As we live longer, 5 things to consider

Adam Mayers, *The Toronto Star*, April 7th 2016

While the idea of working into our 90s may seem a stretch, greater longevity and better health are changing how we view retirement. A revised set of mortality tables issued recently by the Canadian Institute of Actuaries show why. Mortality tables show the rate at which people die in a given population and are used by pension funds to figure out how much money they'll need to pay benefits to retirees and by insurance companies to determine how to price policies.

The Institute's revisions show that a woman who is 60 this year can expect to live on average to 89.3. A man who is 60 can expect to live on average to 87.3. In both cases, the average is three years longer than the previous tables which were compiled in 1995.

The Institute looked at death rates among Canadians receiving benefits from large pension plans, including the Canada Pension Plan and Quebec Pension Plan and the tables will gradually become the benchmark for many pension funds. They confirm the long march toward longevity. In 1966, when the CPP was introduced the average life expectancy at birth for a woman was 74. Today it is 84. For a man it was 68 and is now 80.

Here are five implications of these latest numbers.

You'll need more money: "Life in retirement is becoming as long as the working phase, which is something people don't often realize," says Michelle Loder, an expert in defined contribution pension plans for consultants Towers Watson. She notes that a 40-year work life between 25 and 65 has to fund a retirement that on average is 25 years and in many cases much more. Yet a recent study by consumer credit agency Equifax found that while all consumer debt is rising, debt among those over 65 is rising fastest.

You'll want income protection: If you have a defined benefit pension, the plan manages the money and you get a cheque every month. But if you have a defined contribution plan, managing the money falls to you.

"In a defined contribution plan the risks are all yours," says Loder. "How do you manage the fund? There's longevity risk, the risk of inflation, investment risk."

One option is an annuity. Annuities are usually purchased through insurance companies and you put up a lump sum now in return for a monthly payment in future.

Quotes prepared for The Star by Oakville's Fiscal Agents and Cannex show that the average monthly payment for a $100,000 annuity for a 65 year-old male is $560 a month and for a woman $515. If they wait until 71, on average they'll receive about 15 per cent more.

Ian Markham, a senior actuary with Towers Watson, with expertise in defined benefit pension plan, says with interest rates so low, many people are discouraged by the big lump sum for such small return.

The problem is that insurance companies must invest conservatively to be able to keep the promise. “They can’t just invest in stocks,” he says.

York University finance professor Moshe Milevsky says the now-versus-later decision depends on your investment mix.

“If the retiree owns no bonds in their portfolio because they are 100 per cent convinced that interest rates are headed-up any day now, then I would say hold-of buying the annuity,” says Milevsky.

“But, if like most people they actually own some bonds, then my advice would be to swap them into life annuities. Either way, I agree that a "slow" purchase strategy is optimal when there is much uncertainty about rates.”

Your pension plan will need more money: This may mean higher pension contributions by you and your company and possibly reduced benefits, says Markham.

It may be the final nail in the coffin of these plans. According to Towers Watson data, 39 per cent of new plans are defined benefit plans, compared with 69 per cent a decade ago.

More from the government: You’ll be paying more taxes over the years because of a longer life, but also drawing on more services including healthcare. Governments may build on the public perception about longer life expectancy, by cutting benefits and services.

One thing to remember, Markham says, is that as the population ages, “the Baby Boom for better or worse will have an increasingly significant say in the outcome of elections.” He sees boomers hanging on to political power and as a large group influencing public policy.

With luck, you’ll also be as healthy as Bill Dennis, who can’t remember when he last went for a medical checkup.

You’ll want to ease into retirement. Retirement may be a slow disengagement, easing away from full-time to part-time, accepting less pay for fewer hours of work and less and less responsibility. Fred Vettese, chief actuary of human resource consultant Morneau Shepell and co-author of The Real Retirement argues most of us would prefer to ease into retirement anyway. He adds that the economy and our employers will want us as labour shortages make it harder to find skilled workers.