

Leaping ahead of competitors

The superannuation industry has remained stable for a number of years until now! Now is the time to re-assess and create innovative products which will see you gain first mover advantage when the new changes are introduced on 1 July 2007.

Trowbridge Deloitte can assist you with these changes and we have a number of alternatives to suit your company.

We believe that first mover advantage will be significant as:

- product development for an innovative product will be time consuming, even for a follower
- there is an opportunity to build long lasting relationships with advisers
- there is an opportunity to build the brand as an innovative company that is recognised as a specialist for the product.

In order to be ready for the new changes, forward thinking life insurers are already reviewing their retirement income strategy now so their product offering will be ready for 1 July 2007.

Trowbridge Deloitte team

Trowbridge Deloitte is the Actuarial advisory arm of Deloitte Touche Tohmatsu in Australia. Trowbridge Deloitte harnesses the power of its people to offer Australian and international experience, specialist expertise and creativity to help our clients solve product issues that are vital to their future.

We offer:

- an independent, specialist point of view
- association with Deloitte actuaries from around the globe
- expert knowledge in related fields such as reverse mortgages
- access to a range of experts beyond the actuarial skill set.

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Changing annuities

*Product innovation -
leapfrog ahead*



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Annuities – a new era

After a long period of stability, the retirement incomes market is ripe for new ideas and product designs. There is a once in a generation opportunity to leap frog ahead.

There are two significant reasons why a change is occurring:

1. Budget changes

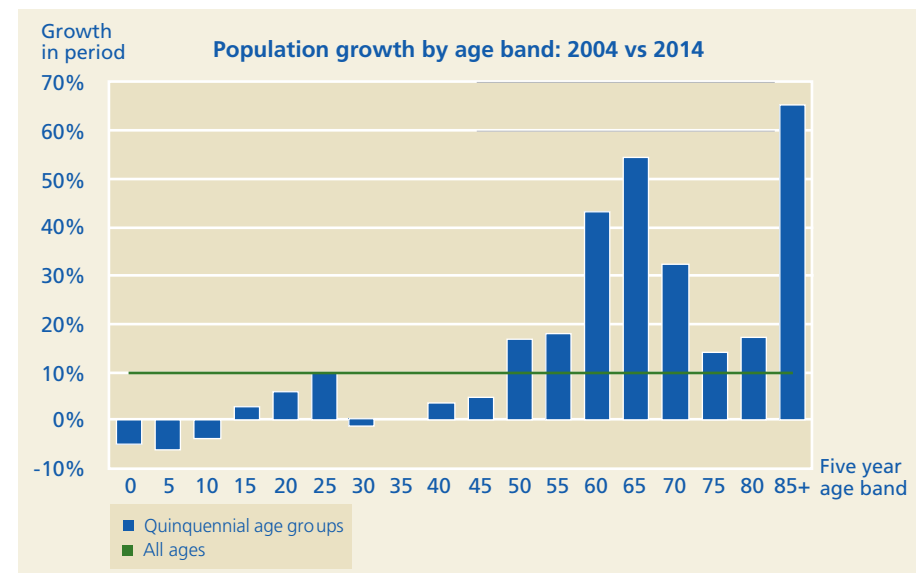
From 1 July 2007:

- any lump sum benefit will be tax-free for superannuation members aged 60 or over
- reasonable Benefit Limits will be abolished
- investors will be able to take multiple lump sums, with remaining funds taxed at the fund rate
- there will be simplified rules for market linked pensions.

This significant simplification of the superannuation system creates an opportunity for life insurers to design new retirement income stream products.

2. Demographic changes

As a result of Australia's ageing population more investors are moving from the accumulation phase to the pension phase.



The changing demographics will add even further incentive for innovative retirement income product design.

Growth in superannuation and retirement income assets

Based on Trowbridge Deloitte's¹ sophisticated modelling, the level of assets in pensions is expected to be:

End year	2005			2015		
	\$B	\$B	CAGR	\$B	CAGR	
Super	775	1,209	9.3%	1,801	8.8%	
Retirement income	70	155	17.3%	291	15.3%	
Total	845	1,364	10.1%	2,092	9.5%	

¹ The Super Scenario model projects the future market by product and segment such as retail super, industry funds, etc. Sensitivities and scenario can also be modelled.

Current product offerings in Australia

Once retired, the two main retirement income products offered to Australians by life insurers are allocated annuities and lifetime annuities. The table below outlines their key features.

Key feature	Allocated annuities	Lifetime annuities
Access to funds	Flexible withdrawals	Locked in income stream at purchase
Investment options	Choice of asset class and manager, ability to change over time	Not required as company guarantees earning rate
Investment return profile	Depends on investor choice and fee levels	Locked in, typically a fixed interest based return
Longevity insurance	None	Completely insured
Investment guarantees	Not offered, returns based on markets and profile selected	Backed by life company, requires capital

Table 1. Retirement income product statistics

	Sales	Net inflow	Inforce
Allocated annuities	\$11.7B	\$4.0B	\$55.5B
Immediate annuities ²	\$1.5B	\$(0.8)B	\$12.3B

Source – Plan For Life quarterly statistics ending 31 March 2006.

Clearly allocated annuities are the dominant product in the retirement income market.

However, new products are entering the market.

New products in the Australian market

Asteron's Longevity Income Stream (ALIS)³

Asteron released its Longevity Income Stream Product in 2006. Key features:

- a small proportion of funds is put in the ALIS fund
- it works in tandem with an allocated annuity, that is projected to be exhausted by age 80-85
- the establishment phase of the ALIS product is expected to be 15-30 years
- if the member does not survive, a portion of their funds goes into the ALIS pool to boost the income payments made to surviving ALIS policy owners
- there continues to be a boost to the income paid to surviving ALIS customers in the income phase when other policy owners die.

Home Equity Release

The most successful Home Equity Release products in Australia are Reverse Mortgages. They are an important alternative mechanism for asset rich-income poor retirees to access the equity in their home, without selling the property immediately.

A Sequal/Trowbridge Deloitte press release concluded that as at 30 June 2006, outstanding loans were \$1.1B. Over 90% were for lump sum advances. However, sales of draw-downs were close to 20% of new sales. A Trowbridge Deloitte Survey⁴ also found that Reverse Mortgages are popular with Financial Planners and found that 23 of 24 dealer groups surveyed had at least one Reverse Mortgage product on their recommended list.

² Immediate Annuities include fixed term annuities that are not necessarily sold for retirement planning.

³ See www.asteron.com.au

⁴ Deloitte news release 20 November 2006 of survey carried out for Bluestone Equity Release.

Alternative product offerings

Around the world, alternative retirement income products include:

Current markets	UK/South Africa	Canada/US
Feature	With-profit annuities	Variable annuities and equity indexed annuities
Access to funds	Locked in income stream at purchase	Locked in income stream at purchase
Investment options	Company invests on behalf of policy owners, typically a mixed investment fund	Choice of asset class and manager, ability to change over time
Investment return profile	Depends on underlying asset mix and current position of the funds	Depends on investor choice and fee levels
Longevity insurance	Completely insured	Completely insured
Investment guarantees	Minimum return inherent	Can choose options to limit downside risk, but at a cost to returns
Easy to understand	Complex for a policy owner, administratively simple	Has complexities

Product development challenge

Is your company ready to be a market leader into the next generation of retirement income products?

Will you be the first to offer an annuity with investment choice and longevity insurance, while keeping it simple for your customers, advisers and your back office?

Developing new products for the Australian market

Determining which products to offer

It is unlikely that any company in Australia would be willing to offer all available product types, as some of the products would not reach a viable size.

Recommendations for the insurer:

- targeting a particular product niche or aim at the general market, or both
- combining products to satisfy a greater range of retiree demands
- consider if the product offering will be supported by distributors.