



On the Annuity Puzzle

from the practitioner perspective

Oscar Tian
Insignia Financial

Various Risks over Your Lifetime



| | Early work life | Mid work life | Pre-retiree | Active retiree | Passive retiree |
|-----------------|-----------------|---------------|-------------|----------------|-----------------|
| Market risk | | | | | |
| Longevity risk | | | | | |
| Income risk | | | | | |
| Inflation risk | | | | | |
| Sequencing risk | | | | | |
| Liquidity risk | | | | | |

Annuity Puzzle in the Australian Context

- **Annuity Puzzle:**

Researchers think annuities offer retirees benefits and protections, however very few retirees buy annuities (especially lifetime annuities for longevity risk protection is even less popular).

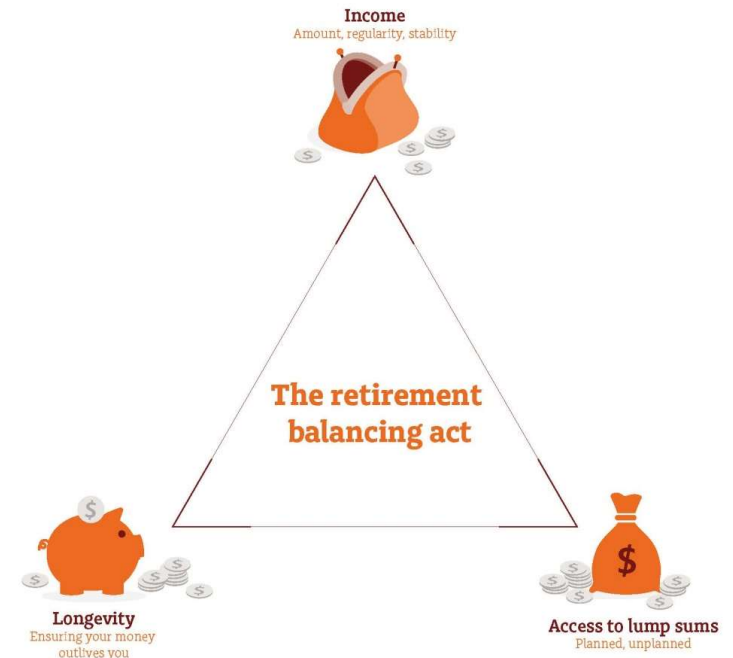
Why?

- Very few suppliers in the past decade
- Complex product design
- Reliance on bespoke admin systems and life insurance companies
- Regulatory environment (capital intensive) and government support (incentive for suppliers and consumers)
- Interaction with account based pension (key source of retirement income) and age pension (lifetime annuity provided by the government!)

Retirement Income Covenant (RIC)

The Government Retirement Income Covenant requires super trustees to help their members balance three key objectives (effective date: 1 July 2022)

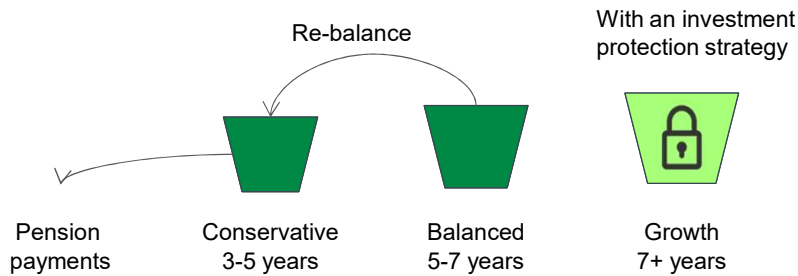
- Maximise member retirement income
- Flexible access to their savings during retirement
- Manage risks to the sustainability and stability of their retirement income (Investment risk, longevity risk, and inflation risk)



There is no single product that meets all these needs of retirees.

Protect Your Retirement Income

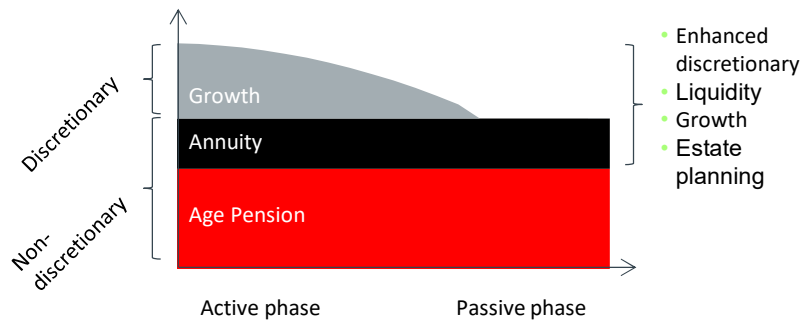
- **Bucket strategy with long-term investment protection**



- **Risk Management Overlay for investment risk has becoming popular in the super industry in recent years**

Risk management overlay is a bespoke process depending on the investment and risk strategy.

- **Income layering with annuity (immediate or deferred)**



Examples:

Equity risk: futures, options, total return swaps, variance swaps

Interest rate risk: interest rate swaps, swaptions

Currency risk: FX forwards, FX options

Selected Retirement Product Offerings in the Australian Market

| Category | Product Name | Investment risk protection | Inflation risk protection | Longevity risk protection | Early access to capital |
|------------------------------|---|----------------------------|---------------------------|---------------------------|-------------------------|
| Investment Linked Annuities | Allianz Retire+ FutureSafe | | | | |
| | AMP MyNorth Guarantee | | | | |
| | Generation Life Lifeline | | | | |
| | Insignia/MLC Investment Protection | | | | |
| Pooled Longevity Protection | QSuper Lifetime Pension | | | | |
| Term Annuities | AIA/Resolution Life Lifestream Fixed-term Annuity | | | | |
| | Challenger Fixed-term Annuity | | | | |
| Insured Longevity Protection | AIA/Resolution Life Lifestream Lifetime Annuity | | | | |
| | AMP MyNorth Lifetime | | | | |
| | Challenger Lifetime Annuity | | | | |
| | Allianz Retire+ AGLIE | | | | |

*Based on Insignia/MLC's own assessment

Weak Strong

Some Thoughts

- A 'soft default' retirement product with standardised product design and disclosure (CIPR and Retirement Income Review) and portability from one provider to another
- Compare the annuity market for more info and guidance
- Better government and regulatory support
- Quality of advice review, streamlined and affordable advice for the mass market
- Innovations in retirement risk protection and financial planning



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