Actuaries Summit

Think Differently

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New solutions for new problems

Ageing, health and retirement like we’ve never seen before

Stuart Rodger
Overview

01 Australia’s population ageing
02 Impacts on national productivity
03 Retirement from the workforce and financing this
04 Staying healthy
05 A place to live
06 Common themes
Australia’s Residual Life Expectancy at Age 65 grew 2-3 years in just 15 years:

Source: Australian Government Actuary
Australia’s dependency ratio sits in the OECD mid-range …
... and the passage of our baby-boomers through life is having a big effect
The first question:

**WHERE DOES THE MONEY COME FROM?**
The problem starts with the economy, not financing or services delivery.

National Income = Population * Participation * Productivity

A strong economy is an integral part of financing an ageing population.
Policies to increase the participation rate have a significant effect on GDP

Economic benefit in 2024-25 of additional mature age participation

<table>
<thead>
<tr>
<th></th>
<th>$bn (2009-10)</th>
<th>% GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected increases</td>
<td>55.0</td>
<td>2.7</td>
</tr>
<tr>
<td>Additional 3%</td>
<td>33.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Additional 5%</td>
<td>47.9</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Source: Deloitte Access Economics

Australian policies currently include:
- Increasing retirement age for government aged pension
- Transition to retirement finances – “there is no standard retirement age in Australia”
- Encouragement of the commercial benefits of diversity
- Anti-discrimination on age grounds
- Migration
- Childcare support for women to get back to work (non-ageing but relevant)
Retirement funding:

ESTABLISHED POLICIES NEARING FRUITION
<table>
<thead>
<tr>
<th>Three Pillars</th>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Compulsory superannuation contributions 9.5% rising to 12% by 2025</td>
<td>• Funding</td>
<td>• Longevity risk not eradicated</td>
</tr>
<tr>
<td>2. Additional voluntary contributions partially tax-advantaged</td>
<td>• Universality</td>
<td>• Level of income</td>
</tr>
<tr>
<td>3. Government Age Pension (means-tested)</td>
<td>• Competing Models</td>
<td>• Lack of flexibility</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Lack of diversity and choice</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Inefficiency</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Complex</td>
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</table>
The savings phase of Australia’s superannuation is progressing well …
... making a significant impact on peoples’ retirement wealth in most segments ...
... but the jury is still out on whether the disbursement phase is effective enough.

? Adequacy of benefits
? Variability of benefits in a DC world
? Subsectors not well served – career interruptions, split couples
? “income to life expectancy” ???
There is also significant wealth locked up in housing - and we don’t yet have a systemic way to deploy this into paying for our aged.

Home value and disposable income by age 2009-10

Sources: Productivity Commission 2014; and Who Will Fund Our Health – Actuaries Institute
The fundamental policy of compulsory contributions stays firm; but the details are constantly under review.
Towards a Comprehensive Income Product for Retirement – the search is on

- Increase standard of living
- Increase availability and choice of products
- Increase the efficiency of the superannuation system
- Easier transition to retirement

Source: Treasury consultation
Health:

AN UNSOLVED RESOURCING AND FUNDING PROBLEM
Not just more older people, but more services per old person
Our growth of chronic diseases suggests that health costs in old age will be compounded.
We need a basket of solutions

At 10% of GDP our health expenditure is not crippling; but consumer and taxpayer resistance to increases is strong.

Solutions needed in process, understanding, planning, and mindset
- Efficiency and best practice
- Harnessing technology
- Quality of care – integrated and patient-centred
- Data availability – shared across sources, longitudinal
- Prefunding this predictable need
- Personal responsibility to maximise health – e.g. chronic exposures
- Acceptance of our choice to buy more “health” as a legitimate priority

These must come (and are coming) come from both the government policy and funding areas, and the private sector/consumer markets.
Aged Care:

INCREASING ATTENTION TO INDIVIDUALS’ OWN NEEDS
Australia’s aged care industry – a snapshot

Australia’s Aged Care Industry

Supply of aged care in Australia by service type, 2013-14

<table>
<thead>
<tr>
<th></th>
<th>HACC</th>
<th>Home care</th>
<th>Residential care</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of providers</td>
<td>1,676</td>
<td>504</td>
<td>1,016</td>
<td>-</td>
</tr>
<tr>
<td>Number of places</td>
<td>775,959</td>
<td>66,149</td>
<td>189,283</td>
<td>-</td>
</tr>
<tr>
<td>Commonwealth funding</td>
<td>$1,701m</td>
<td>$1,271m</td>
<td>$9,814m</td>
<td>$1,379m</td>
</tr>
<tr>
<td>Total revenue</td>
<td>$1.8b</td>
<td>$1.3b</td>
<td>$14.8b</td>
<td>-</td>
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Note: Some providers offer more than one type of service, and are therefore included in more than one category.
Towards needs-based and consumer-driven care: - funding based on ADLs

Ten areas where Activities of Daily Living (ADLs) are monitored and measured:

- Nutrition
- Mobility
- Personal hygiene
- Toileting
- Continence
- Cognitive skills
- Wandering
- Verbal behaviour
- Physical behaviour
- Depression

Leads to 64 classifications for payment and associated services – based on individual needs

Introduced 2007; updated 2013; replaced a “per diem”-style system
Further aged care reform – Care needs, finance needs, consumer-driven approach

Living Longer, Living Better framework

- Lack of integration across programs
- Increasing health status and changing consumer preferences
- Lack of emphasis on preventative and restorative care
- Availability of informal care
- Demographic and sustainability pressures
- Financial and capital pressures
- Barriers to choice, innovation and efficiency
- Workforce pressures

Issues identified by Productivity Commission

‘Whole of care’ approach to aged care

Living Longer, Living Better reforms

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<thead>
<tr>
<th>Quality of care/consumer choice</th>
<th>Funding</th>
<th>Workforce</th>
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Targeted government support – assets and income tests

Residential Care income and asset thresholds:
Single person, March 2014 prices (current rates)

$154,179.20 (asset level where an accommodation payment becomes payable, if income < $24,731.20)

Someone with income and assets in this range pays:
- Basic Daily Fee AND
- Accommodation Contribution (some government help with accommodation costs)

But does not pay a Means Tested Care Fee (care is fully subsidised)

$144,000 (Asset Free Area)

Someone with income and assets in this range only pays the basic daily fee:
- The government pays the person’s accommodation cost and care costs (no means tested care fee)

$134,000

$124,000

$60,000

$45,000 (Asset Free Area)

$24,731.20 (Income Free Area)

$20,000

$16,000

$12,000

$10,000

$8,000

$6,000

$4,000

$2,000

$0

An accommodation payment becomes payable when assets <$45,000 and income > $62,943.92

Someone with income and assets in this range pays:
- Basic Daily Fee
- Accommodation Payment (no government help with accommodation costs)
- Means Tested Care Fee (care is partially subsidised)
Three different sectors:

**BUT SOME COMMON THEMES EMERGE**
For markets:

A fabulous prospective consumer market...

with unfulfilled needs and desires...

but with complexity for providers in communicating and providing access to solutions...

and a need to understand the individual much better and deal with them in a way they want us to.
Markets are tracking and responding to changes in consumer retirement behaviour ...

- **Product needs**
  - What product will suit consumer needs best?
  - Retirement/Longevity/Insurance

- **Big data**
  - Potential asymmetry of information with the consumer knowing much more than the product provider (insurer or fund)

- **Self knowledge**
  - The "quantified self" = consumers can now know much more about their own health and prospects and this will only increase

- **Go direct**
  - Technology adoption for self-help, research and social media connections
  - Direct market grows for simpler products
    - What does this mean for margins?
  - Do consumers end up with appropriate products and coverage?

- **Trust (conduct)**
  - Financial advice experiences
  - Reputational risk will continue to play a big role
For each sector: targeted services because data is now useable

Need for assistance > 65 years (ABS 2013)

- Meal preparation
- Property maintenance
- Household chores
- Transport
- Reading or writing tasks

How assistance needs are met

- Property maintenance
- Transport
- Health care
- Communication
- Self-care

- Assistance from informal providers
- Assistance from formal providers
- Assistance not received
... But it's a highly complex system for retirees to navigate
These sectors cannot be separated

This is where people live their lives
Themes

- The need to coordinate across sectors
- Consumer-driven choices, optimising the system by targeting each individuals’ own needs
- Data, and the abilities that the new data insights unleash
- Public / private partnership – effective combinations of government policy, funding, environment definition; with private sector markets, consumer focus, service development, business management

And for actuaries?

All these sectors have issues where actuarial approaches are valuable …

… but assisting clients to make the necessary changes requires an understanding of the big picture …

… and specialising in only one traditional area means you miss the integrated customer view
References

Who will fund our health?” – Australian Actuaries Institute

“Australia’s Aged Care Sector: Economic contribution and future directions” – Deloitte Access Economics

“Increasing participation among older workers” – Deloitte Access Economics

“Dynamics of the Australian Superannuation System 2015-35” – Deloitte Actuaries & Consultants

“For richer for poorer; retirement incomes” – Australian Actuaries Institute