

CEPAR Longevity Risk Workshop

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Retirement Income Covenant (RIC)

The retirement income covenant will require trustees to have a strategy to assist beneficiaries to achieve and balance three objectives:

1. maximizing their expected retirement income;
2. managing expected risks* to the sustainability and stability of their expected retirement income; and
3. having flexible access to expected funds during retirement.

* including **longevity risks**, investment risks and inflation risks

Longevity risk is complex

Longevity risk is complex and multi-faceted:

1. How is it defined?
2. How is it measured?
3. On what basis is it managed?
4. To what degree should it be tailored to the individual?

Longevity risk is complex

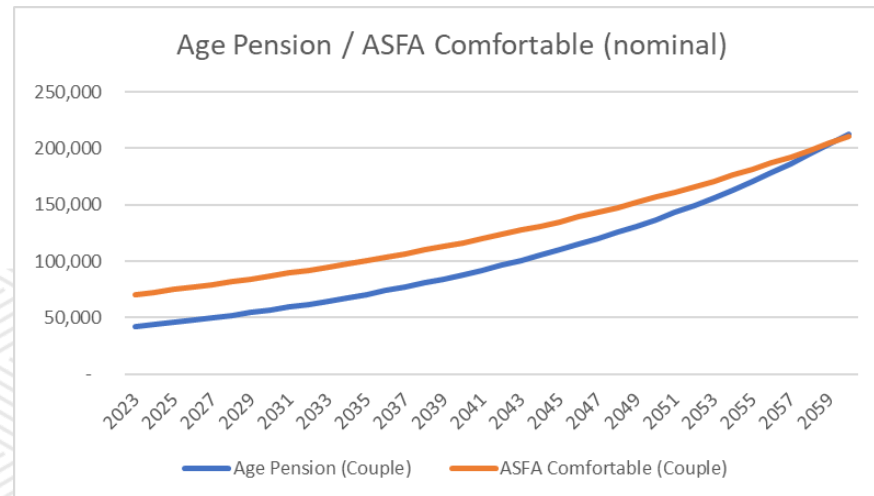
Two simple examples to illustrate this complexity.

Example 1: Age pension indexation, indexation of consumption

Problem explained: do you assume that age pension grows with wages or CPI into the future?

Ramifications:

- If yes, then (under core scenarios) age pension represents a significant longevity solution.
- If no, then longevity products are a much more important solution component.



Longevity risk is complex

Two simple examples to illustrate this complexity.

Example 2: Should outcomes be weighted by survival probabilities?

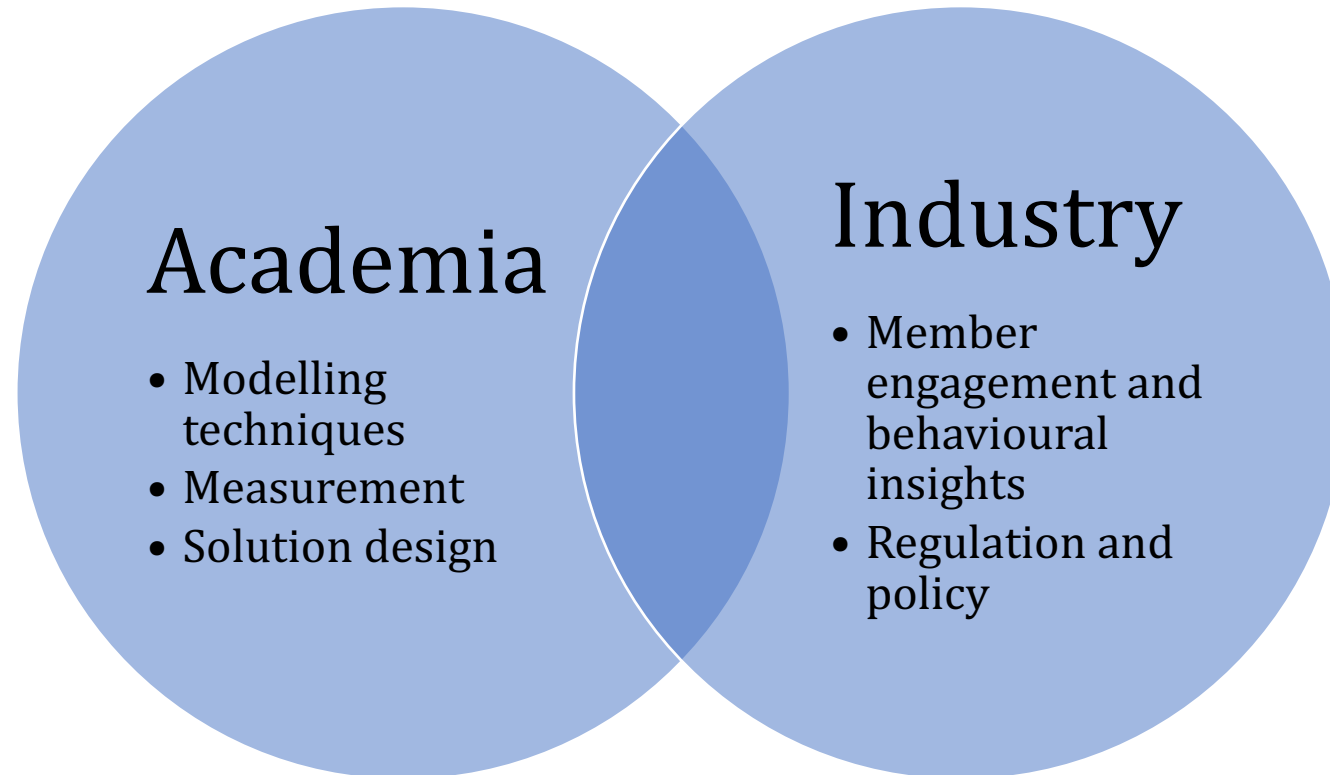
Explained: the likelihood of living to 104 is lower than the likelihood of living to 75, so should we allocate less 'weighting' on achieving a 'good' outcome at age 104?

Ramifications:

- If yes, then a super fund trustee risks failing the long-lived.
- If no, then longevity products are a much more important solution component.

Why this workshop?

A workshop like this, brings academia and industry together



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Modelling
techniques

Measurement

Member
engagement and
behavioural
insights

Regulation and
policy

Solution design

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