Longevity Risk - The Hidden Danger & The Need for Advisors to Remodel the Future of Retirement Advice

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Longevity is, as per the Oxford English Dictionary, "long life; the fact of lasting a long time". Whilst it is regularly framed as a triumph of modern society, with advances in medicine, better lifestyles, and improved living standards, for financial advisors, it is the central retirement challenge: the most underestimated and structurally dangerous risk in retirement planning. Unlike financial volatility, inflation, or interest-rate shocks, longevity risk is systemic, persistent, and compounding.

The average life expectancy in the EU is 81.5 years[1], whilst in Ireland it is 82.9 years[2], with an average healthy life expectancy of 63 years, with 20 years or more with health limitations. Retirees today have different requirements and expectations than those of previous generations. They believe they have a reasonable sense of how long they will live based on parental lifespans, personal health, or broad assumptions about the "average" retirement duration. Individuals and advisors cannot rely on averages, as they are misleading and do not capture the compounding effect of living even five years longer than expected. Underestimating life expectancy by just **three years** can increase a pension fund's liabilities by **10–15%.** Portfolios designed for 25-year retirements may need to last 35 or even 40 years.[3]

Aside from the core need for income, retirees now also require income in retirement to cover healthcare costs, the cost of their independent living/care, living abroad for part of the year, travel, and assisting their children with house purchases. These changing realities make longevity risk more immediate and more personal.

Why Longevity Risk Is the Dominant Threat

Longevity risk is not a standalone threat and is not simply about "living longer." It is the **financial, behavioural, and structural consequences** of extended lifespans, and it sits at the centre of retirement planning. Several forces make it uniquely dangerous:

Rising Life Expectancy

Life expectancy at 65 continues to rise, even after pandemic-related disruptions. Mortality rates have been falling for decades, driven by massive advances in healthcare and lifestyle changes.

Declining Birth Rates

The ageing population and shrinking workforce are stressing the public pension system, shifting more of the burden onto individuals, with increases to PRSI expected later this year.

Healthcare and Long-Term Care Costs

Longer lives mean longer exposure to chronic illness, caregiving needs, and medical inflation, all of which must be funded.

Sequence Risk

The longer the retirement timeline, the more damaging early retirement market slumps become.

Behavioural Underestimation

Clients regularly underestimate their longevity due to optimism bias and a lack of understanding.

Clients Underestimate It.

They plan for the retirement they expect, not the one they may experience.

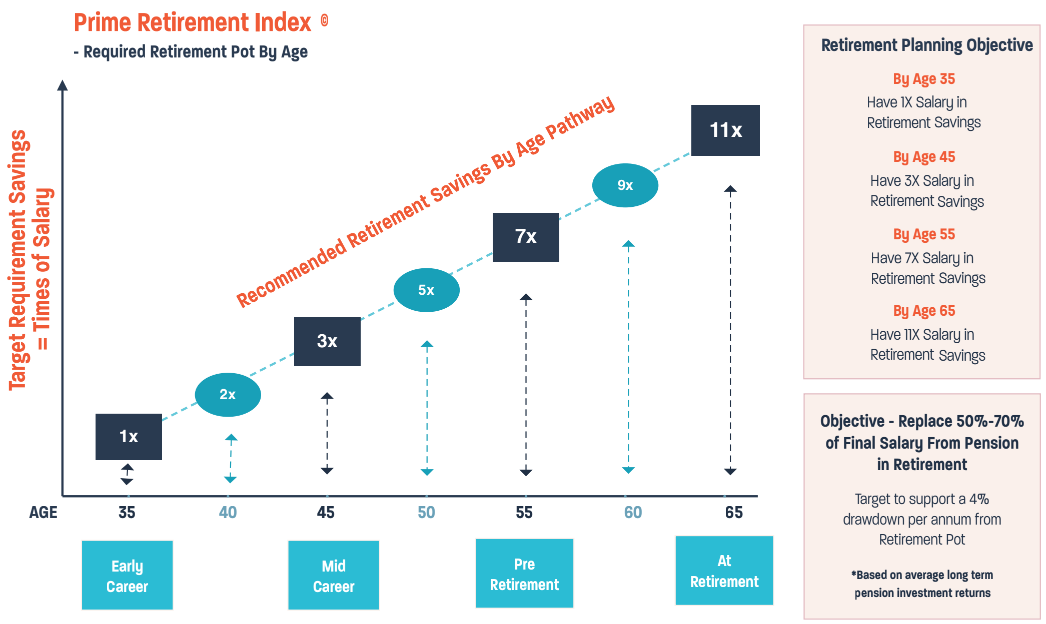
Advisors Often Underweight It.

Traditional planning models still assume linear retirement phases and outdated mortality tables. Advisors are now operating in a world with no historical parallel, and long-held assumptions are breaking down.

Despite its significance, longevity risk remains underappreciated across the financial services sector, and this blind spot weakens retirement advice. This is why
advisors and the industry must treat it as a central planning risk.

The New Retirement Reality & What Can Advisors Do:

01 Accumulation: The key question advisors are asked: "How much do I need to have in my pension?"



Back-tested versus market performance over the past 100 years and adjusted for inflation, the index provides a clear reference for appropriate pension levels at different ages.

- The index supports the market norm of a 4% drawdown of retirement funds at 65, with an 11X final salary at retirement.
- The calculations, including any State pension benefit entitlement, would move the replacement rate towards the recommended 50%-70% level, depending on final wage.
- The index shows a derisking approach at age 55, showing a more conservative investment approach in the final years pre-retirement. Advisors can use this to guide earlier action.
- Provides measurable savings targets and demystifies pension planning
- Supports a risk-managed investment glide path
- Encourages early action and tax-advantaged investment
- Allows for a common definition of "underfunded" personal pension
- Bridges the difference between policy, market performance, and individual behaviour

Backdated Pension Contributions:

Most clients are more focused on overpaying or clearing their mortgage debt when they have disposable income. If clients have basic financial plans in place and still have disposable income, advisors may find it wiser to advise their clients to max out pension contributions before overpaying the mortgage. This gives the money more time to grow and compound tax-free. That's why prioritising pension contributions over mortgage overpayments can be a better idea, depending on each client's individual circumstances and wider financial plan.

02 State Pension: Individuals face greater responsibility for managing their income and cannot rely solely on the traditional state pension.

What we currently know is that, starting in 2035, the Total Contributions Approach (TCA) will be in place. This approach accounts for the total number of reckonable contributions, including credited contributions and home caring periods. The maximum combined total of these is 2,080 contributions. If an individual's total reckonable contributions plus capped combined contributions are 2,080 or more, they will receive the maximum pension rate. Advisors should make clients aware that they may be ineligible for the full state pension and may need to make voluntary contributions and/or continue working until age 70. Clients can request a copy of their social insurance record online https://services.mywelfare.ie

This makes early review of contribution records essential.

03 Fund Advice: Default investment or lifestyle strategies may leave portfolios insufficient for long retirements. Advisors must consider blended portfolios for diversification and correlation that manage growth and protection.

04 Reframe Risk Conversations: Attitude to risk questionnaires are insufficient. Advisors must shift discussions toward **risk capacity, retirement duration, and income sustainability.**

05 Plan for Duration: Pension planning should model outcomes to age 95, 100, and beyond, not as worst-case scenarios, but as realistic possibilities. Build plans around duration, not age. Clients need to understand that the real question is not when they retire, but how long retirement will last.

06 Use Probability-Based Modelling: Adopt stochastic modelling, mortality tables, and scenario analysis tools, long used by pension actuaries but underused in retail advice. Advisors should use them to improve planning.

07 Integrate Health and Lifestyle Data: Advisors must anchor planning assumptions to shifting mortality realities. Healthcare strain, socioeconomic inequalities, and evolving disease patterns invalidate uniform life-expectancy estimates, calling for tailored approaches that account for demographic disparities and financial indicators.

08 Adopt Hybrid Income Strategies: There is renewed interest in annuities amid climbing interest rates and dividend-growth equities. Advisors should blend guaranteed income, flexible withdrawals, and growth assets to generate resilient, adaptive income streams, e.g. 30% income from an annuity and 70% from ARF distributions.

09 Educate Clients Relentlessly: Clients must understand that longevity is not a gift without a cost; it requires early, disciplined planning, behavioural coaching, and planned assignment. Advisors should make that clear.

Whilst there have been significant changes to the post-retirement pension landscape in countries like the UK (Flex & Fix)[5] & Australia (Agile),[6] current products in Ireland are not suitable for dealing with longevity risk or for providing the flexibility and guaranteed income required. There is an urgent need for product innovation and legislative change.

Conclusion: The Advisor as Longevity Translator

Longevity is altering the financial domain more profoundly than any market cycle, regulatory shift, or product innovation. It is the defining challenge and opportunity of modern retirement planning, and the central issue advisors must address.

As populations age, mortality patterns evolve, and retirement horizons stretch, advisors must become translators of the risks associated with their clients' pensions and retirement income, helping clients where old assumptions no longer apply.

The future of retirement advice belongs to those who understand that living longer changes everything and who build plans strong enough to last as long as their clients do. Advisors who master this central retirement challenge will lead the next decade of retirement planning.

1 https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Mortality_and_life_expectancy_statistics

2 https://www.oireachtas.ie/en/debates/question/2026-02-11/354/

3 https://www.zurich.ie/blog/living-longer-impacts-pension-pot/

4 Developed by FPSB Ireland and GEM Strategic, permission from Kevin McConnell

5 A "flex and fix" (or "flex first, fix later") pension is a phased retirement income strategy. It allows you to use pension drawdown in your early retirement years for flexibility, and then later switch to a guaranteed income, such as an annuity, for long-term security. Aviva.com

6 AGILE (Allianz Guaranteed Income for Life) is a hybrid retirement income solution in Australia by Allianz Retire+ that combines market-linked investment growth with a guaranteed lifetime income. It features two phases: a Growth Phase with market exposure and downside protection, followed by a Lifetime Income Phase. Allianz.com.au