PLANNING HORIZONS FOR RETIREMENT PROJECTIONS

Using the latest Australian Life Tables

This document uses the 2020-22 Australian Life Tables, applying the ’25 year’ improvement assumption, to give financial advisers a clear and robust way to set each client’s projection period with the corresponding probability that they could live beyond the end of that plan. The approach used aligns closely with guidelines issued to Canadian financial advisers by *FP Canada Standard Council* and the *Canadian Institute of Financial Planning*. The most recent Australian Life Tables were published by the Australian Government Actuary in December 2024.

The calculations were provided by Optimum Pensions Pty Ltd.

Projection Period

In financial projections, it makes sense to use a projection period where the probability of outliving that period is no more than 25%[1]. Using a longer projection period (a) offers protection from future improvements in longevity and (b) reduces the risk of the client outliving their financial plan. Financial planners are encouraged to develop sensitivity analyses related to lifespan - in light of the dramatic effects that may result when the projection period is changed by a relatively small number of years.

*"Potential lifespan is a key consideration when setting a **projection period** for financial planning. An adviser needs to consider a client's circumstances, not just assuming they will live to their life expectancy, but also the outcomes and strategies if their lifetime were to end in any given year up to the end of the life tables."*

David Orford, Senior Actuary, Optimum Pensions

[1] Recommendation by the Canadian *Institute of Financial Planning and FP Canada Standard Council*.

Planning Age for a chosen Probability of Survival

The numbers in this table show the 'planning age' that a client's financial projections should go to - to result in a higher or lower probability of them living even longer than that age. The three columns on the right (50%) would mean the client(s) have a 50% chance of living longer than that age.

Each row in the table below relates to people of a given age in 2025. The results in each column show the age by which x% of people that age are expected to remain alive. For example, a 20 year old male in 2025 would need to plan to age 100 to keep the probability of outliving his plan to 10%. For a 25% probability of outliving his plan he would need a planning age of 97. For a 50% chance of outliving his plan he would use a planning age of 93.

	Probability of Survival M = single male. F = single female. M/F = either member of a couple (of same age)																									
Current Age	10%			15%			20%			25%			30%			35%			40%			45%			50%		
in 2024	M	F	M/F	M	F	M/F	M	F	M/F	M	F	M/F	M	F	M/F	M	F	M/F	M	F	M/F	M	F	M/F	M	F	M/F
20	100	101	102	98	100	101	97	99	100	97	98	99	96	97	99	95	97	98	95	96	98	94	95	97	93	95	97
25	99	101	102	98	99	101	97	99	100	96	98	99	96	97	99	95	96	98	95	96	98	94	95	97	93	94	97
30	99	101	102	98	99	101	97	98	100	96	98	99	96	97	98	95	96	98	94	96	97	94	95	97	93	94	96
35	99	100	102	98	99	101	97	98	100	96	97	99	95	97	98	95	96	98	94	95	97	93	95	97	92	94	96
40	99	100	102	98	99	100	97	98	100	96	97	99	95	96	98	94	96	98	94	95	97	93	94	96	92	93	96
45	99	100	101	97	99	100	96	98	99	96	97	99	95	96	98	94	96	97	93	95	97	92	94	96	92	93	96
50	99	100	101	97	99	100	96	98	99	95	97	98	94	96	98	94	95	97	93	94	97	92	94	96	91	93	95
55	98	100	101	97	99	100	96	97	99	95	97	98	94	96	98	93	95	97	92	94	96	92	93	96	91	92	95
60	98	100	101	97	98	100	96	97	99	95	96	98	94	96	97	93	95	97	92	94	96	91	93	95	90	92	95
65	98	100	101	97	98	100	95	97	99	94	96	98	94	95	97	93	94	96	92	94	96	91	93	95	90	92	95
70	98	99	101	96	98	99	95	97	99	94	96	98	93	95	97	92	94	96	91	93	96	90	92	95	89	92	94
75	98	99	101	96	98	99	95	97	98	94	96	98	93	95	97	92	94	96	91	93	96	91	92	95	90	92	94
80	98	99	101	97	98	100	95	97	99	94	96	98	94	95	97	93	94	96	92	94	96	91	93	95	90	92	95
85	99	100	101	97	98	100	96	97	99	95	97	98	94	96	98	94	95	97	93	94	96	92	94	96	92	93	95
90	100	101	102	99	100	101	98	99	100	97	98	100	96	97	99	96	97	98	95	96	98	95	96	97	94	95	97
95	102	103	104	101	102	103	101	101	103	100	100	102	100	100	101	99	99	101	99	99	101	98	99	100	98	98	100
100	106	106	107	105	105	106	104	105	106	104	104	105	103	104	105	103	103	105	103	103	104	103	103	104	102	102	104

The table uses the latest Australian Life Tables (ALT2020-22) with the 25-year improvement rate assumptions. The Australian Life Tables are derived from data for all Australians including people in all health states, lifestyles and socio-economic groups. Whereas an adviser's clients – possibly having worked most of their lives and looked after themselves – may well have life expectations that are longer than the average. The 25-year improvement rates are generally considered more cautious in the context of financial planning.

The first three columns, shaded blue, highlight the ages that 10% of people are expected to reach. The next set of dark shaded columns highlight the ages that 25% of people are expected to reach. **25% of Australians are expected to live longer than the second set of blue shaded columns.**

Life Expectancy versus Lifespan

The phrase 'life expectancy' is often misused.

Importantly, life 'expectancy' is *not* a prediction of how long any particular individual will live. It is only an *average* for a group of people. There is obviously a very wide range for how long different individuals all live. One client could be 'hit by a bus' tomorrow and another may live to the end of the Australian Life Tables - age 109.

There are many factors that impact the probabilities around how long an advisers book of clients will all live, and human lifespans are subject to randomness. Examples of factors that impact the chances of living a long time:

- **Gender**: women tend to live longer than men
- **Smoker status**: non-smokers tend to live longer than smokers
- **Place of residence**: certain regions have significantly higher life expectancies than others
- **Wealth**: people in advantaged socio-economic groups tend to live longer than those in disadvantaged groups
- **Lifestyle & health**: healthy people with good diets and exercise tend to live longer than people who already have health problems. Common health issues impacting lifespan include diabetes, high blood pressure, high cholesterol or incidents of heart attack, stroke or cancer.

The phrase 'life expectancy' is an estimate of the *average* for how long people in a particular group will live. It's important for advisers to acknowledge that there is a large standard-deviation (or 'volatility') around this. Over half of people live longer than their life expectancy figure due to a skewness in the distribution.

It's therefore important to consider the **range** for each clients' potential lifespan when planning retirement.