Events

Time for longevity risk-pooling: Mercer

Nour Azhar
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Mercer consultants have told a gathering of institutional investors and advisers they must incorporate longevity pooling into portfolios to provide the peace of mind retirees want.

Mercer Australia senior actuarial partner Dr David Knox argued that investment managers need to take "an integrated, more holistic approach than just concentrating on investment portfolios".

He said longevity pooling should be incorporated into retirement income portfolios in a way "that maintains the growth ratio, the exposure to growth assets, and the expected return, and also ensures clients don't run out of money in their later years".

Mercer's latest research found that about 54 per cent of Australians will have less money than they need for the retirement lifestyle they desire. On average, retirees are likely to outlive their savings by more than five years, and 25 per cent are expected to outlive their savings by 11 years. Hence, many retirees are conservative in their spending and are actively saving throughout their retirement, due to the fear of this longevity risk.

An answer to uncertainty

The 2014 Financial System Inquiry found that most retirees draw down their account-based pensions at the minimum allowable rates, and recommended policies to encourage longevity pooling so retirees could afford to "draw down at a faster rate" and therefore have a better retirement lifestyle.

"We don't know how long our retirement years are going to be; it's an uncertainty, [and] we have to recognise that most of our clients might live beyond 90," Knox said.

As life expectancy increases in Australia and other parts of the world, it's impractical to expect everyone to save enough money to last until they are 100, which is why longevity pooling could be a much better approach to life's uncertainties.

The government's age pension provides a valid longevity solution for people, "who want to live at that [basic] level of income", Knox said, but the majority of people will not be satisfied with a retirement income of $23,000 a year.

Adapt to clients' preferences

Mercer portfolio construction research global director Nick White said investment portfolio strategists should be able to adapt to clients' needs by identifying their objectives and understanding what's available to them in the investment sphere.

White conceded, however, that eventually it all depends on the circumstances and preferences of the retiree; for example, they "can choose to have more income in the early part of their retirement and be content with less later on in life, which would require an adjustment to the longevity pooling option."

Knox and White made their comments at the PortfolioConstruction Forum Strategies Conference 2017, held in Sydney on Thursday, August 24.

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