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For retirees, age is more than one number

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Pension plan providers should be geared more towards the 'biological age' of individual members, rather than how many years they've circled the sun.

This is just one of many ways in which the thinking around retirement income planning must change globally if more practical and personalised solutions are to be found, argues Moshe A. Milevsky, a professor of finance at the Schulich School of Business, York University, Toronto, Canada.

Given that an individual's biological age can be 10 to 15 years either side of their chronological age, Milevsky says, the notion of a universal retirement age at which the age pension automatically kicks in for all simply doesn't hold water.

"One of the big issues confronting retirement income thinking versus accumulation thinking is longevity risk," says Milevsky, who claims his biological age of 42 is significantly lower than his chronological age of 50. "It's simply misleading to tell everyone they might live to 95 and so everyone better have a lot of money to cover this eventuality."

He urges the retirement industry to spend more time designing products and constructing retirement portfolios around older people's needs when they are withdrawing money, rather than based on what they did when they were younger and adding money to their nest egg.

As a case in point, instead of scaring retirees into trying to accumulate extra savings to perpetuate lifestyles they may neither have nor want, one solution Milevsky recommends is allowing people to choose from a much wider range of retirement income products.

Touting tontines

These would include annuities and even insurance solutions like tontines, on which Milevsky has written extensively. The origins of these solutions go back many hundreds of years.

Tontines – a type of pooled-risk life insurance scheme in which the last person left alive keeps the pot – are illegal in Australia. However, the government has recently sought to promote innovation in other types of annuities and annuity-like products, including legalising deferred lifetime annuity structures from July 1, 2017.

annuity markets per capita.

“While it’s clear that most people don’t want to actively or dynamically manage a portfolio in retirement, the regulators need to take a more hands-off approach to encourage more static one-off solutions,” Milevsky says. “The private sector should have a greater role in bringing pooled risk-sharing solutions to market but it’s equally incumbent on regulators not to stifle this innovation or impose too many restrictions on the process of certifying or approving retirement income products.”

Jargon gets in the way

Milevsky also urges the retirement industry to use less of the jargon it is so prone to, as it is virtually meaningless for older investors and retirees. Given that the industry and consumers use what Milevsky describes as “two different languages and possibly even [different] religions”, he says it’s hardly surprising that retirees and retirement income product providers are often talking past each other.

He would like to see the industry get better at having conversations around things like personal inflation versus population inflation, or real outcomes versus beating benchmarks, without scaring people off.

“This might mean spending more time understanding the personal balance sheet and in particular their liabilities, instead of fixating on what they are overweighting versus underweighting in their portfolios,” Milevsky says. “It’s impossible to fully grasp the challenges confronting retirees globally, and construct the right retirement portfolio solutions in response to them, if chronological age remains the main criteria on which they’re based.”

> *Professor Moshe A. Milevsky will visit Australia to deliver a keynote address titled* “Retirement spending and biological age: Is your birthday just another number?” *at the PortfolioConstruction Forum Strategies Conference, to be held at Carriageworks Everleigh, in Sydney on August 23-24. For more information or to register visit the event website.*

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