

Biennial Convention 2007

Adventures in Risk

23-26 September 2007 • Christchurch, New Zealand



Institute of Actuaries of Australia

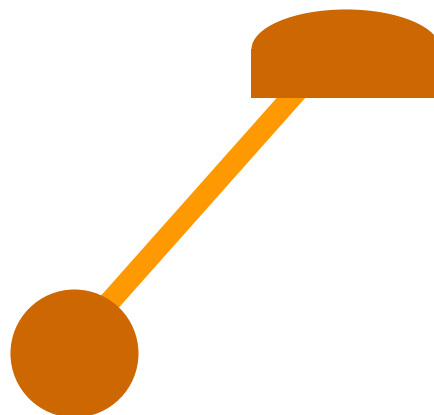


Next Generation Retirement Income Streams

Pauline Blight & Daniel Longden



Australian Product Trends

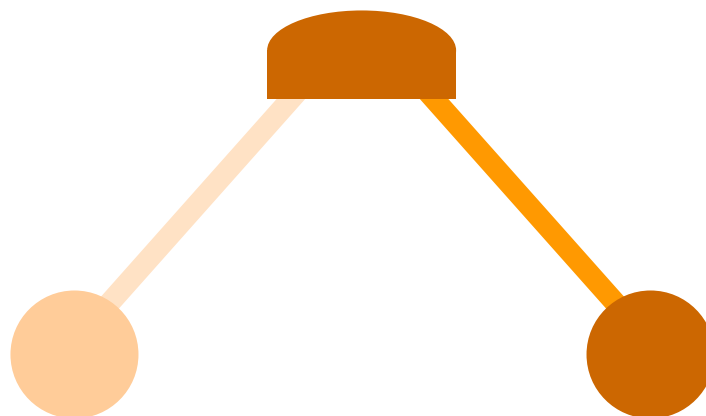


1. Lifetime annuities

- Guaranteed income
- Provider takes risk
- Capital intensive
- Fixed-interest style returns



Australian Product Trends



1. Lifetime annuities

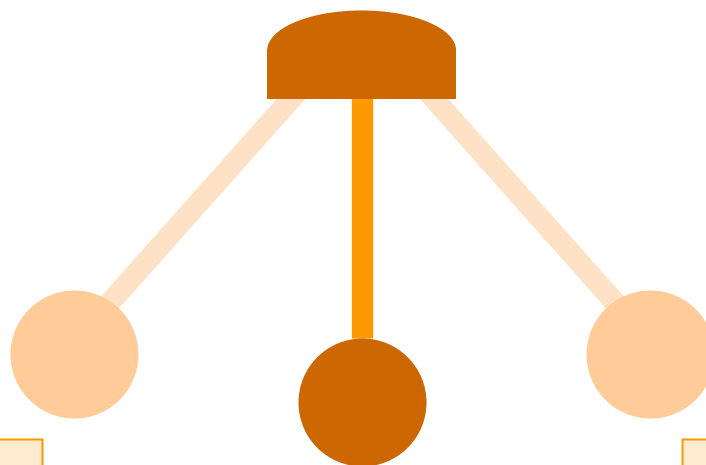
- Guaranteed income
- Provider takes risk
- Capital intensive
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2. Allocated pension

- Pensioner takes risk
- Low capital needs
- Choice of risk/return profile



Australian Product Trends



1. Lifetime annuities

- Guaranteed income
- Provider takes risk
- Capital intensive
- Fixed-interest style returns

3. Next generation

- Sharing of risk
- Capital efficient
- Return upside

2. Allocated pension

- Pensioner takes risk
- Low capital needs
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Forces of Change

- Living longer, longer retirement
- Demographic change
- Increased cost of long term care
- Changes to superannuation environment
- Increased awareness of longevity risk
- Increased focus on appropriate advice

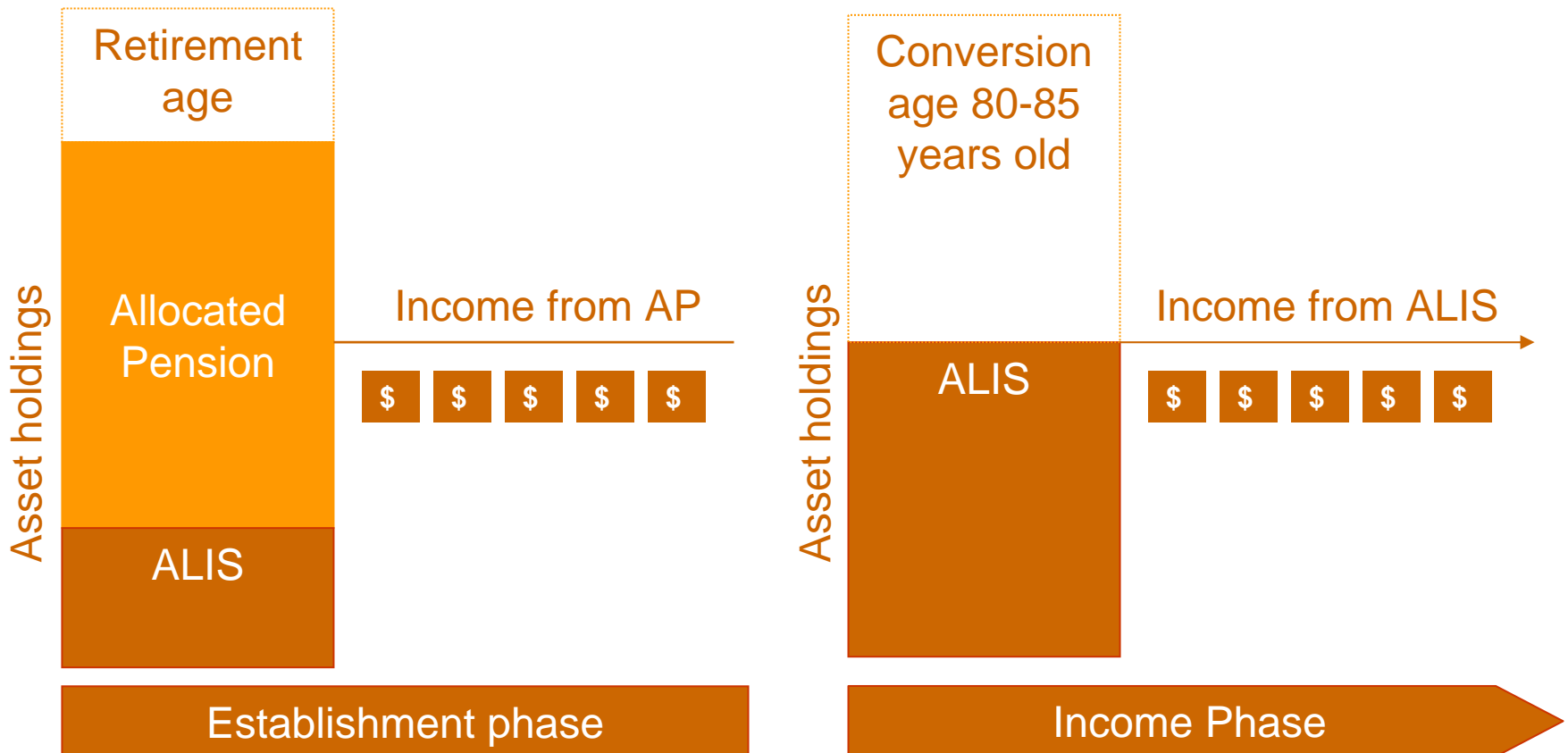


ALIS – Key Features

- Risk pooling – survivors' income enhanced through pool mortality
- Limited guarantees
- Limited withdrawal or death benefits to prevent anti-selection
- Superannuation product, complements allocated annuity

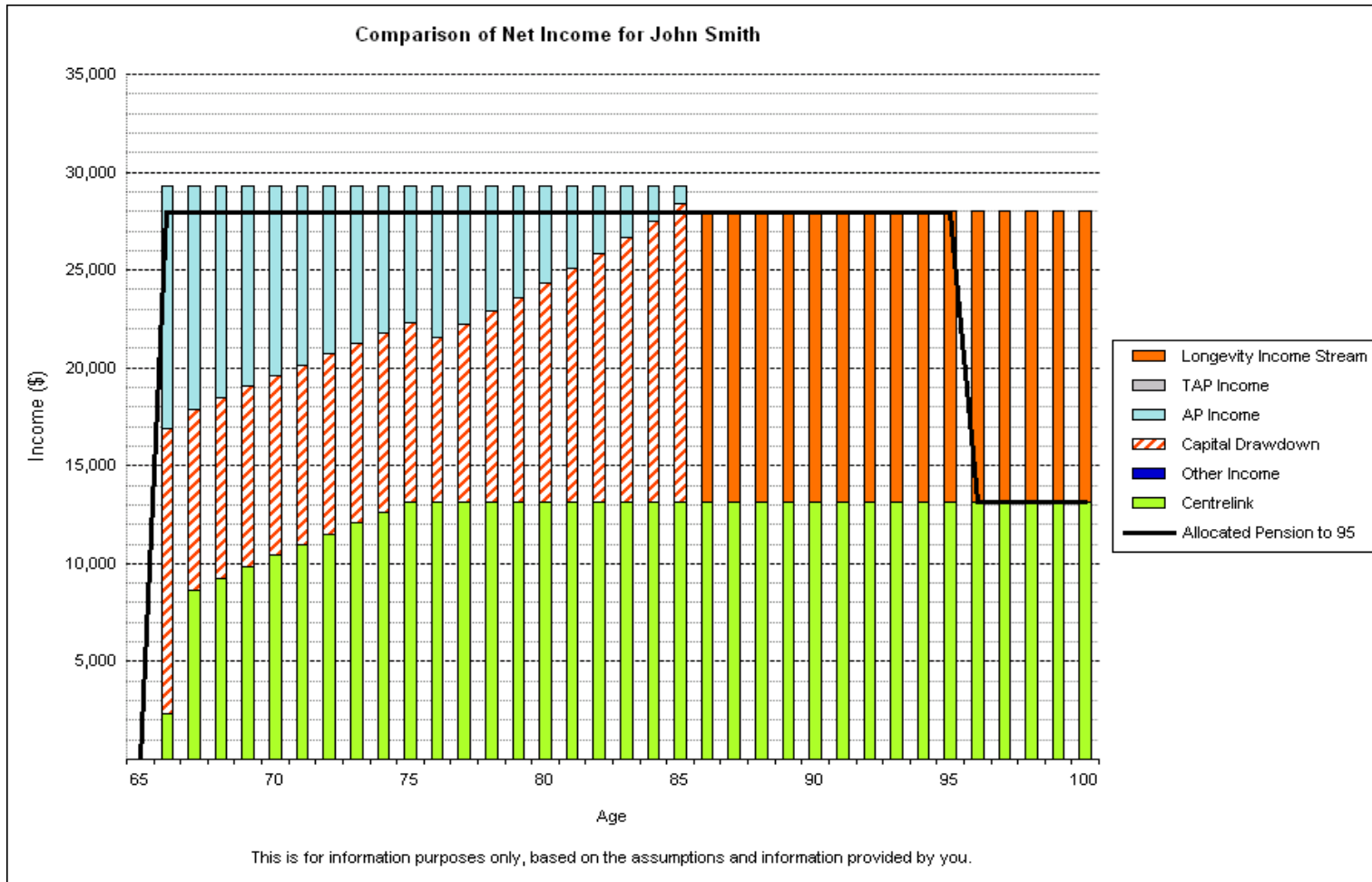


Asteron Longevity Income Stream



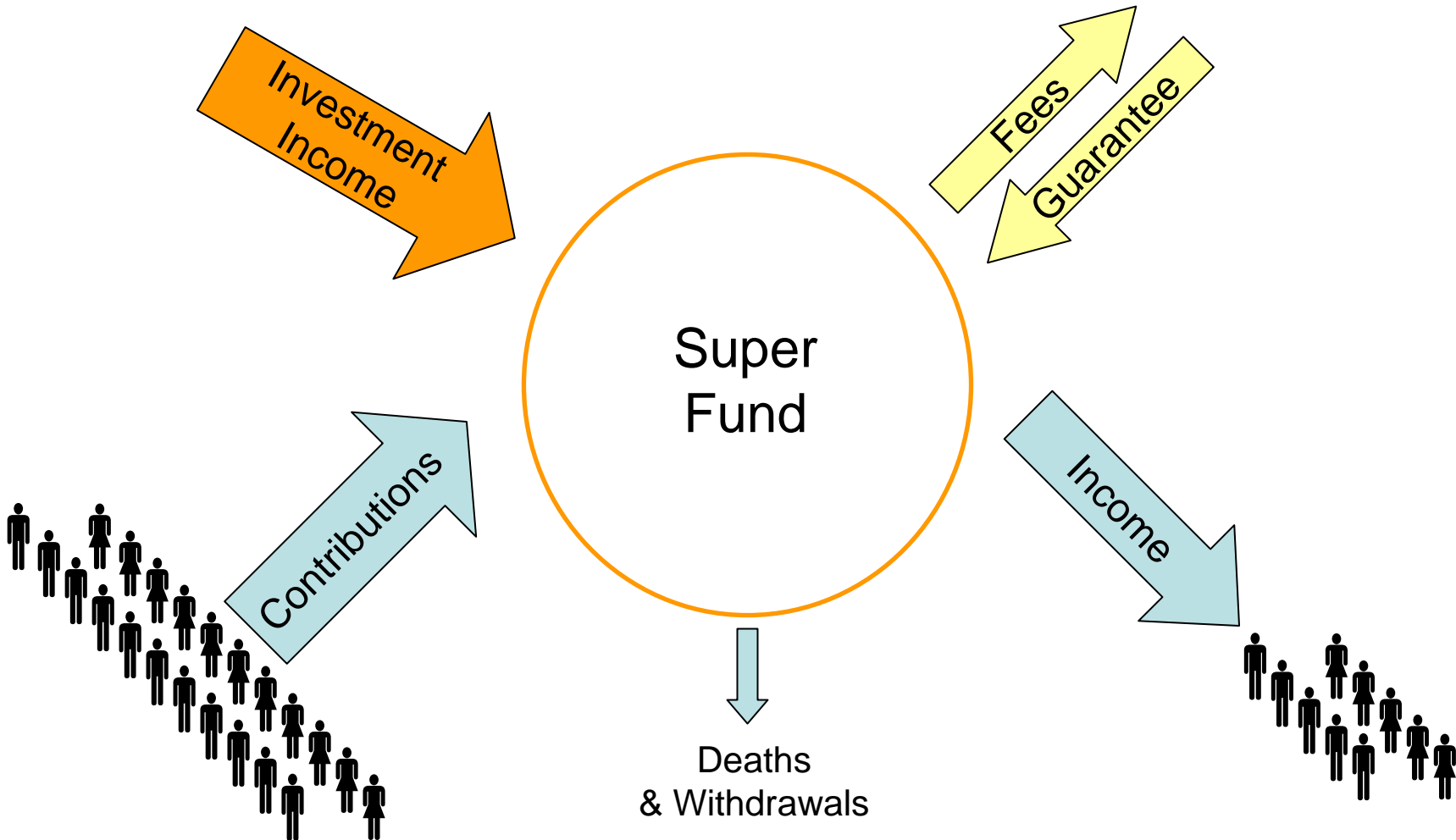


Asteron Longevity Income Stream





Asteron Longevity Income Stream





International Developments

- Variable annuities
- Variable annuity guarantees
- Unit linked and with profits annuities
- Impaired life annuities
- Longevity insurance



Variable Annuities

- Essentially deferred Allocated Annuities
- Unit-liked style product allows
 - Saving during accumulation phase
 - Draw down during payout phase
- Rarely converted to payout phase
- Guarantees sold as explicit riders



Variable Annuities

- Hugely successful product sales
 - US: more than US\$2 trillion
 - Japan: more than US\$70 billion
- Expanding into European markets
 - Spain
 - UK
 - Others?



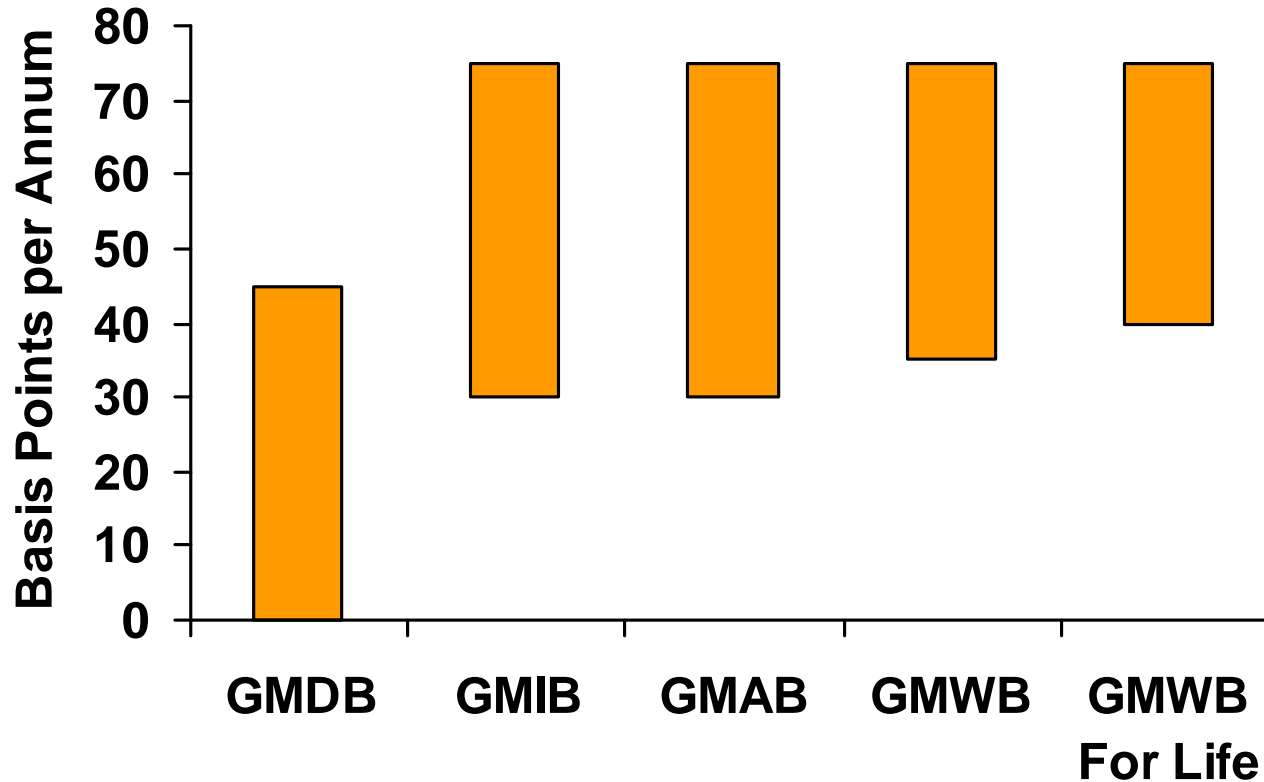
Variable Annuity Guarantees

- The GMxBs
 - Guaranteed Minimum Death Benefit
 - Guaranteed Minimum Income Benefit
 - Guaranteed Minimum Accumulation Benefit
 - Guaranteed Minimum Withdrawal Benefit
 - Guaranteed Minimum Withdrawal Benefit for Life
- Ratchets
 - Lock in returns to date



Variable Annuity Guarantees

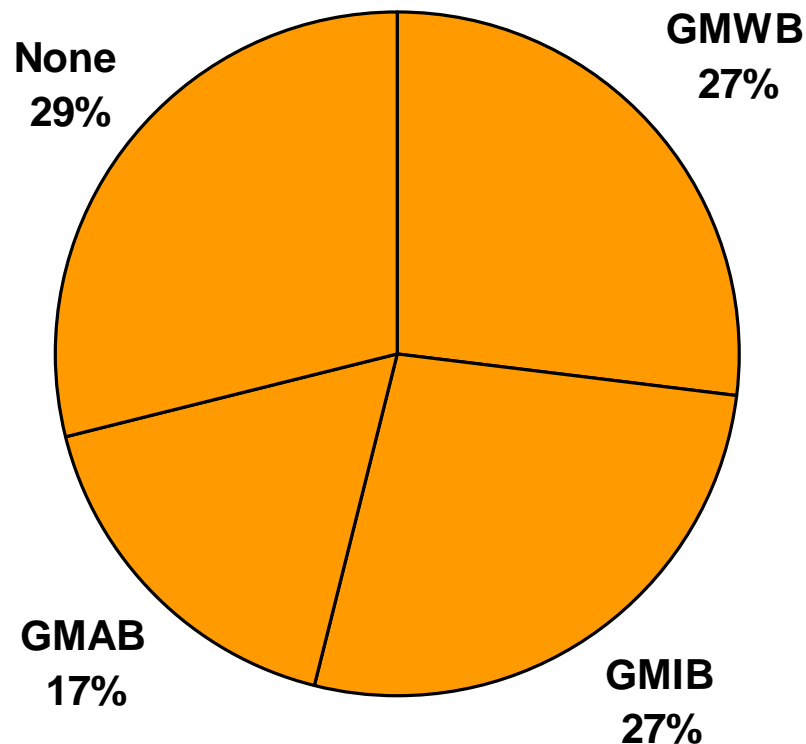
Typical Cost





Variable Annuity Guarantees

Popularity





Unit Linked/With Profits Annuities

- Emerging in the UK
- Unit linked annuities
 - Initial income based on assumed investment returns
 - Actual income varies with actual investment returns
 - Guarantees rare
- With profits annuities
 - Low initial income level
 - Reversionary and special bonuses



Impaired/Enhanced Annuities

- Gaining popularity in the UK
- Impaired life annuities
 - Limited life expectancy due to illness/disease
 - High payout rates
- Enhanced annuities
 - Socio-economic or lifestyle indicators
 - Smoking status, geography
- Future experience?



Longevity Insurance

- The theoretical Holy Grail
 - Meets a clear need in retirement planning
- Products available in the US
 - Metlife, New York Life, The Hartford
- Limited sales success
 - Strong asset markets
 - Low awareness of longevity costs
 - A product before its time.....??



Key Learnings

- Legislation makes true product innovation difficult – but it is possible
- Actuaries have a crucial role to play in the design and management of these products
- Longevity risk is not well understood
- Education process is slow