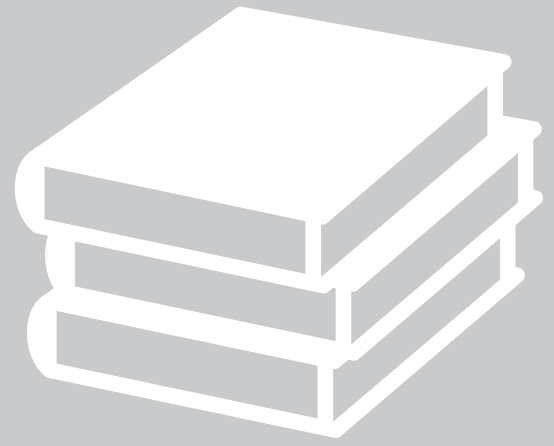


# Challenger Retirement Income Research

September 2019



## Understanding life expectancies – a big financial literacy gap for retirees

It is a fact of life that nobody knows exactly how long they will live. Of more concern is that most people don't know how long they are expected to live on average either. Given that Australian seniors are responsible for financing their own retirements, this is a significant financial literacy issue.

In a 2014 survey of seniors, respondents thought that an average 65-year-old Australian would live to 83.2 years, when the correct figure at the time was 88 years, almost 5 years higher.<sup>1</sup> In the survey, the average estimation of own life expectancy for the 50-54 age group was seven years below the correct average, while for the 70-74 age group it was two years below.

### Speed of change

Today's retirees are now typically living into their late 80s, 10 years longer than they did in the 1990s. In 2017, the most common age of death in Australia was 88, whereas only 20 years earlier in 1997, it was 78. The speed of this change partly explains why it is not well understood in the community.


### What is life expectancy?

Life expectancy is an estimate published by the government of how long people are likely to live on average. These can be estimates from birth or from other ages, typically age 65. How long you are expected to live on average is vital information for Australians over 50 who are starting to plan seriously for their retirement. Unfortunately, this information is currently not getting through to those who most need it.


The potential causes are:

- complicated and differing information maintained by separate parts of government;
- widespread ignorance across the financial services industry; and
- over reliance on averages and out-of-date inputs in retirement calculators.

The result is consumer confusion and potentially poor outcomes, because people cannot plan properly for the financial implications of a longer than expected retirement.

 Life expectancy is not well understood by Australian retirees which can be problematic for them in managing their retirement.

<sup>1</sup> National Seniors Australia (2014) [How realistic are senior Australians' retirement plans?](#)

 Life expectancy from birth is not the right measure for someone who is already 65.

## Confusion around life expectancies

Take the latest life expectancy figures from the Australian Bureau of Statistics (ABS). The ABS estimates, based on data from 2015-17, that the life expectancy of an Australian male is 80.5 years and 84.6 years for a female.<sup>2</sup> These are authoritative and accurate, but they are apt to be misinterpreted.

This is because they are estimates of life expectancies from birth, so they include the deaths of people who die young from accidents or illness. As a result, these figures are misleading to use for retiree life expectancy because they are too low. Having reached 65, you have a higher life expectancy because you are already a survivor. It is alarming how often supposed experts use these figures to talk about retirement planning. The most recent example was in weekend Fairfax newspapers on Saturday, 31 August 2019 where the author wrote: "If you are 65 today, you should expect to live to 80.4 for men and 84.5 for women".<sup>3</sup> The figures were both out-of-date and used in the wrong context. Getting to the correct figures, however, is currently far too difficult for nearly all of the relevant stakeholders: members of the public; financial advisers and others involved in providing financial services.

The ABS does produce life expectancies for 65-year-olds, but it merely looks at the probability of survival based on data from the past. There is an improving mortality trend that means that each generation is living longer than the previous one. Another part of government, the Australian Government Actuary (AGA) inside The Treasury, estimates this trend and provides improvement factors that can be used to adjust 'unimproved' life expectancies.

These two separate sources of data are not easy to locate or reconcile and hence are not as widely understood as they should be. This means that many estimates of life expectancy fall short of the mark because only the 'unimproved' ABS expectancies are used.

Based on the improvements over the past 25 years tabulated by the AGA, half of today's 65-year-olds will live to at least 88 for males and at least 90 for females. These numbers have been increasing for many years and are likely to continue to increase for some time, even though the rate of that increase might fluctuate from year to year.

The differences between these three data sets is illustrated below:

Figure 1: Making sense of different life expectancies

Average life expectancy	From birth	From age 65	From age 65 with mortality improvements
<b>Males</b>	80	85	88
<b>Females</b>	85	87	90

## Not everyone is average

We must also remember that these numbers are only averages. In reality, there is a wide distribution of actual lifespans either side of the average. Approximately two-thirds of today's 65-year-olds will die somewhere between their early 80s and their mid-90s, across a span of around 16 years. A plan that only lasts up to the average life expectancy will disappoint one in two retirees.

Surviving longer also impacts a person's average life expectancy. For example, a male alive at age 90 can, on average, expect to live to 94, whereas a female can expect to live to 95. This reminds us that human beings use averages to make complicated things seem simpler, while the reality remains complex.

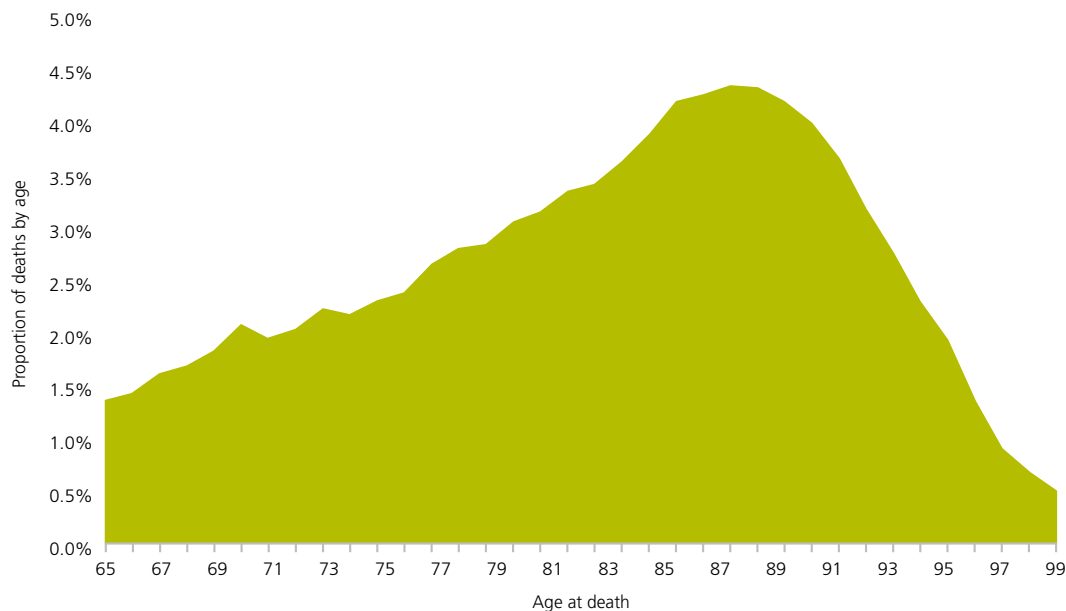
<sup>2</sup> ABS Cat No. 3302.0.55.001 Life Tables, States, Territories and Australia 2015-2017.

<sup>3</sup> <https://www.smh.com.au/money/super-and-retirement/how-to-turn-your-retirement-savings-into-a-regular-pay-cheque-20190828-p52lop.html>

The spread of actual lifespans can be seen in figure 2 below, which shows the age of death for older Australians in 2017. The data in the chart are historical (ie the peak of the histogram reflects people who were 65 in 1994) and don't capture the mortality trend for younger retirees, but are indicative. The wide range of ages can be seen in figure 2, and while another 1% have lived longer than 100, the highest point (at age 88) is still less than 5% of over-65s. Two out of three people lived beyond age 80, and this proportion will continue to increase over time. Figure 3 illustrates the skew across all ages.

 A plan that relies on a certain age at death is almost certain to fail.

**Figure 2: Actual age of death in Australia in 2017 for the 65 to 100 age group**



Source: ABS Cat 3302.0

Perhaps the most important point from this chart is the difficulty in predicting an individual lifespan. With at best a 5% success rate, a plan that relies on a certain age at death is almost certain to fail. It will either be too short and leave a retiree to live only on the age pension or it will be too long and leave a lot of unspent wealth.

### Life expectancy of couples

A significant majority of people enter retirement as a couple. Another interesting fact is that the life expectancy of a couple is actually greater than their individual life expectancies. This is because a couple is a pool of two people, rather than one. This increases the risk that one of them will live longer than their combined individual life expectancies. Again, this is a little-known fact.

 Couples need to plan for a longer life.

### What are some of the solutions to these issues?

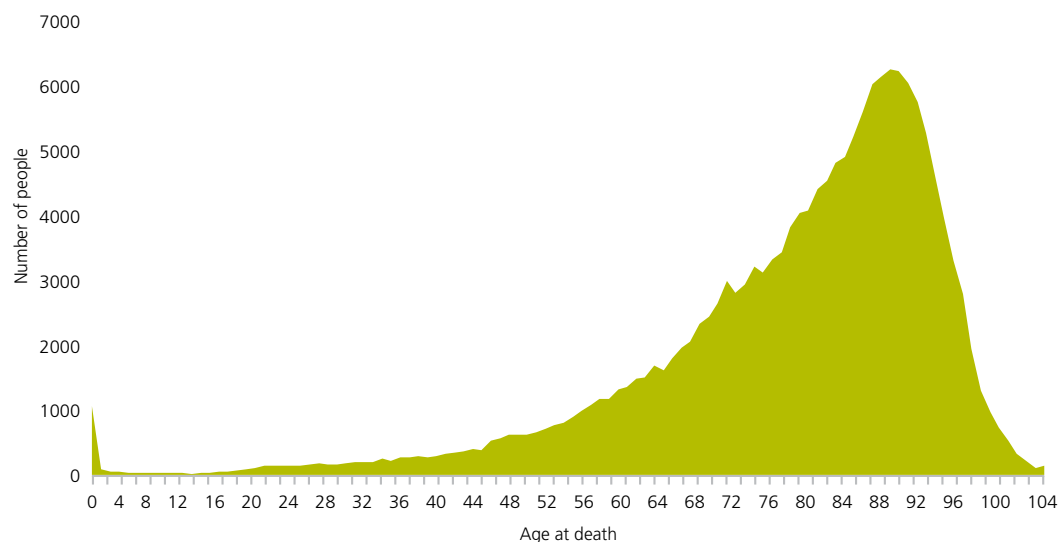
Short of a national campaign along the lines of the 'Slip, Slop, Slap' anti-skin cancer blitzes of the 1970s, there might be a technological solution awaiting us. Every day, enhancements are made in the burgeoning financial technology or 'FinTech' industry. The future of presenting financial information and giving financial advice is inextricably linked to FinTech. The complications of life expectancies could be simplified and presented in an easy to understand format as part of a retirement income calculator or other tool designed to help retirees. This could be thought of as 'RetireTech'.

The information in this report has been compiled by the Challenger Retirement Income Research team.

Jeremy Cooper  
Chairman, Retirement Income  
02 9994 7178  
jcooper@challenger.com.au

Aaron Minney  
Head of Retirement Income  
Research  
02 9994 7107  
aminney@challenger.com.au

Figure 3: Actual age of death in Australia in 2017 for all ages



Source: ABS Cat 3302.0

**Challenger Limited**  
Level 2  
5 Martin Place  
Sydney NSW 2000  
Australia

challenger.com.au

4 Challenger Retirement Income Research (2016) [Financial calculators are letting us down](#)

5 [https://www.moneysmart.gov.au/superannuation-and-retirement/how-super-works/super-contributions/how-much-is-enough?gh\\_jid=734743](https://www.moneysmart.gov.au/superannuation-and-retirement/how-super-works/super-contributions/how-much-is-enough?gh_jid=734743)

6 Based on Australian Life Tables 2010-12 with 25-year mortality improvement factors from the Australian Government Actuary

This paper is dated 19 September 2019 and is provided by the authors on behalf of Challenger Limited ABN 85 106 842 371 ("Challenger", "we", "us" and "our"). The views expressed are not intended to be financial product advice, tax advice or legal advice and should not be relied upon as such. While the views expressed are current as at the time of publication, laws and regulatory policies are subject to change at any time without notice to us or you. We may rely on assumptions or information, any of which might not prove to be correct, and your particular situation, needs and objectives have not been taken into account. Accordingly, we suggest you seek advice specific to your needs from an appropriate professional and we do not accept responsibility for your decisions.