Longevity tables,
the basis for ensuring your money lasts, need new life

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Crucial tables used in software to estimate retirees' longevity and calculate how best to ensure their savings last, need a critical update, the Actuaries Institute said.

The tables have a material impact on the way retirement income strategies and products are evaluated, and currently underestimate longevity.

"To have more than a coin-toss chance that a person's retirement planning horizon is sufficient, you need to look at the timeframe that gives 80% or more certainty of being sufficient," the Institute says in a research note to financial planners.

It goes on to say that while there is uncertainty around how long any one person will live, there are significant factors to take into account that result in big variations for groups.

For instance, a couple of average health, aged 65 (male) and 62 (female), need a plan that lasts until he is 100 in order that they can be 80% sure their financial plan meets their potential lifespan. "That is 16 years longer than if the adviser used the simple look-up table for a 65-year-old male."

Actuaries Institute President Nicolette Rubinsztein said the government has made a strategic commitment to improve retirement income products, hoping to boost incomes for older Australians. But it is clear the tools financial planners use may not reflect best practice when it comes to Australia's increasing life expectancy, she said.

"Life expectancy calculations are often required in the superannuation and financial planning industries," Ms Rubinsztein said. "They have a material impact on the way retirement income strategies and products are evaluated."

Over the last 50 years, Australians have seen a rapid and consistent increase in lifespans. In 1970, the average age of death for women in retirement was just over 80. In 2010 this had increased to age 87, which is what today's basic lookup tables are using. But financial planners need to also consider how much this will increase between now and the time someone retiring today reaches their 80s or 90s.

"A healthy, well-educated female entering retirement today, who had an affluent career and enjoys a good quality of housing, is just as likely to live beyond age 100 as she is to die before age 80," the Institute says.

If an adviser group has 1,000 healthy, educated, professional 65-year old couples as clients, it could expect more than half of these households to still have one spouse alive at age 95.
The basic lookup tables used in legislative instruments and financial planning tools used by advisers don't allow for this critical planning issue. Clients need significantly different advice and strategic investments than if their life expectancy was assumed to be age 84 or 87.
Factors that affect longevity include improvements in medical research, living standards, nutrition and lifestyle, education, occupation, genetics and wealth.

The Actuaries Institute recommends that planners and modellers use the most recent Australian Government Actuary Australian Life Tables 2010-12 together with the published improvement factors that allow for increasing life expectancy. The calculations should:

- use the age of both retirees if the household is a couple
- show the results in a way that considers the range of possible life spans and shows the likelihood that the recommended planning horizon is sufficient
- when looking at groups (e.g. from the perspective of an advice group or a superannuation fund trustee), model the number of people who will live to each future age, rather than focus on the average age.

"Retirees wanting confidence need to know what age to plan to in order to have, say, 90% certainty their planning horizon is sufficient," the research note says.

It warns: "If the lens through which we view retirement is inaccurate, then incorrect conclusions will be drawn about retirement strategies and products."

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