

Longevity Risk Management and the Development of a Life Annuity Market in Australia

by

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Abstract

Longevity risk is a major policy issue for governments around the world driven by the increase in the proportion of older aged population resulting from improved mortality and lower fertility. Providing products for individuals to insure longevity risk in conjunction with government pension provision is fundamental to the management of this risk. The annuity market in Australia, as well as in many other developed countries, is practically nonexistent. Retirement savings will need to be converted into income in the future to finance retirement needs for individuals. This paper considers the development of a life annuity market in Australia with an emphasis on longevity risk management. The risks in issuing lifetime guaranteed annuities and their management are discussed. The role of government in the lifetime annuity market and the need for and role of government in hedging markets for the major risks is also considered.

Keywords: longevity risk, ageing, retirement, annuity, regulation

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