



BRIEFING STATEMENT

Do people have a realistic expectation of how long they are likely to live?

Mortality rates have been falling steadily over the past number of years; for example, mortality rates for men aged 65 to 74 fell by 20% between 1990 and 2000. As a result, life expectancy has been increasing for people of all ages. This is a key issue that needs to be taken into account when people are planning for their retirement.

Members of defined benefit schemes can expect to receive a lifetime pension, but those who are saving for retirement through defined contribution schemes, PRSAs or other forms of saving will need to convert their retirement fund into an annual income when they retire. The amount of income available will depend on their life expectancy at the time of retirement. It is important, therefore, that people have a realistic expectation as to how long they are likely to live, so that they can make adequate provision for their retirement, and then make informed decisions about the choices available to them when they retire (for example, as to whether to purchase an annuity or draw down an annual income from an Approved Retirement Fund).

Life expectancy may be significantly underestimated

In practice, however, people may significantly underestimate their life expectancy. For example, recent research in the UK found that, on average, men underestimated their life expectancy at age 65 by around 5 years and women by around 6 years, compared with UK Government estimates.

One of the major reasons for this is that the life expectancy figure most often quoted is life expectancy at birth, and people may erroneously assume that life expectancy at a given age is life expectancy at birth less that age.

In fact, based on CSO figures, life expectancy at birth in 2001 was 75 years for men and 80 years for women, whereas men and women who reach age 65 can expect to live, on average, until ages 80 and 84 respectively.

Improving life expectancies

However, even this is not the full story. Life expectancies calculated from population mortality tables reflect rates of mortality currently being experienced by people of various ages. But mortality rates are expected to continue to decline. Hence, an individual aged 65 today is likely to experience much lower rates of mortality when he or she reaches age 75 than a 75 year old today.



Allowing for expected future mortality improvements, Irish men aged 65 in 2001 are expected to live until age 83 and women aged 65 in 2001 are expected to live until age 86.

In addition, for people at working ages, further mortality improvements are expected before they reach retirement age. While estimates of life expectancy for those reaching retirement age in future years are not readily available for Ireland, this information is available for the UK (where life expectancy is close to Irish life expectancy).

The table below shows the *average* age to which UK citizens reaching age 65 can expect to live in the future.

Year of birth	Year in which age 65 is attained	Men	Women
1940	2005	84	87
1960	2025	85	88
1980	2045	86	89

Hence, those who plan to retire at age 65 will need to make sufficient provision to enable their required amount of pension to be paid for a period of 20 to 25 years. Those who want payments to continue to a spouse or partner after their death would need to allow for a further 3 to 10 years, depending on gender and age difference.

Therefore, it seems likely, that, over time, the age at which people can afford to retire will gradually increase.

Averages can be deceiving

It is also important to emphasise that “life expectancies” are average figures, and many people will live until much later ages. According to a recent paper presented to the UK Actuarial Profession, for a person aged 65 in 2004, the probability of living to, or beyond, age 90 is 47% for a man and 55% for a woman.

This means that there are risks involved in drawing down an annual income from an Approved Retirement Fund, rather than purchasing an annuity. The Society has noted previously that an individual who opts for an Approved Retirement Fund and makes regular income withdrawals equal to the amount of income that could have been obtained with an annuity runs a 50% to 60% risk that the fund will be exhausted before they die.

Health or disability in old age?

The question arises as to whether the increases in life expectancy will translate into extra years of good health or a longer period of disability in old age. Internationally, the trends for “healthy life expectancy” are less clear-cut than for total life expectancy. However,



there is increasing evidence that the healthy life expectancy is increasing at the same pace as total life expectancy i.e. that the extra years of life gained are, in fact, healthy ones. This suggests that there will be scope for people to postpone retirement if they want or need to.

Input into public policy options

Finally, we would emphasise the need for greater awareness of increasing life expectancies, in order to facilitate informed debate about future public policy options for retirement provision.