



How long will I be here?

Life expectancy continues to increase for both males and females. At birth it is 77 for males and 81 for females. So if a male buys an annuity at age 65 will it only be payable for 12 years on average? No, the average 65 year old male in England can expect to live to 82. And if he lives to 82 then he can expect to live to 89. The statistics can be confusing. These gems are all taken from the Government Actuary's Department. Ladies at 65 you can expect to live until 85.

I spend many hours talking about non-average outcomes and the risks associated with relying solely on average outcomes to all manner of questions. Clients are also seriously concerned with non-average outcomes. Most have enough money to outlast them if it transpires that they can beat the actuary but most also have personal experience of the cruelty and pain of early deaths. Although there are risks and costs associated with income drawdown from a pension policy the vast majority of our clients prefer this option to conventional annuity purchase. (Income drawdown is a facility open to those with pension funds where regular income payments are drawn from the fund but the remaining fund can remain invested).

The statistics regarding life expectancy are written about regularly so I have sought out some other perhaps less quoted snippets so that if you have bought an annuity, or are in receipt of a defined benefit pension, you can see whether any actions could be taken that might enhance the net discounted cash flow value of that stream of income.

1. Ensure you have a professional job. UK government statistics suggest that males in the professional group have a life expectancy 7 years greater than those in unskilled manual labour. Contrary to popular belief early retirement does not necessarily improve life expectancy. The research I quote at the foot of this article actually found the reverse. (See note B below).
2. Get married. Perhaps. Males should definitely marry. Several surveys suggest that those who marry have superior life expectancy compared to those that do not marry. However, many of these studies do not look at cause and effect and self-selection. An interesting survey demonstrates that marriage only increases the male's life expectancy but does nothing for the female. (See note A below).
3. There is also evidence, that I have not vetted, that eating chocolate, having a pet, exercising, not smoking, boosting your sex life, and drinking more red wine will all materially increase life expectancy.

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The key financial point is that retirement may or may not last for a very long time. Certainly, compared to a generation ago, life expectancy has changed hugely. Part of our function is to assist you in making intelligent choices regarding planning for the various possible outcomes. However complicated the spreadsheets become, the bottom line is that it takes a big chunk of capital to ensure that income does not run out, and careful scenario planning is essential – do not rely on average outcomes. Also approach “super-products” with care – investments that are cautious, enjoy stockmarket upside but negligible downside, and offer a guaranteed income if needed – are nearly always too good to be true. All product manufacturers start work with the same basic raw materials. How these basics are packaged can be important – some combinations are attractive – but if it looks too good to be true, it probably is.

In the meantime get married, have a glass of wine etc

Ben Sherwood

Principal

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Notes:

- A Wilson C, Oswald A. How Does Marriage Affect Physical and Psychological Health? A Study of the Longitudinal Evidence. 2005. Published online.
- B Tsai SP, Wendt JK, Donnelly RP, De Jong G, Ahmed FS. Age at retirement and long-term survival of an industrial population: prospective cohort study.

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