

Living longer, but ...

A recent report shows that life expectancy is still improving, but not as quickly as was once expected.

“British life expectancy falls by SIX MONTHS for men and women”

That was one recent headline in response to the latest report of the Continuous Mortality Investigation (CMI) of the Institute and Faculty of Actuaries. While it was not inaccurate, like many such headlines it was open to misinterpretation.

The CMI research suggested that mortality improvements had slowed down from over 2% a year between 2000 and 2011, to about 0.5% now. The CMI was not the first to notice the trend. The Office for National Statistics, some large insurance companies and pension providers have all made similar observations. Various possible reasons have been put forward, including a fading benefit from the reduction in smoking, the impact of austerity and the spread of obesity and diabetes.

The life expectancy for a pension scheme member aged 65 is now 21.9 years for man and 24.2 years for women, according to the CMI. These are effectively averaged numbers, so there is roughly a 50/50 chance that today's 65-year-old pensioner will live longer, even if the CMI's current calculations prove to be perfectly accurate in 20+ years' time.

Whether or not the CMI turns out to be 100% correct, there is little doubt that the timescales involved mean anyone retiring at 65 today needs to think in terms of drawing their pension for at least a couple of decades. If you are approaching retirement, that should serve as a reminder of the importance of establishing the right long-term structure for drawing your future income. Make the wrong decision and it could be hanging over you for the next 20–30 years.

Footnote: While the CMI uses age 65 as a benchmark, the relevance of that specific age is fading. State Pension Age is no longer 65 but is now about 65½, on a path of phased increases that will reach 66 by 6 October next year.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.