

The New Super Landscape

– What Lies Ahead for Wealth Managers

SEMINAR



Institute of Actuaries of Australia

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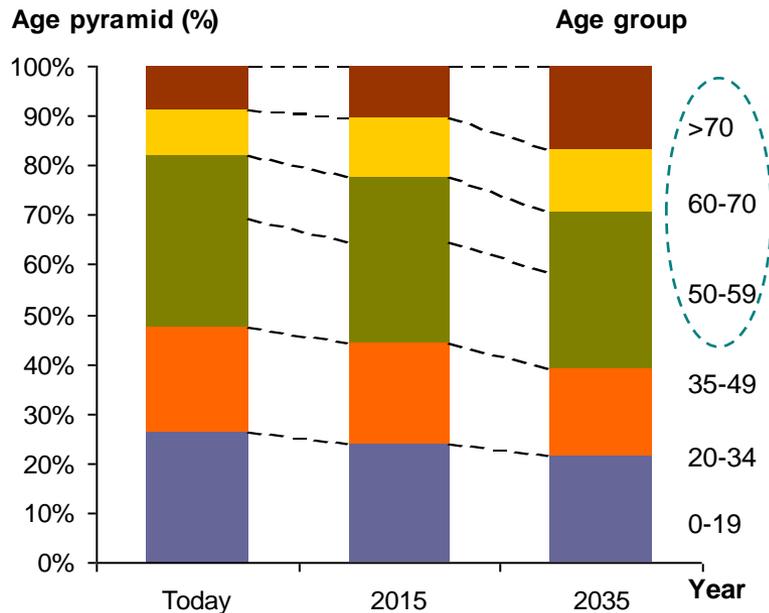
Meeting the needs of Australia's retirees

**Anthony Bice
Pauline Blight**



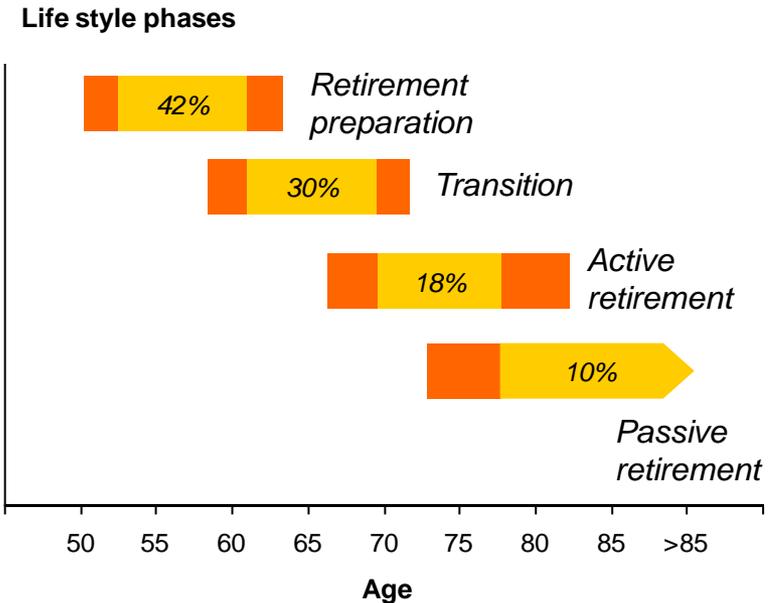
A global shift is taking place in how wealth managers need to address their customers

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

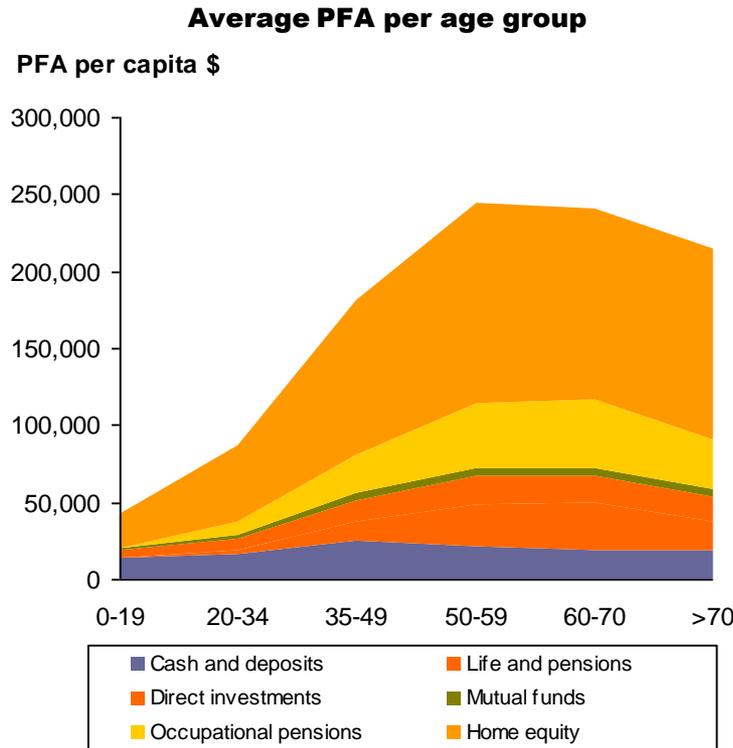


Understanding the specifics beyond these life styles and life stages is crucial first step to serve 50+ customers



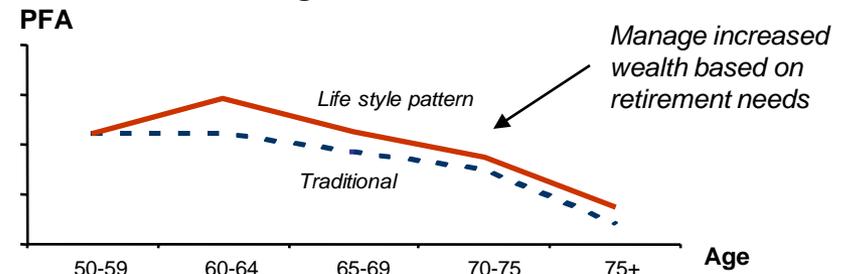
The individual shape of ‘dissaving’ is influenced by lifestyle triggers along the life stages

Average dissaving curve . . .

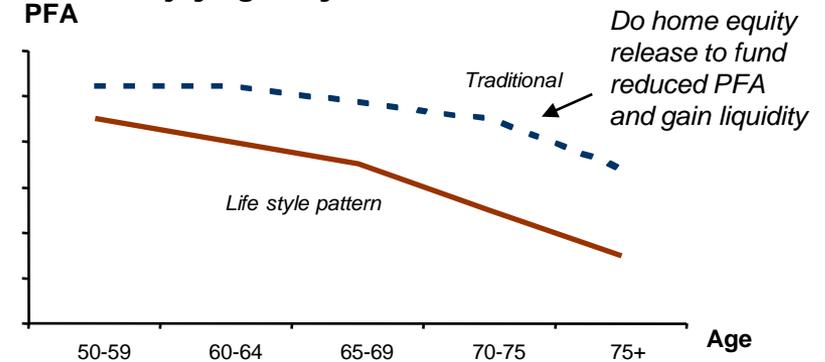


. . . will be shaped through the specific life style

Extending retirement transition



Enjoying early and active retirement

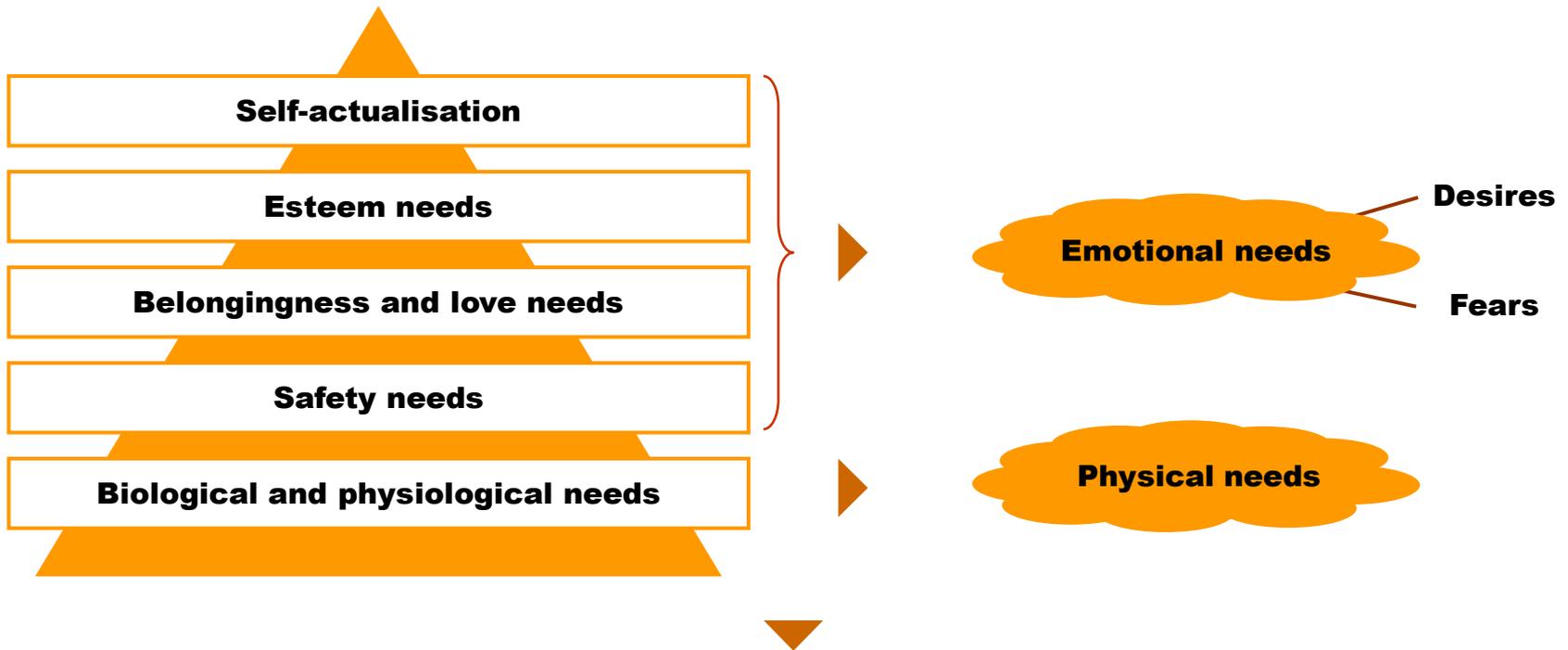




But there are much more relevant customer needs beyond an ‘investment game’

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

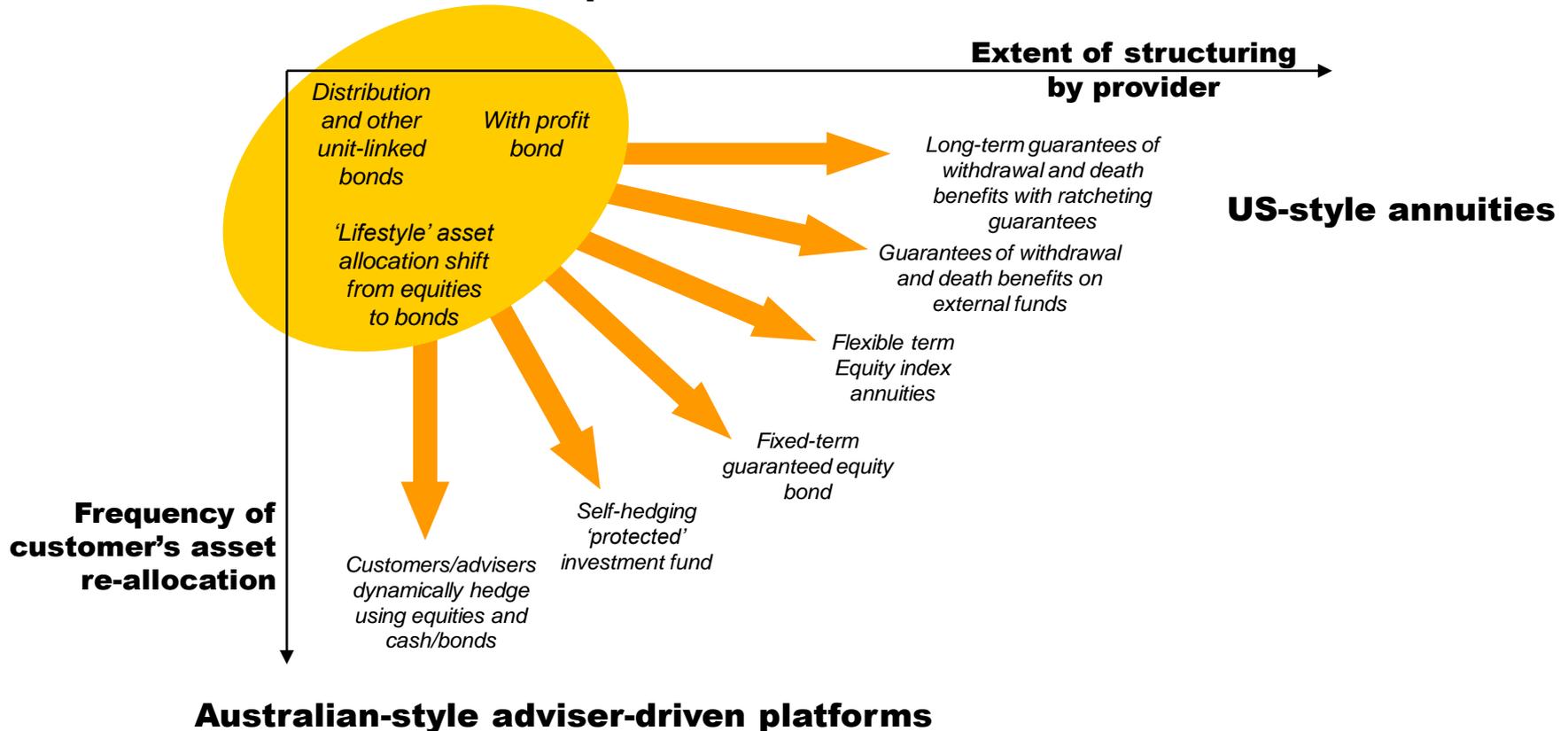
- Tax-optimised inheritance
- Support of next generation
- Funding of funeral and debt

**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

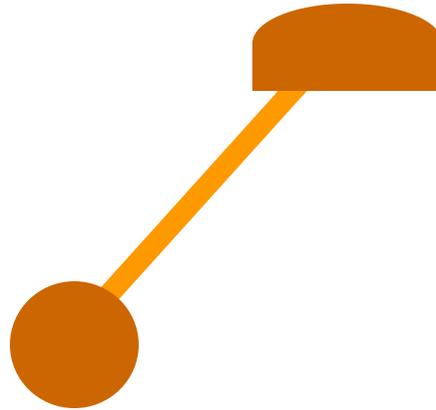
- How do I make sure my front and back office talk to each other?
- What are the reporting and data requirements?
- What are the systems requirements?
- How do I ensure that I have the capabilities to handle over/under-exposure?

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

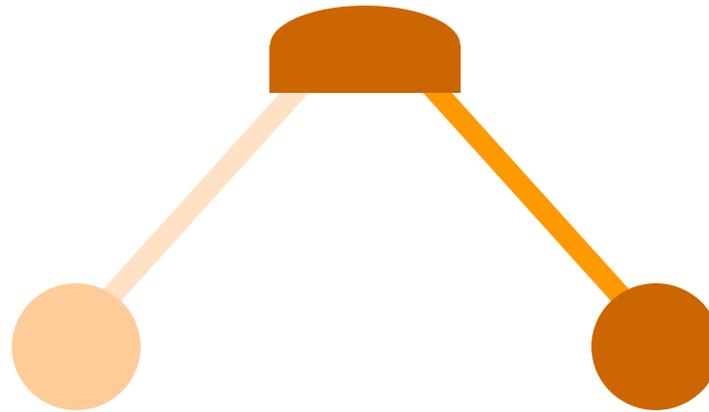


1. Lifetime annuities

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



The evolution of retirement incomes in Australia



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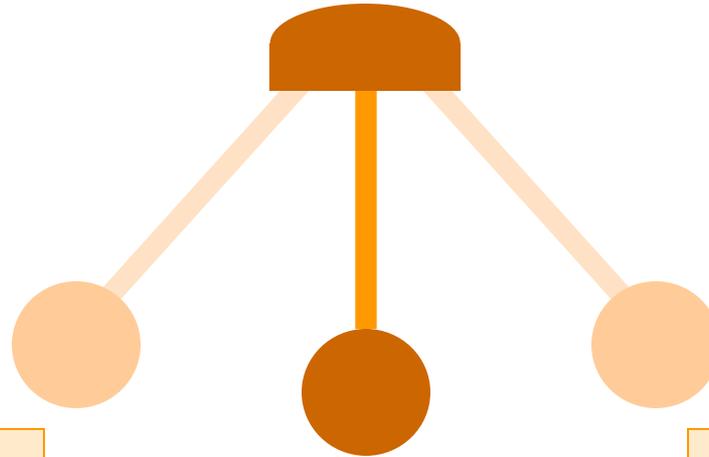
- Guaranteed income
- Provider takes risk
- Capital intensive
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2. Allocated pension

- 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

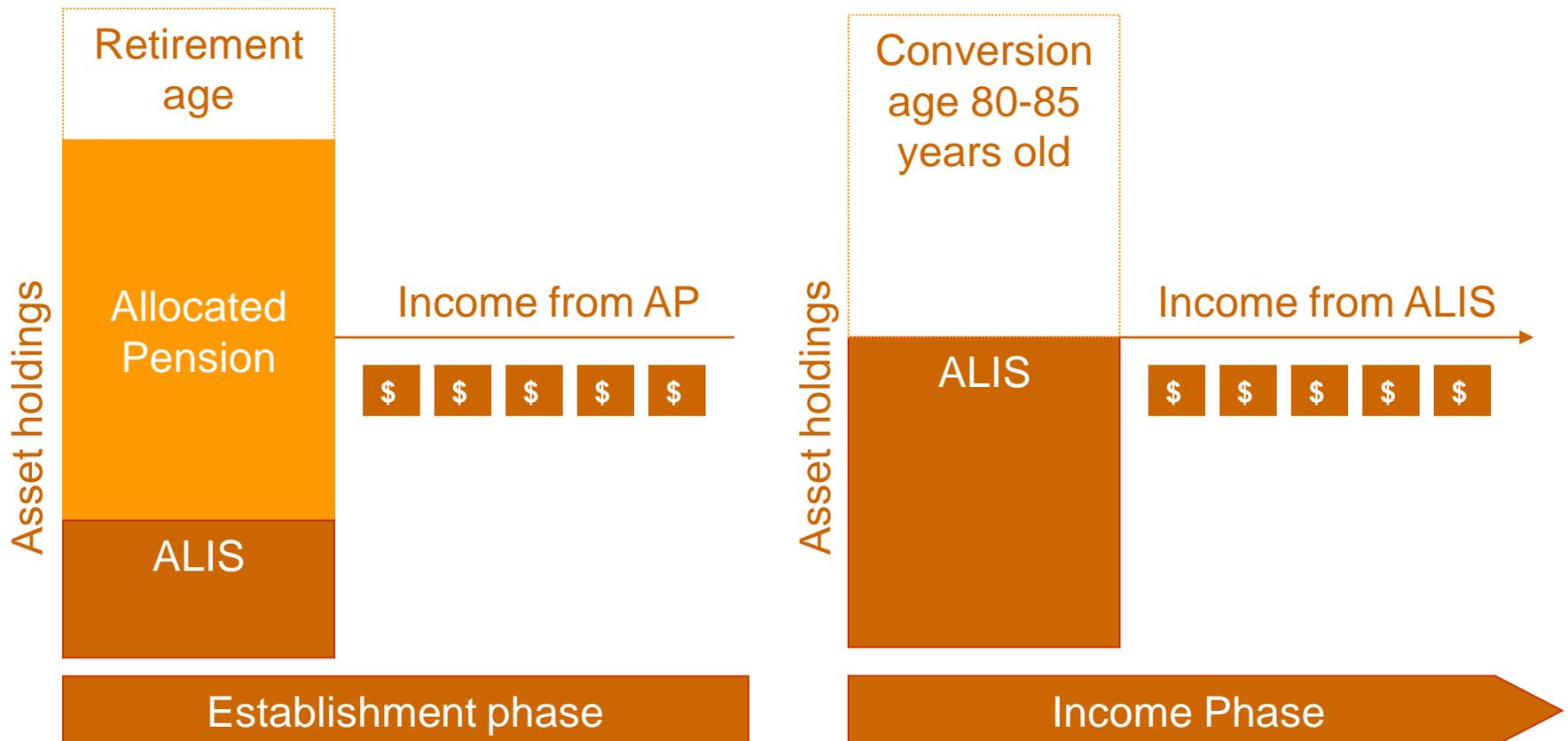


Forces of change

- 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

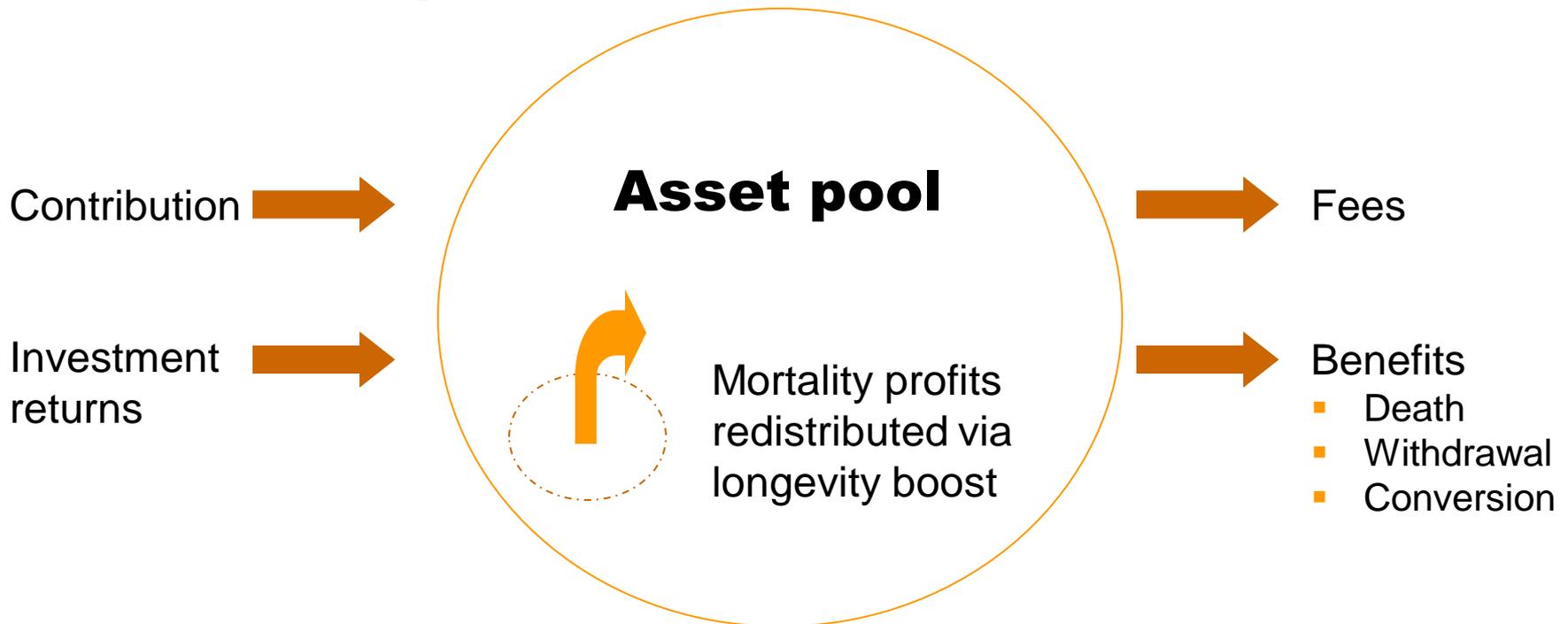
Key product features – back to the future!

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



Case study – Asteron longevity income stream

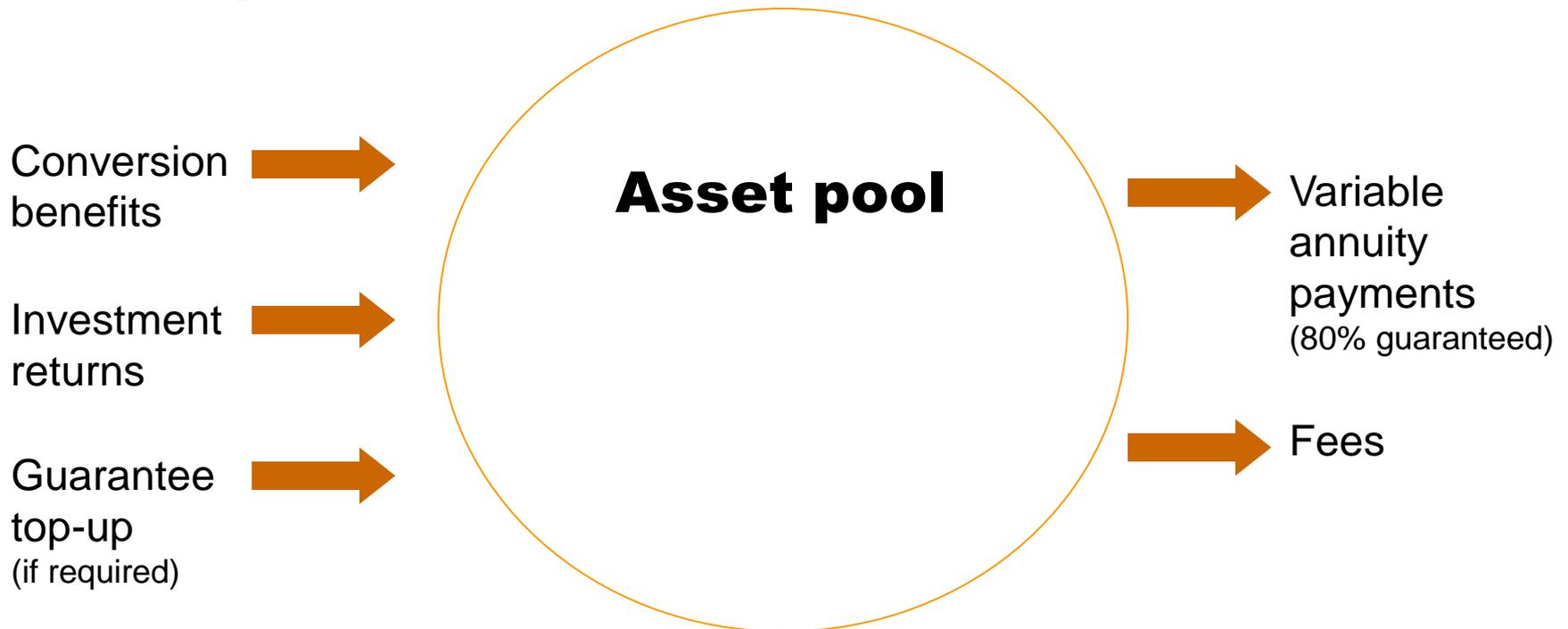
Establishment phase





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*

Meeting the needs of Australia's retirees

There is a real need to innovate . . .

And a real need for actuaries!