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Longevity Risk: New International Report Highlights Significant Risks to Retirement Security Posed by Improving Longevity

WASHINGTON – There is a significant risk to consider when it comes to assuring financial security in retirement: the risk of outliving one’s assets—also known as longevity risk. The repercussions are examined in detail in [The Challenge of Longevity Risk: Making Retirement Income Last a Lifetime](#), a paper jointly released today by the American Academy of Actuaries, the Actuaries Institute Australia, and the Institute and Faculty of Actuaries (IFoA) in the United Kingdom.

The paper examines longevity risk under the retirement systems in the three countries, and calls attention to the need to inform individuals and educate policymakers about the decumulation phase of retirement, when people are spending down their retirement assets. The paper highlights that the shift away from defined benefit pensions to defined contribution plans in many countries has transferred the responsibility for managing longevity risk, along with investment and inflation risk, to the individual.

“Longevity risk is not well understood by many people, and this lack of awareness can have significant implications for retirement income,” said Ken Hohman, international secretary of the American Academy of Actuaries. “We hope to bring attention to longevity risk and ways to address it, and to examine public policy approaches to improve lifetime income options for a secure retirement. This is part of a broader focus in the American Academy of Actuaries’ ongoing [initiative on aging](#).”

The paper identifies five challenges of managing longevity risk:

- **Adequacy**—Accumulating adequate savings over the course of one’s working life is crucial.
- **Information**—People need information on saving and managing savings, not just at the point of retirement, but also leading up to and beyond it.
- **Flexibility**—It is critical that regulation is flexible to reflect individuals’ different retirement needs and their varying capacity to exercise choice.
- **Equity**—As far as possible, governments and regulators should ensure that decumulation is fair and that the concept of “fairness” is understood.
- **Sustainability**—Changes to a retirement income market should develop a long-term sustainable market.

(MORE)

“Research shows that individuals tend to underestimate how long they will live, which could cause both individual financial hardship and an increased burden on the benefit system,” said Fiona Morrison, president of the IFoA. “Access to adequate financial advice will be vital for savers to understand all their options and the risks of the choices they make. It is important to encourage people to save and make choices at retirement that can lead to a sustainable income. With the pensions freedoms that have come into effect in the U.K. recently, which allow pensioners to spend their retirement savings as they wish, the issue of longevity risk is a ticking time-bomb.”

Estelle Pearson, president of the Actuaries Institute Australia, said: “This international paper will help inform the debate now underway here and overseas about how to ensure retirement income systems remain fair and equitable now and into the future. The variety of suggestions reinforces the need for governments to outline a clear vision for their retirement income system including a set of agreed objectives to ensure that concessions and payments are well-targeted to avoid the poverty trap for future retirees.”

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The American Academy of Actuaries is an 18,500+ member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

About the Institute and Faculty of Actuaries (U.K.)

The Institute and Faculty of Actuaries is a royal chartered, not-for-profit, professional body. Research undertaken by the IFoA is not commercial. As a learned society, research helps the IFoA to fulfil its royal charter requirements to further actuarial science and serve the public interest. Actuaries provide commercial, financial and prudential advice on the management of a business’s assets and liabilities, especially where long-term management and planning are critical to the success of any business venture. They also advise individuals, and advise on social and public interest issues.

About the Actuaries Institute Australia

As the sole professional body for Members in Australia and overseas, the Actuaries Institute Australia represents the interests of the profession to government, business and the community. Actuaries assess risks through long-term analyses, modelling and scenario planning across a wide range of business problems. This unrivalled expertise enables the profession to comment on a range of business-related issues including enterprise risk management and prudential regulation, retirement income policy, finance and investment, general insurance, life insurance, health financing, and climate change.