Intelligence MEMOS

From: Bonnie-Jeanne MacDonald

To: Middle Class Baby Boomers

Date: July 27, 2018

Re: **After 85: How Pooled Risk Insurance Can Give Seniors the Financial Protection They Want and Need**

(In a midsummer revisit to recent Intelligence Memos, we republish this.)

With Canadians living longer, running out of savings in old age is a real possibility.

In my recent report, I propose a pooled risk savings program to protect seniors at advanced ages.

With the transition of baby boomers into retirement, Canada's aging population, greater dependence on private savings, and fewer sources of family support for the elderly, Canada needs a broad government-led initiative to secure adequate income for seniors in later life.

Retirement will span beyond age 85 for more than half of 65-year-old Canadians. They want to protect their later years and we need innovative solutions now– ones that add definitive value but place no new pressures on the Canadian public purse.

Research highlights that middle-class seniors are strongly opposed to voluntary annuities, as they want to keep control over their savings. Longevity insurance can provide a secure income stream at older ages without many of the criticisms associated with traditional annuities, but Canadian tax environment is unfavourable for private-market longevity risk products.

Instead, Ottawa could institute a national, completely voluntary program that would give retiring Canadians the option to buy into a pooled fund that provides a stable income stream starting at age 85: *Canada's Living Income For the Elderly (LIFE).*

Here's how LIFE would work:

- At age 65, Canadians could invest funds to LIFE according to their personal discretion. Monthly payouts for life would start at age 85.
- Commuted value cash withdrawals would not be permitted during the deferral period or the payout stage.
- LIFE would feature mortality risk pooling among its members, giving survivors the added return of the "mortality premium."
- Between ages 65 and 84, each member's account would be invested in a relatively aggressive portfolio (Fund1) and would grow each year by actual investment experience plus the mortality premium generated within the age 65-to-84 LIFE group that year.
- After age 85, the members' funds would be moved into a more conservative portfolio (Fund2). The monthly income would be fixed across their remaining life, calculated using conservative investment and mortality expectations. At the end of each year, any surplus in the mortality experience of the group and investment return on the accounts would be distributed equitably among the age 85+ members through lump sum "bonus" payouts.

With this design, Canadian retirees would have easy access to trustworthy product that enables them to turn their savings into a reliable income stream at the lowest possible price, without shifting financial risks onto the rest of Canadians.

LIFE will encourage retiring Canadians to proactively prepare for advanced ages while allowing them to maintain control of the vast majority of their financial savings. The program will benefit not just Canada's elderly population, but all Canadians.

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