

The New Super Landscape

– What Lies Ahead for Wealth Managers

SEMINAR



Institute of Actuaries of Australia

Thursday, 30 November 2006

AMORA JAMISON SYDNEY, 11 JAMISON STREET, SYDNEY

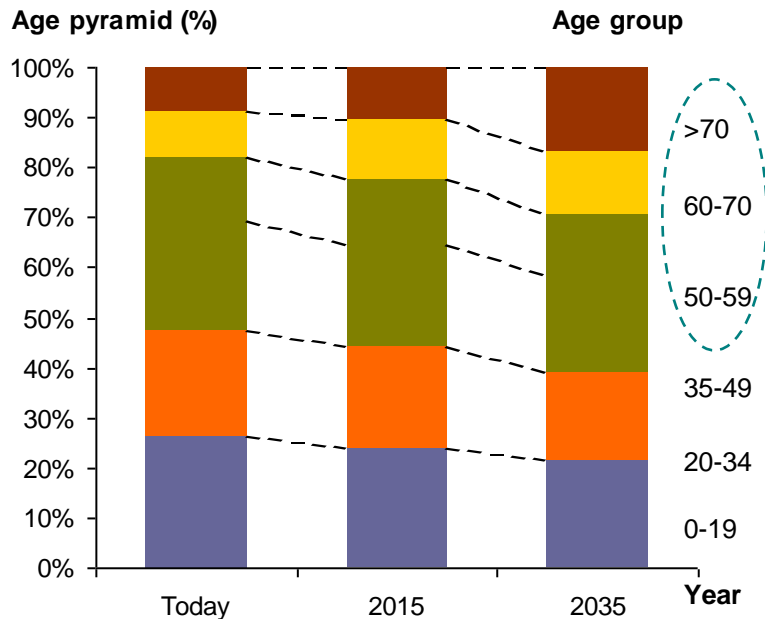
Meeting the needs of Australia's retirees

**Anthony Bice
Pauline Blight**



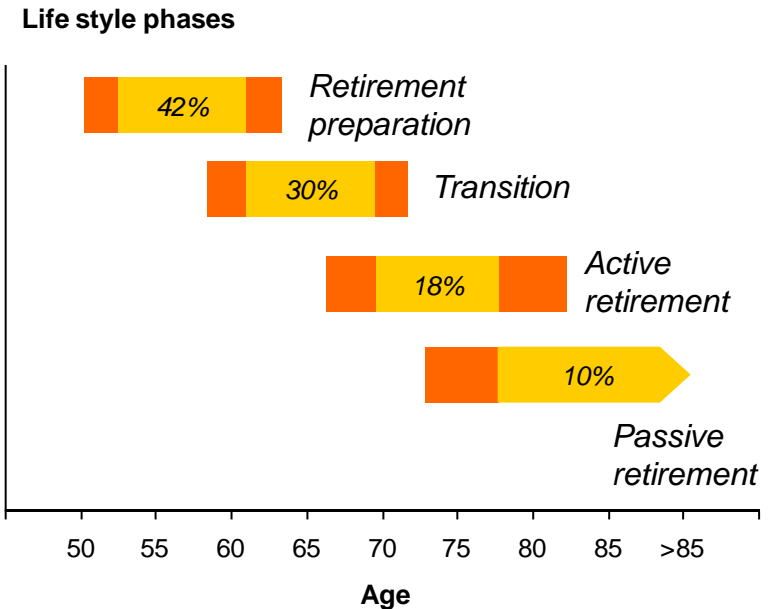
A global shift is taking place in how wealth managers need to address their customers

The anticipated – reshape of the age pyramid



The proportion of the population in the 50+ age group may increase to 42% within the next 30 years

The unanticipated – fragmenting of the 50+ segment

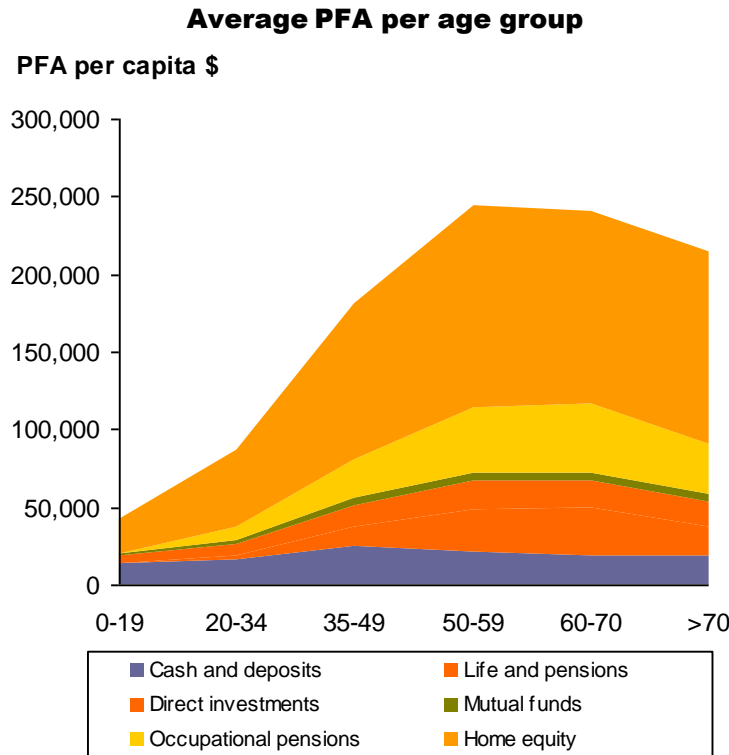


Understanding the specifics beyond these life styles and life stages is crucial first step to serve 50+ customers

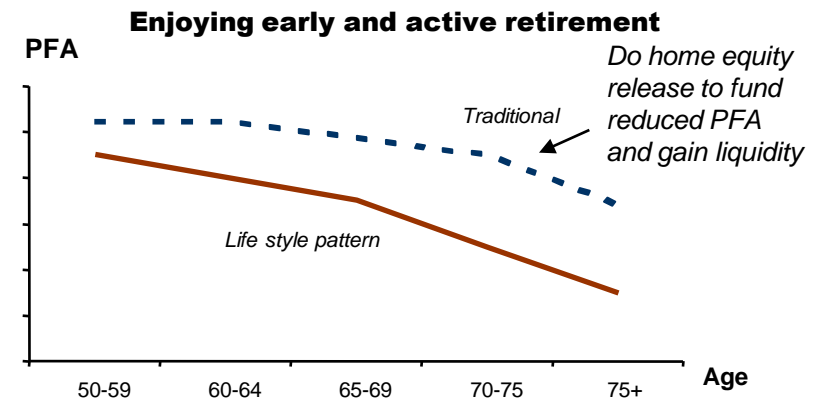
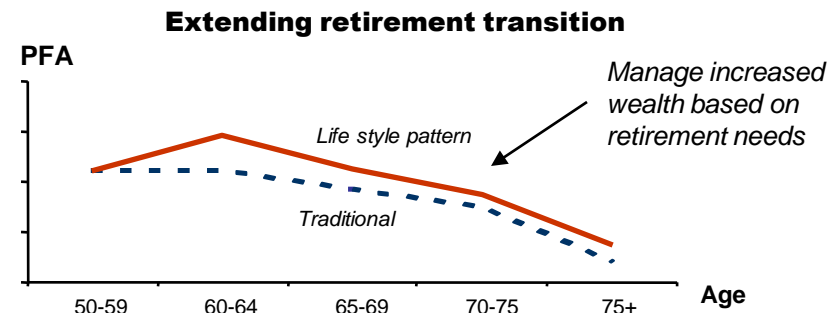


The individual shape of ‘dissaving’ is influenced by lifestyle triggers along the life stages

Average dissaving curve . . .



. . . will be shaped through the specific life style

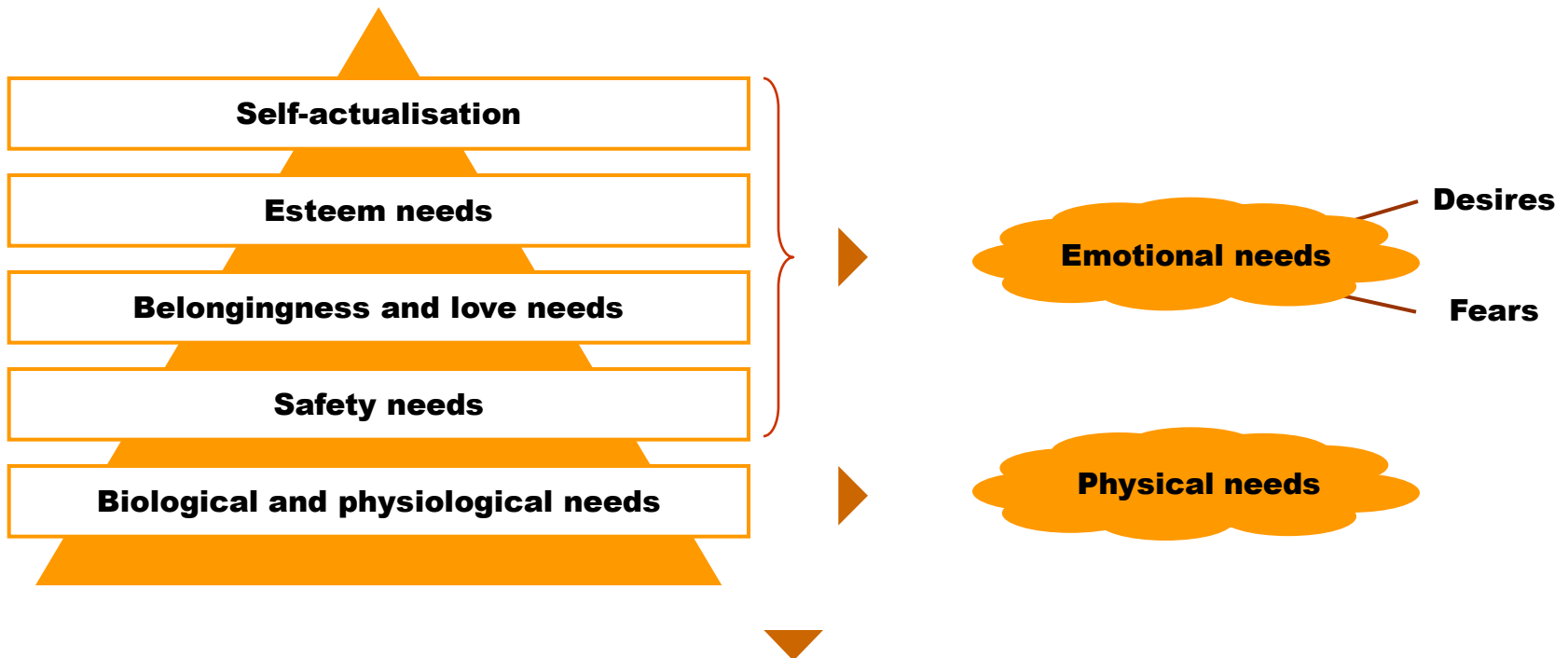




But there are much more relevant customer needs beyond an ‘investment game’

Maslow’s model for fundamental needs . . .

. . . indicates two broad types of needs



Providers should fulfil fundamental needs and not financial proxies to these needs



The dissaver product suite can be separated into four clusters

Examples of a dissaver product suite

Asset protection

- Long-term / lifetime continuous income stream
- Protected asset base

Liquidity management

- Short-term funding of retirement period
- Financial flexibility depending on lifestyle

Care

- Long-term care funding and passive retirement services
- Trusted partner in case of morbidity or critical illness

Inter-generation transfer

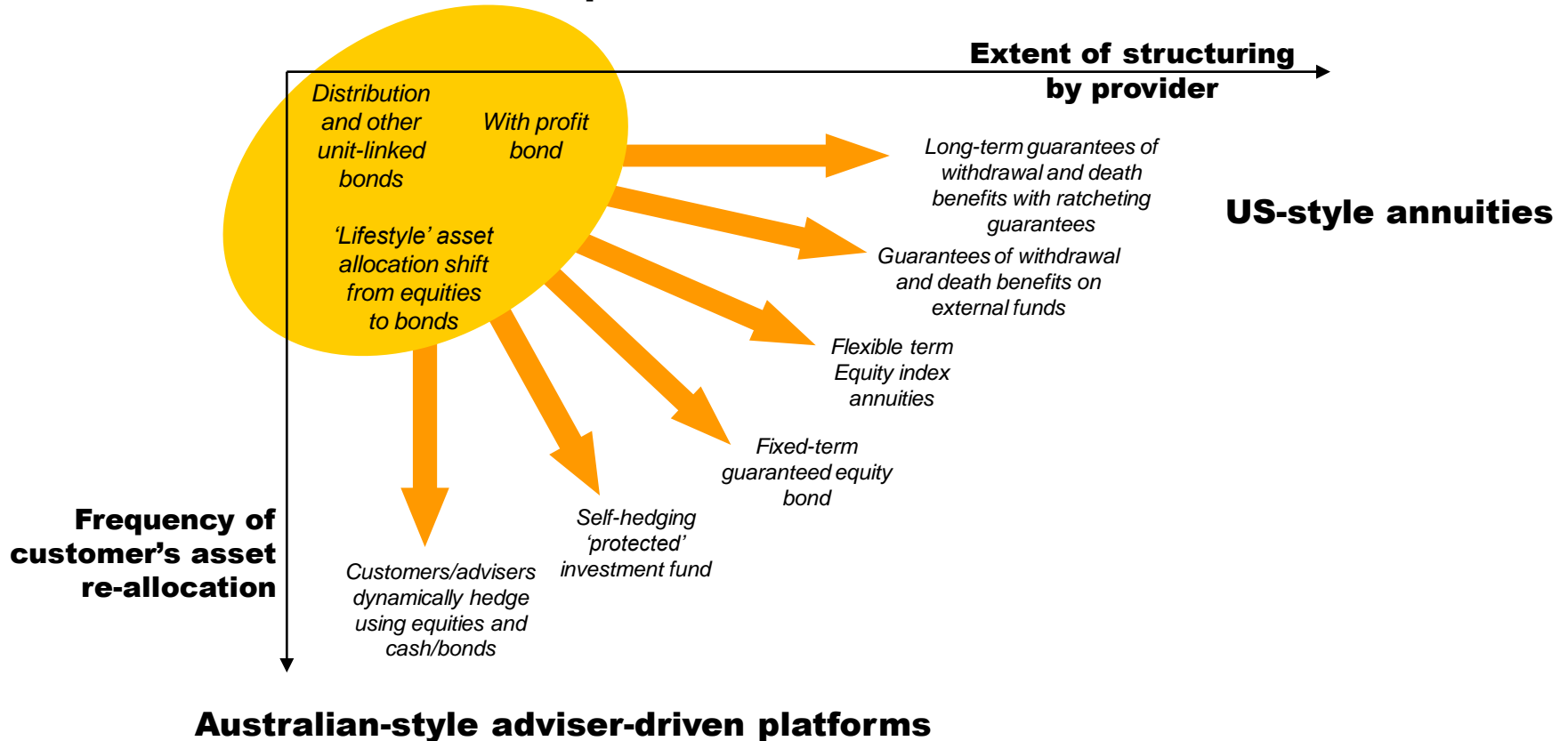
- Tax-optimised inheritance
- Support of next generation
- Funding of funeral and debt

**Most products are the usual suspects –
the specific needs and characteristics are often in the detail**



Asset protection products have evolved to fit the local market dynamics and distribution methods

Asset protection trend alternatives





Variable Annuities are a realistic pathway for the next generation of solutions for the 50+ group

Typical customer concerns	Traditional products	Cash and deposits	Structured products	VAs
<p><i>"I've heard so many scare stories – I want to make sure my money is safe"</i> ASSET PROTECTION</p>	(✓)	✓	✓	✓
<p><i>"I want the potential for significant upside like hedge funds are offering . . ."</i> ASSET GROWTH</p>	(✓)	X	(X)	✓
<p><i>"I don't know when I'll have spare cash or whether I'll retire at 50 or 70 or if/when I'll have long term care needs – I want to be able to input to and access my savings when I as an individual need/want to . . ."</i> FLEXIBILITY</p>	X	✓	X	✓
<p><i>"I've seen my parents suffer – living on the basic state pension in their 90s – I don't want to go through the same thing . . ."</i> LONGEVITY</p>	X	✓	X	✓



The asset protection benefits in North American VAs come in four main flavours

Death (GMDB)

- Return-of-premium is simplest – reinforces insurance aspect of the contract
- Wide variety of additional options: roll-ups, ratchets, enhanced earnings benefits

Accumulation (GMAB)

- Guaranteed minimum account value at a defined maturity date (e.g. 7 or 10 years)
- Supports the concept of a 'wealth accumulation target'
- Some contracts permit resets to 'lock in' market gains

Income (GMIB)

- Permits annuitisation (conversion to life annuity) on guaranteed terms
- Specified conversion basis (mortality, interest) and 'convertible' AV
- Attractive when interest rates and/or markets fall and longevity rises

Withdrawal (GMWB)

- Less restrictive than GMIB
- Offers a guaranteed income as customer's need for liquidity rises
- Simplest form guarantees that deposit will be returned over time
- Offered for fixed period or 'for life'



There are three key challenges to successful management of variable annuity-type products

Key questions

The right proposition for the market

- What is the macro environment like?
- What are customer needs? Buying points?
- How are products distributed?
- What are competitors offering? What are their key differentiators?
- What margins could the market take? How much capital would I need to hold?

The right integrated organisation

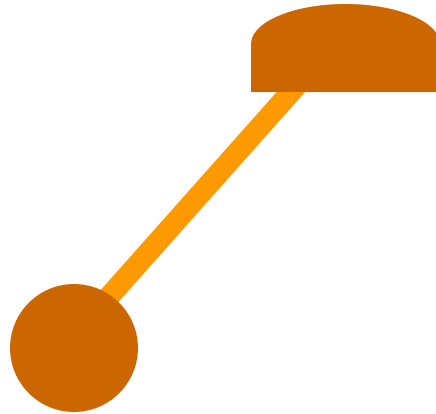
- How do I make sure my front and back office talk to each other?
- What are the reporting and data requirements?
- What are the systems requirements?
- How do I ensure that I have the capabilities to handle over/under-exposure?

The right risk management

- How do I know what risk to hedge and what to keep?
- What is the right governance structure? With what information?
- What other processes, tools, etc. need to be in place to make this happen on a day-to-day basis?
- What else do I need to think about in terms of risk management?



The evolution of retirement incomes in Australia

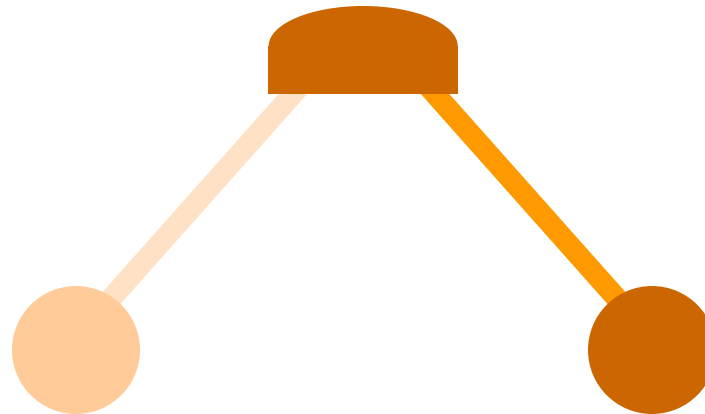


1. Lifetime annuities

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



The evolution of retirement incomes in Australia



1. Lifetime annuities

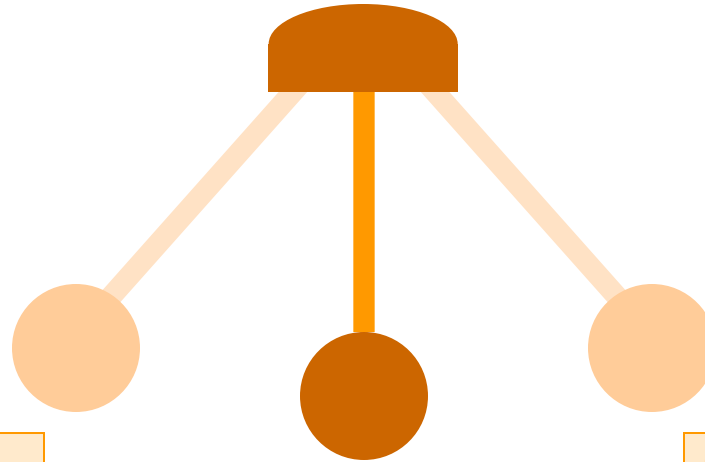
- Guaranteed income
- Provider takes risk
- Capital intensive
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2. Allocated pension

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



The evolution of retirement incomes in Australia



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
- Choice of risk/return profile

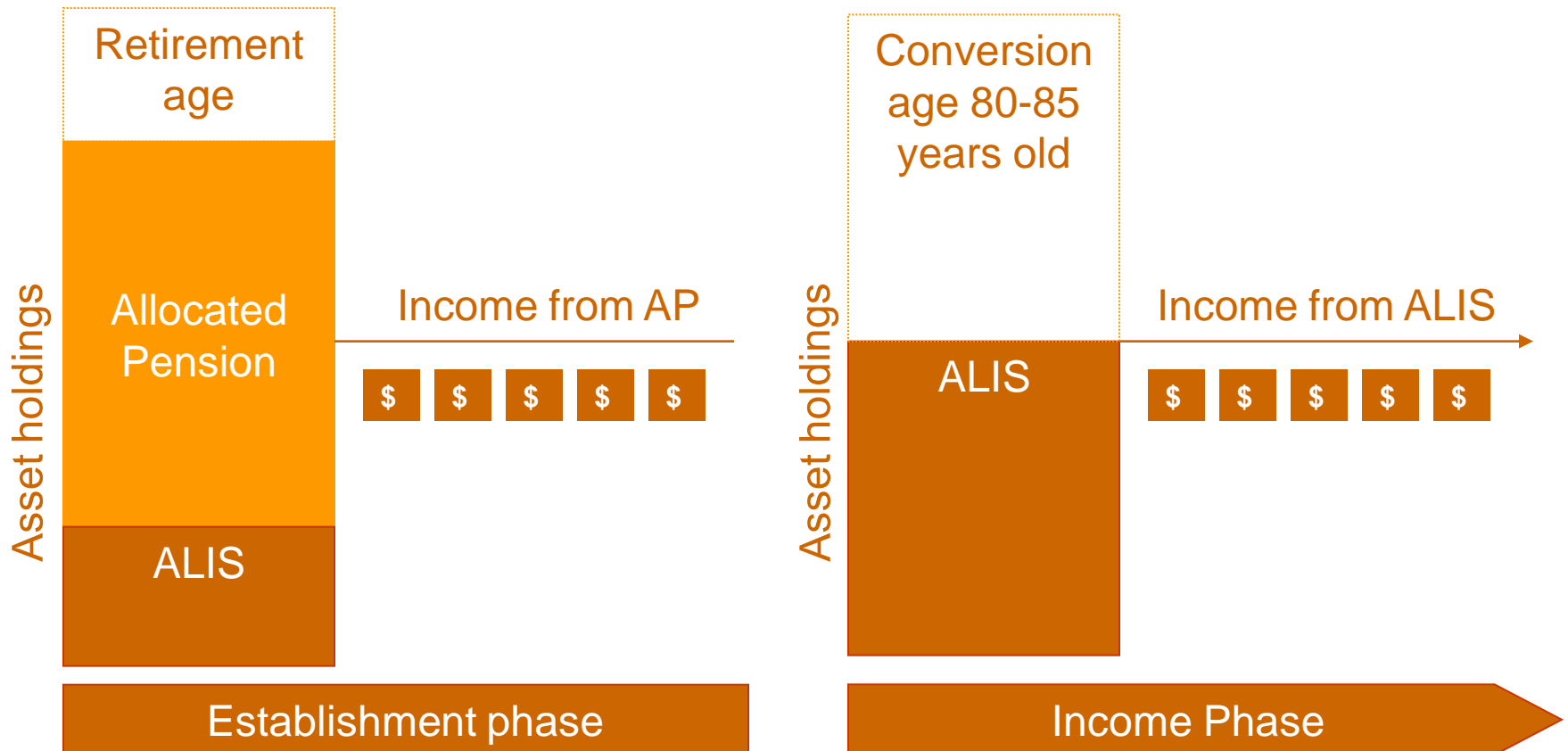


Forces of change

- Demographic change
- Increased cost of long term care
- Changes to superannuation environment
 - including tax
- Increased awareness of longevity risk
- Increased focus on appropriate advice
- The ‘current affairs’ effect



Case study – Asteron longevity income stream





Case study – Asteron longevity income stream

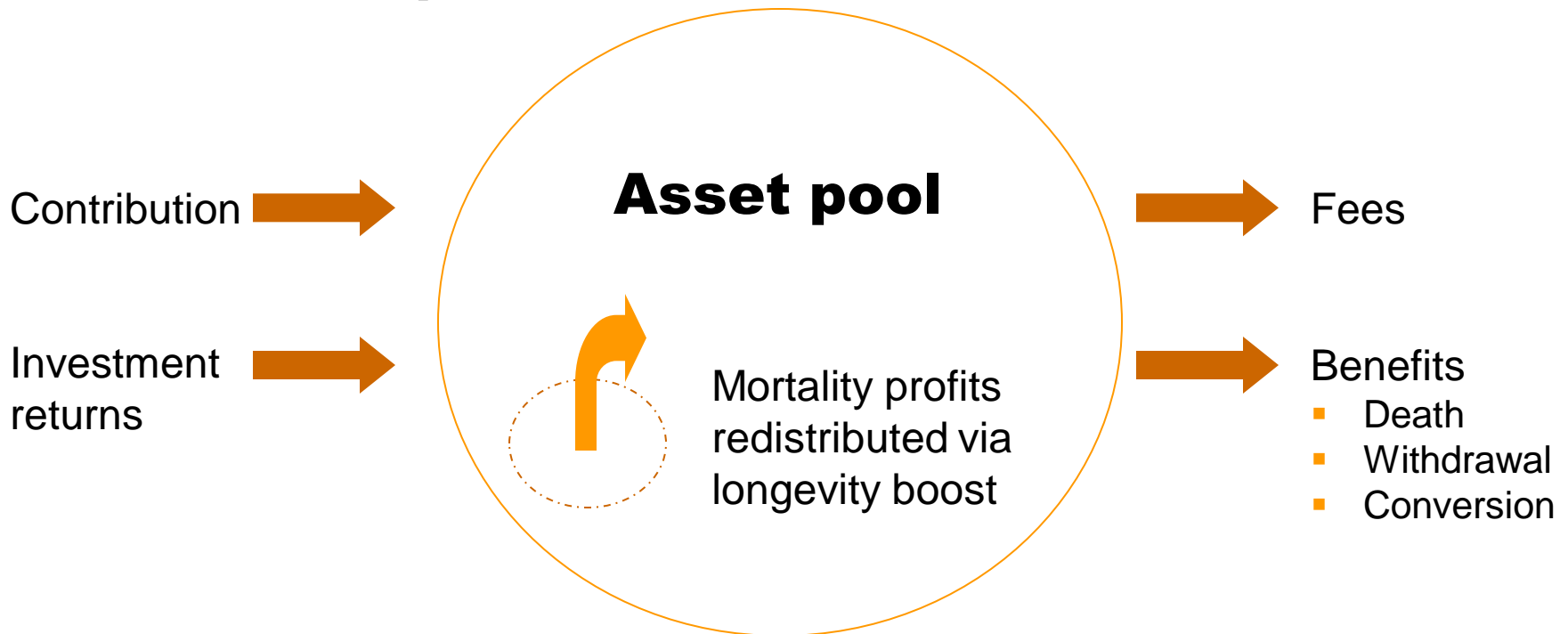
Key product features – back to the future!

- Risk pooling
- Limited guarantees
- Limited withdrawal or death benefit
- Superannuation product
- No income tax or Centrelink disadvantage



Case study – Asteron longevity income stream

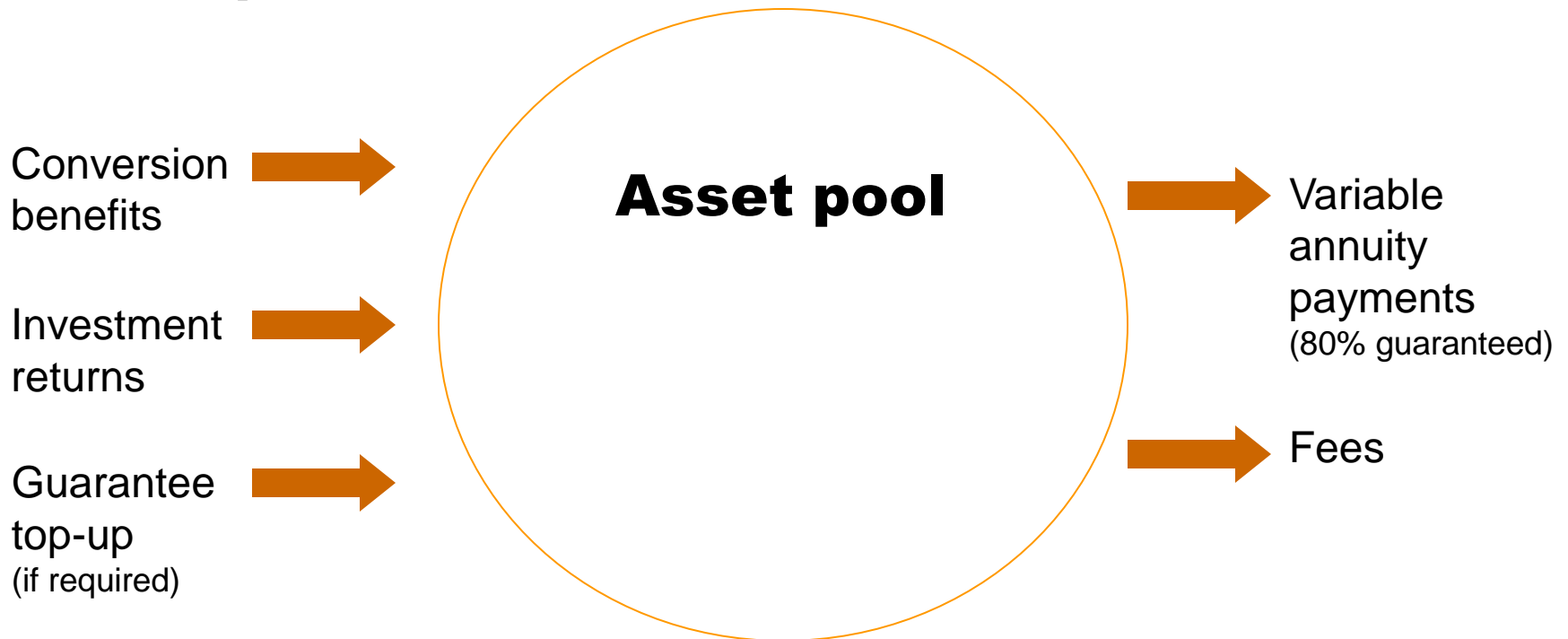
Establishment phase





Case study – Asteron longevity income stream

Income phase





Case study – Asteron longevity income stream

Key learnings

- Legislation hampers true product innovation – but it is possible
- Actuaries have a crucial role to play
- Awareness of longevity risk is patchy
- Education process is slow



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– *What Lies Ahead for Wealth Managers*

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There is a real need to innovate . . .

And a real need for actuaries!

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