GLOBAL RETIREMENT INCOME SYSTEMS

MARKING GUIDE

Students need to be able to

- Identify and discuss the key risks faced by each group of members in retirement

- Conclude that multiple default post retirement income products are needed to address the different risk profiles of the groups
    - The question lends to the conclusion that multiple default products are needed. But it would be acceptable if a student can put forward a reasoned response with analyses to support why a single default post retirement income is suitable to all members

- Design the post retirement income products and explain
    - what are the advantages and disadvantages of each product
    - how they address the key risks each group face in retirement
    - how does each product allocate and price risks
    - why the products are suitable for each group

- Modelling of the post retirement income product is needed
    - Modelling of post retirement income from each product and the interaction with government supplementary pension
    - Some sensitivity analysis of modelling results to illustrate key risks for each group of members

- Consider (or at least show awareness of) commercial reality
    - Competition with other superannuation funds
    - The default products need to be easily communicated to and understood by members – this limits the number and the complexity of the default products to be offered

- Present analysis, reasoning and conclusions in a report format to the trustee board

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CONTEXTUALISATION

Who: Organisations and people involved and what are drivers for each group?

- Trustee – wants to retain scale ie keep investment after retirement, cost efficiency
- Fund members – want arrangement that meets their retirement needs in cost effective manner – different profiles
- Regulator – compliance with regulations
- Union – promote interests of union members, negotiate with Trustee

What: What advice is required?

Retirement income default arrangements for different membership groups

What: What risks can be identified?

- Mortality + improvement
- Investment return
- Inflation
- Behavioural finance theory
- Desire in retirement for stable annual income vs ability to access lump sum

Need to identify and comment on the key/most relevant risks faced by each type of member in retirement. Product designs need to address these key risks.

What: What data is available?

- Mortality assumptions
- Interest rates
- Inflation
- Average Annual Income
- PHS investment option asset allocations
- Typical member profile at retirement

Where: Which country and which regulations and standards apply:

Key information provided in the question.

Can assume that similar regulation as in Australia applies to trustee management of a superannuation fund.

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Why: Business issue to address:

Change in legislation leads to a new market for post-retirement income products
Competition between funds to attract and retain members/funds under management

How: Analyses needed?

- Need projection of retirement income under proposed product designs.
- Need justification for why a particular product design is suitable as a default for members.

How: Assumptions required and sensitivities?

- Investment return
- Wage increases
- Inflation
- Mortality + improvement

When: Effective date of advice/ valuation/ projection

- Current economic conditions
- Projections from retirement

END OF MARKING GUIDE

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