



Meeting the needs of Australia's future dissavers

Anthony Bice
David Moloney

Contents

1. Behind the scenes of dissaving
2. Go mega or mini about the dissaver market?
3. How are other markets addressing the challenge?

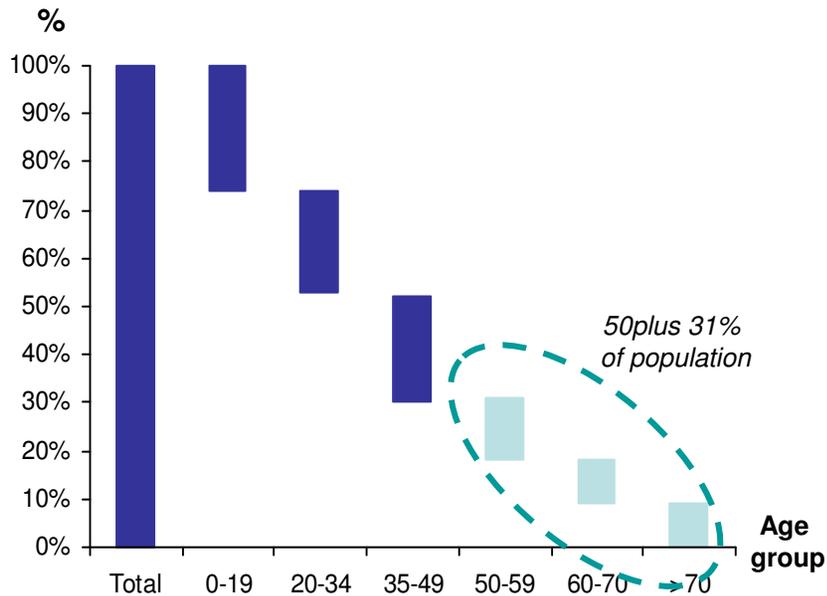


Section 1

Behind the scenes of dissaving

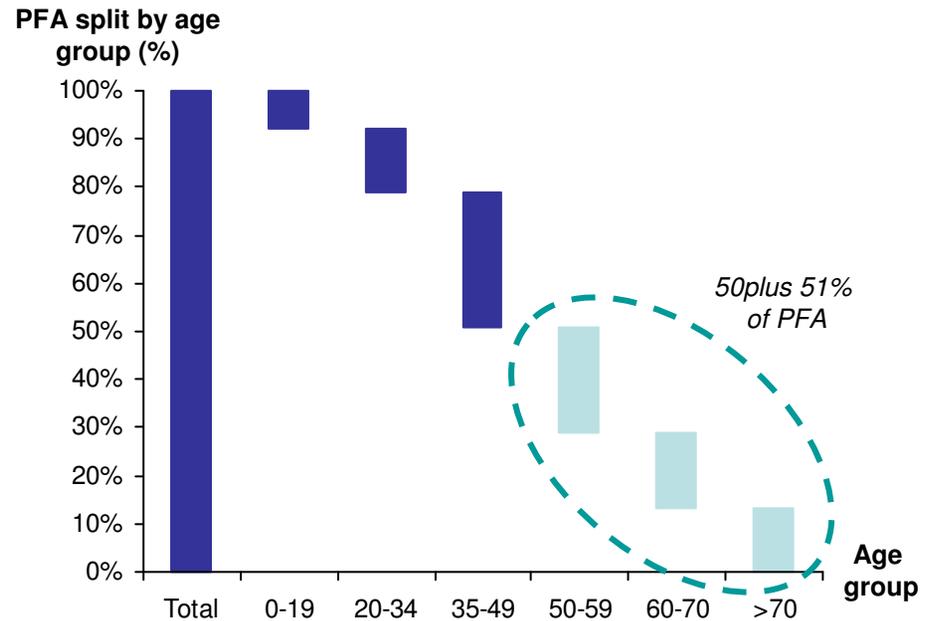
The 50plus age group today accounts for 31% of the population and approximately 51% of total personal financial assets¹ (PFA)

Population age distribution



The 50plus age group comprises 31% of the population – 18% in the 60plus age group, another 13% in the 50-59 age group

Age groups' share in PFA¹

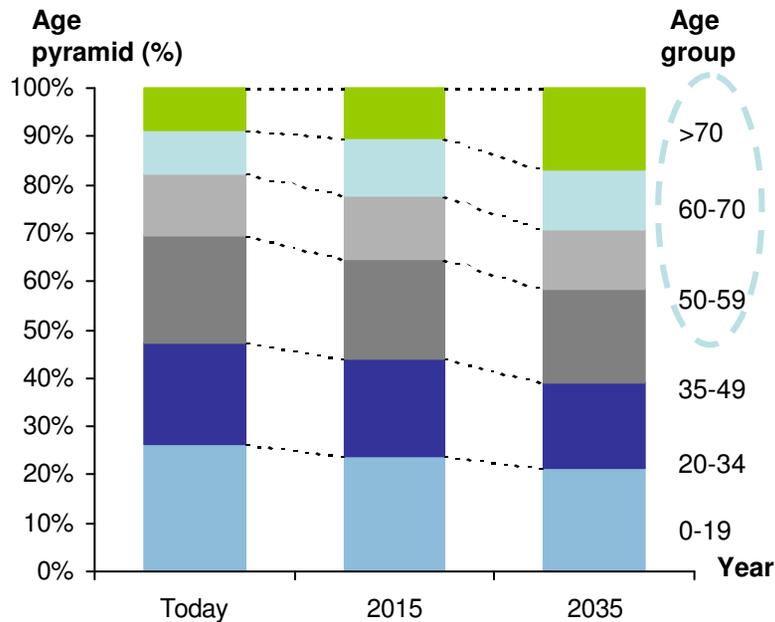


The 50plus age group accounts for the majority of total PFA – 29% held by the 60plus age group, another 22% by the 50-59 age group

¹ Personal Financial Assets (PFA) comprise all private asset classes: cash & deposits, home equity, funds & investment, life & pension
Source: ABS, RBA, OECD, Datamonitor, World Bank and Mercer Oliver Wyman analysis

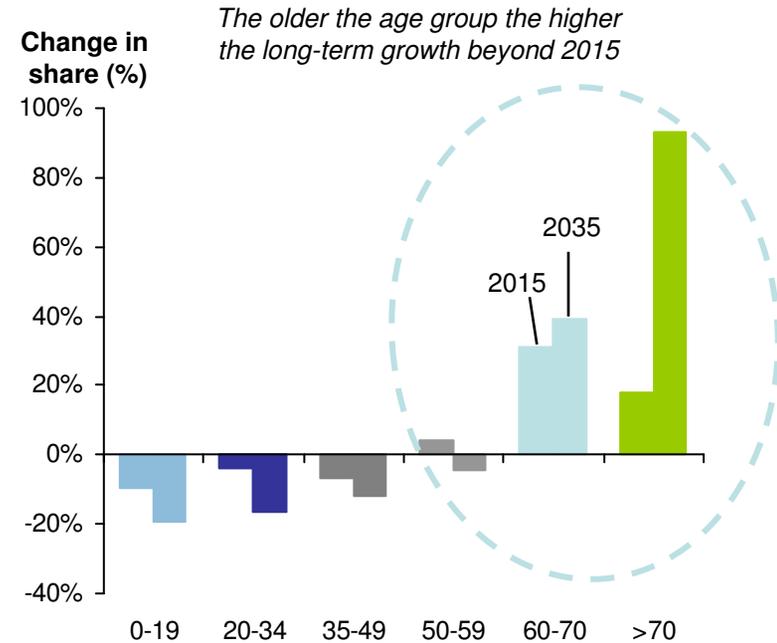
The 50plus age group is projected to grow rapidly driven largely by the ageing of the baby boomers

Reshape of the age pyramid



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

Change in share in the age pyramid

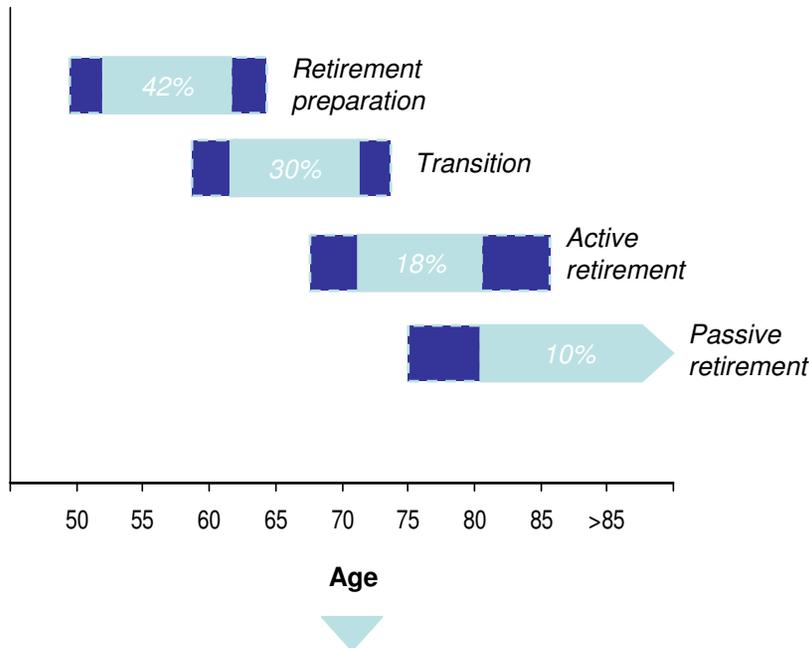


The demographic change is significant and will reshape customer segmentation and focus

The 50plus age group exhibits heterogeneous life styles and life stages

50plus age group life phases and life stages

Life style phases

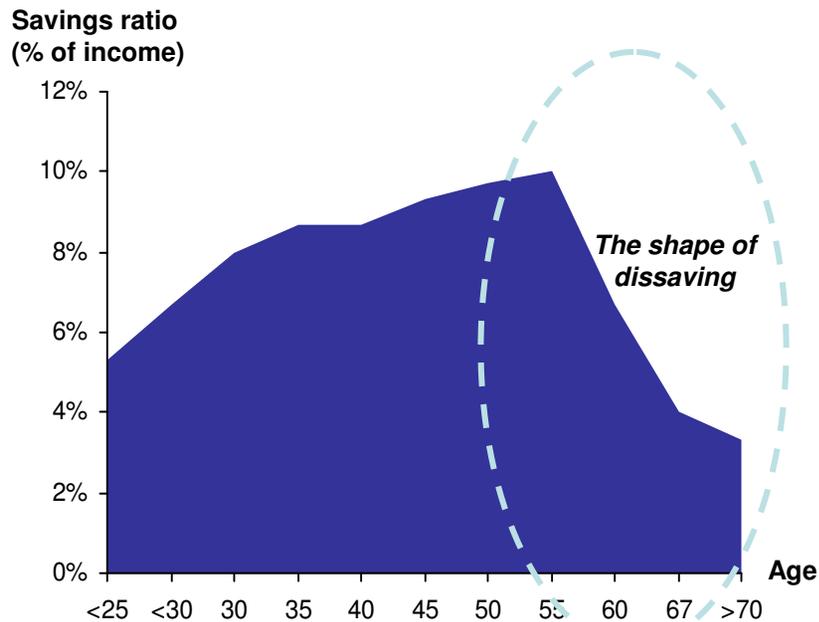


Understanding the specifics beyond these life styles and life stages is crucial first step to serve 50plus customers

Life style phases	Demand characteristics
Retirement preparation	<ul style="list-style-type: none"> - Planning for retirement phase, developing new ambitions and demands - Peak savings with focus shifting to short-term retirement funding - Assessment of financial situation and financial planning for retirement - Increased consideration of care and health services
Transition	<ul style="list-style-type: none"> - Stepwise shift from active work into retirement - Need to re-organize life style and to manage declining cash inflow - Start to implement retirement life style
Active retirement	<ul style="list-style-type: none"> - No significant health problems, - Active leisure life with high financial expenditure - Monitoring cash flows to manage liquidity for funding active leisure life - Continuous consideration of care and health protection - Increasing consideration of longevity risk
Passive retirement	<ul style="list-style-type: none"> - Increasing health problems and need for care and support in daily life - Concern about sufficient care and health protection and funding - Concern about appropriate trustworthy assistance and advisors - Increasing delegation of decisions to others

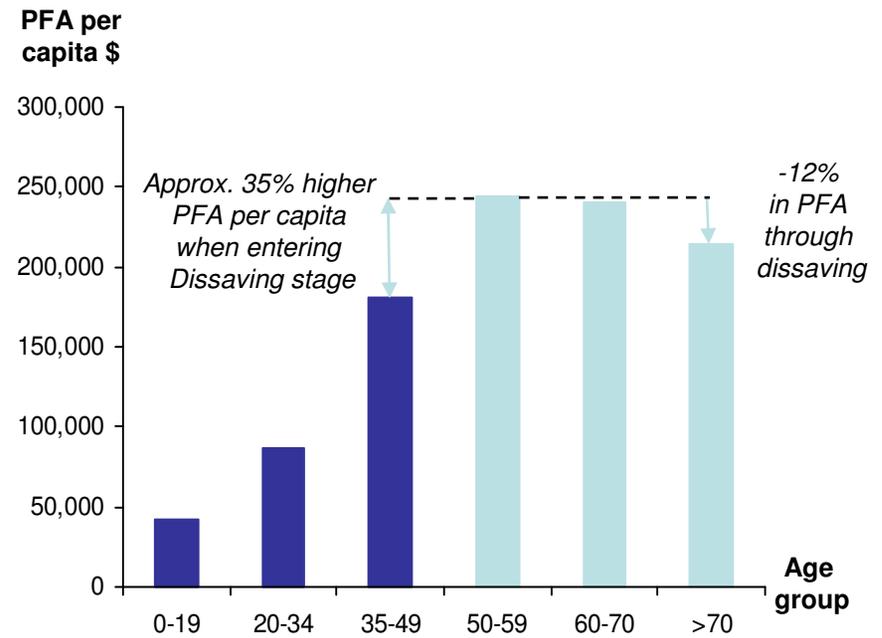
Despite heterogeneous life styles and stages, the 50plus age group has one common pattern: Dissaving

Dissaving pattern in the 50plus age group



Dissaving – the (partial) shift from accumulating to consuming wealth – is the common pattern of the customer group 50plus

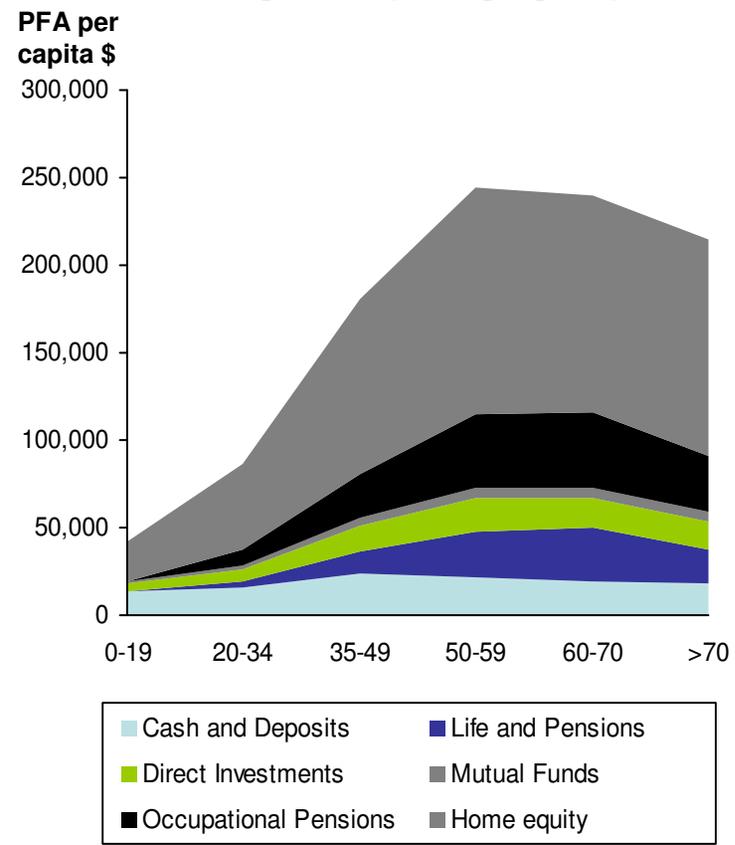
Dissavers remain wealthy



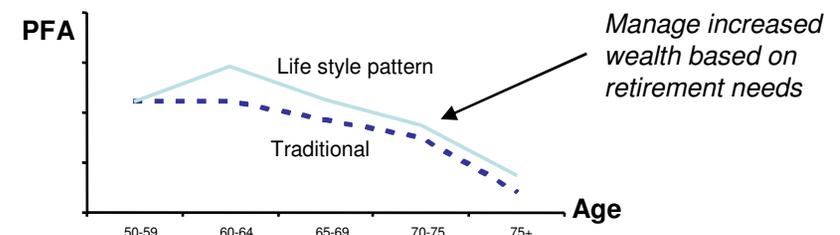
Dissavers have accumulated much higher PFA than younger age groups and use only fraction of their average PFA for dissaving

The individual shape of dissaving is largely influenced by life style and specific breaking points along the life stages of 50plus customers

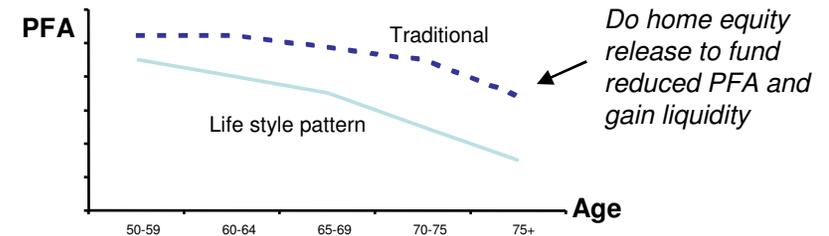
Average dissaving curve . . .
Average PFA per age group



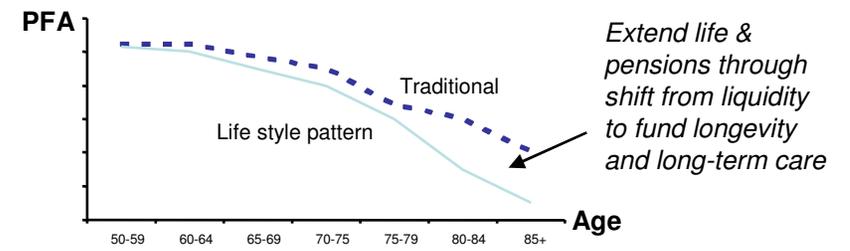
. . . will be shaped through the specific life style
Extending retirement transition



Enjoying early and active retirement



Bearing high long-term care and longevity



Source: ABS, The World Bank, Mercer Oliver Wyman



What should be the appropriate response to this mega trend and opportunity? Does it require a mega response?

Go mega or mini? Development path for a dissaver strategy

Three basic steps to prepare an appropriate response to the dissaver market

1

Assess the impact of the demographic change for an individual company

2

Segment the dissaver market to identify the most attractive value pools

3

Understand the specific requirements and success factors for a dissaver strategy

4

Converge insights and assess whether this requires or justifies a mega or mini response

5

Translate the headline 'mega or mini' decision into a game plan of where and how to compete



Section 2

Go mega or mini about the dissaver market?

1. Assess the impact of demographic change for your business

Go mega or mini? Development path for a dissaver strategy

Three basic steps to prepare an appropriate response to the dissaver market

1

Assess the impact of the demographic change for an individual company

2

Segment the dissaver market to identify the most attractive value pools

3

Understand the specific requirements and success factors for a dissaver strategy

4

Converge insights and assess whether this requires or justifies a mega or mini response

5

Translate the headline 'mega or mini' decision into a game plan of where and how to compete

1. Impact of demographic change

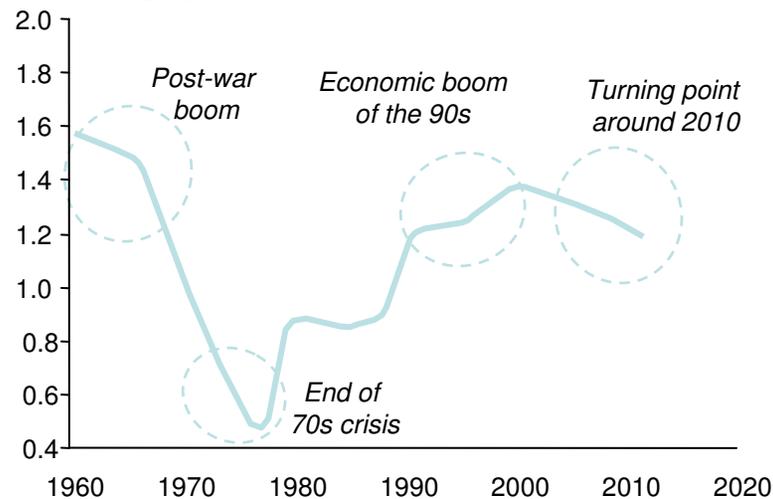
The demographic change may be a risk as there are signs for a weakened macroeconomic dynamism affecting growth opportunities

– Example Germany –

Economy-driving age-groups reach their peak around 2010 . . .

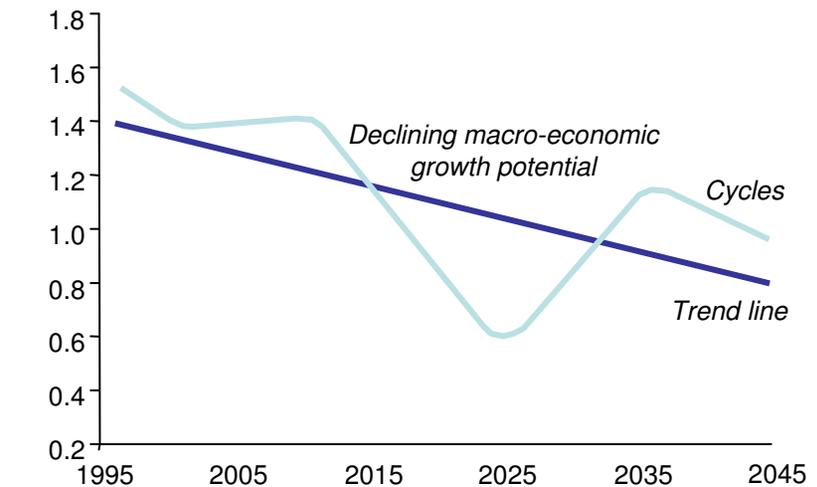
. . . but overall macroeconomic growth corridor is declining¹

GDP-driving vs. GDP-consuming age groups



Currently peaking of economy-driving age groups

Intrinsic economic growth Δ



Without economic reforms and further advancements risk of a long-term slow-down of the economy in mature markets

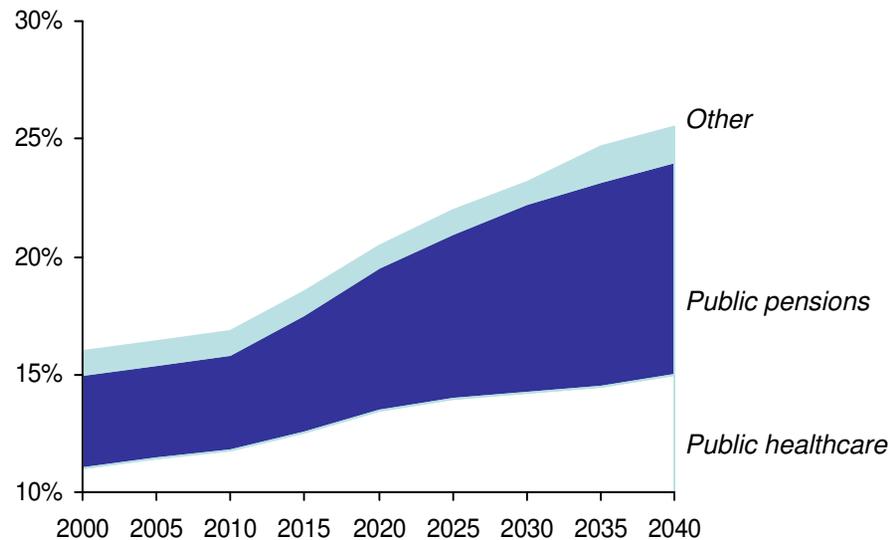
¹ Not including immigration and technological advancement
 Source: UBS Warburg, Deutsche Bank, Mercer Oliver Wyman

1. Impact of demographic change

But the demographic change has also huge macro opportunities, e.g. from increasing reforms of social security systems

Exploding public expenditure under ceteris paribus conditions

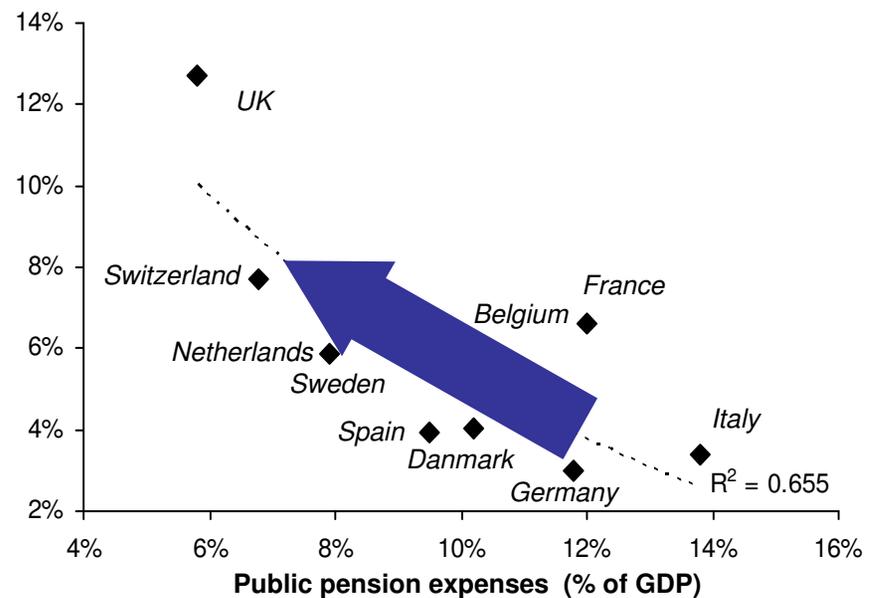
Public expenditure for social welfare systems (% of GDP)



Public expenditure would increase from 15% to >25% of GDP within 30 years – pressure for drastic reforms

Further public-to-private shift in social security funding ahead (e.g. life & pension)

Private life and pension expenses (% of GDP)



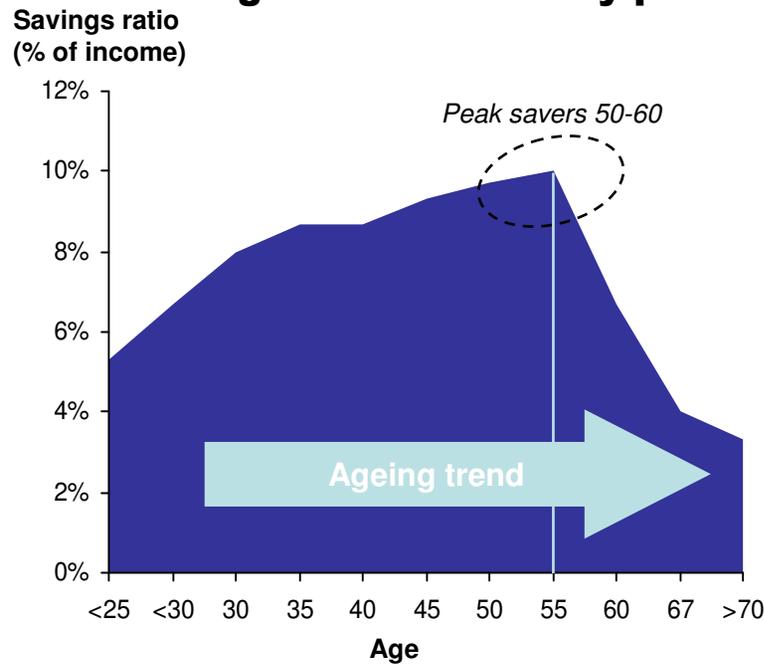
Typical reforms include a public-to private shift and a retrenchment of social welfare to provide only a basic social protection

1. Impact of demographic change

For financial services, the ageing of the population may cause asset inflows to decline

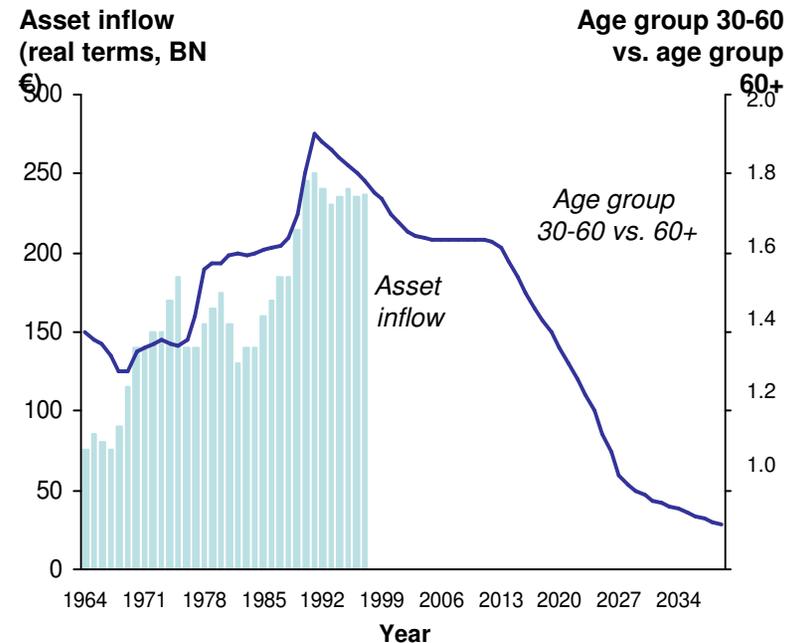
– Example Germany –

**Savings ratios¹ drop beyond age 55 –
 dissaving becomes the key pattern**



Many financial services and insurance offerings target savers rather than dissavers – paradigm shift required

Ageing and the impact on asset inflows



High correlation between relative size of age group 30-60 compared to 60+ and the overall asset inflow – reduced potential expected

¹ Savings ratio includes 9% compulsory superannuation levy
 Source: OECD, ECB, German Bundesbank, German National Statistics, Dresdner Bank, Mercer Oliver Wyman

1. Impact of demographic change

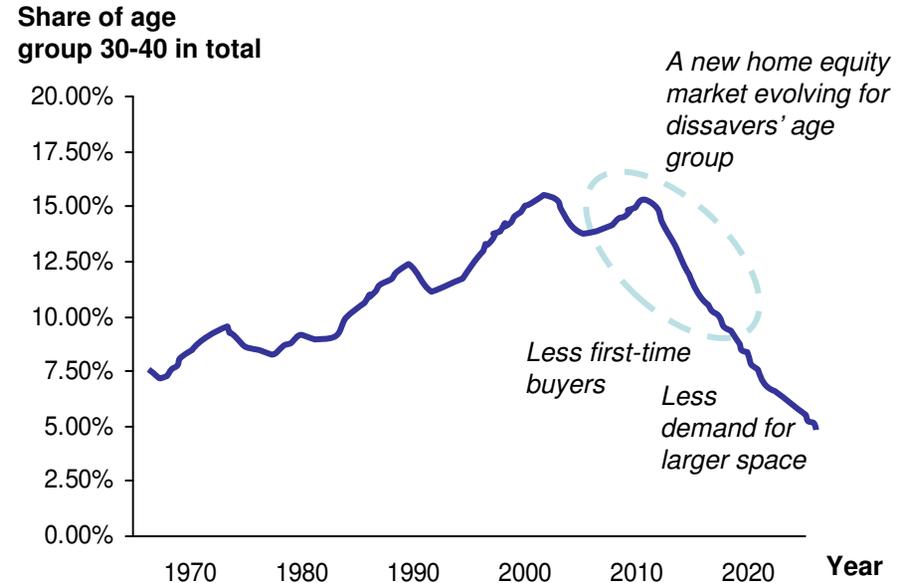
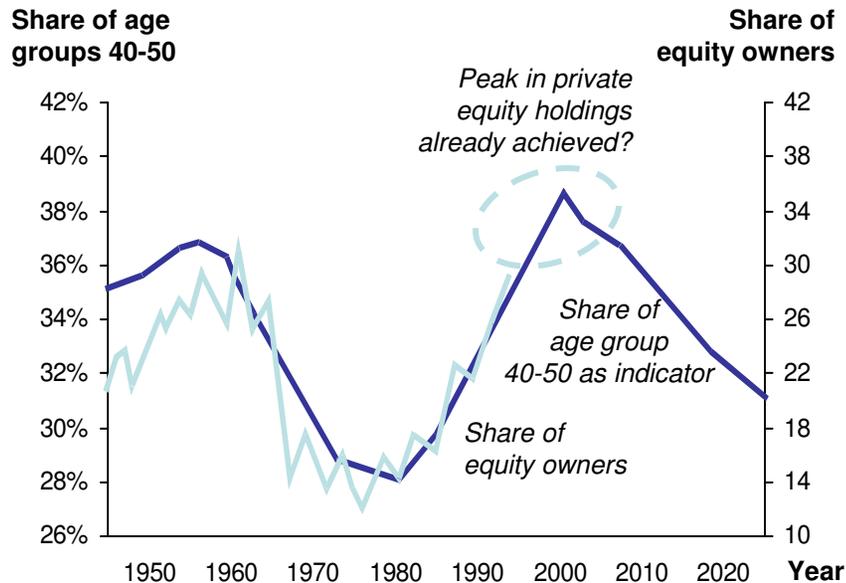
Many customer needs in financial services sectors and offerings will be reshaped, e.g. asset management and real estate

– Example US –

– Example Germany –

Ageing societies may seek safer investments

Traditional patterns in the home equity market may disappear



Safer investments may gain importance while inflows in equities may decline

Less families, less first-time buyers, but more singles, more retirees, more regional moves and demand for specific facilities

2. Segment the dissaver market and identify attractive value pools

Go mega or mini? Development path for a dissaver strategy

Three basic steps to prepare an appropriate response to the dissaver market

1

Assess the impact of the demographic change for an individual company

2

Segment the dissaver market to identify the most attractive value pools

3

Understand the specific requirements and success factors for a dissaver strategy

4

Converge insights and assess whether this requires or justifies a mega or mini response

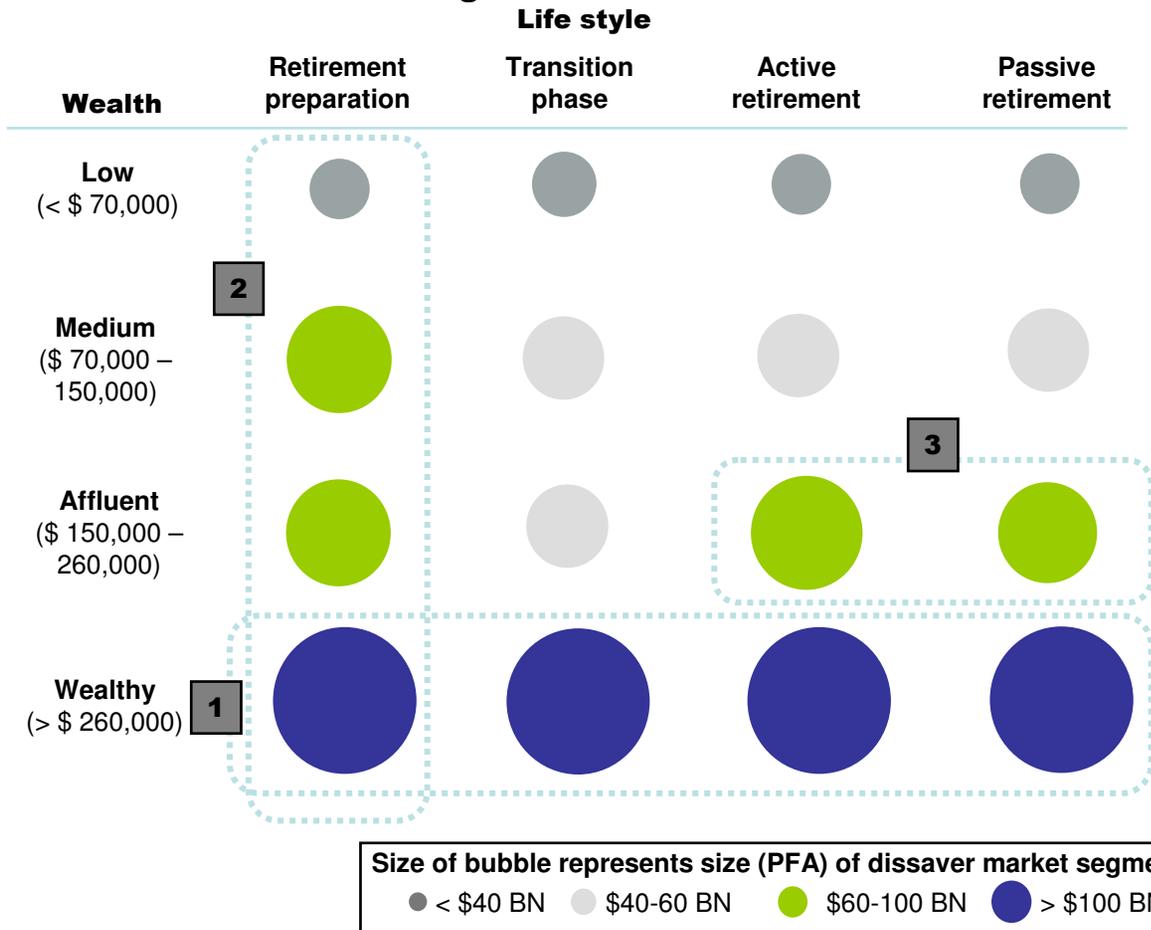
5

Translate the headline 'mega or mini' decision into a game plan of where and how to compete

2. Value pools in the dissaver market

The largest segments in the dissaver market are for wealthy clients as well as in retirement preparation and affluents in retirement

Dissaver PFA segmentation matrix in Australia



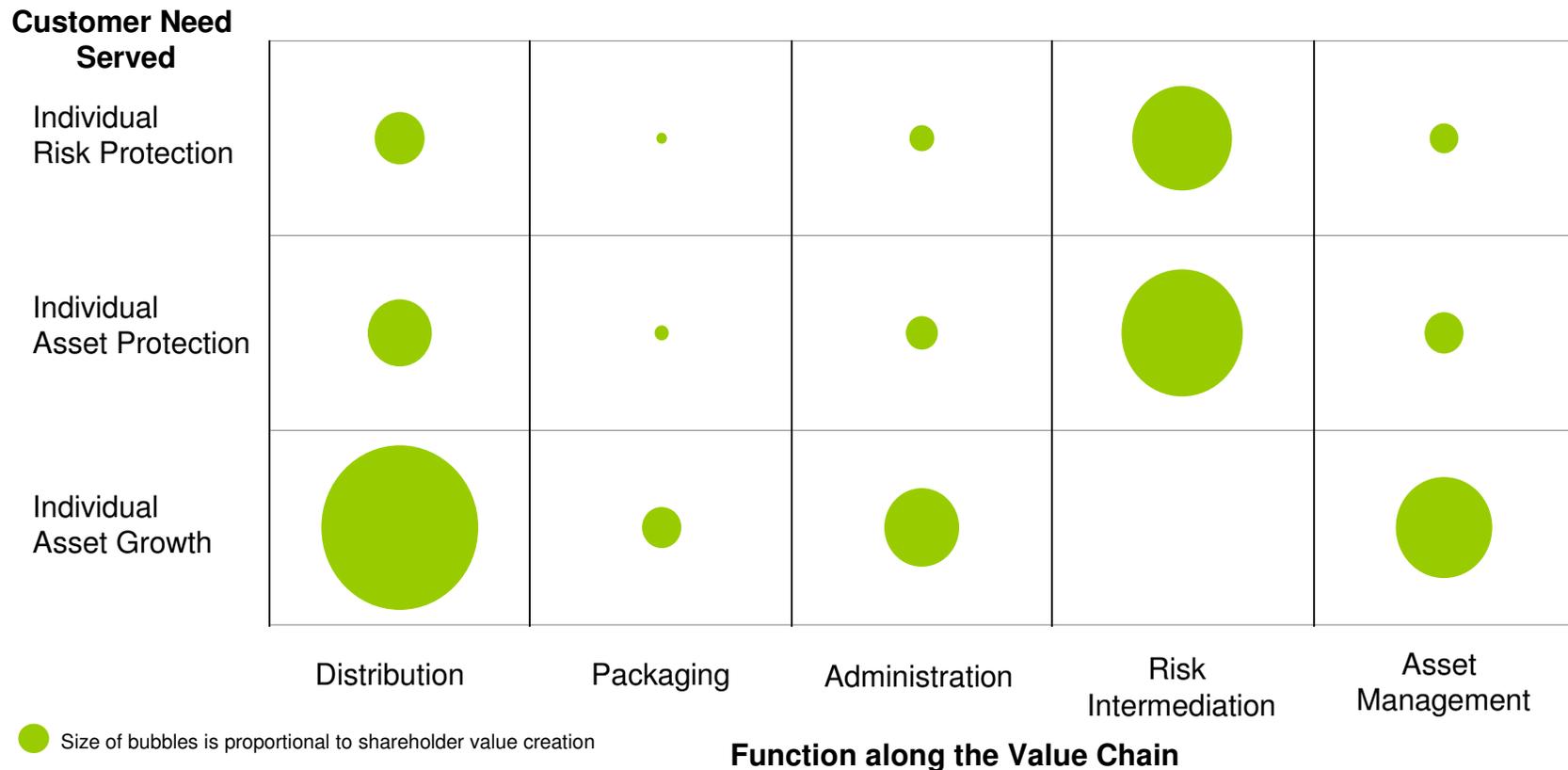
The largest dissaver PFA segments

- 1** Wealthy dissavers are the most attractive segment
- 2** Retirement preparation accumulates the most PFA per life style driven by later retirement and still high growth in segment 50-60
- 3** Affluents in retirement phases build a third relevant value pool

2. Value pools in the dissaver market

The general economics of the long-term savings and life insurance market need to be revisited from a dissaver market angle

Decomposition of shareholder value in long-term savings and life insurance¹



¹Remark: not including healthcare
Source: Mercer Oliver Wyman analysis

3. Understand the specific demand patterns and success factors

Go mega or mini? Development path for a dissaver strategy

Three basic steps to prepare an appropriate response to the dissaver market

1

Assess the impact of the demographic change for an individual company

2

Segment the dissaver market to identify the most attractive value pools

3

Understand the specific requirements and success factors for a dissaver strategy

4

Converge insights and assess whether this requires or justifies a mega or mini response

5

Translate the headline 'mega or mini' decision into a game plan of where and how to compete

3. Specific demand patterns and success factors

Dissavers have specific needs which are mainly determined by their life style and wealth situation

Dissavers' needs by life style and wealth category

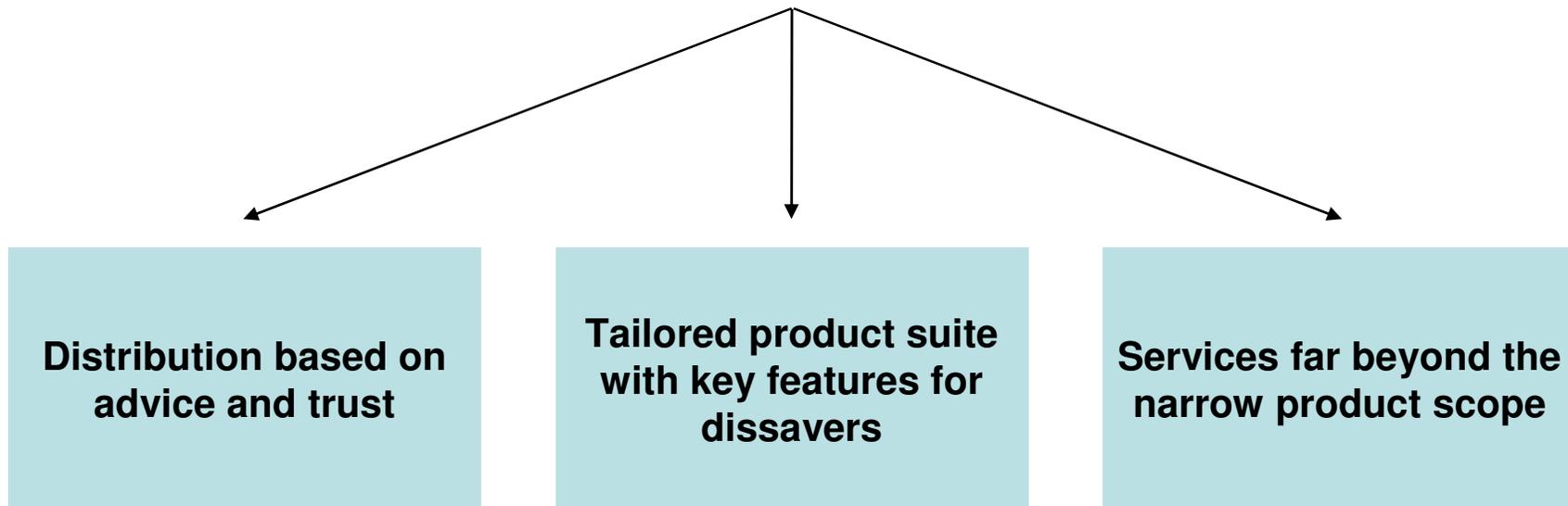
	Retirement preparation	Transition phase	Active retirement	Passive retirement
Low wealth	<ul style="list-style-type: none"> • Basic saving for retirement period • Need for financial protection • Basic product needs 	<ul style="list-style-type: none"> • Filling short-term savings gap • Funding necessary retirement and healthcare savings 	<ul style="list-style-type: none"> • Short-term funding of cost of living • Maintaining basic financial protection • Funding basic care needs 	<ul style="list-style-type: none"> • Longevity funding • Funding of care needs • Funeral and inheritance
Middle wealth	<ul style="list-style-type: none"> • Combination of financially protected retirement saving and more return-oriented, flexible asset pools • 'Mass customised' products 	<ul style="list-style-type: none"> • Liquidity management during transition phase • Review financial planning for retirement 	<ul style="list-style-type: none"> • Medium-term funding of cost of living • Funding additional care needs • Inheritance planning 	<ul style="list-style-type: none"> • Financial planning for longevity • Funding of care needs • Funeral and inheritance
Mass affluent	<ul style="list-style-type: none"> • Financial planning to maintain financial levels • Need for flexibility and service • Individual solutions 	<ul style="list-style-type: none"> • Review financial planning for retirement 	<ul style="list-style-type: none"> • Liquidity management and financial planning • Funding high-level care needs • Inheritance planning 	<ul style="list-style-type: none"> • Liquidity management and financial planning • Funding high-level care needs • Inheritance planning



3. *Specific demand patterns and success factors*

There is a set of key success factors for a dissaver strategy which are relevant across most segments

Key success factors to exploit potentials of the dissaver market

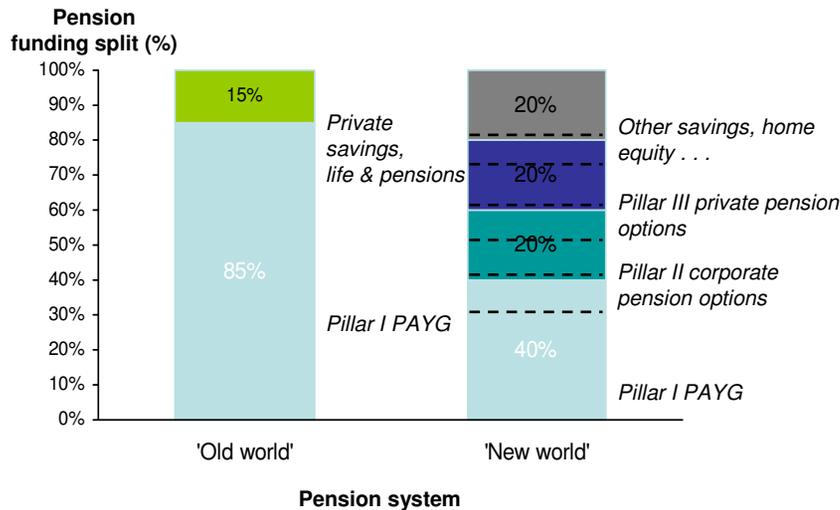


3. Specific demand patterns and success factors

The dissavers' world has become complex – advice is required in preparing for and managing dissaving

– Illustrative –

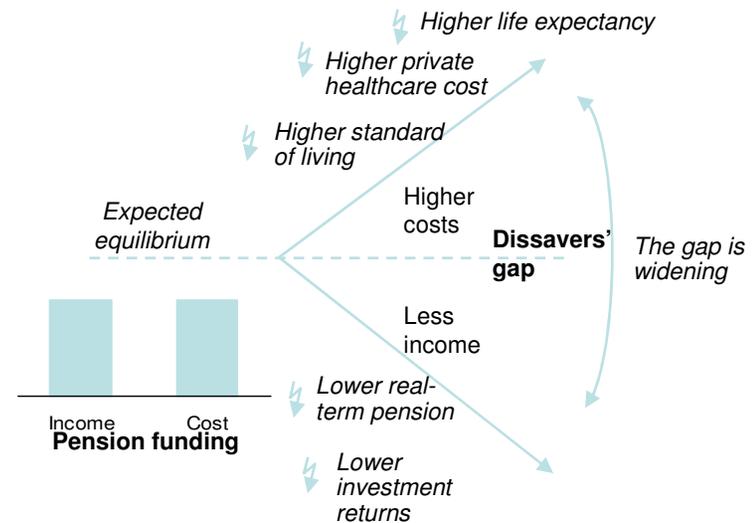
Preparing for a complex retirement funding



Advice for optimising pension funding in preparation and early stage of dissaving necessary

– Illustrative –

Managing the risk of an increasing financial gap during dissaving



Advice for filling the increasing dissavers' gap and to manage cash flows effectively

3. Specific demand patterns and success factors

The dissaver product suite can be clustered into four categories

Examples of a dissaver life insurance product suite

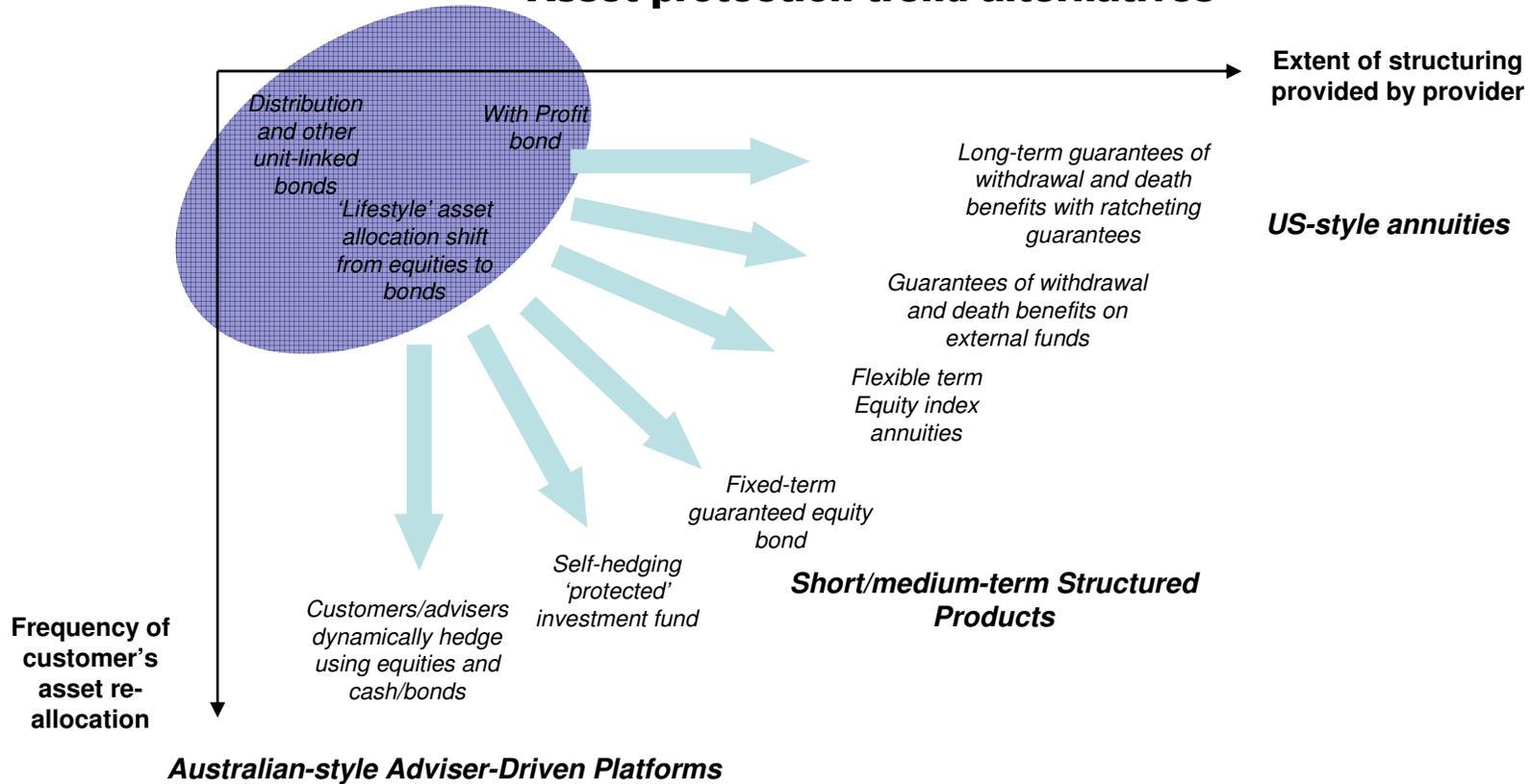
Asset protection	Liquidity management	Care	Inter-generation transfer
<ul style="list-style-type: none"> • Long-term continuous income stream • Low-risk asset base 	<ul style="list-style-type: none"> • Short-term funding of retirement period • Financial flexibility depending on life style 	<ul style="list-style-type: none"> • Long-term care funding and passive retirement services • Trustful partner in case of morbidity critical illness 	<ul style="list-style-type: none"> • Tax-optimised inheritance • Support of next generation • Funding of funeral and dept

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

3. Specific demand patterns and success factors

**Asset protection is a central product feature requested by dissavers
– the solutions companies will offer may vary by country**

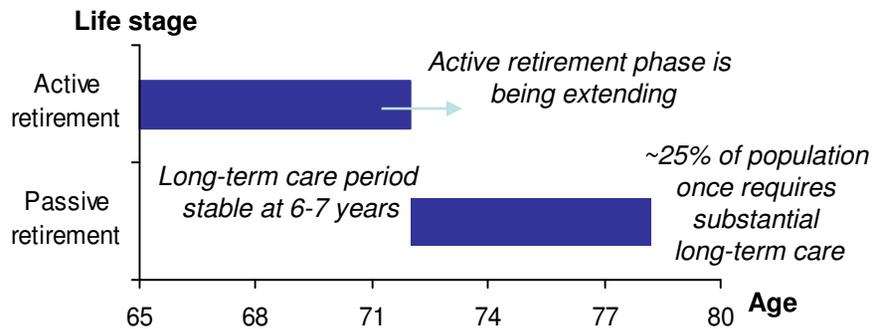
Asset protection trend alternatives



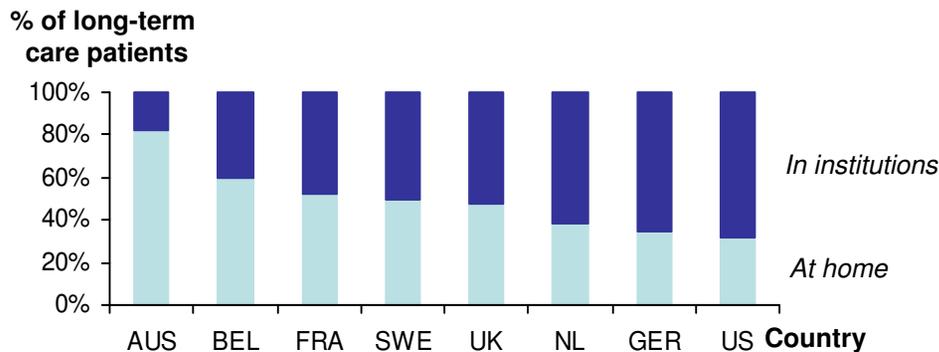
3. Specific demand patterns and success factors

Long-term care anticipation is another key issue that is specific to the dissaver market from a customer need perspective

Who needs long-term care, for how long?



How is long-term care provided?



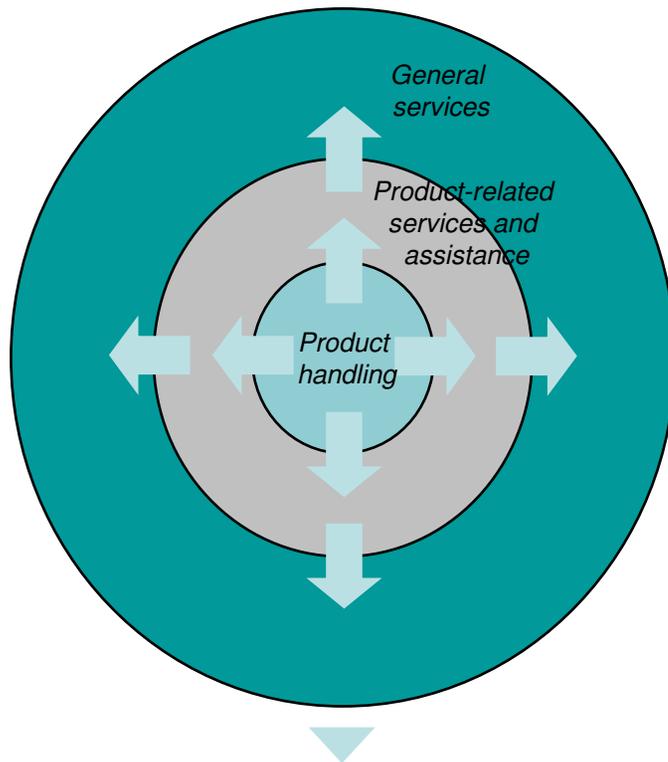
Long-term care product design implications

- Focus on mass affluent as premiums are rather high
- Anticipate cost inflation in healthcare in pricing, keep some flexibility
- Consider average duration and type of care provision
- Promote pre-funding to keep product affordable
- Consider integration of home care and informal family care roles
- Bundle with pension / annuity product to ensure some guaranteed payback (as only 25% of customers will need product)
- Consider investment in care infrastructure to control cost and differentiate in quality

3. Specific demand patterns and success factors

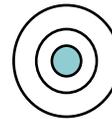
Dissavers seek services that go far beyond the single product

Potential service and assistance offerings



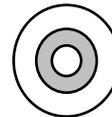
Dissavers appreciate specific services beyond product features

Examples and case studies



Product handling examples

- Endowment without medical testing (e.g. Tesco, UK)
- Flexible transfer of policies to children



Product-related services and assistance

- Term life including some funeral services (e.g. Ideal, Germany)
- Accidental insurance with homecare service (e.g. Allianz)
- Life and savings products with inheritance planning



General services

- Homecare and medical care
- Retirees homes,
- Legal and tax advice
- Community activities (travel, shopping, leisure)



Section 3

How are other markets addressing the challenge?

There are some examples of companies that chose the mega focus on the dissaver market . . .

SAGA

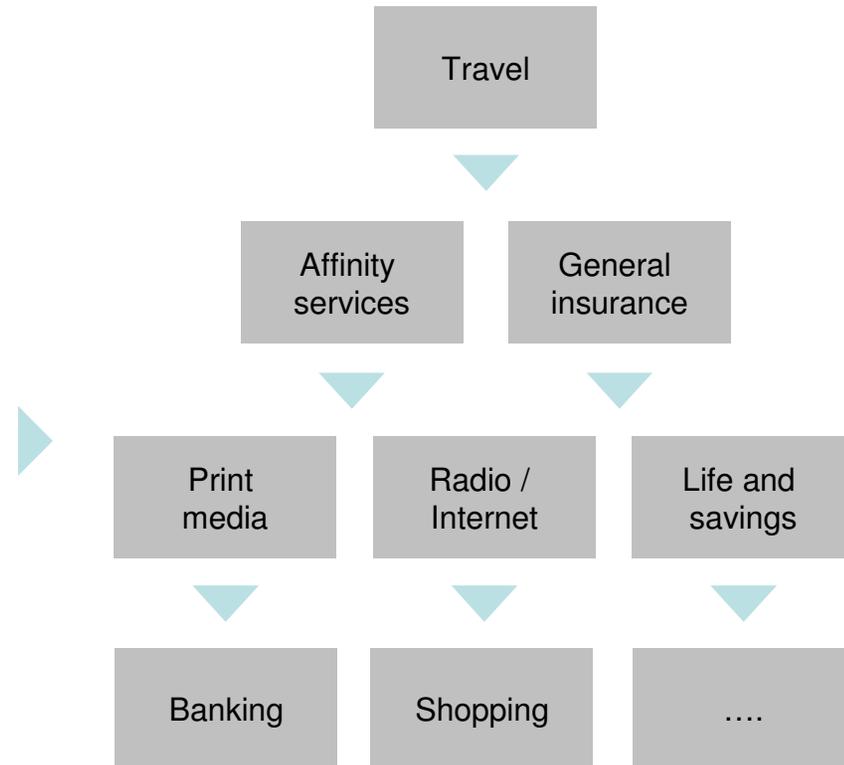
Ambition and strategy¹

- To create a comprehensive platform for 50+ market
- To stepwise expand offering for dissavers to cover financial services, travel, radio, media, community and other needs of the affinity group
- To run a broad distribution network heavily relying on direct marketing to 7.6 MM customer base
- To do manufacturing together with various partners to create best-in-class offering
- To develop a strong brand around service for 50+

Impact

- Largest dissaver affinity platform in the UK
- Expansion into all areas of dissavers' life
- Growth significantly outperforming the market
- High value creation

SAGA's value proposition expansion



¹Based on external perspective from Mercer Oliver Wyman
Source: Company information, Mercer Oliver Wyman

... while many others adapted their overall model and created tailored offerings within their overall value proposition

Allianz Life of North America

Ambition and strategy¹

- To target the large and growing baby boomer generation transitioning into dissavers
- To focus mainly on mass affluents with >\$100 K in PFA
- To concentrate on specific annuity products, mainly fixed and equity-linked – eventually then growing stepwise into other areas
- To creating a specific product suite covering all financial needs from retirement preparation to active retirement life stage
- Impact
- Top 3 in fixed annuities, #1 in equity-linked
- Growth exceeds market by factor 2
- Size and value contribution exceeds home business
- For Allianz 'mini' had mega impact

Allianz Life of North America annuity suite for retirement preparation

Target life stage	Product group
At least 7-10 years from full retirement	Alterity/Rewards <ul style="list-style-type: none"> – Guaranteed 7% annual roll-up for saving phase – Absolute level of withdrawals guaranteed – Product variations include minimum investment phase varying from 7 to 10 years, and different charging structures
5-10 years from full retirement	High Five <ul style="list-style-type: none"> – 5-year capital guarantees on each contribution – Guarantee ratchets every year of duration – Automated asset re-allocation between funds to maintain contract value – Other product variations have reduced surrender charges and different charging structures
Within 5 years from full retirement	Value Mark IV <ul style="list-style-type: none"> – Guaranteed death benefits – Free 15% annual withdrawal of up to 15% of value – Principle guaranteed after 7 years
Retirement transition	Value Mark Income Plus <ul style="list-style-type: none"> – Immediate retirement income over lifetime – Options for continued investment, with minimum guaranteed income
Active retirement	Various equity-linked annuities <ul style="list-style-type: none"> – Guaranteed min. annual crediting rates (1.5-3%) – Variety of equity index-linked guarantees – ratcheting, high-water, linked to S&P or Nasdaq – Variety of surrender charge structures

¹Based on external perspective from Mercer Oliver Wyman
Source: Company information, Mercer Oliver Wyman



Meeting the needs of Australia's future dissavers

Anthony Bice
David Moloney