and investment, general insurance, life insurance and health financing.