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Think Differently
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Designing Successful and Resilient Lifetime Retirement Income Products

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The challenge

- Current super system focuses on providing financial resources for individuals
  - Presumes healthy, wealthy and interested in managing their own affairs as Mr/Ms Average

- Retirement is a relatively new phenomenon
  - Traditionally products did not consider needs of later ageing

- Product designs need to be sustainable from all perspectives
  - Providers, distributors, consumers, regulators, social policy and government

Product assessment process

- Identify key roles and stakeholders
- Establish set of product criteria (each stakeholder)
- Assess specific product against these criteria
- Apply minimum 'hurdles' for each criteria
  - Identify where product criteria fails a hurdle
- Apply process independently for all stakeholders
  - Provider, distributor, consumer, regulator, government
- Products that pass all hurdles should be acceptable to all stakeholders and therefore be sustainable
- Gives a product development and management tool

Addressing the challenge

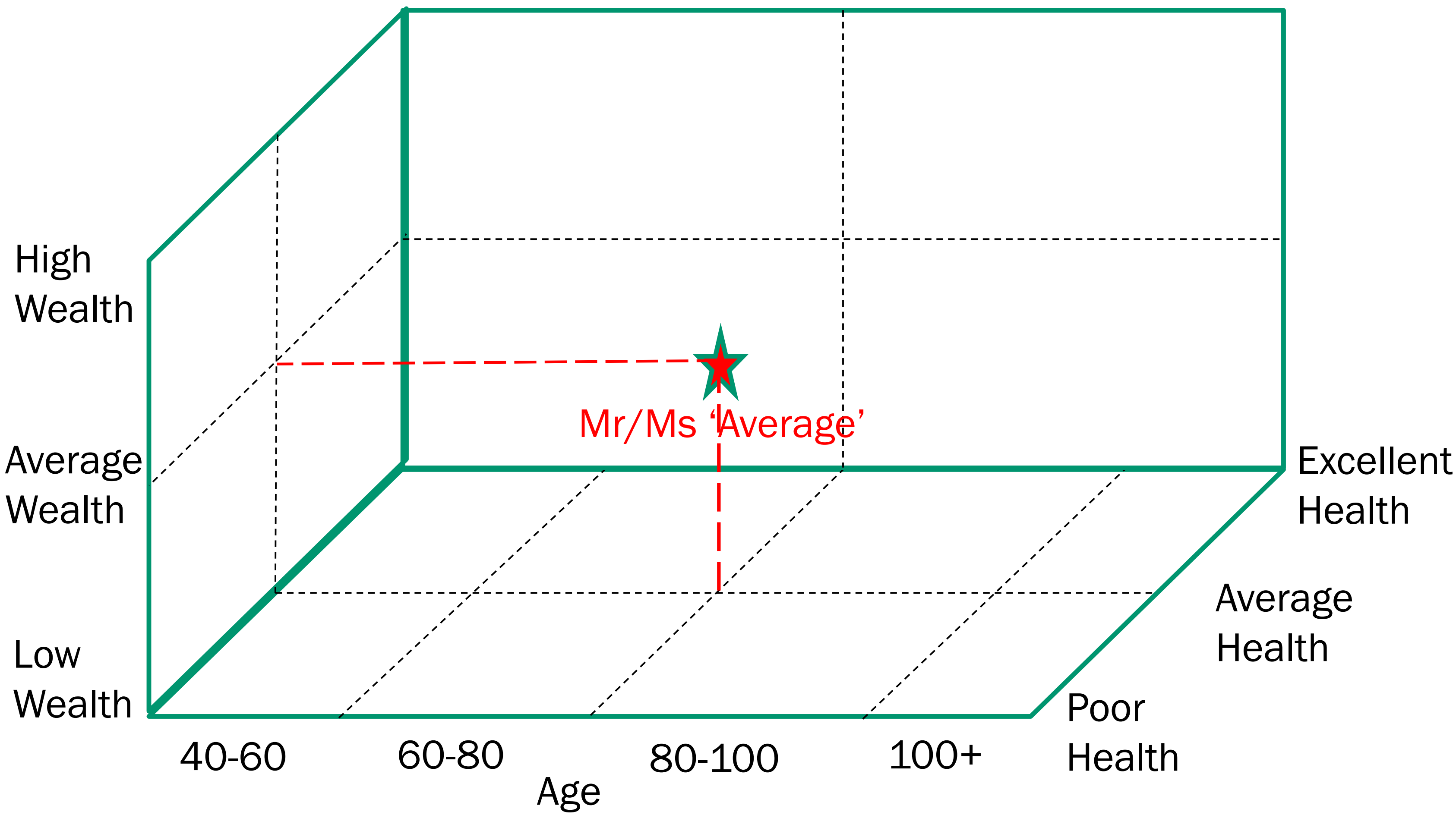
Thinking differently

- Adapt to changing needs over life of individual
- Be holistic and provide access to living and diverse age and health care services to all retirees (not just social security safety net)
- Establish ‘trustee’ services to manage retiree needs as they arise
- Change focus from income to providing funding for services

Phases of Retirement

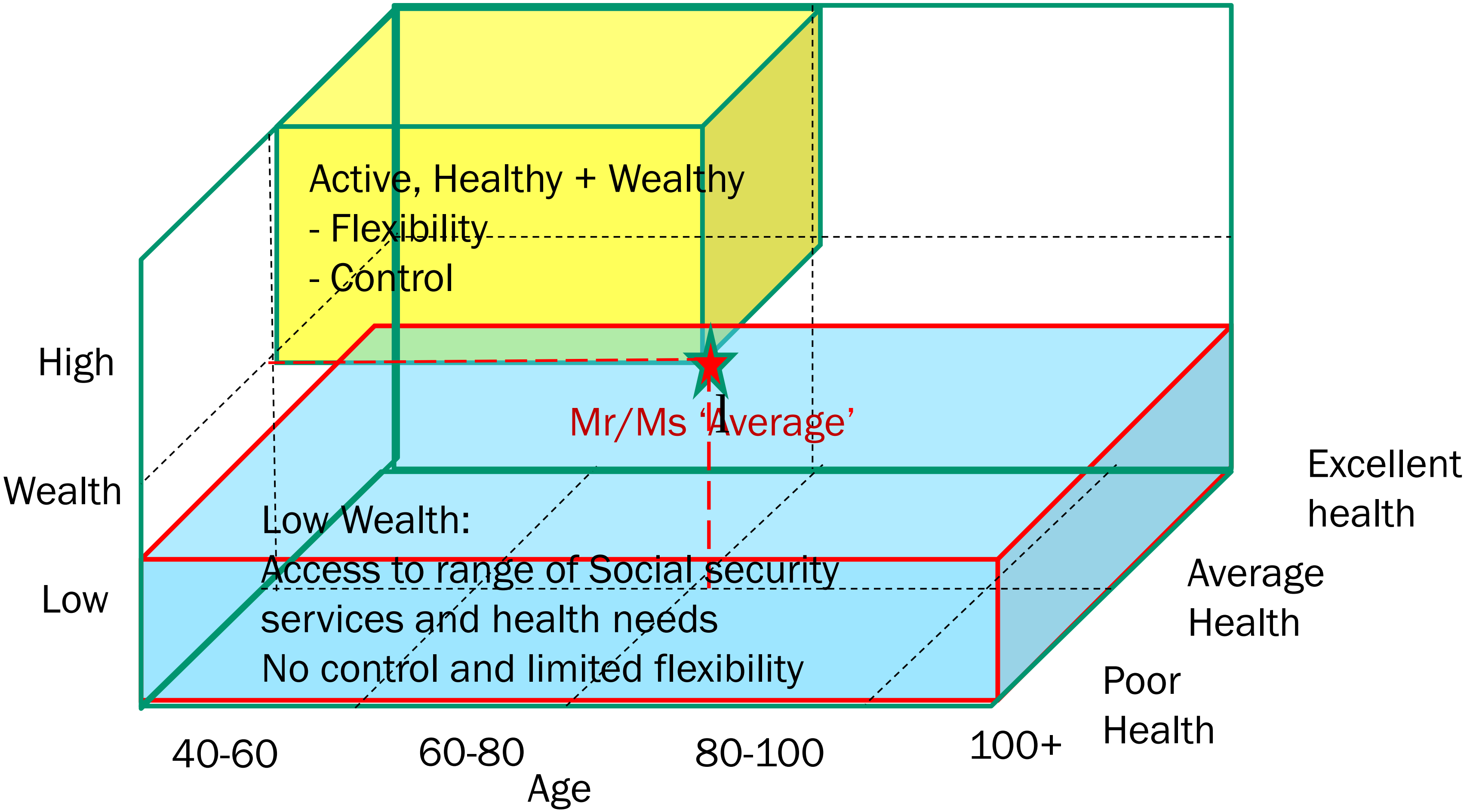
- Active Phase – typically ages 60 – 75/80
  - Healthy and interested
  - Desire for flexibility
  - Desire and capacity to retain control of decisions
- Passive Phase – typically ages 70 – 80
  - Becoming less interested in flexibility
  - Lowering capacity to make decisions
  - Increase risk of dementia or other health problems
- Fragile Phase – typically ages 80 and beyond
  - Limited desire/capacity to make investment decisions
  - May need increased home care or aged care services
  - May become incapable of independent living

Current retirement product focus



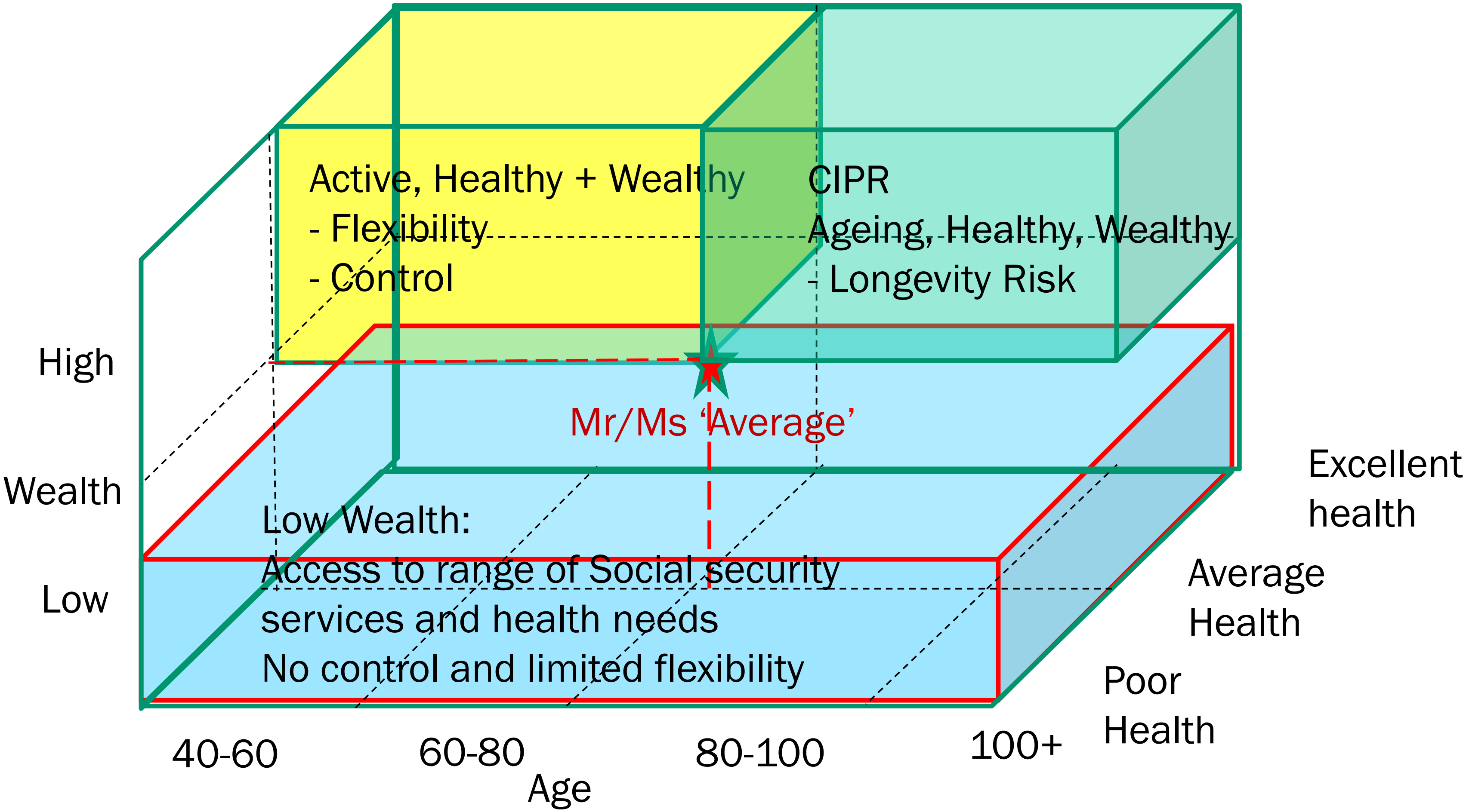
- Focus on active, healthy average – 'one size fits all'

Retiree product markets



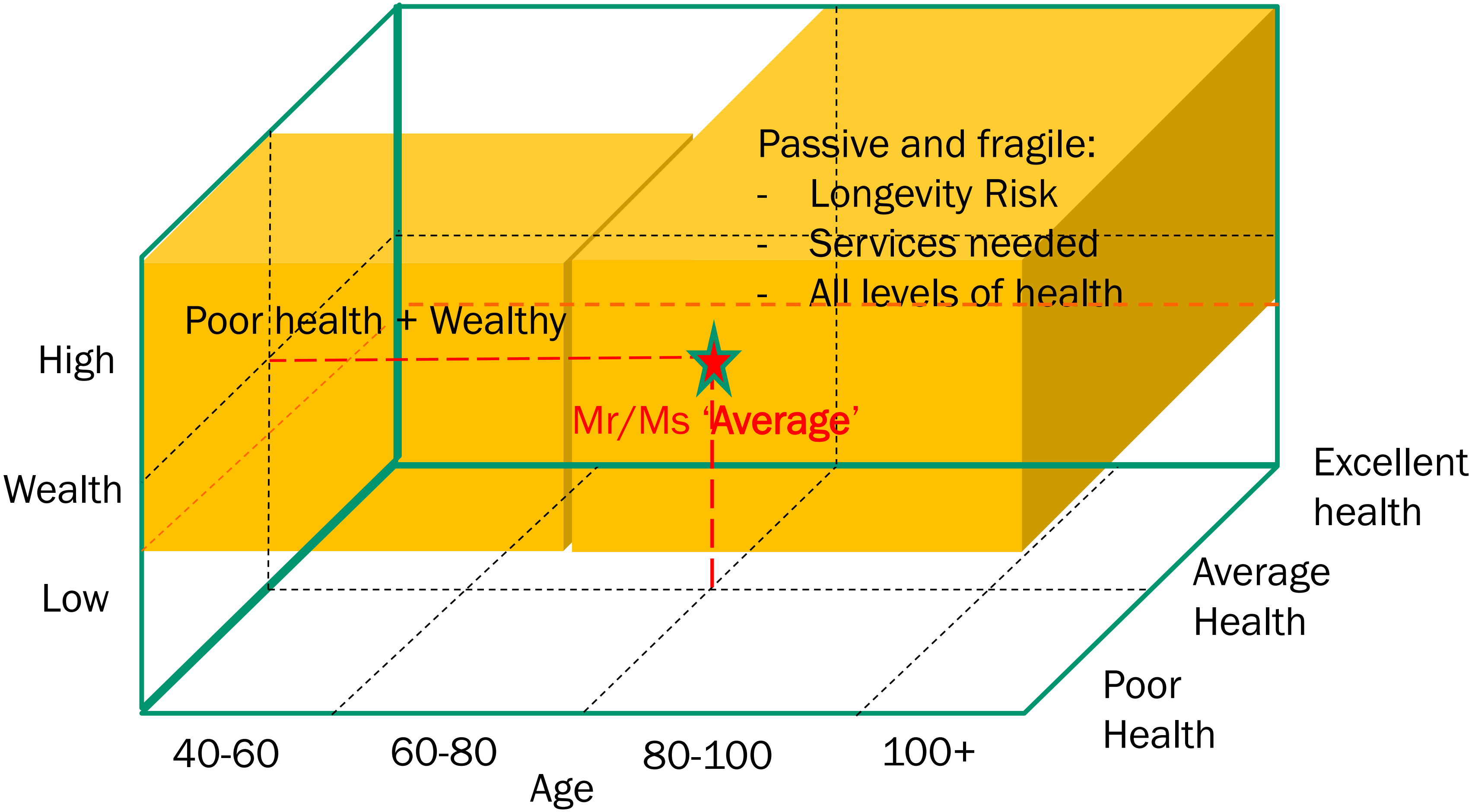
- Current retiree products and social services largely target these segments

Retiree product markets



- C'I'PR: address longevity, not passive or fragile needs

Gaps in retirement markets



- Large segments not adequately addressed

Current product weaknesses

- Most products do not adequately cater to
  - Different needs in higher ages (passive and fragile)
  - Or generally for poorer health

- Most product designs do not
  - Adapt to the varying retiree needs over time after purchase
  - Integrate with age or health care services

  - Allocated pensions - too much flexibility at high ages
  - Lifetime annuities - insufficient flexibility for active retirees
  - CIPR focus on income not services

Addressing the gaps

- Financial/Income
  - Multiple needs that arise over retirement
  - Ability to access regular income - living and ongoing services
  - Ability to access irregular lump sum amounts – retirement village and aged care
- Services
  - Aged care – in home or external
  - Health care – may require on-going income needs
  - Interactions with suite of government support
- Inheritance
  - Important issue for many, but outside our scope and not aligned with superannuation/retirement policy objectives

Need for ‘trustee’ role

- Support change of focus from income to services
  - Needs to be clearly pre-planned with trusted competent third party to execute decisions when retiree cannot
- Boundaries of active phase to passive or fragile are not clear and vary for each individual
  - An accident or sudden health issue may be trigger
  - A gradual deterioration may be difficult to determine
  - Onset of dementia not always obvious
- Requires retiree to put triggers in place in active phase
  - Trustee, financial planner, family doctor, relative
  - Power of attorney

Process begins in active phase

- Education and planning process for retirees must commence in the active phase of retirement
  - Retiree capable of making choices and decisions
  - In conjunction with the ‘trustee’

- Determine the needs and desires of the retiree in the passive and fragile phase of retirement
  - A ‘living will’ concept
  - Aged care – the location/standard desired
  - Health care – types of health care available
  - Inheritance – how this is applied
  - Interactions with suite of government support

The product design

- Allocated pension to provide flexibility in active phase
  - Retiree retains control and maximum flexibility

- Regular contributions during active phase into pooled fund to fund services and needs in passive and fragile phases
  - Provide regular lifelong income in later years
  - Provide funding to cater for requirements of passive/fragile phase
  - Access to ‘lump sum’ via own funds or borrowed funds

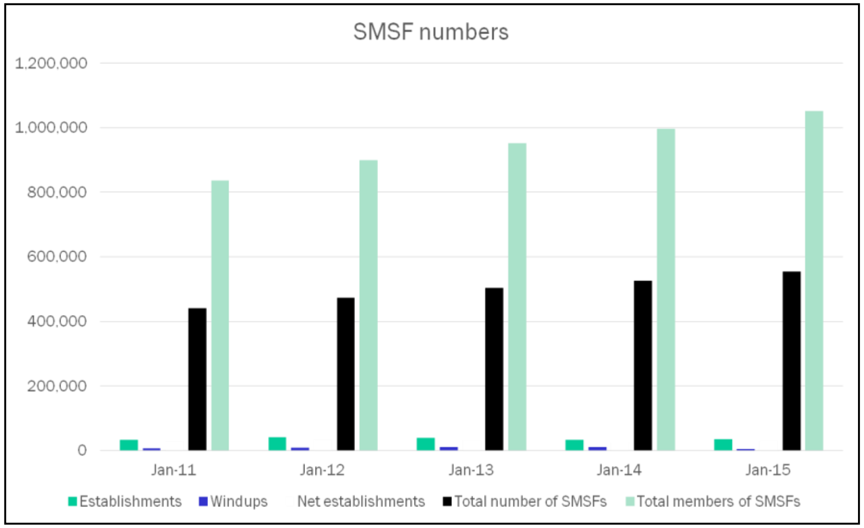
- Deferred Group Self Annuitised product

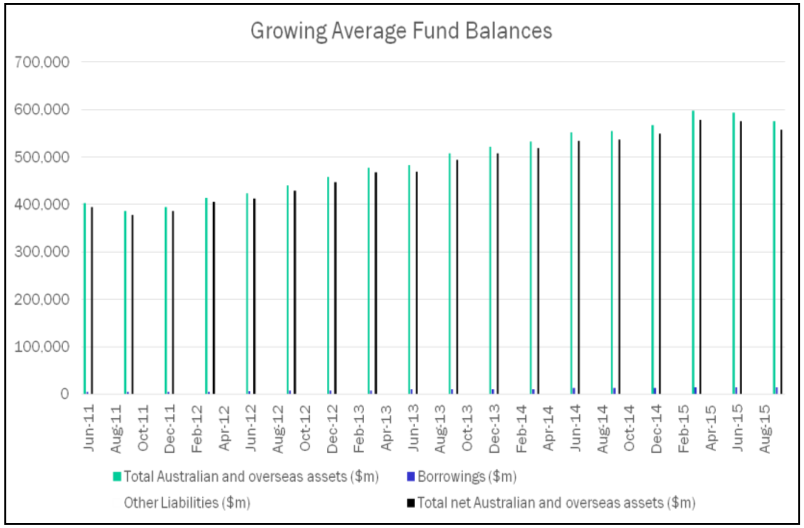
The product design

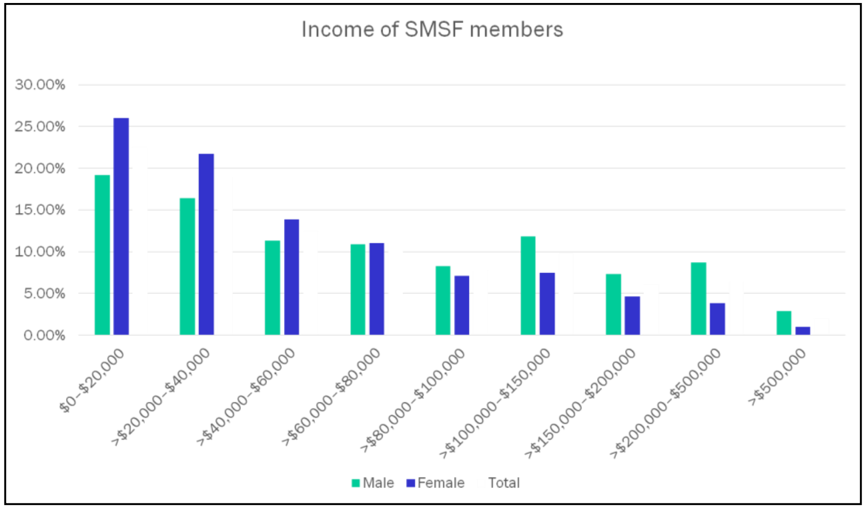
- Longevity pool is managed at a group level
  - Regular member reporting of ‘estimated income benefit’
  - Allows member to ‘top up’ or ‘cut back’ contributions
  - Simple system to account for member benefits

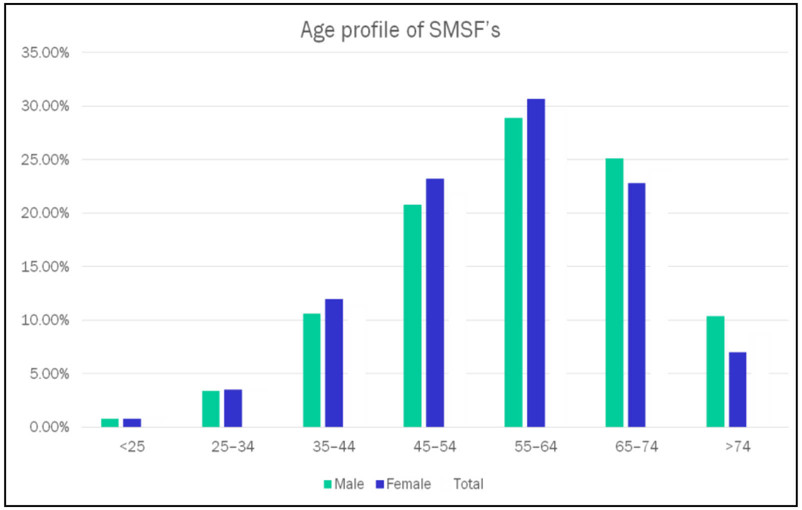
- Pragmatic solution for SMSF’s
  - Minimal capital requirements (not a life office annuity)
  - Minimal investment risk
    - Fund can set level of investment risk
  - Majority of members currently 55+ and our approach is immediately relevant (and a future over 80s market)

SMSF statistics









Source: ATO

The Over 80's - new growth market

- Focus on the passive and fragile phases and supporting provision of services
- Characteristics of this market segment
  - Population growth rate: About twice overall population
    - Current base: 1 million, 4% population (1 in 25)
    - In 35 years: 3.4 million, 8.5% population (1 in 12)
  - Wealth growth rate: ABS data suggest 1% over average
    - Median wealth for households aged 75+ in 2014 of $565k compared to $460k for all households
  - Need for increased provision of services
- *Thinking differently*: Clear business case to target this market

Key take aways

- Designing successful and resilient lifetime retirement income products needs

Thinking differently

- Focus on older retirees – passive and fragile retirees and their needs
  - Holistic approach to address diverse needs
  - Focus on the purpose(s) for the income (services required)
  - Consider how services are implemented ('trustees role')
  - Manage the longevity funding by pooling and traditional actuarial techniques

Thankyou

- ... Questions

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