



# Making your money last in retirement

Aviva's longevity report

January 2015

# Contents

Foreword	3
What do people think about how long they will live	4
Perceptions versus reality	5
The age at which you are most likely to die and why it is important	7
Managing money as the years roll by	9
Where we live signposts how long we will live	10
Lifestyle and how people choose to live their lives	14
Conclusion	18

# Foreword

When we think about the type of retirement we would like, it is natural to think about our parents and expect the same standard of living.

The problem with this view is that many people approaching retirement in the next few decades are unlikely to enjoy quite the same level of comfort as that of their parents. The end of generous defined benefit schemes, together with more turbulent working and economic conditions, will mean that the type of retirement people enjoy will depend on their personal preparation. Retirement won't just happen, it will have to be carefully planned.

With new freedoms being introduced from April 2015, those aged over 55 years will have even more choice in how they use their retirement savings. If they choose, they can take all of their savings in one cash lump sum under the rules outlined as part of the government's freedom and choice changes. Offering far more choice in how people use their savings when they come to retire will hopefully encourage them to save into a pension in the first place.

What retirees do with their savings becomes the critical question. Whether they take their savings as a lump sum, look to a guaranteed income, choose the flexibility of drawdown, or select a mix of solutions, depends largely on their personal circumstances. And one key factor is how long they are likely to live.

All the evidence points to the fact that people routinely underestimate their life expectancy, which means that they potentially fall at the first hurdle when it comes to retirement planning. A person budgeting for a retirement of 20 years, when in fact they will live 25 years, will face uncertain final years. Even underestimating life expectancy by a couple of years could have serious consequences for someone in their later years who has outlived their savings, has care needs and has nothing to fall back on.

In our *Making your money last in retirement* special report we compare and consider consumer attitudes to the facts about longevity, and make some clear recommendations about how the government and the industry must respond.

The retirement planning help available to consumers from April, from the government, providers and through the guidance guarantee, must include assistance in understanding the importance of, and estimating, life expectancy. Although no one can absolutely pin down their own life expectancy, it is possible to look at the available information and make sensible estimations that will have a positive impact on their financial plans.

One third of babies born today are expected to live to 100 years old<sup>1</sup>, and the number of centenarians is expected to increase from 14,000 in 2013 to 111,000 in 2037. It is therefore absolutely clear that what we put in place today to help retirees make the most of their savings and their retirement is undoubtedly going to help our children and grandchildren in future years.



**Clive Bolton**

Source:

<sup>1</sup> Office for National Statistics – 11 December 2013

# What do people think about how long they will live

The risk of running out of money is likely to remain a constant threat for many people throughout their retirement, and thorough planning will become increasingly important as people take on more personal responsibility.

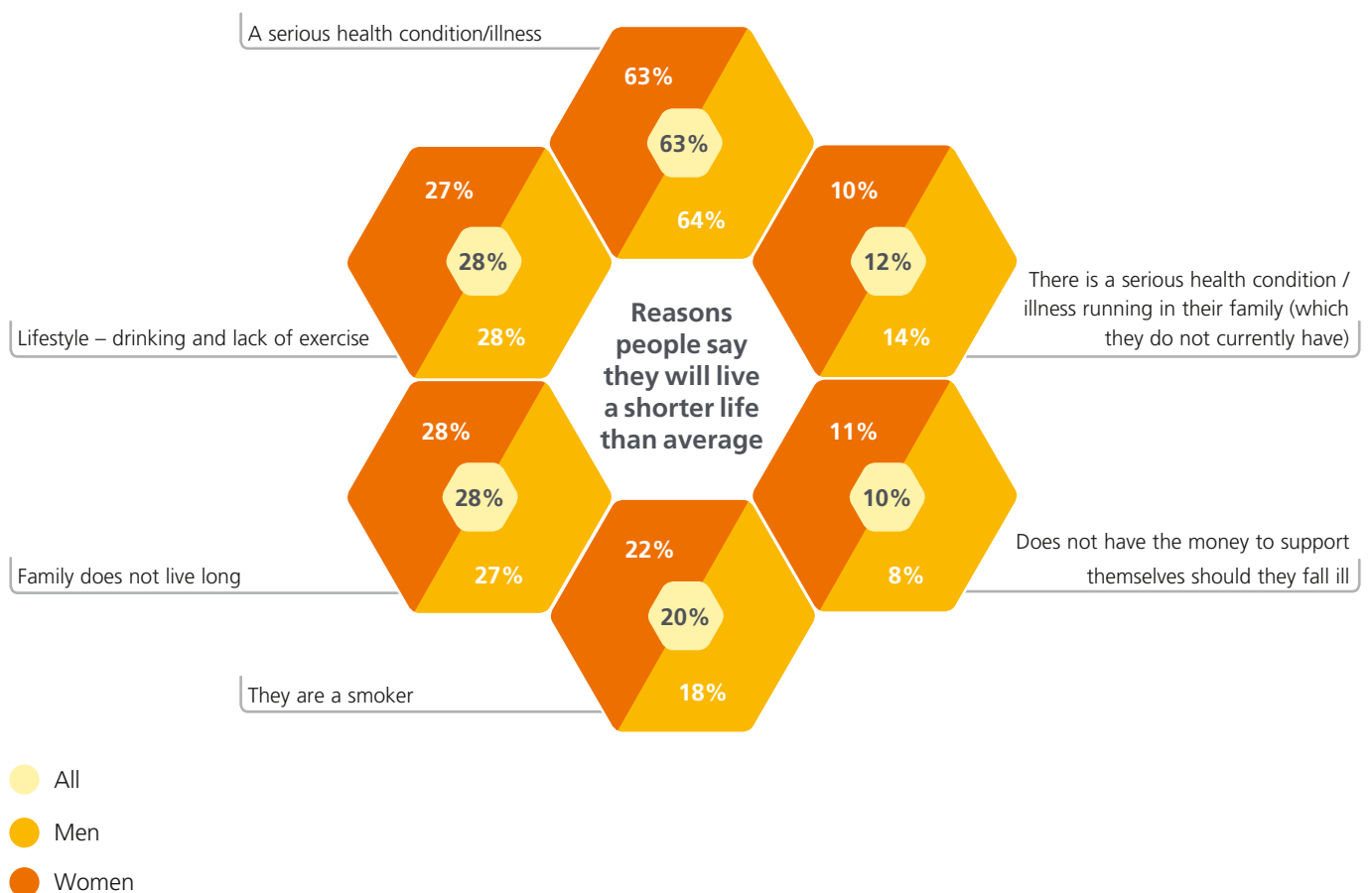
People choosing to take some or all of their pension savings as cash, once the government's freedom and choice changes are introduced, can only assess whether this is a wise decision if they have an accurate understanding of their life expectancy. To fail to consider how much money they will need for their retirement years means they may risk a life of poverty if they outlive their savings.

The evidence that people underestimate their life expectancy can be seen in consumer research conducted by Aviva<sup>2</sup>, which asked 50-65 year olds what they thought the average life expectancy was for someone of their age and gender. This was then compared to the age they individually thought they would reach.

In Aviva's research, consumers felt the average life expectancy for someone of their age and gender was 80 years for men and 84 years for women, three years below the national life expectancy at age 65 for men and two years below for women. While a few years does not seem a lot, it could still make a huge difference to how well people live in their final years.

## Why people think they will live a shorter life than average – Aviva's consumer research

### 50-65 year olds who feel they will live a shorter life than average



<sup>2</sup> Aviva consumer research conducted summer 2014 in collaboration with ICM Unlimited research

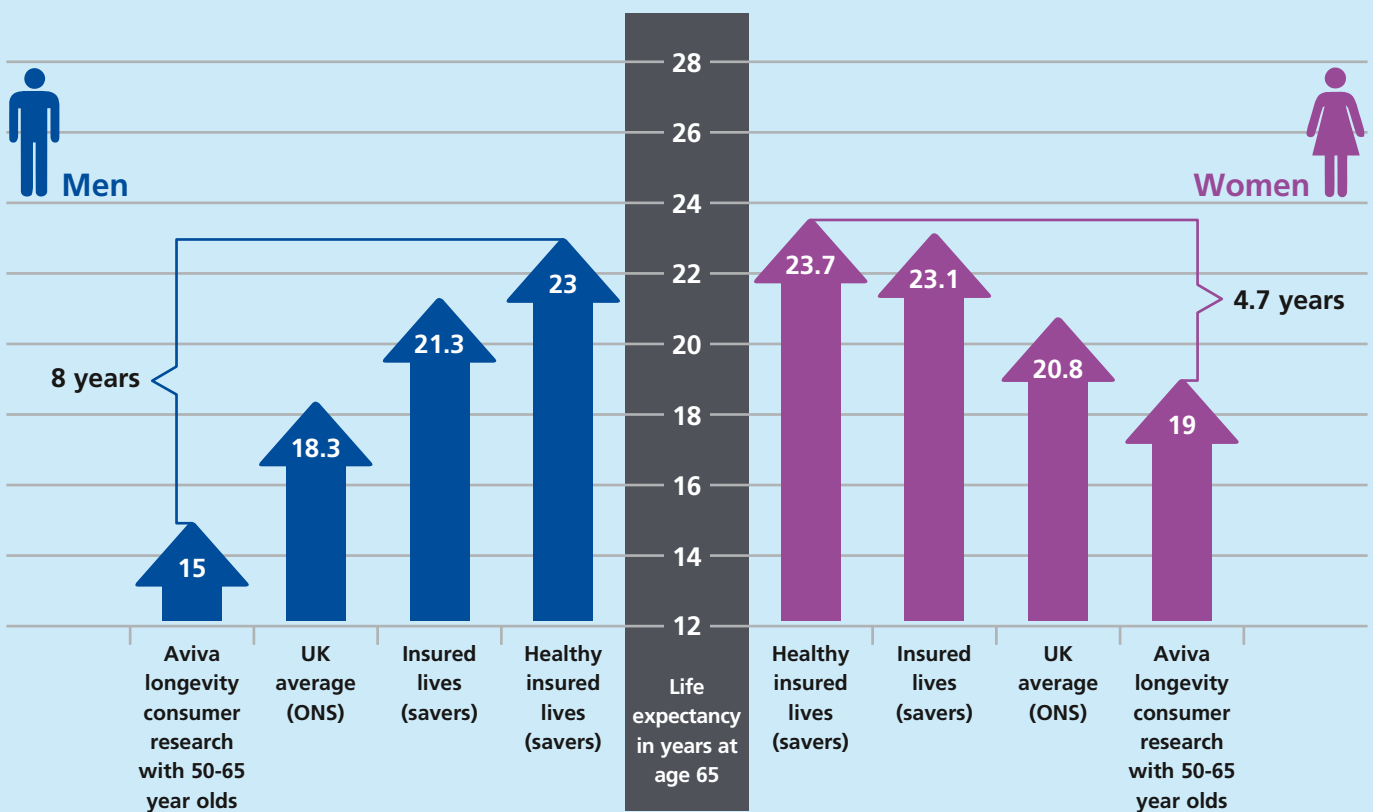
# Perceptions versus reality

The significance in the gap between perception and reality can be seen when Aviva’s consumer research is compared with national statistics. The following chart<sup>3</sup> compares the consumer research with the average life expectancy at age 65 according to Office for National Statistics (ONS) data, insured lives (people who are savers), and also insured people in good health at age 65. Aviva’s analysis indicates that about 30% of the annuitising population are expected to fit into this ‘healthier’ category.

Male savers live on average three years longer than the average member of the UK population, while women savers live over two years longer than the average member of the UK population. And against both measures 50-65 year olds, when asked for their personal opinions, routinely fall short of the average life expectancy. Understanding these nuances in life expectancy data is clearly an important factor for retirees to consider.

Looking solely at national (ONS) life expectancy data, it could be easily assumed that people are underestimating their longevity by a few years. While this may be true for some, healthy insured savers may live as much as eight years longer than they think they will.

## The difference between perceived and actual life expectancy at age 65 measured in different ways



The financial implications for people underestimating their life expectancy are significant. Those people estimating they need £100,000 of private pension savings to top up their other income, such as state pension, could actually need about £150,000, if they had accurately predicted their life expectancy.

The situation is potentially worse for those 50-65 years olds who, in Aviva's research, predicted a much shorter life expectancy. More than a quarter (29%) of men and 23% of women said they did not think they would reach their average life expectancy. Of those predicting a shorter life expectancy, men said they would die on average 13 years earlier, at just 67 years old, and women said they would die on average 12 years earlier, or at age 72. Whether these views are realistic is difficult to tell, but many do say that they base them on a known health condition or family history.

We also know from the Aviva Real Retirement<sup>4</sup> research that many people are not overly concerned by the prospect of outliving their savings compared to the more fundamental concerns of getting older. Only 5% say a key worry is living longer than they expect and not having the money to fund their retirement. This relatively low level of concern sits in stark contrast to ageing concerns such as ill health (56%), conditions such as dementia (50%), being dependent on other people (36%), going into a care home (30%) and dying or people close to them passing away (25%).

Without a focused effort by the government and the wider industry it may therefore be difficult to get people to really understand the importance of longevity in their retirement planning.

<sup>3</sup> Source data:

Aviva consumer research conducted summer 2014 in collaboration with ICM Unlimited research  
Office for National Statistics, National Life Tables, UK, 2011-2013  
CMI (Continuous Mortality Investigation, Institute and Faculty of Actuaries)

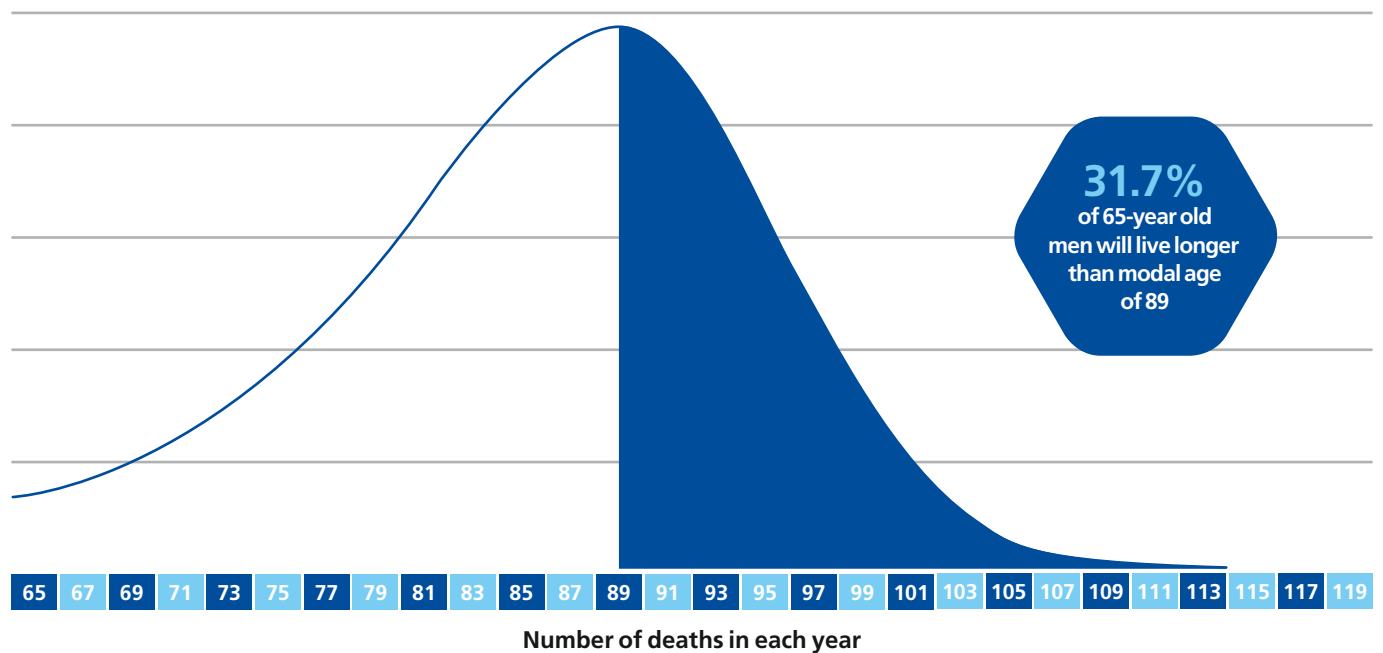
<sup>4</sup> Aviva Real Retirement Report – Autumn 2014 - consumer research into the over-55s

# The age at which you are most likely to die and why it is important

When we compare consumers' views on how long they expect to live with the facts about longevity it is not difficult to conclude that people will need help and guidance in accurately factoring in life expectancy to their planning, and understanding its relevance.

There is no way to predict with complete certainty the life expectancy of any one individual, as the chart below on male savers shows.

## Age at which people are most likely to die if they are aged 65 (Projected modal age of death of insured 65 year old man)

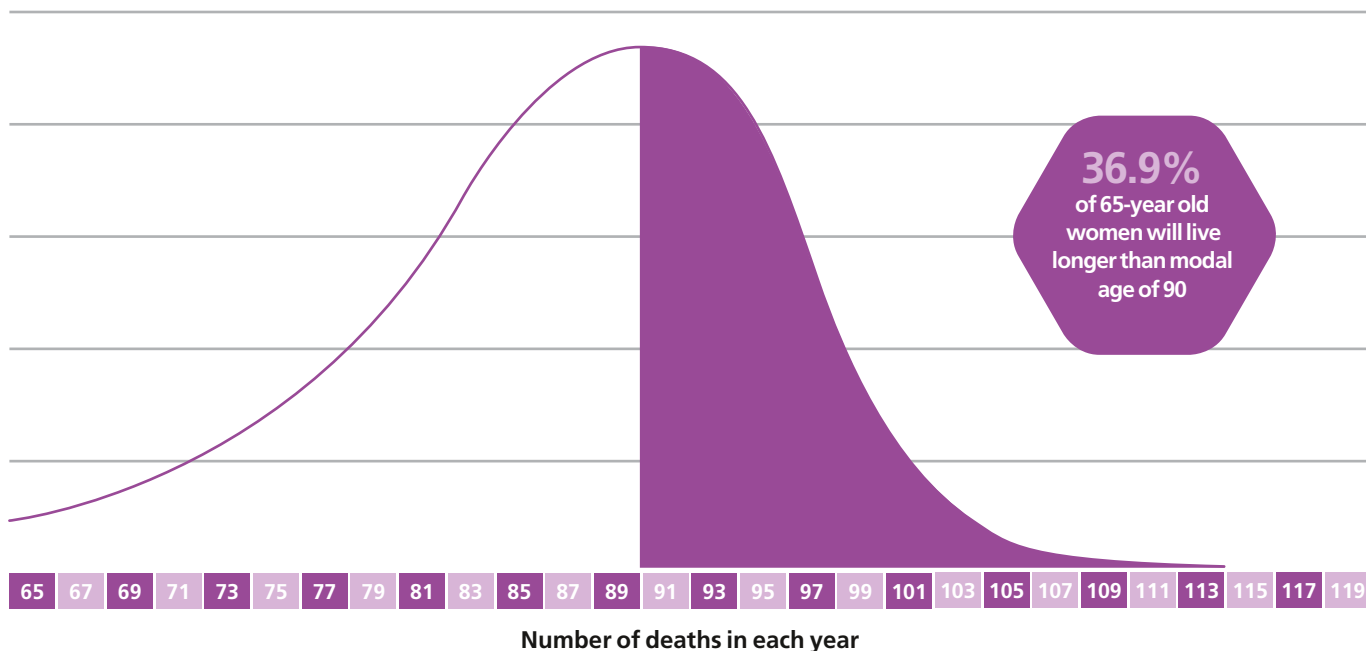


Source data: CMI (Continuous Mortality Investigation, Institute and Faculty of Actuaries)

The most likely age of death for men is 89 years. However, over 31 (31.7) out of every 100 men who reach age 89 years will live to age 90 years or longer, and nearly three (2.8) out of every 100 men will live to 100 years or more. Although the chance of living to more than 100 years is quite low, the chance of living to age 90 or more, at almost one in three, cannot be ignored when planning retirement finances.

The story for women savers is similar with the most likely life expectancy being age 90, 36.9% of women out of 100 living to 91 or older, and nearly five out of 100 women living beyond a century.

### Age at which people are most likely to die if they are age 65 (Projected modal age of death of insured 65 year old woman)



Source data: CMI (Continuous Mortality Investigation, Institute and Faculty of Actuaries)

The choice people make with their retirement savings is therefore crucial when it comes to the likelihood of running out of money.

Annuities can provide certainty that the chosen level of income will be payable no matter how long they live. This may come at the price of a lower initial income compared to a drawdown arrangement.

Drawdown on the other hand can be managed to last for either the average life expectancy of savers or a longer or shorter duration depending upon known factors that might shorten or lengthen their specific life expectancy.

Taking a conservative strategy with drawdown, for example, by planning for money to last to 95 years or more, will:

- Provide greater certainty (but not complete certainty) that they will not run out of money before death.
- Result in a lower income stream than if planning to the average age of death.
- Create the possibility that they will die with surplus (unused) funds, which may form part of their inheritance.

And the opposite is true if they manage their money to last for less than the average life expectancy.

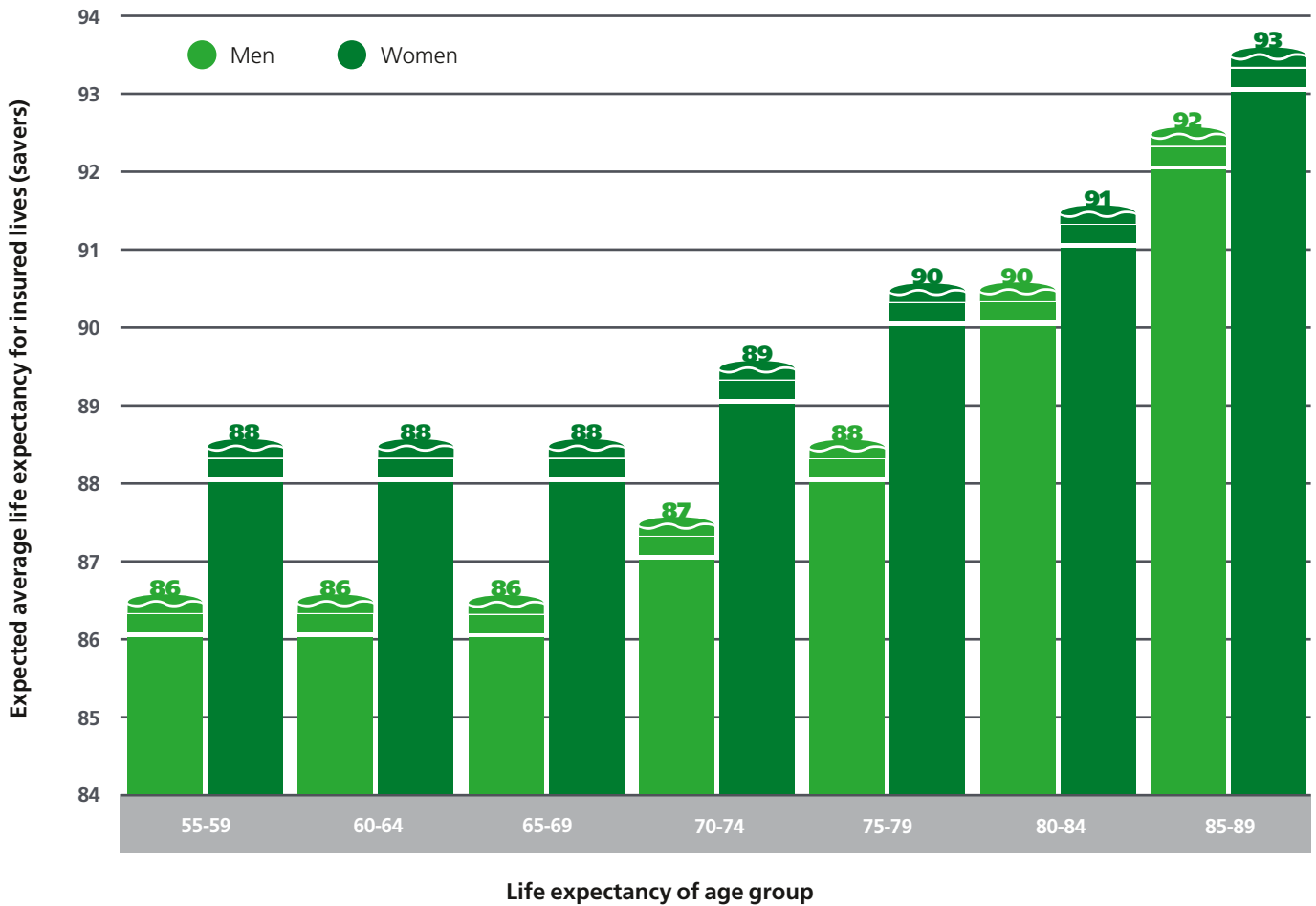
Knowing how long people want their money to last is therefore an essential pre-requisite of using income drawdown.



# Managing money as the years roll by

Another interesting aspect of longevity is how an individual's life expectancy changes as they age. This can be summed up as, "the longer you live, the longer you will live" and is illustrated in the following chart.

## The longer you live, the longer you will live!



The reason that life expectancy lengthens the longer someone lives is that those that die before the average age no longer form part of the statistics used to calculate the average for older age groups.

But this information is more than just a statistical phenomenon. It means that people continually need to adjust their plans as they get older. For example, a woman saver retiring at age 65 is expected to live to age 88 on average, but by the time she reaches age 75, that has increased to almost 90. That means that her money now needs to last two years longer.

It has also long been established that women outlive men. However, the longevity gap between women and men is not static. Improvements in men's health, together with more women entering the workforce, experiencing stress, and increased smoking and drinking, has led to the gap between the sexes narrowing. ONS<sup>5</sup> data shows that in 1963, between the ages of 55-69 years, male mortality rates were double those for females. By 2013 the absolute difference in mortality at these ages reduced by more than a half<sup>6</sup>.

<sup>5</sup> ONS 13 October 2014  
<http://www.ons.gov.uk/ons/rel/vsob1/death-reg-sum-tables/2013/sty-mortality-rates-by-age.html>

<sup>6</sup> ONS: The absolute difference being calculated by subtracting the female from the male mortality rates.

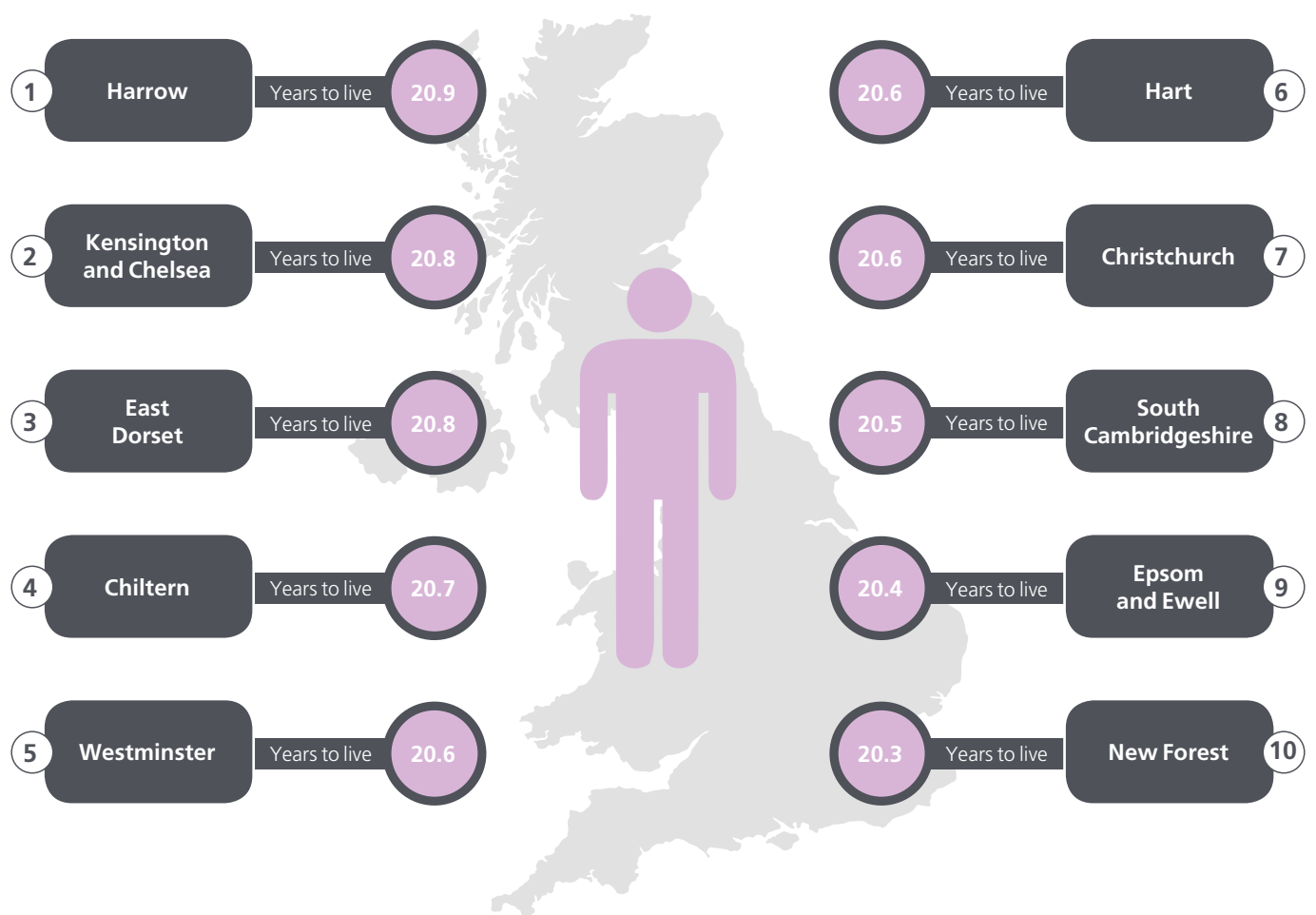
# Where we live signposts how long we will live

So far, this report has looked at people's perceptions of their life expectancy and the different ways that longevity data can be interpreted. The following sections look at the differences in life expectancy at a local and unitary authority level and the link to lifestyle factors.

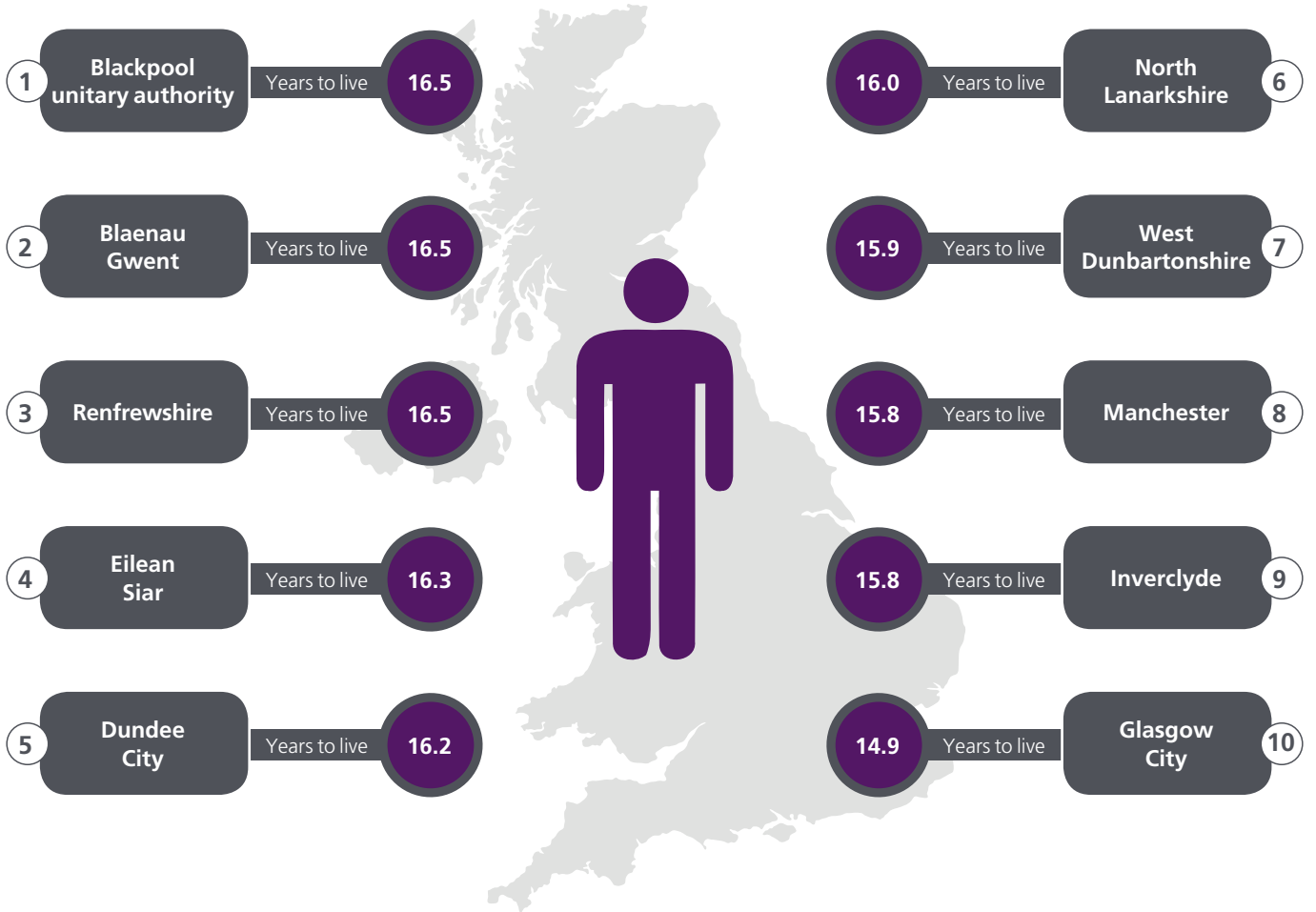
As well as the genes people are born with and random chance, how people choose to live also plays a key role in how long their life will be. Regional life expectancy statistics do not show the true longevity variance in the towns and cities contained within those locations. Moving home will not suddenly increase an individual's life expectancy and it is possible to observe the best and worst life expectancy within any area of the UK. The purpose of this analysis is to determine if data on lifestyle factors, such as smoking and obesity, can be linked to life expectancy in the same areas. Lifestyle is only one factor affecting life expectancy and it is possible to identify whole local areas that exhibit poor lifestyle factors, but have better than average life expectancy. This is an area that requires continuing analysis to understand the complex interplay of those factors affecting life expectancy.

## Male Life expectancy at age 65 by Local Authority (England and Wales) and Council Area (Scotland)

### Top 10



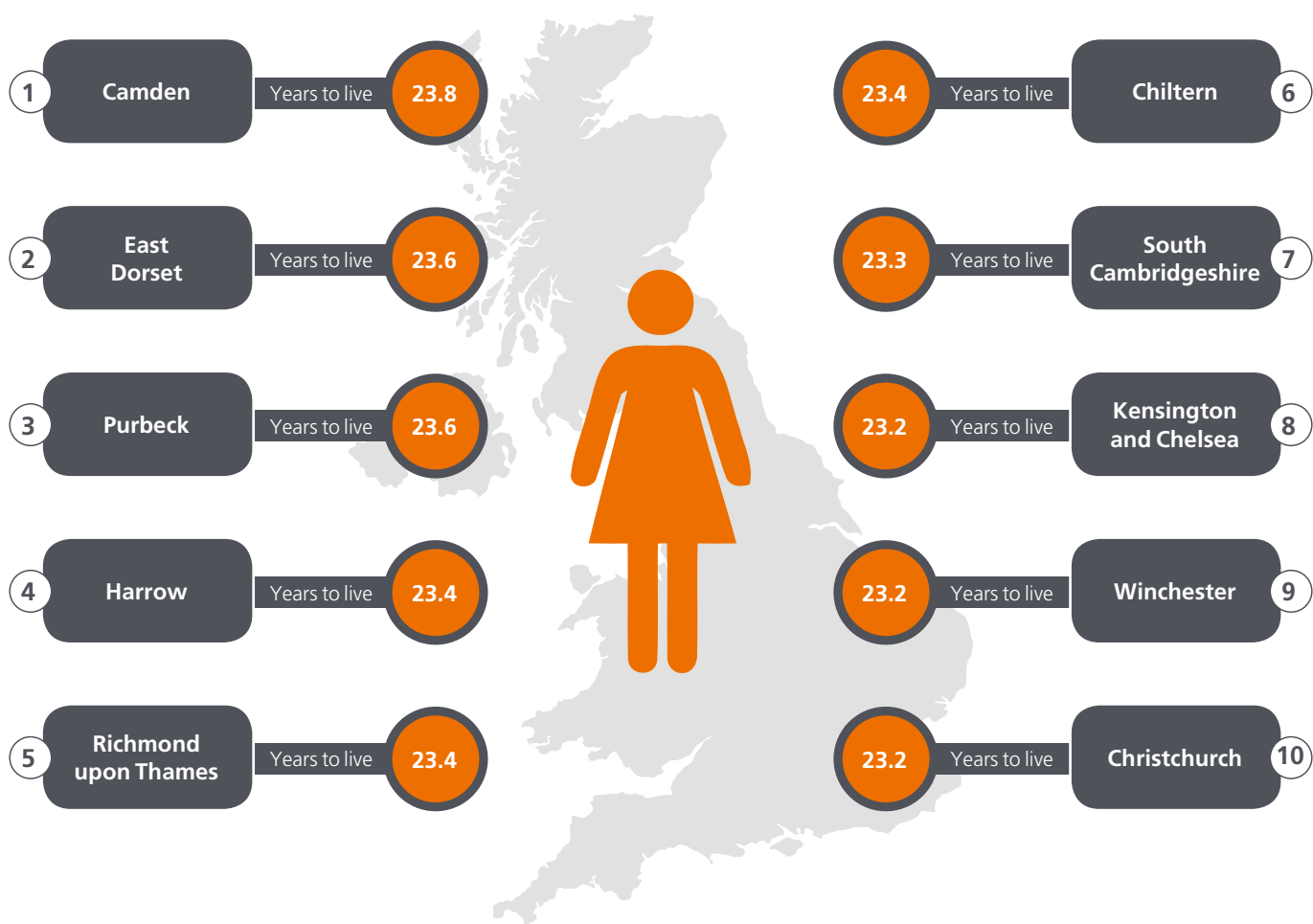
## Bottom 10



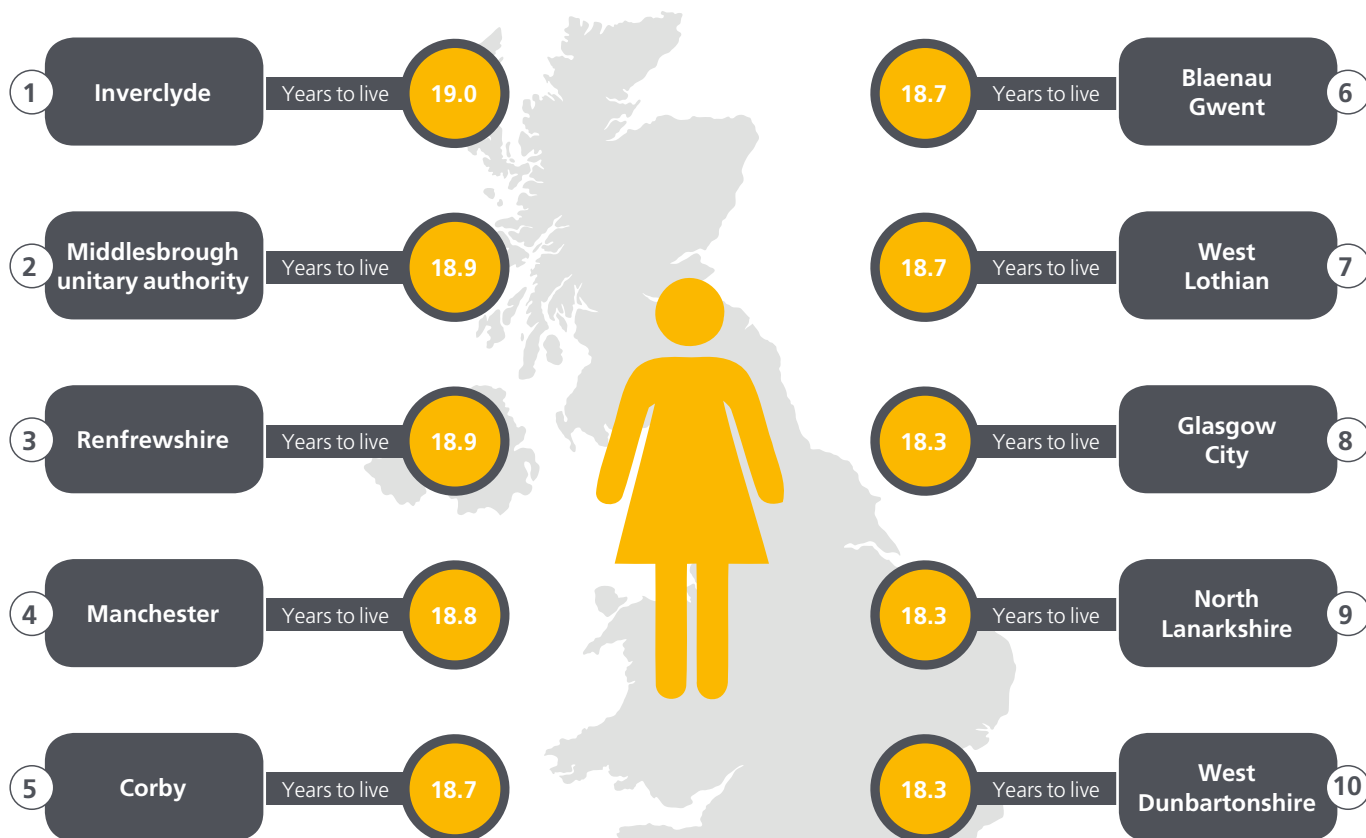
## Female Life expectancy at age 65 by Local Authority (England and Wales) and Council Area (Scotland)

Regional differences in women's life expectancy are almost as marked as the differences seen in men.

### Top 10



## Bottom 10



Another interesting aspect of these statistics is the difference between male and female life expectancy within the same local authority.

### The local authorities with the highest difference between male and female life expectancy are:

Local Authority	Male life expectancy	Female life expectancy	Difference
Richmond upon Thames	19.7	23.4	3.7
Nottingham UA	16.8	20.5	3.7
Camden	20.2	23.8	3.6
Gloucester	18.0	21.5	3.5

### And those with smallest differences between male and female life expectancy are:

Local Authority	Male life expectancy	Female life expectancy	Difference
Surrey Heath	19.4	21.1	1.7
Adur	19.4	21.0	1.6
Corby	17.2	18.7	1.5
Basingstoke and Deane	19.6	20.6	1.0

# Lifestyle and how people choose to live their lives

Although genetics play a key role in people's life expectancy, lifestyle choices are also a major influence. Smoking, alcohol consumption, obesity, diet and exercise can all have a major impact not only on how long people live, but the quality of those extra years.

## Smoking

The impact of lifestyle choices can be seen by analysing ONS data for local and unitary authorities in England and Wales with the highest rates of current smokers and mapping this against averaged data on male and female life expectancy at age 65 from the same areas.

### Smoking and life expectancy – the top 40 local and unitary authorities with the highest rates of adult smokers and life expectancy ranking

		Percentage of adults who are current smokers	Adult at age 65 longevity ranking out of 346 Local or Unitary Authorities in E&W	Longevity Quartile Ranking
1	Ashfield	29.4%	322	4
2	Kingston upon Hull, City of	29.3%	337	4
3	Mansfield	29.3%	293	4
4	Copeland	28.4%	301	4
5	Lincoln	28.3%	290	4
6	West Lancashire	28.2%	272	4
7	Stevenage	27.6%	236	3
8	Knowsley	27.6%	334	4
9	Dover	27.4%	210	3
10	North East Lincolnshire	27.3%	287	4
11	Manchester	27.2%	346	4
12	Blackburn with Darwen	27.2%	327	4
13	Hastings	27.0%	282	4
14	Doncaster	27.0%	297	4
15	Norwich	26.3%	63	1
16	Boston	26.1%	201	3
17	Blackpool	25.9%	342	4
18	Barnsley	25.6%	311	4
19	Fenland	25.5%	186	3
20	Corby	25.5%	341	4
21	Salford	25.4%	340	4
22	Stoke-on-Trent	25.3%	323	4
23	Wellingborough	25.3%	86	1
24	Hackney	25.2%	227	3
25	Redditch	25.2%	238	3
26	Bolsover	25.2%	330	4
27	Gloucester	25.1%	206	3
28	Oldham	24.9%	325	4
29	Great Yarmouth	24.9%	249	3
30	Preston	24.8%	304	4

31	Middlesbrough	24.7%	344	4
32	Barrow-in-Furness	24.4%	283	4
33	Rushmoor	24.3%	218	3
34	Mid Sussex	24.2%	74	1
35	Carlisle	24.2%	254	3
36	Liverpool	24.2%	343	4
37	Forest Heath	24.1%	64	1
38	St Edmundsbury	24.1%	55	1
39	Tameside	24.1%	339	4
40	Weymouth and Portland	23.9%	151	2
<b>AVERAGE</b>		<b>26.0%</b>	<b>258.3</b>	<b>3.3</b>

● Top 10



With only a handful of exceptions, the local and unitary authorities with the highest percentages of adults who are current smokers are also the areas with amongst the worst life expectancies.

Smoking is the single most important lifestyle factor that impacts life expectancy, which this analysis demonstrates clearly.

## Obesity

Following a similar process to our analysis on smoking, we have identified the 40 local and unitary authorities with the highest level of adult obesity and mapped this against averaged male and female life expectancy at age 65 data from the same areas.

### Obesity and life expectancy - the top 40 local and unitary authorities with the highest rates of obese adults and life expectancy ranking

	Local or unitary authority	Percentage of adults classed as obese	Adult age 65 longevity ranking out of 346 Local or Unitary Authorities in E&W	Longevity Quartile Ranking
1	Halton	35.2%	336	4
2	Barnsley	34.4%	311	4
3	South Holland	32.5%	128	2
4	Mansfield	32.4%	293	4
5	Telford and Wrekin	32.3%	298	4
6	North Lincolnshire	32.0%	234	3
7	Barking and Dagenham	31.6%	299	4
8	East Lindsey	31.6%	256	3
9	Thurrock	31.4%	273	4
10	City of London	31.4%	0	Insufficient longevity data
11	East Staffordshire	31.0%	220	3
12	Bolsover	31.0%	330	4
13	Hartlepool	30.6%	315	4
14	Walsall	30.4%	237	3
15	Doncaster	30.4%	297	4
16	Cannock Chase	30.3%	233	3
17	Gloucester	30.3%	206	3
18	Basildon	30.2%	143	2
19	Rochdale	29.9%	318	4
20	Sedgemoor	29.9%	115	2
21	Great Yarmouth	29.7%	249	3
22	Blackpool	29.5%	342	4
23	St. Helens	29.3%	302	4
24	Darlington	29.3%	253	3
25	Gosport	29.1%	260	4
26	Hinckley and Bosworth	28.9%	126	2
27	Wolverhampton	28.5%	292	4
28	Rotherham	28.5%	303	4
29	Kingston upon Hull, City of	28.4%	337	4
30	Copeland	28.3%	301	4



31	Broxbourne	28.3%	65	1
32	North Norfolk	28.2%	33	1
33	Ashfield	28.2%	322	4
34	Rochford	28.1%	58	1
35	Swale	28.0%	223	3
36	Amber Valley	28.0%	221	3
37	Dudley	27.8%	204	3
38	Hyndburn	27.7%	331	4
39	Wychavon	27.6%	28	1
40	North Warwickshire	27.5%	280	4
<b>AVERAGE</b>		<b>29.9%</b>	<b>240.3</b>	<b>3.2</b>

● Top 10



# Conclusion

Understanding the issues affecting an individual's life expectancy are complex and deeply personal, which makes it a subject that can be considered off limits. Retirees considering their personal life expectancy may actually be facing their own mortality for the first time, and this could be challenging. And yet life expectancy is a subject that is fundamental to the whole process of retirement planning, and one that is of increasing importance as retirees are offered new pension freedoms. Helping retirees factor in longevity should be a priority for government and our industry. Aviva recommends:

## **For government and industry:**

- Healthy lifestyle campaigns are important with a focus on specific locations where there is known to be a high incidence of, for instance, smoking or obesity.
- It should be mandatory that nationally-agreed life expectancy figures are included in the government's guidance guarantee to encourage fully informed conversations. Nuances such as the difference between savers and non-savers should also be taken into account.
- Providers and guidance guarantee providers should point customers to the agreed life expectancy figures for the purposes of retirement planning.
- Online tools and information should be made available to help consumers to estimate their own longevity to allow them to make more realistic plans, accepting that it is impossible to predict the life expectancy of any one individual.
- This information is particularly relevant to those drawing down from pension funds or other investments rather than buying an annuity because knowing how long their money needs to last is critical.

## **For consumers:**

- Consumers should accurately assess their life expectancy as part of their retirement planning and understand the factors that affect it, such as existing conditions and lifestyle choices. This should give them realistic expectations and a rough idea whether they will live longer than average or shorter than average.
- When thinking about how much money they will need in retirement, consumers should consider the total savings they have, including all of their assets (such as their property), and measure this against their expenditure, and the years they expect to live in retirement.
- People's life expectancy changes as they get older, so retirees should review their finances during the course of their retirement to ensure they have budgeted appropriately for the years they are likely to live.
- Accessing online tools will help people to accurately assess their life expectancy.

Aviva's Making your money last in retirement report was produced by Aviva in January 2015.

## **For further information contact:**

John Lawson  
Head of Policy  
Aviva  
john.lawson@aviva.co.uk

Diane Mangan  
Senior Media Relations Manager  
Aviva  
diane.mangan@aviva.co.uk



