

Longevity Insurance and Age 80 Allowance



Tianhong Chen (Wuhan University, China)

Gerard Hughes (School of Business, TCD)

John Turner (Pension Policy Center, Washington D.C.)

Presentation for

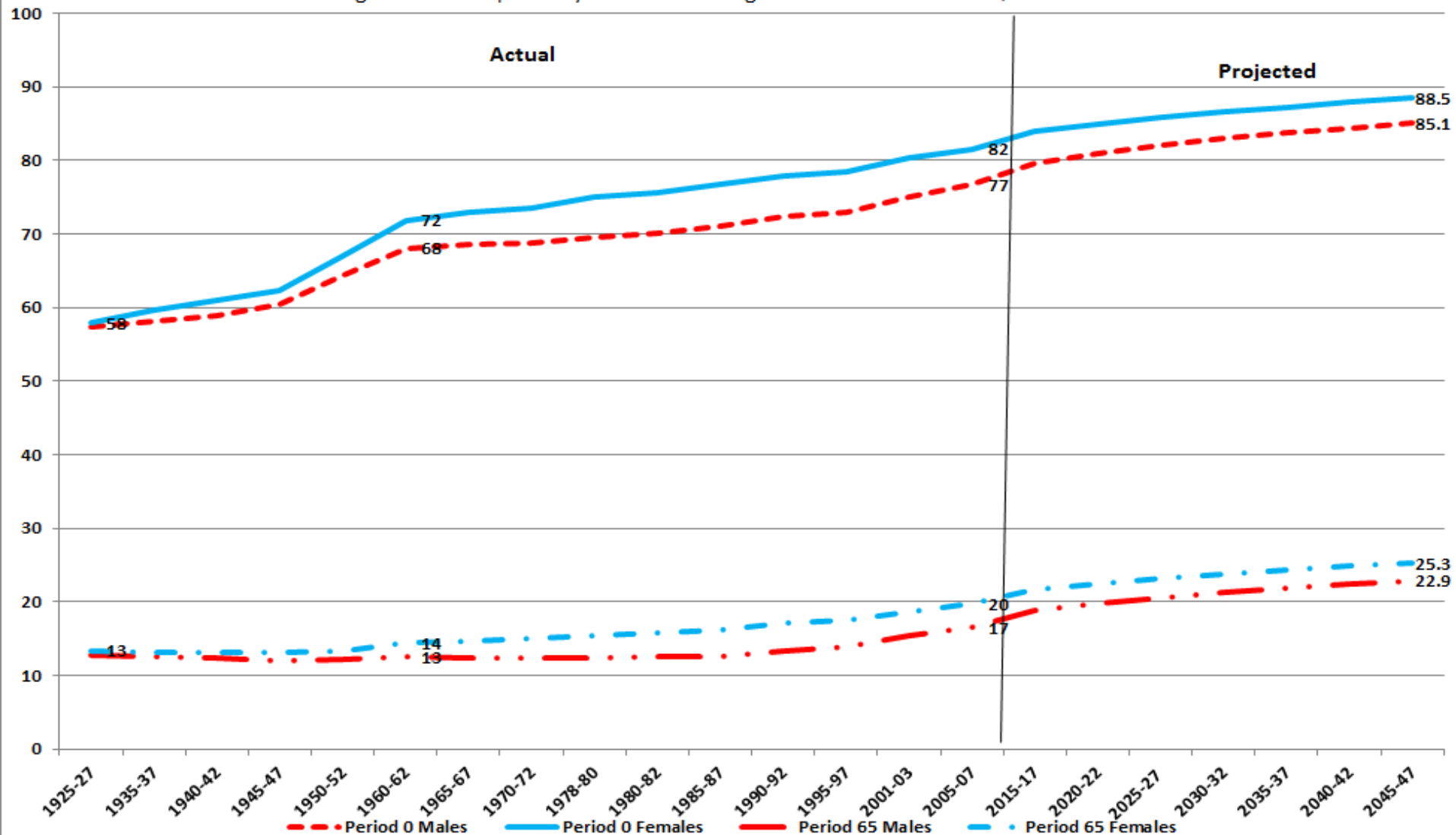
Pension Policy Research Group Annual Conference

Trinity College Dublin

17 June 2015

Life Expectancy at Birth and at Age 65 for Men and Women, Ireland 1925-2047

Figure 9 : Life Expectancy at Birth and at Age 65 for Men and Women, 1925-2047



Longevity Insurance Annuities (1)

- Longevity insurance annuities are deferred annuities that start at an advanced age where roughly 50 percent or more of the population entering the workforce has died
- Currently, they start at age 80 or later in some developed countries
- They address the income needs of people who have lived longer than they expected and have largely used up their retirement savings

Longevity Insurance Annuities (2)

- So they are a form of insurance against running out of money & increased medical expenses at advanced older ages.
- Poverty rates: U.S. 2012 Ireland 2011
 - 65-69 7.8% 10.1%
 - 80+ 11.4% 12.5%
- Medical expenses
 - >65 €406
 - 75+ €1,772
 - Source: Redmond (2014)

Outline of Presentation

- Demand and supply of longevity insurance annuities in the private sector
- Why longevity insurance annuities should be provided through social insurance
- Introduction of age 80 allowance in Ireland
- Growth of allowance relative to State pension, prices & earnings
- Growth of recipients of allowance 1972-2013 & projections 2011-2046
- Cost of increasing value of age 80 allowance relative to State pension
- Conclusions

Demand Side--Workers

- Longevity insurance annuities would be an efficient type of annuity because they are focused on providing insurance against outliving one's resources at an advanced age.
- Instead of planning for a retirement of uncertain length a worker purchasing longevity insurance annuity would only need to plan the spend down of assets to the age where the longevity insurance annuity begins payment.

Private Sector Supply

- Even though the UK has the world's largest annuity market, none of its life insurance companies provide longevity insurance annuities.
- In the UK and EU, such annuities must be provided on a unisex basis. The gender difference in longevity at advanced older ages when longevity insurance annuities begin payment is considerable.

US Longevity Insurance Annuities

- In the US, longevity insurance annuities provided by pension plans must be unisex.
- Annuities purchased privately are gender based.
- Currently, it appears that few if any pension plans offer longevity insurance annuities.
- Several life insurance companies, including New York Life, offer them on a gender basis to non-pension purchasers but only 4% of purchasers of annuities in their 60s buy deferred longevity annuities

Public Sector

- Government can avoid adverse selection problem by providing longevity insurance annuities as a supplemental benefit through social insurance at advanced ages.
- The cost of the supplement should be paid by an increase in the social contribution rate.

Ireland

- Ireland provides an age allowance at 80 & China provides an age allowance at 90.
- In Ireland the allowance is automatically paid to persons at age 80 who are already receiving old-age benefits from the government.

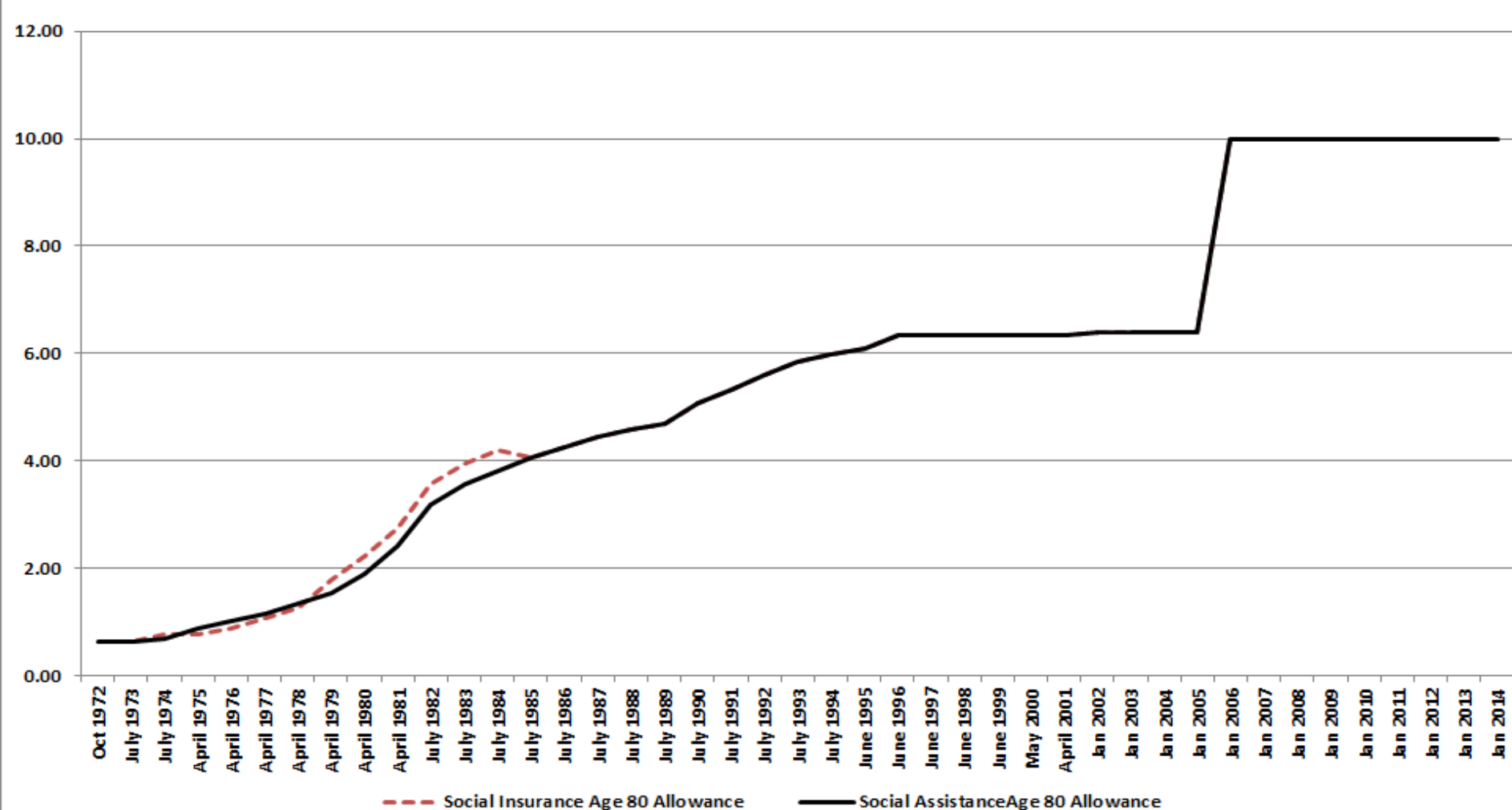
Age 80 Allowance in Ireland

Age 80 allowance introduced in 1972 by Minister for Finance Mr. Colley

“I am especially conscious of the fact that very old persons are often at a disadvantage because of their inability to do things for themselves and shop around for the best value. In recognition of this, all non-contributory [and contributory] old age and blind pensioners aged 80 and over will receive a further increase of 50p per week.”

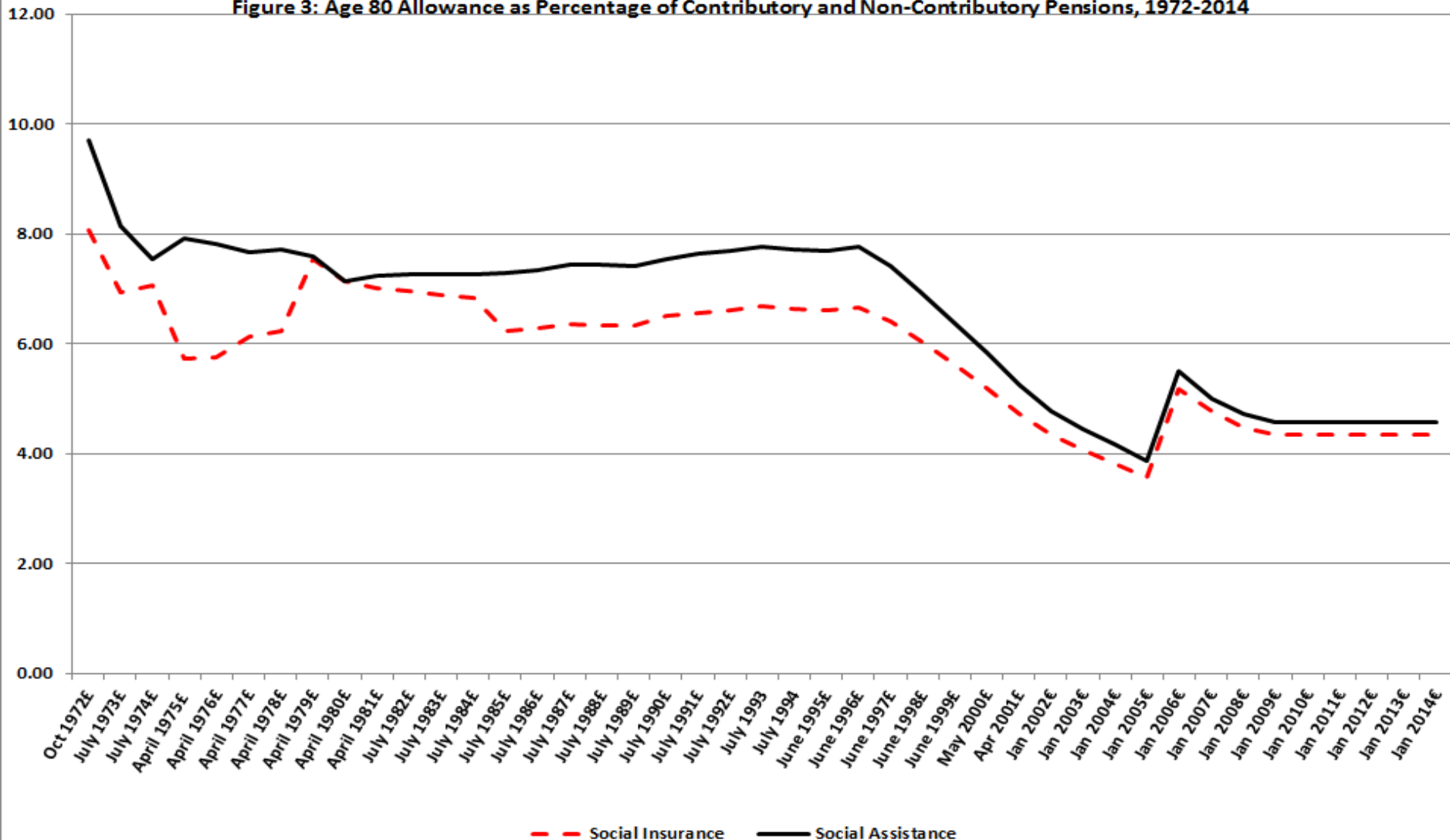
Value of Age 80 Allowance for Social Insurance and Social Assistance Pensions

Figure 1: Nominal Values of Age 80 Allowance for Social Insurance and Social Assistance Pensions in Euros, 1972-2014



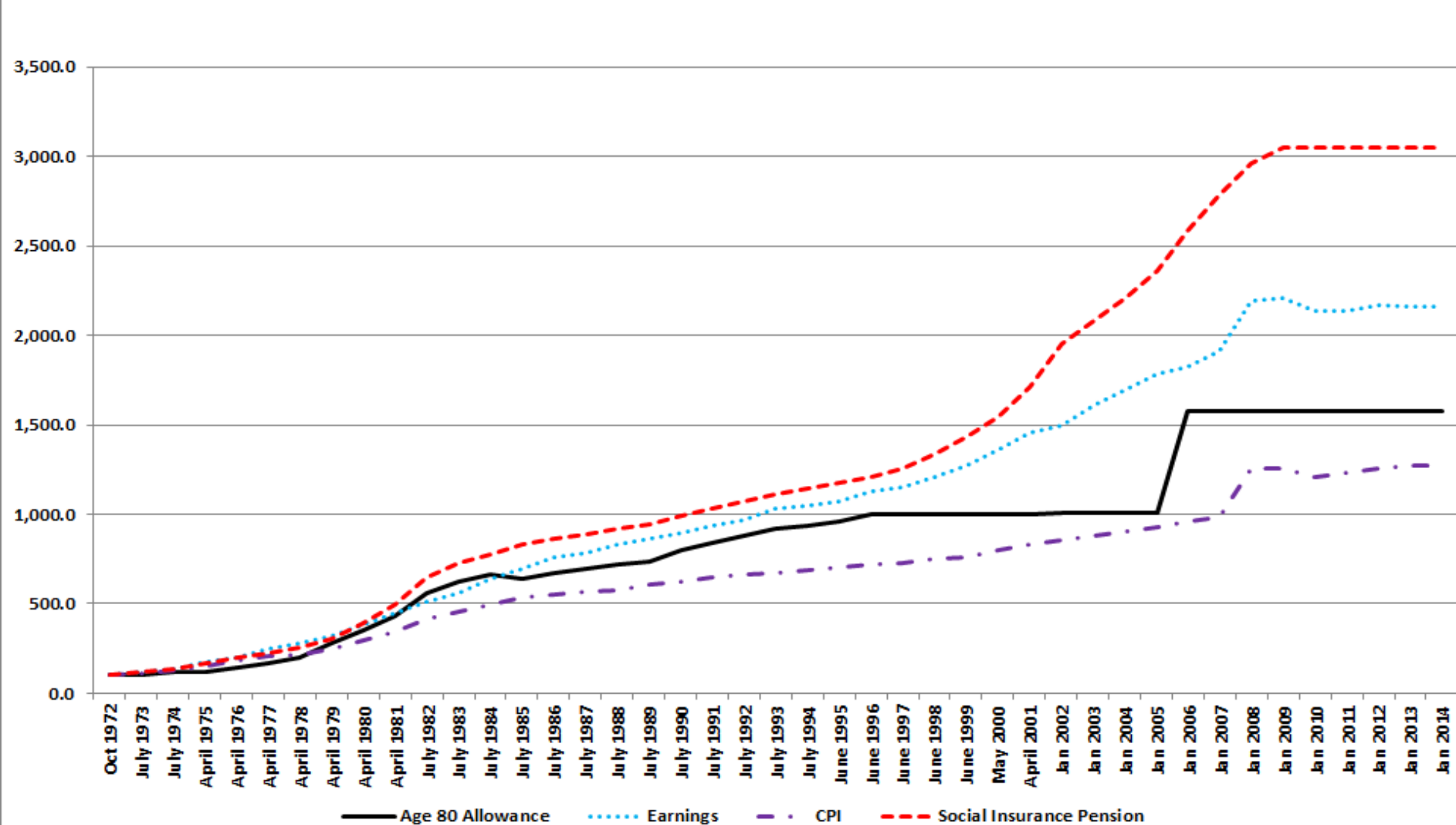
Age 80 Allowance a Higher Percentage of Social Assistance than of Social Insurance Pension

Figure 3: Age 80 Allowance as Percentage of Contributory and Non-Contributory Pensions, 1972-2014



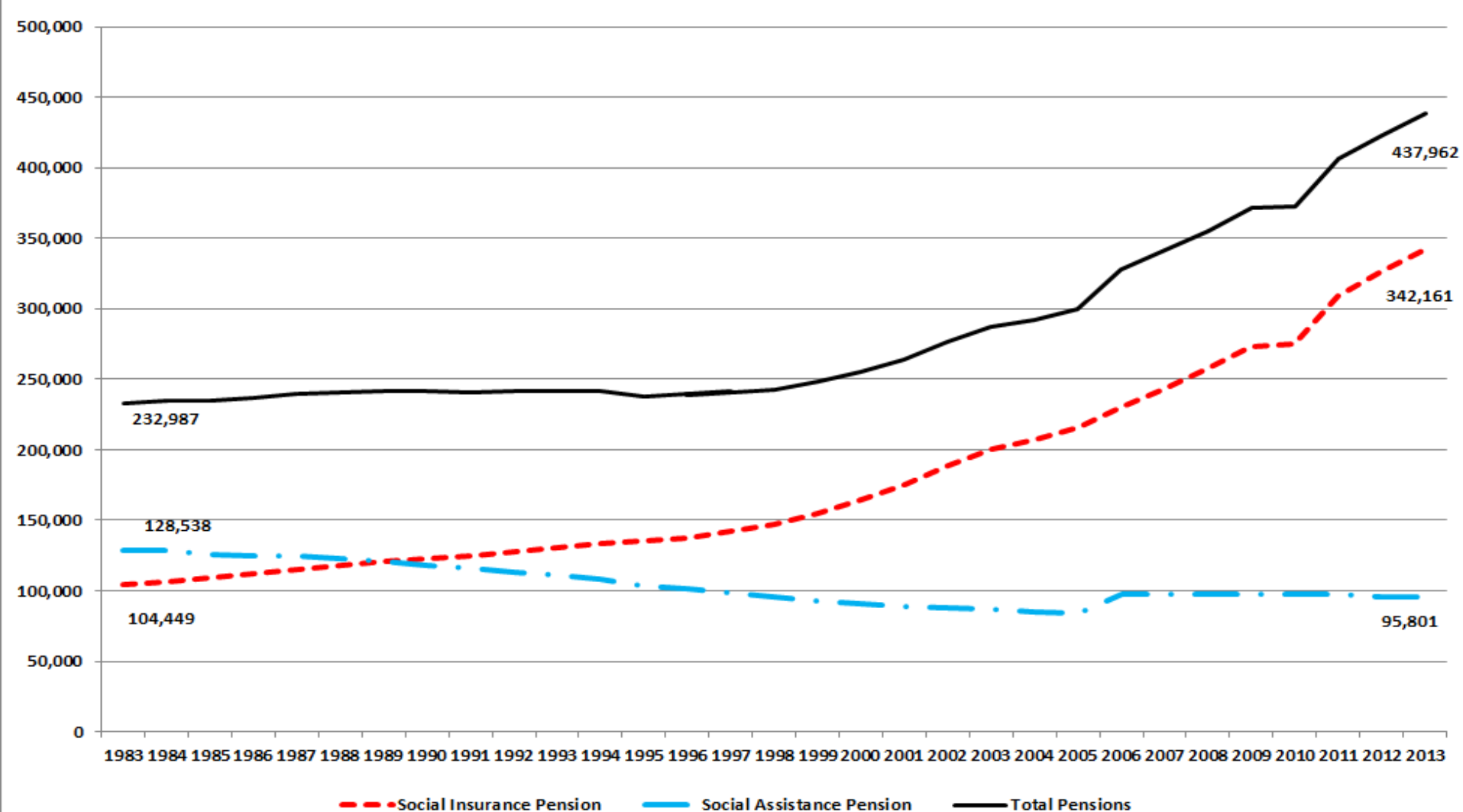
Age 80 Allowance Increases Exceeded those in CPI but Has Not Kept Pace with Those in Social Insurance Pension or Earnings

Figure 4: Increase in Age 80 Allowance, Social Insurance Pension, Earnings and the Consumer Price Index to Base Oct 1972=100



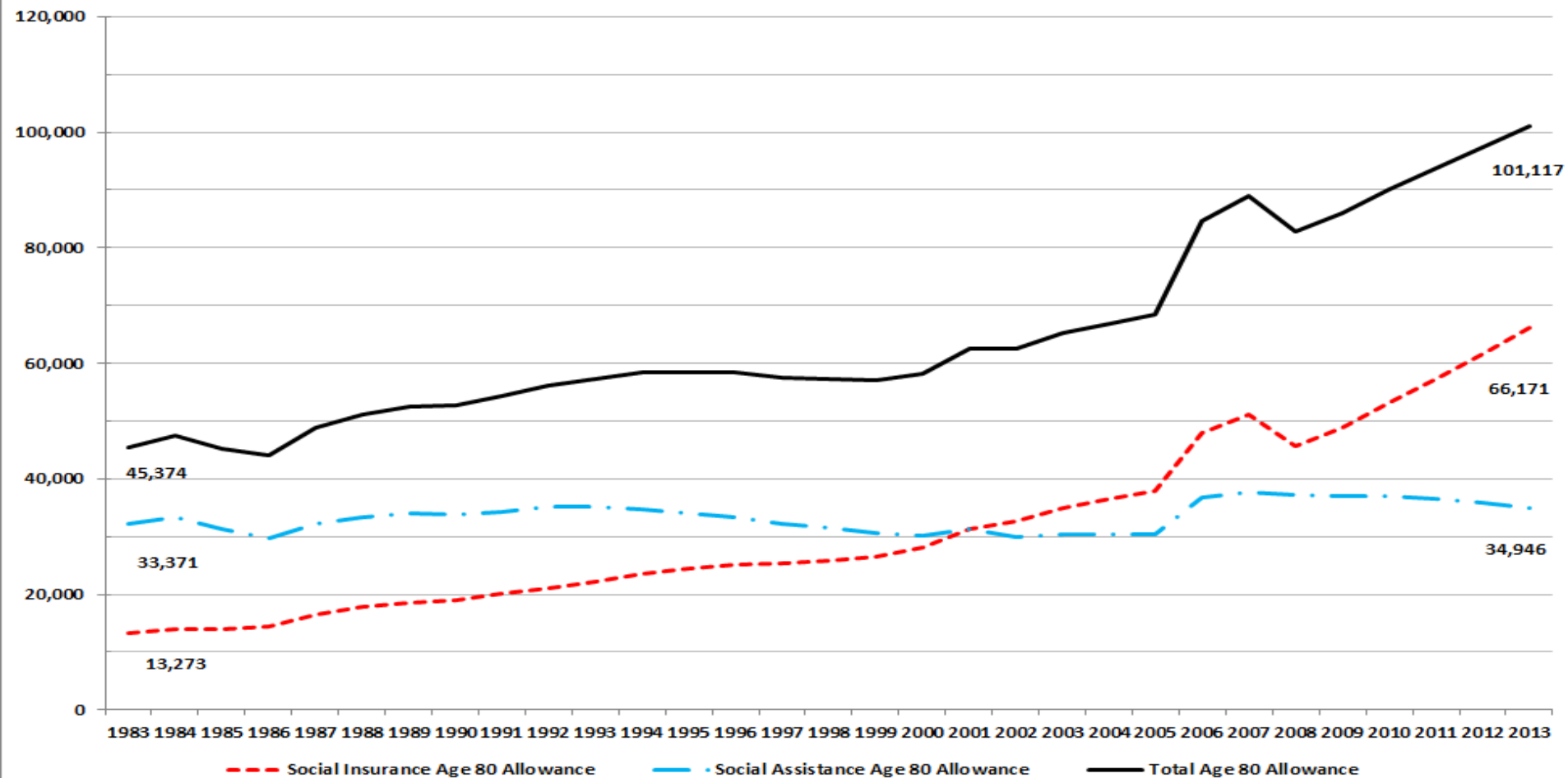
Number of Social Insurance Pensioners Increased Over 3 times while Social Assistance Pensioners Declined by 25%

Figure 5: Social Insurance Pensioners, Social Assistance Pensioners and Total Pensioners, 1983-2013



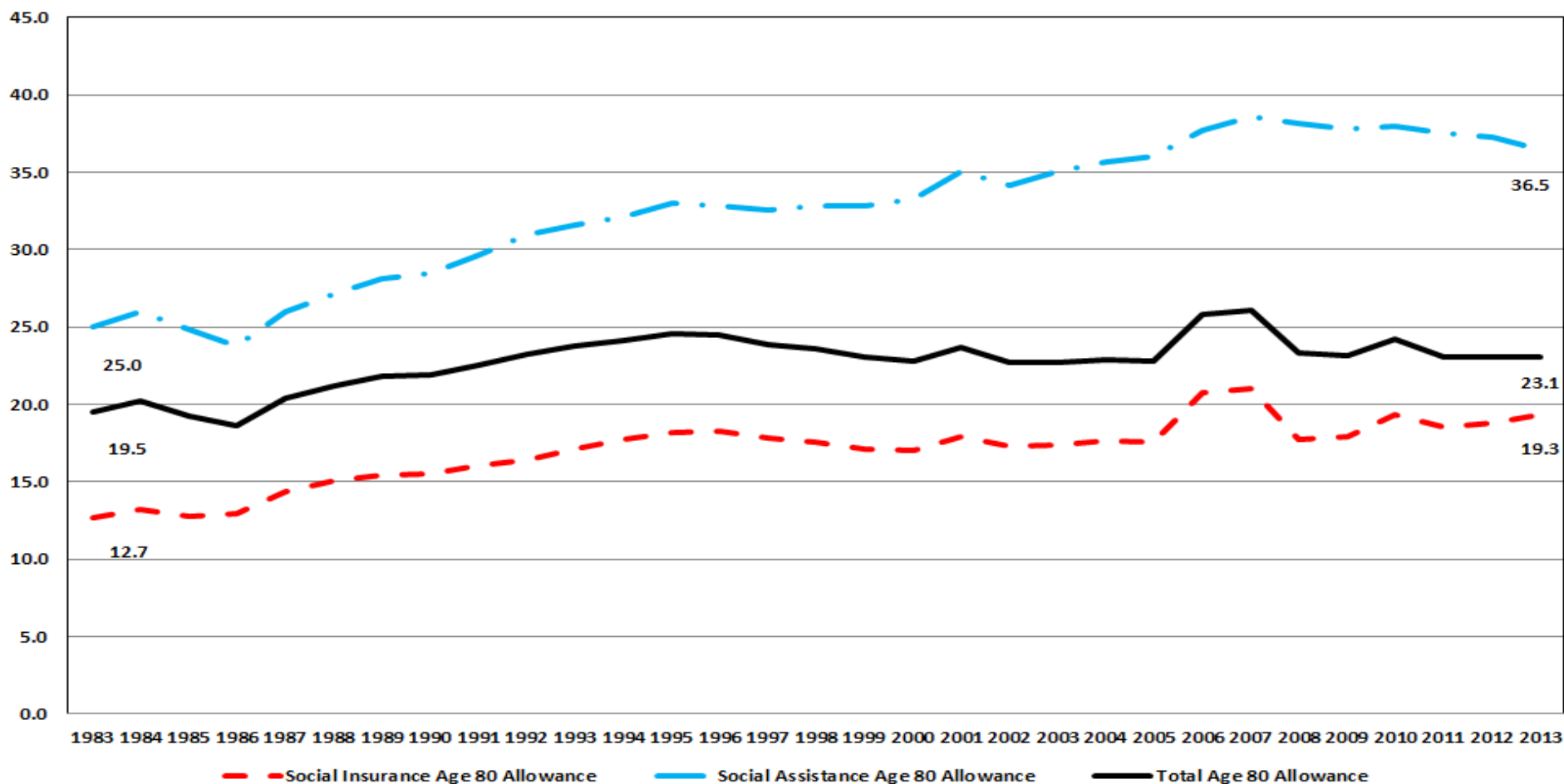
Recipients of Social Insurance Age 80 Allowance Increased Four Times while Recipients of Social Assistance Age 80 Allowance Increased by 9%

Figure 6: Social Insurance, Social Assistance and Total Recipients of Age 80 Allowance, 1972-2013



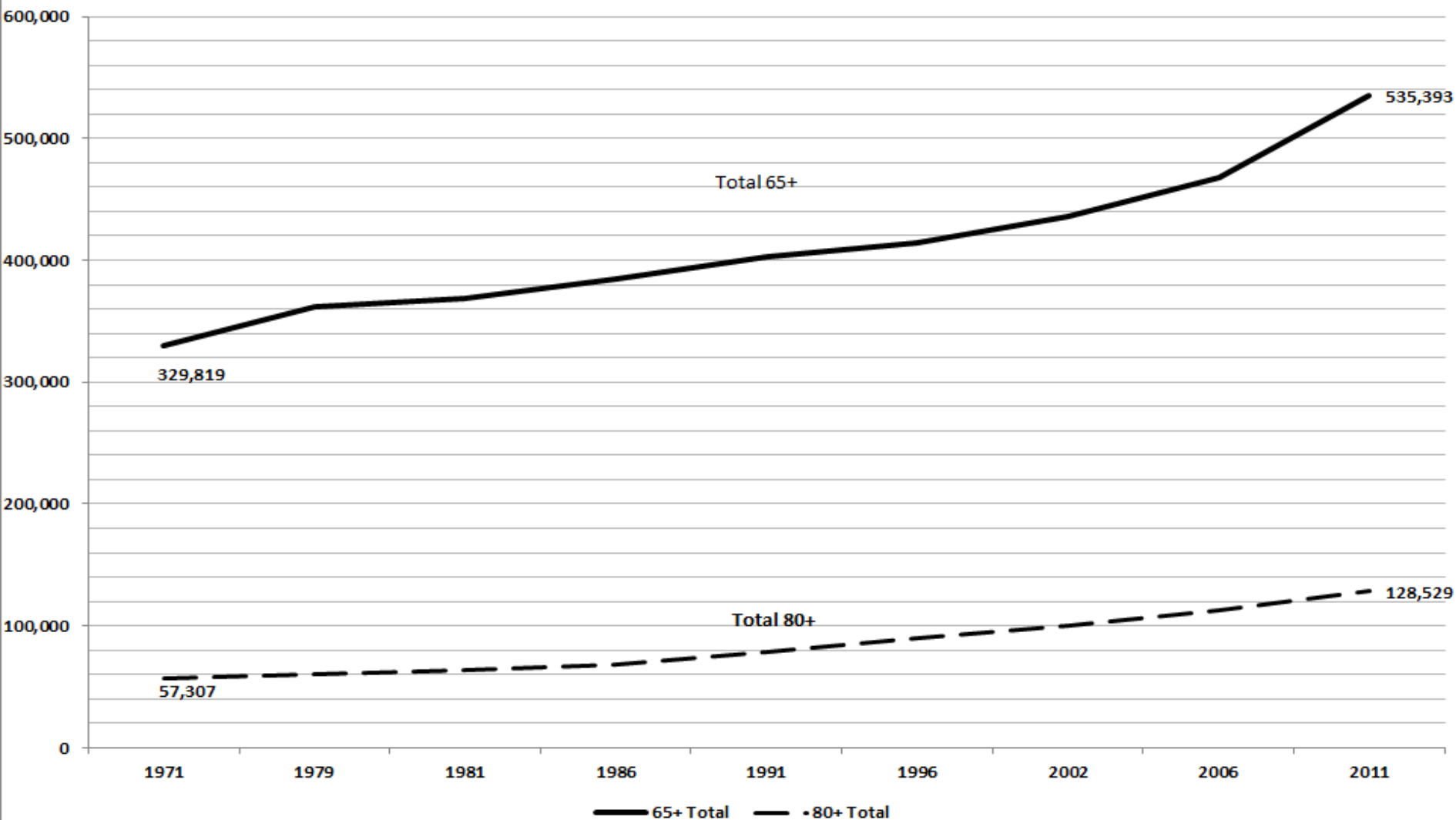
Recipients of Social Insurance Age 80 Allowance Increased from 1/8 to 1/5 while Social Assistance Recipients increased from 1/4 to over 1/3 of Relevant State Pensioners

Figure 7: Recipients of Age 80 Allowance as Percentage of Social Insurance, Social Assistance and Total Pensioner, 1983-2013



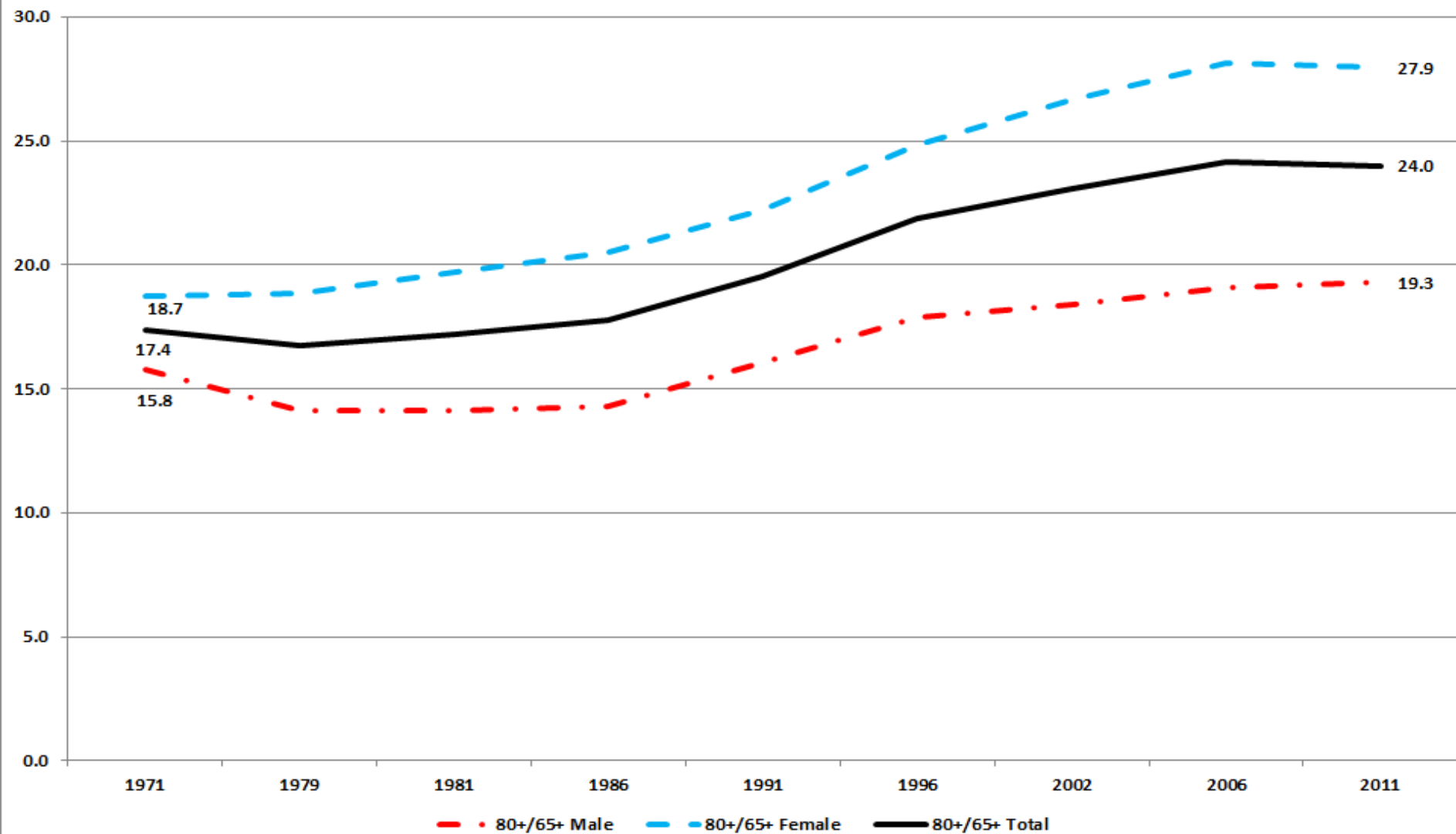
Population 80+ Has More Than Doubled While Population 65+ Increased by About Half, 1972-2011

Figure 10: Male, Female and Total Population Age 65+ and Age 80+, 1971-2011



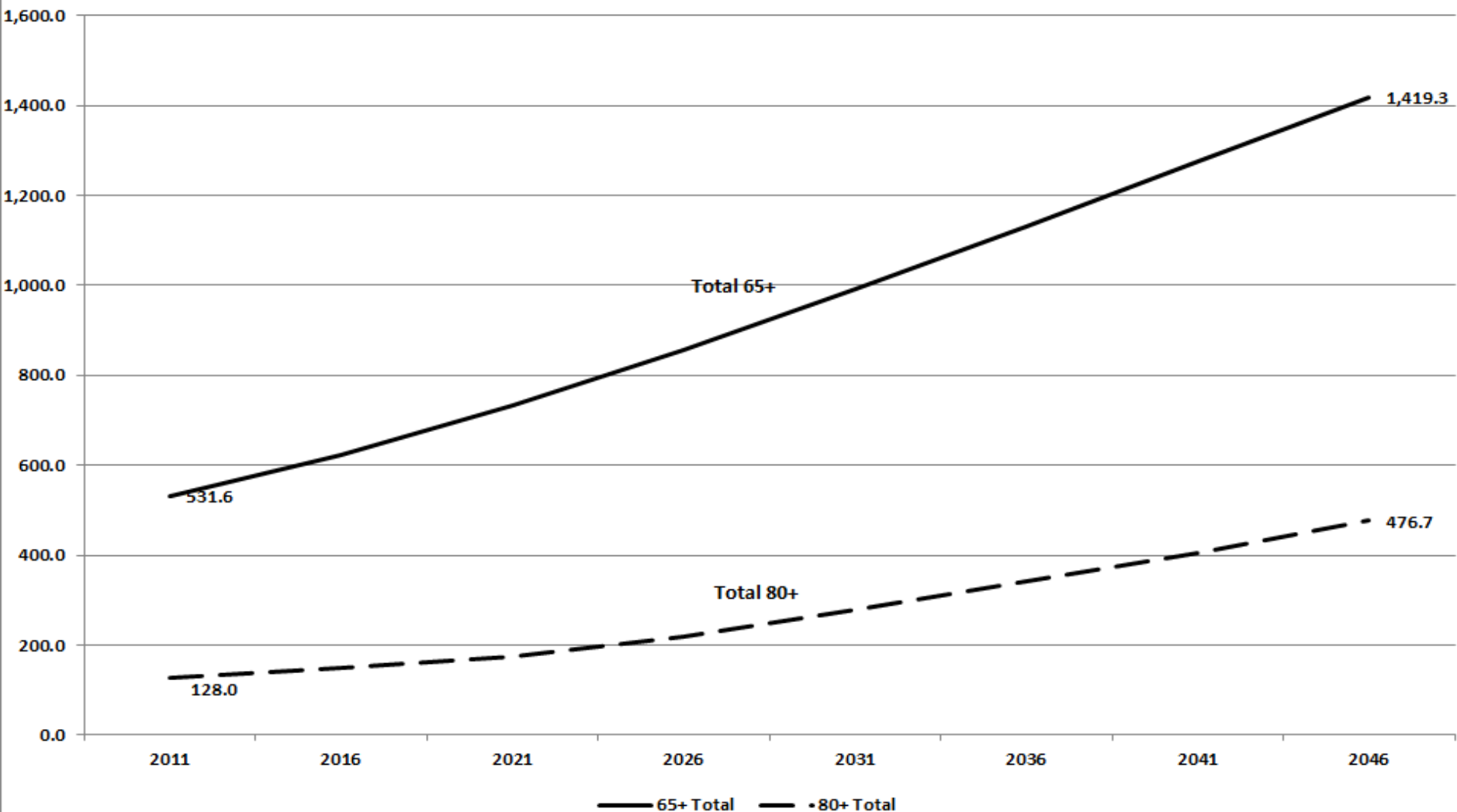
Consequently Population 80+ Increased from 17 to 24 Per Cent, 1972-2011

Figure 11: Population Age 80+ as Percentage of Population Age 65+, 1971-2011



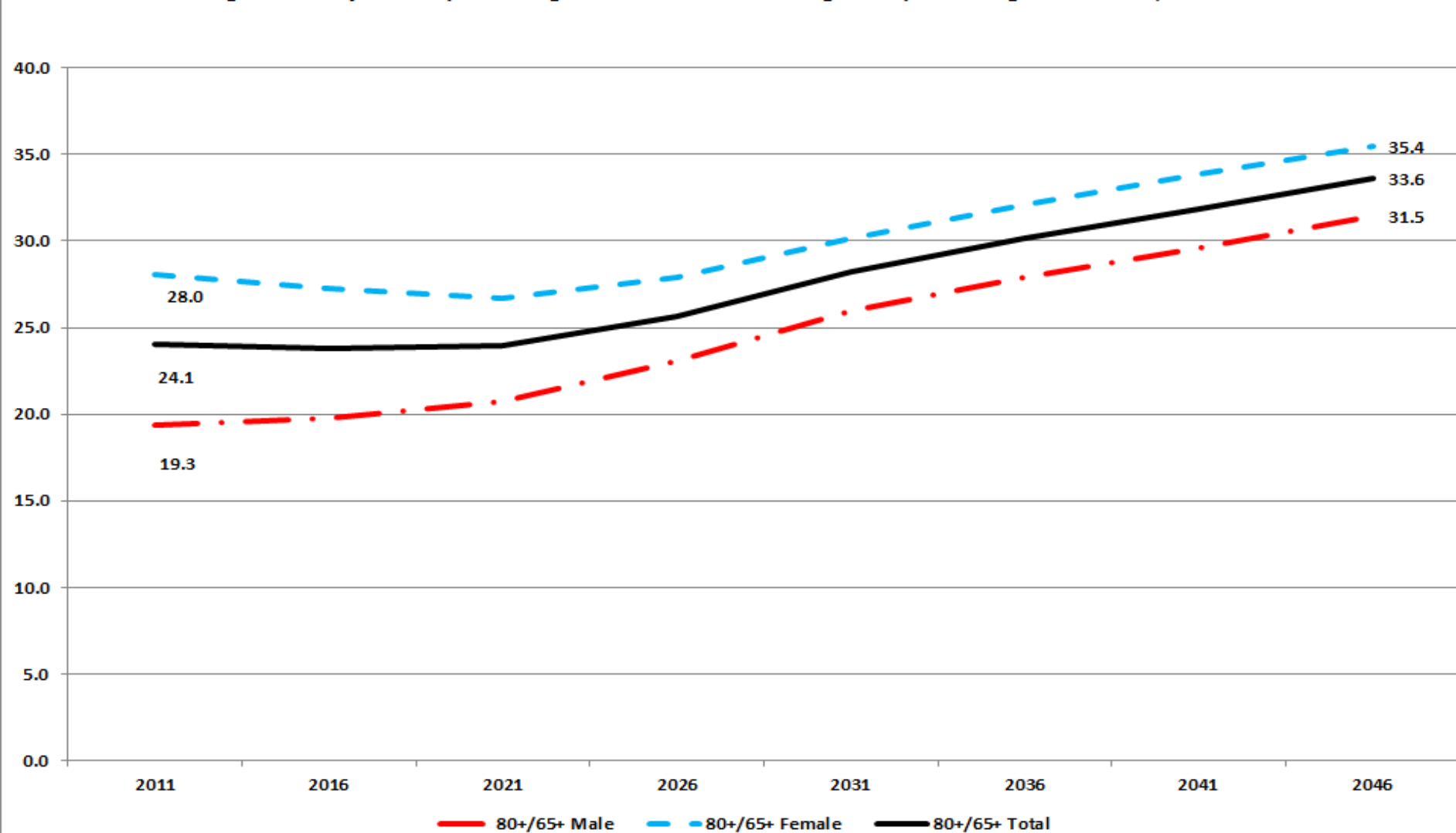
Population 65+ Projected to Nearly Triple & Population 80+ to Nearly Quadruple, 2011-2046

Figure 13: Projected Male, Female and Total Population Age 65 and Over and Age 80 and Over, 2011-2046 (M2F2 Variant)



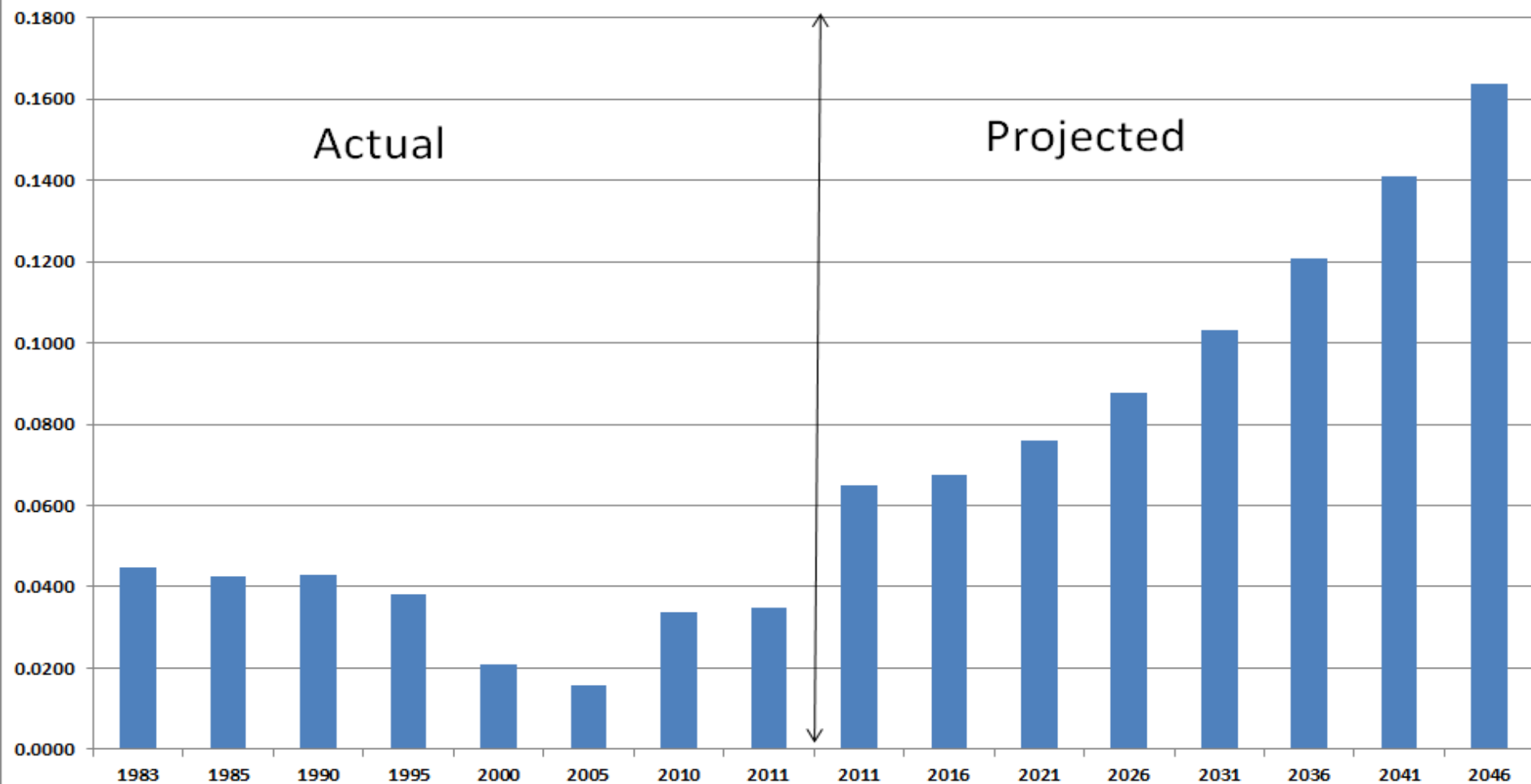
Consequently Population 80+ Projected to Increase from 1/4 in 2011 to 1/3 in 2046

Figure 14: Projected Population Age 80 and Over as Percentage of Population Age 65 and Over, 2011-2046

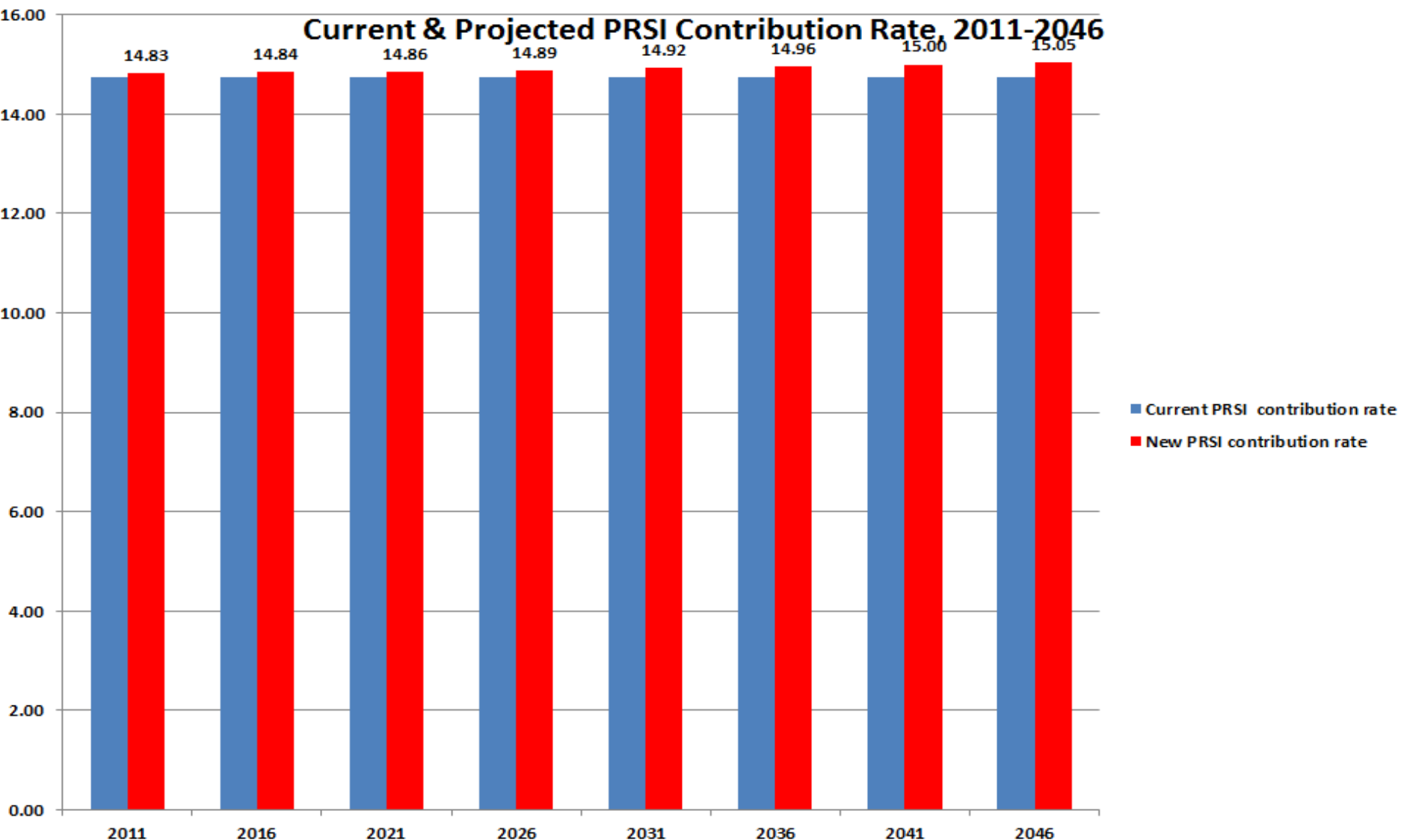


Actual Cost of Age 80 Allowance 1983-2011 & Projected Cost of Increasing Allowance 2011-2046

Figure 16: Actual and Projected Cost of Age 80 Allowance as Percentage of GNP, 1983-2046



Change in PRSI Contribution Rate to Restore Age 80 Allowance to Initial Value Relative to State Pension, 2011-2046



Conclusions

- We have noted that longevity insurance annuities are not provided in the private sector when there are unisex requirements.
- We argue longevity insurance should be a standard part of government old-age benefits programs, particularly in countries where the government programs are not particularly generous.
- Such a benefit would be targeted to an economically vulnerable population, and would particularly help older women who were 63 percent of the population age 80 and over in Ireland in 2011.

Unisex Longevity Insurance Annuities

- In the US, at age 60 a man has a 39.4 percent chance of living to age 85, while a woman has a 52.6 percent chance. Thus, women have a 33.5 percent advantage over men (52.6/39.5).
- For this reason, it would generally not be good advice to encourage a man to buy a unisex longevity insurance annuity.
- This segmentation of the market presumably results in unisex longevity insurance annuities being priced on the assumption that the purchasers are female.

Unisex Longevity Immediate Annuities

- By comparison, life expectancy at age 60 is 21.3 years for men, compared to 24.4 years for women, a 14.6 percent advantage for women.
- This disadvantage is further reduced when joint and survivor annuities are chosen.
- Thus, unisex is much less of an issue for immediate annuities than for longevity insurance annuities.