

Longevity uncertainty

How and when to manage

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Agenda

- 1 Longevity uncertainty and life expectancy

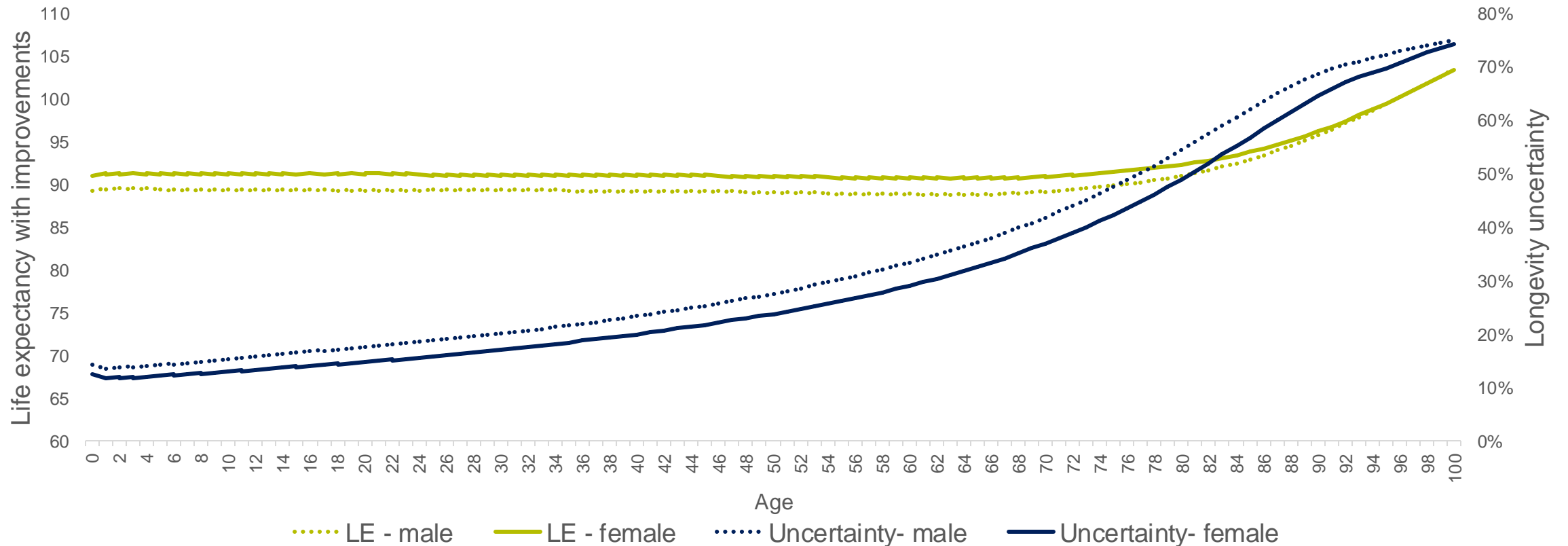
- 2 Optimal timing of annuitisation

- 3 Deaths benefits and the Capital Access Schedule

- 4 To delay or not

- 5 Q & A

Longevity uncertainty and life expectancy



Optimal timing of annuitisation

Comparing market returns to mortality credits

Delayed purchase as possible explanation of the annuity puzzle

Milevsky & Young (2007 & earlier papers)

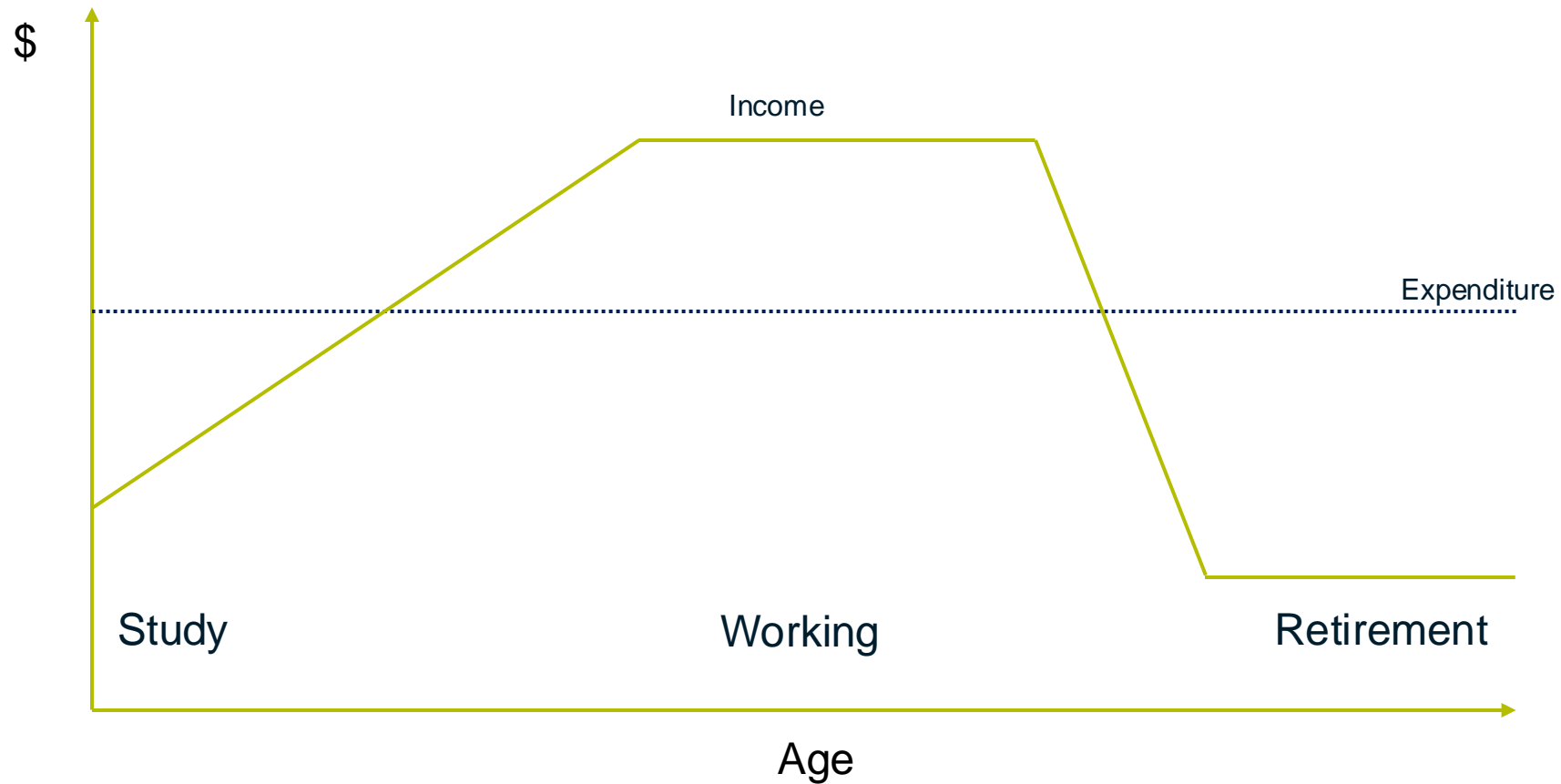
- Annuitisation benefits increase with age, but are independent of market returns. This implies there is an optimal time to switch from a market investment to a traditional lifetime annuity

Kingston & Thorp (2005)

- The desire for a minimum standard of living can influence the optimal age to annuitise

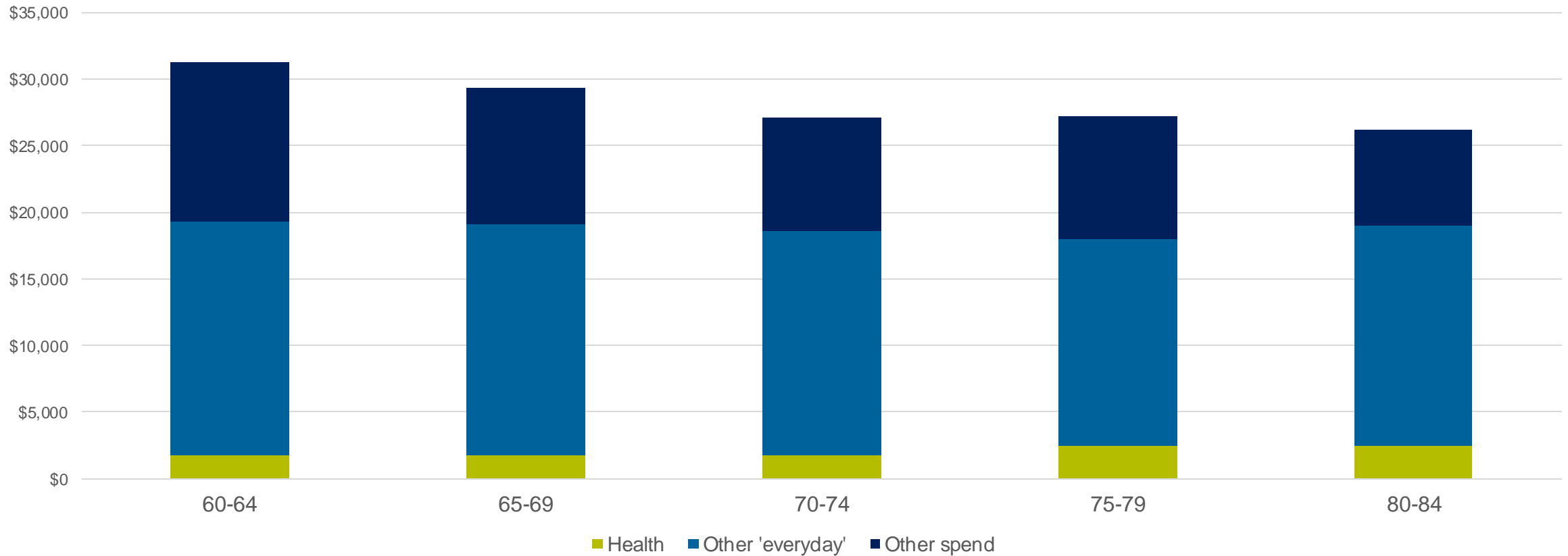
Typical result: the optimal age to annuitise is higher than typical retirement age.

Modigliani's Life Cycle Hypothesis



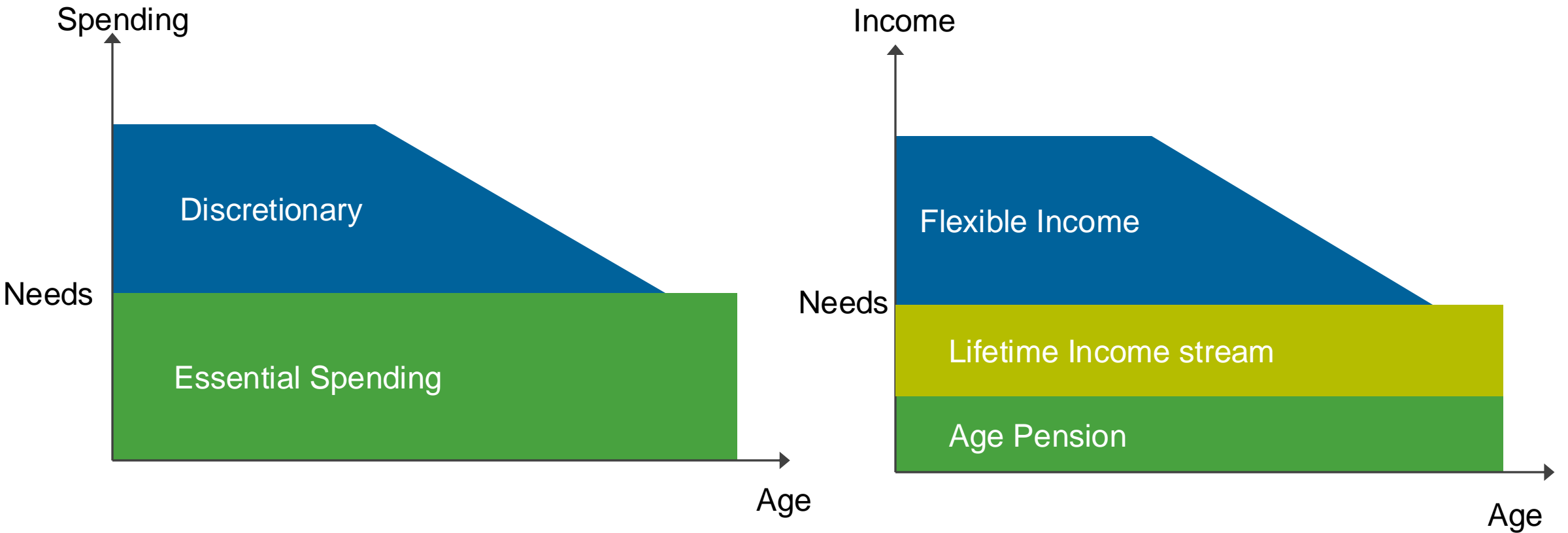
Spending patterns in retirement

Real spending declines over retirement



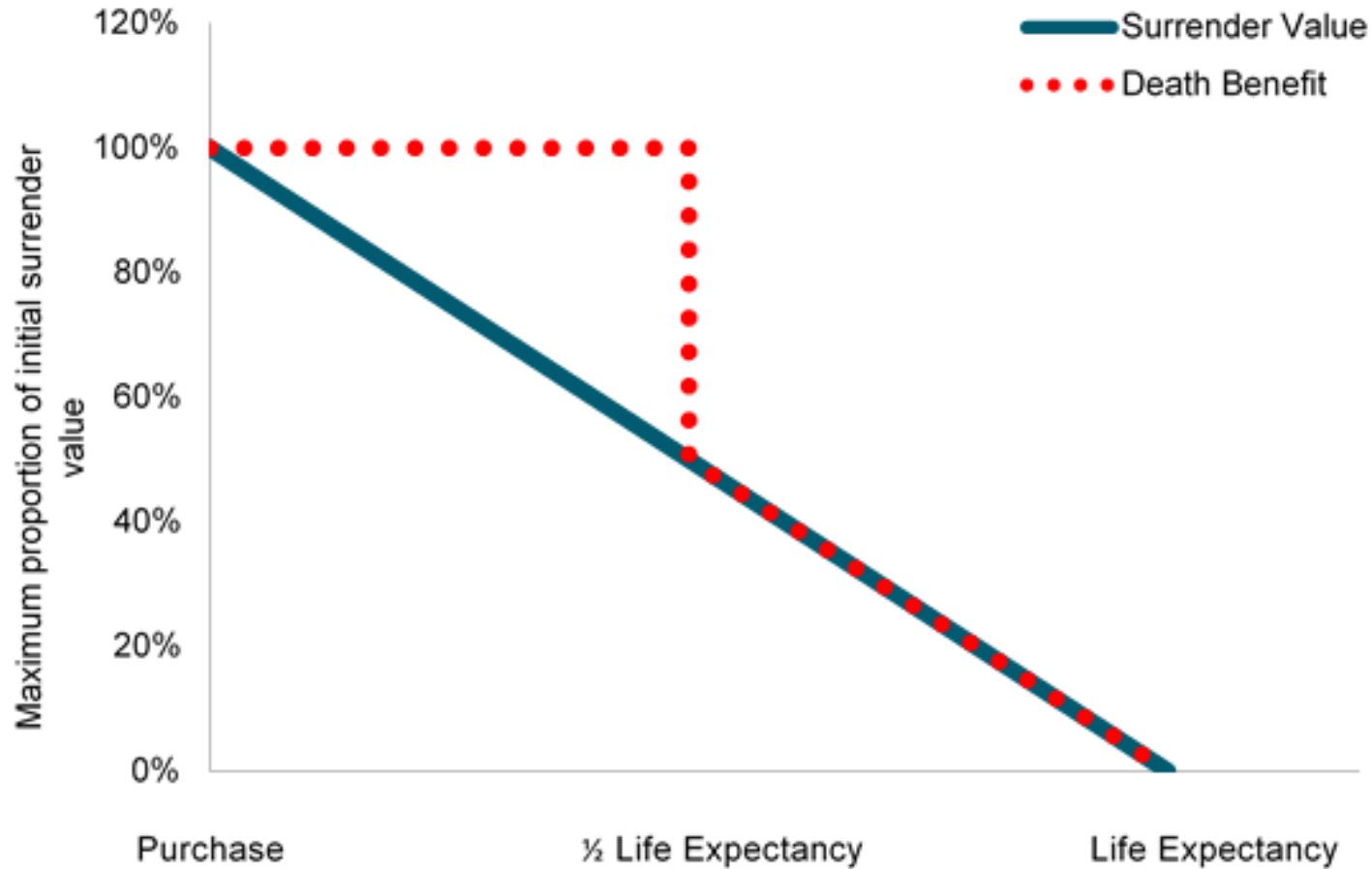
Partial annuitisation approach

Not all income needs to be annuitised



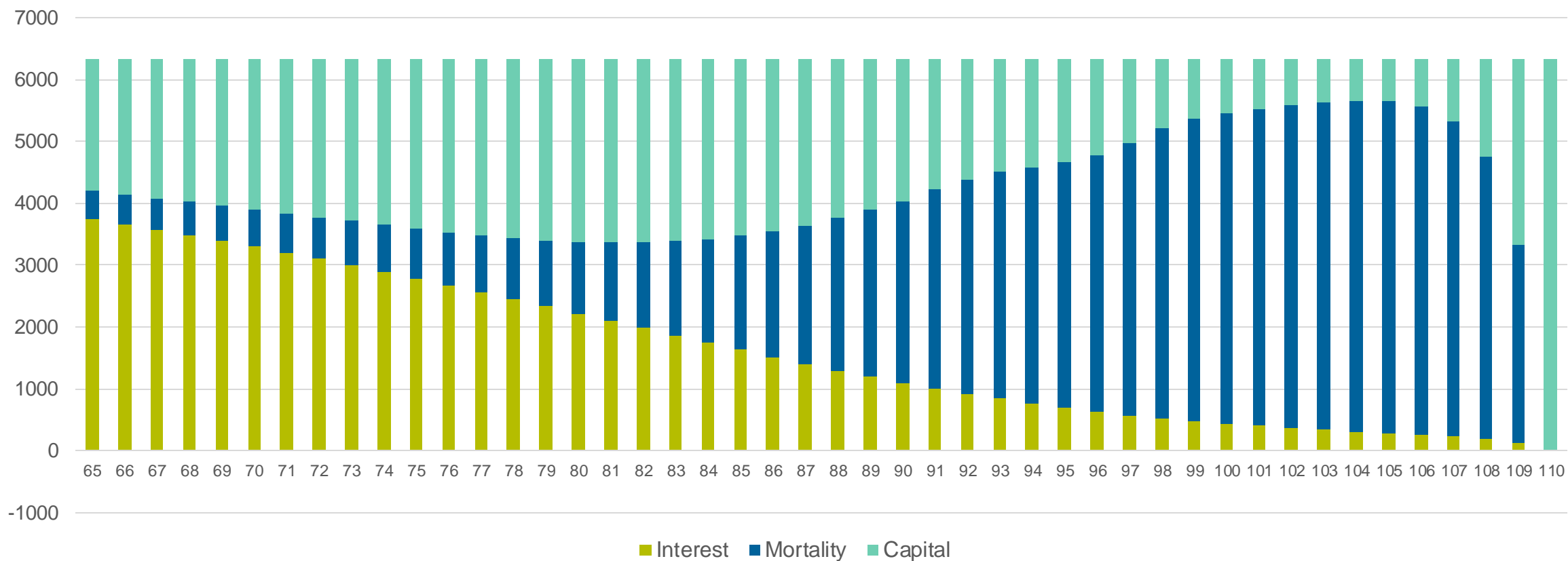
Innovative Retirement Income Streams allow a death benefit

Capital Access Schedule



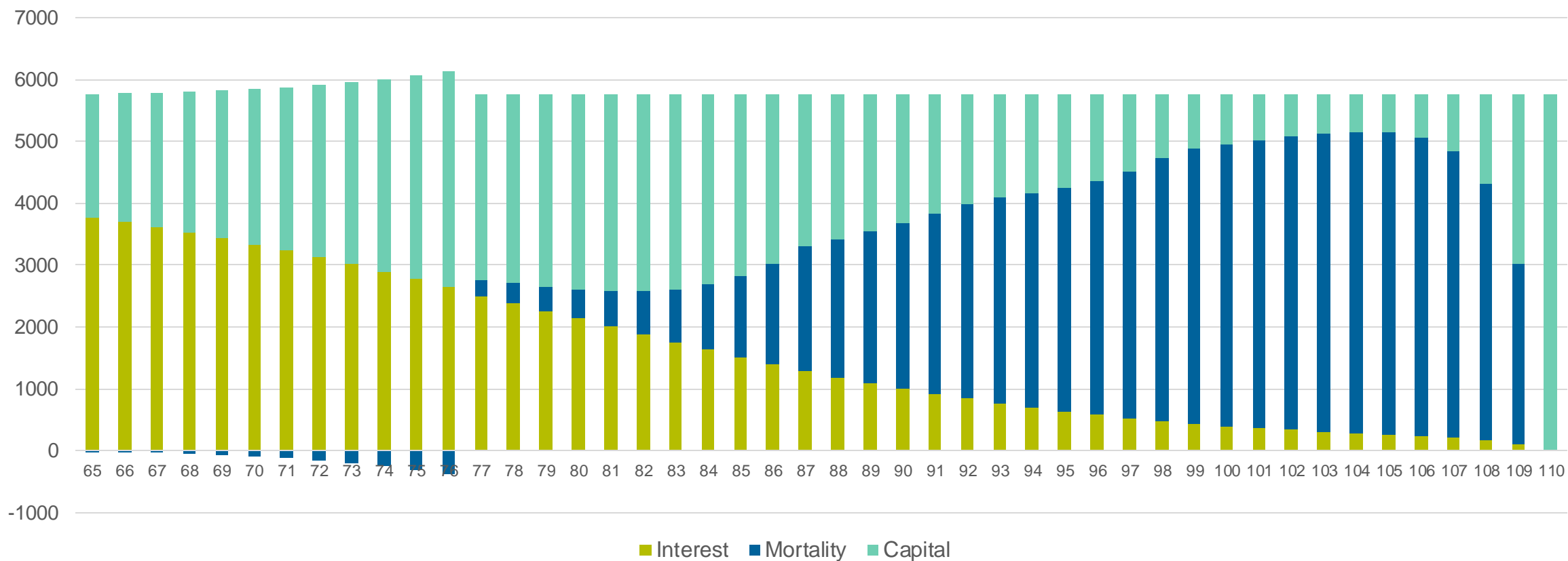
Annuity payment decomposition

Female 65 years, no death benefit



Annuity payment decomposition

Female 65 years, with death benefit



Other factors that impact timing of annuitisation

Tax

- Earnings tax rate and realised capital gains

Investor psychology

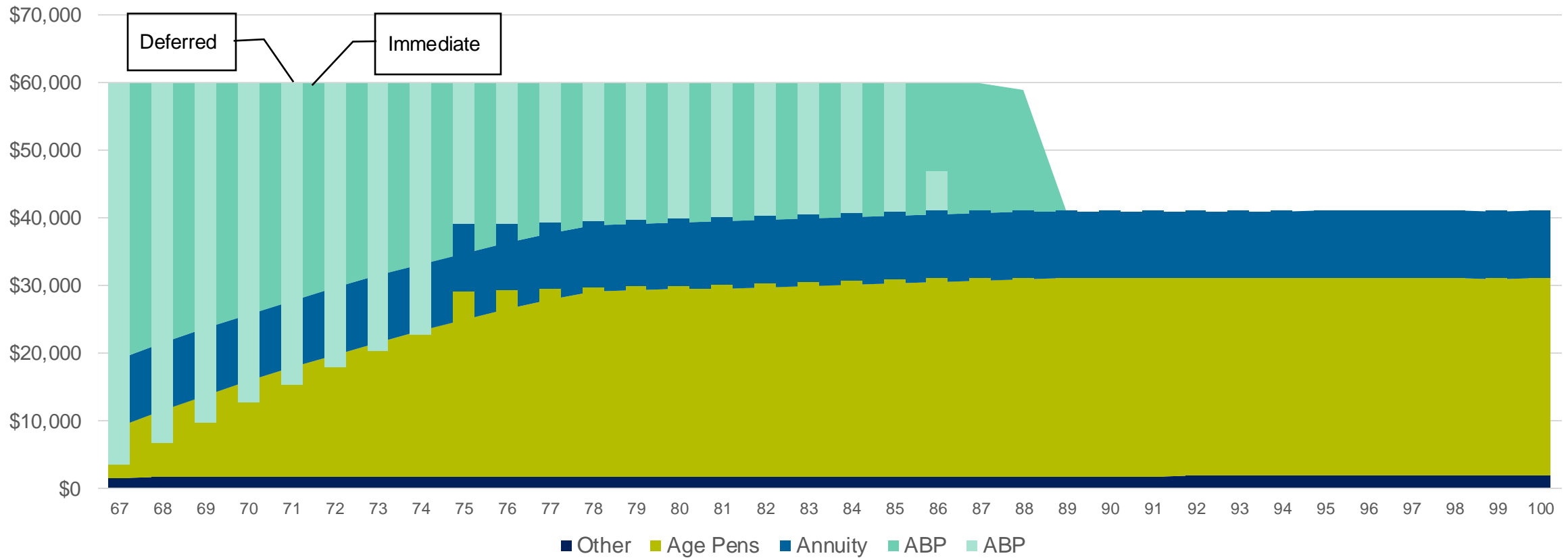
- Prefer payments now to future payments

Means-testing

- Interaction with Age Pension can have large financial impact

Ongoing management and advice requirements

Immediate annuitisation can increase portfolio longevity



Other factors that impact timing of annuitisation

Tax

- Earnings tax rate and realised capital gains. Can go both ways

Investor psychology

- Prefer payments now to future payments

Means-testing

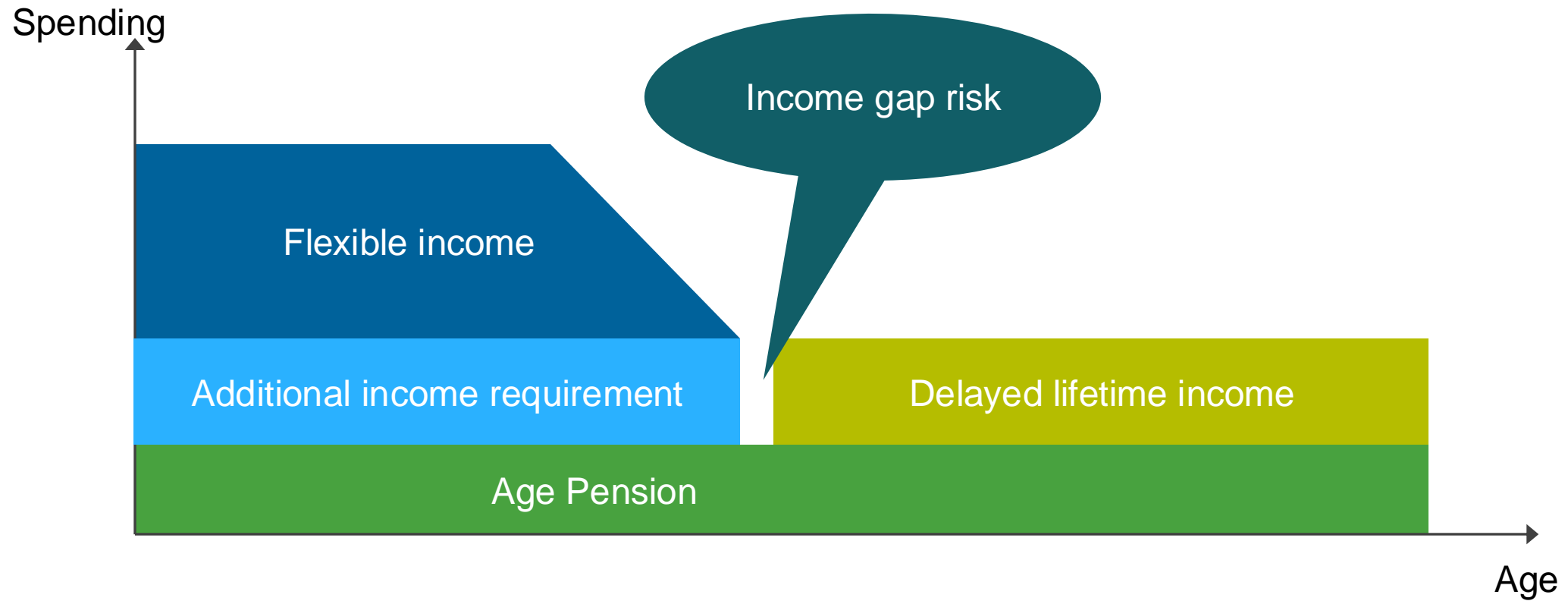
- Interaction with Age Pension can have large financial impact

Ongoing management and advice requirements

- Need to manage the income gap risk. Can go both ways

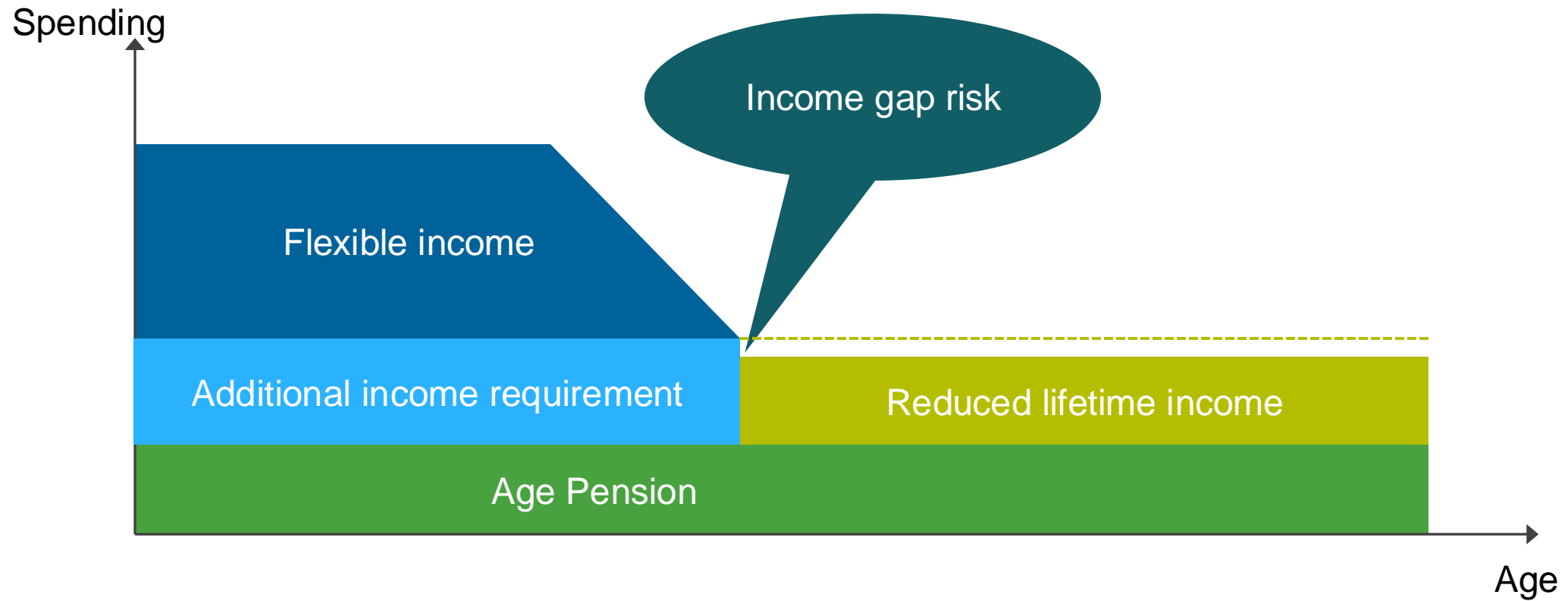
Managing the income gap 1

Deferred lifetime income



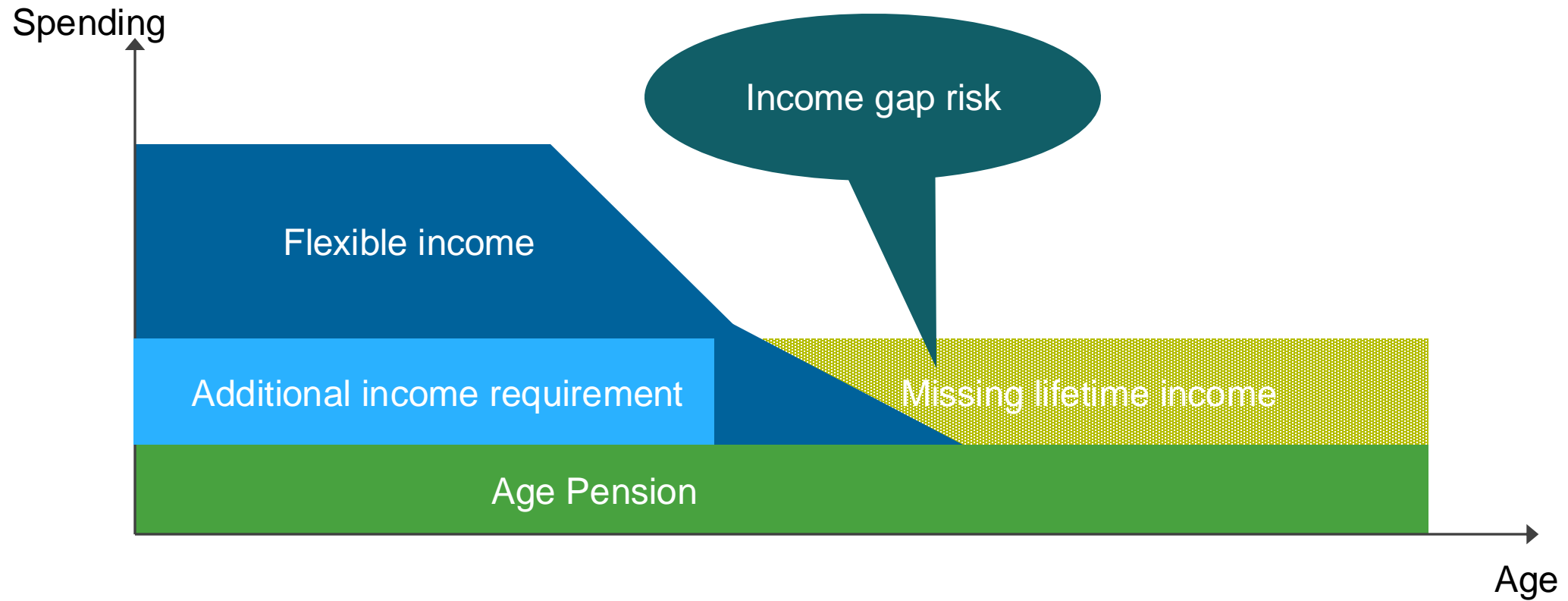
Managing the income gap 2

Lower capital investment



Managing the income gap 3

Running down capital



Summary

Optimal timing to purchase a traditional annuity is often after the start of retirement

Access to a death benefit changes the optimal timing

Other benefits, such as Age Pension interaction can be more important



Q & A

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