

Longevity risk.... are we addressing this appropriately?

By Leza Wells, Chief Product Actuary at FMI (a Division of Bidvest Life Ltd)

The world is changing at a rapid rate. What was true yesterday is simply not true today. One of these outdated truths is that individuals are going to retire at 65 and die by 90. Our industry's approach to financial planning is often based on this outdated notion by offering risk cover to age 65 and calculating required retirement savings to last to age 90. And yet, the reality is that many people are working well past the traditional retirement age and will live to celebrate their 90th birthday and beyond.

Sitting on international mortality research groups such as the International Association of Actuaries gives us insights and opportunities to observe trends around the globe*. One of the mega trends shaping the 21st century is a shift in the global population ageing. However, mortality researchers around the world must now consider the impact that a pandemic like Covid might have on these expected trends. Is this a once-off blip in the trend or will we see future pandemics that negate improving mortality trends? Or does this mean that those who survive pandemics are in better health and hence average life expectancy will be even longer, resulting in individuals working beyond the current retirement age? This remains to be seen.

Many individuals are not ready to retire at age 65. The reality is that most cannot afford to. According to a National Treasury statement, only 6% of South Africans have enough savings to retire comfortably at age 65.

So, what does this mean for financial planning for retirement? Quite simply, individuals need to work longer and save more.

As a financial adviser, one of the ways you can help your clients to save more is in your approach to risk planning. Risk and investment planning are inextricably linked and how you structure one can have a significant impact on the other. Yet, they're seldom part of the same conversation.

A risk plan should be designed to protect your clients' ability to earn an income for as long as they work. Any interruption to their income can have a permanent negative effect on their savings and investments.

At FMI, our philosophy is simple – protect 100% of a client's income through appropriate income benefits and use lump sum benefits to provide for any additional once-off expenses. The combination of income and lump sum benefits across all risk events simplifies the advice process and ensures your clients are covered for both short- and long-term risks.

This approach will also save your clients a significant sum of money over time compared to a lump sum only approach. Income benefits are more cost effective when compared to equivalent lump sum amounts and avoids clients paying for unnecessary level or increasing cover as they approach retirement.

Considering the latest population trends, as an industry, we need to ensure that we are not still using yesterday's assumptions to inform today's approach to financial planning. By approaching risk planning in a more cost-efficient way and investing these savings, you can make a significant difference to your clients' retirement future.

*Leza Wells is Vice-Chair of the mortality working group of International Association of Actuaries.

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