

# Allianz Retire+ Behavioural Finance:

Delivering on the  
need for certainty

May 2023



**01** The retirement sector is  
changing

**02** New Age Retirement Solutions

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# The Retirement sector is changing rapidly

Change is here



# World's Hardest Math's Problem

Accumulation =  
 $PV(1+r)^N$

Decumulation =

$$P(i + \Delta) \approx \sum_{t=1}^n \frac{C_t}{(1 + i_t^S)^t} - \Delta \sum_{t=1}^n \frac{tC_t}{(1 + i_t^S)^{t+1}}$$

With such a complex problem, how can clients be certain about the solution?

# Share market down years 1994-2022

Question time: what is the missing year?

a) 1996    b) 1994    c) 2000    d) 1995

Year	S&P/ASX 200 Total Return Index (Equities)	Bloomberg AusBond Composite 0+ Yr Index (Bonds)	50/50 Portfolio (ASX TR / Bloomberg AusBond)
1994	-8.76%	-4.66%	-6.71%
2002	-8.77%	+8.81%	+0.02%
2008	-38.44%	+14.95%	-11.75%
2011	-10.54%	+11.37%	+0.42%
2018	-2.84%	+4.54%	+0.85%
<b>2022 YTD</b>	<b>-9.58%</b>	<b>-10.05%</b>	<b>-9.81%</b>

Source: Bloomberg. Data as of 30 September 2022

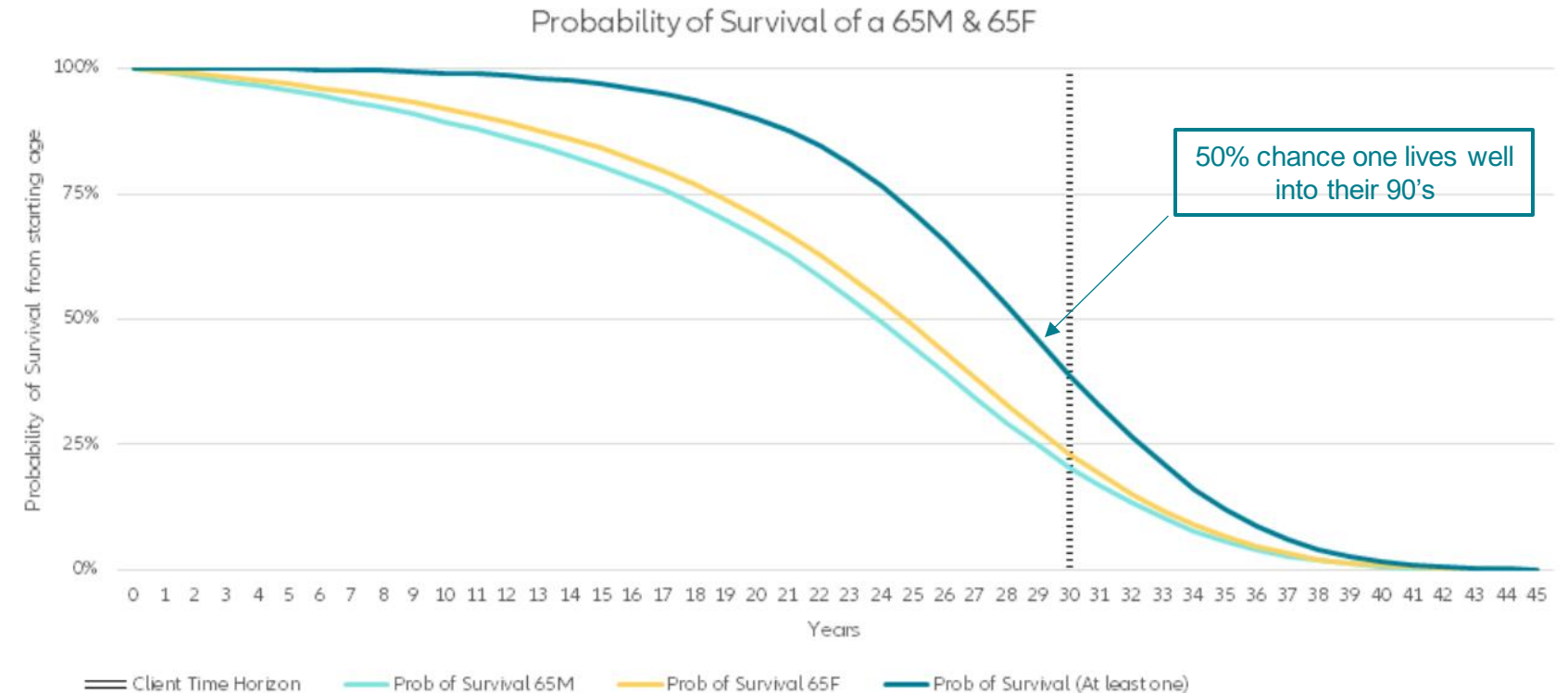
# Longevity risk

## Probability of survival for a couple aged 65

### Discussion points

- Life expectancy of males born today is 81.3 years, females is 85.4 years <sup>1</sup>
- Life expectancy in Australia is 11.9 years longer for males and 10.6 years for females compared with the United Nations 2020 world average of 69.4 years and 74.8 years
- In the past 20 years the number of Australians aged 85 and over increased by 117%
- In 2021 there were an estimated 534,000 Australians aged 85 and over, which is projected to grow to 1.28 million by 2041
- The number of centenarians is projected to grow from 5,300 in 2021 to 15,900 by 2041

### Longevity risk



<sup>1</sup> ABS report November 2022

<sup>2</sup> [How long you can expect to live and what it means for your super \(superguide.com.au\)](https://www.superguide.com.au).

<sup>3</sup> [Life tables, 2019 - 2021 | Australian Bureau of Statistics \(abs.gov.au\)](https://www.abs.gov.au)

# What are the challenges for retirees that they didn't face in Accumulation phase?

- Australians are living longer, healthier lives.
- Many people don't have enough super to continue enjoying the lives they've worked so hard to build and may be forced to make compromises to lifestyle or financial goals
- Question time: What percentage chance is there of one half of a couple living into their 90's?  
a) 60% chance   b) 50% chance   c) 45% chance   d) 55% chance

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**83 years**

approximate average life expectancy for an Australian retiree<sup>1</sup>

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**50%**

chance one half of a couple will live into their 90s

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**\$690k**

minimum needed for a couple to retire comfortably<sup>2</sup>

Many retirees want safe, secure and stable ways to convert their savings into an income that will allow them to continue to enjoy the lifestyle they have worked hard for.

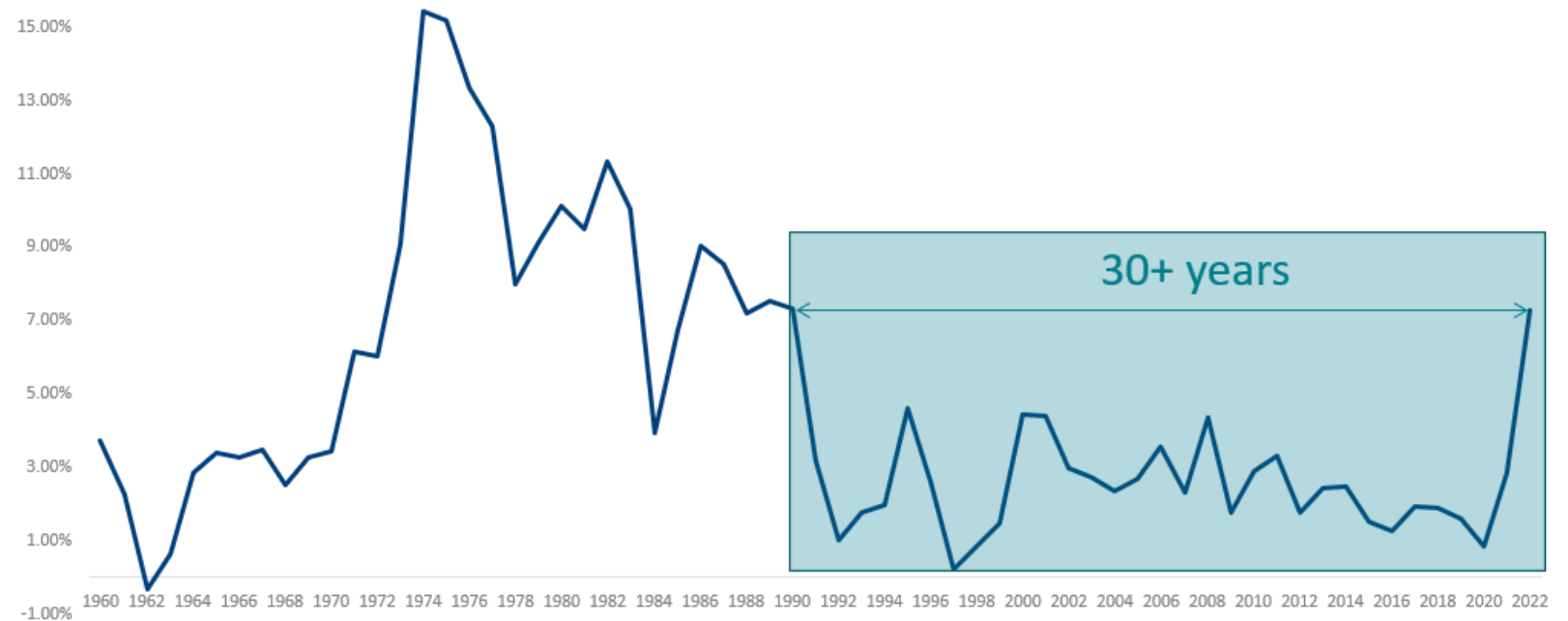
# Inflation risk

## Lifestyle Affordability

### Discussion points

- CPI rose 1.9% in Q4 2022 to reach a current Inflation rate of 7.8% (as at 25 Jan 2023)
- This is the highest rise since Q1 1990 \*2
- The increase of 1.9% was on the back of an increase of 1.8% in Q3, making this the 4th consecutive period of record numbers last seen after the introduction of the of the goods and services tax in 2000.
- Treasury estimate was a peak of 8% by end 2022
- Key drivers include cost of new dwellings up 17.8%, domestic holidays, travel and accommodation up 19.8% and fuel costs up 13.2%
- RBA response to inflation pressure has been 8 Consecutive rate hikes have
- Inflation target range is between 2-3%

### Inflation risk



1. MarcoTrends

2. [Australian Bureau of Statistics Australia Inflation Rate - 2022 Data - 2023 Forecast - 1951-2021 Historical - Calendar \(tradingeconomics.com\)](#)

3. [Australian inflation rate: why is it so high? – Forbes Advisor Australia](#)

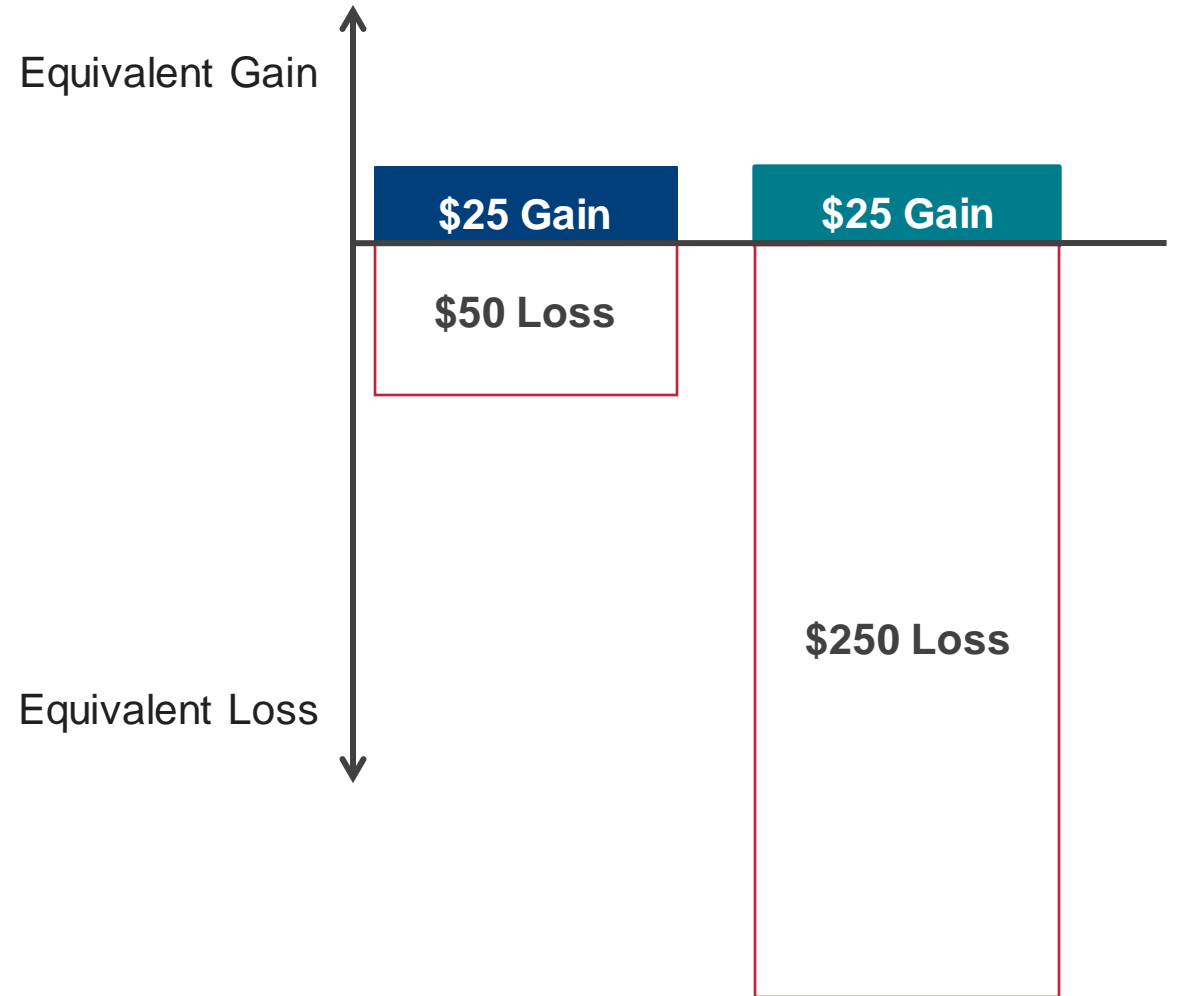


# Hyper Loss Aversion

Professor Eric Johnson – Columbia University

**Accumulators** feel the pain of a loss **2x** as much as they feel the joy of a gain.<sup>1</sup>

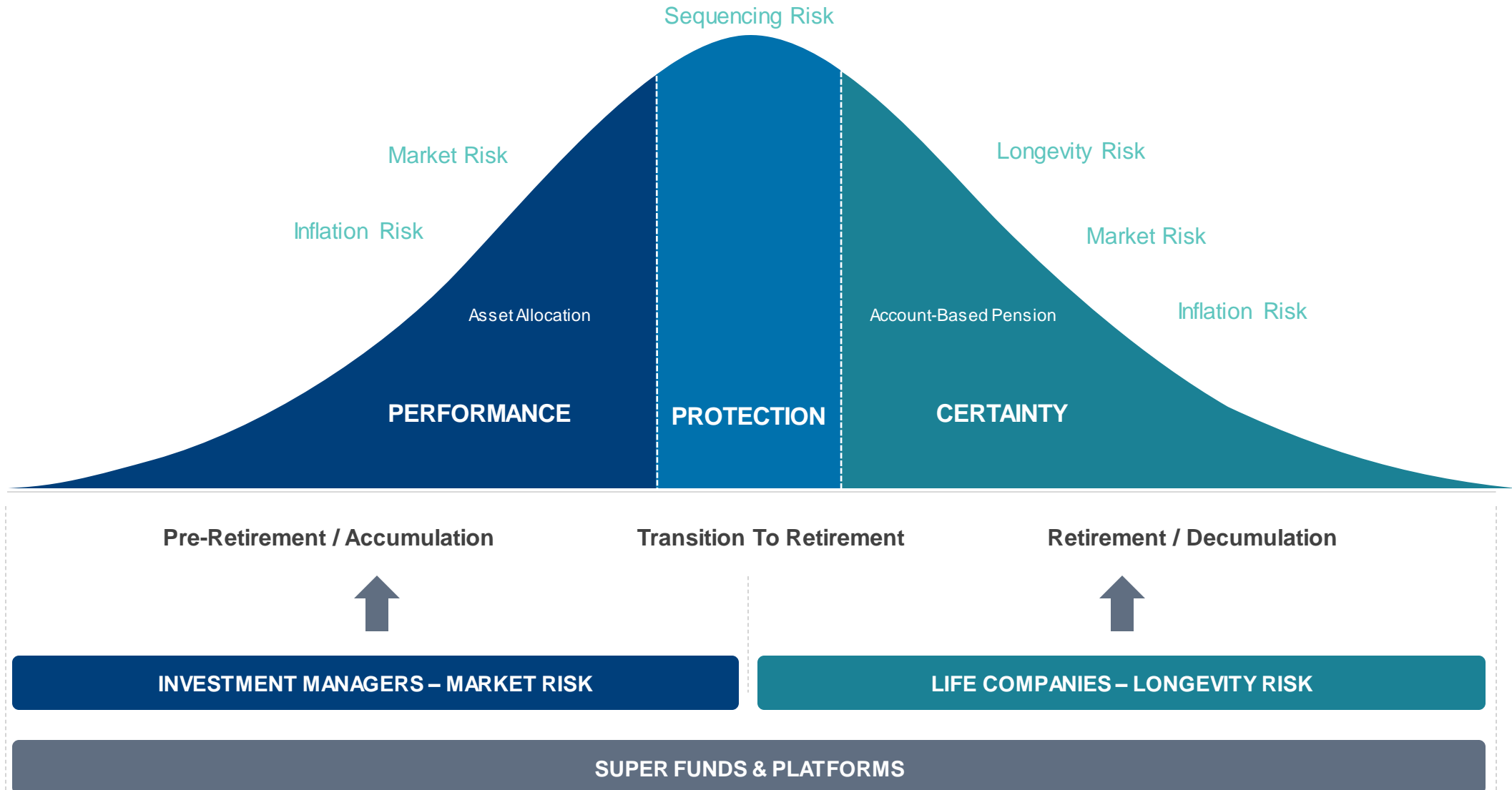
**Retirees** feel the pain of a loss **10x** as much as they feel the joy of a gain.<sup>1</sup>



<sup>1</sup>AARP and the American Council of Life Insurers – How Retirees Manage Money to Make it Last Through Retirement (2007)

# Retirement planning is unique

Shift away from performance in accumulation to providing certainty in decumulation



# Impact of sequencing risk

How long does your money last?

Year 1 Return	3%	4%	5%	6%	7%
+10%	22 years	25 years	29 years	35 years+	35 years+
+5%	21 years	23 years	27 years	33 years	35 years+
0%	19 years	22 years	25 years	31 years	35 years+
-5%	18 years	21 years	23 years	28 years	35 years+
-10%	17 years	19 years	22 years	25 years	31 years
-20%	15 years	17 years	18 years	21 years	24 years
-30%	13 years	14 years	15 years	17 years	19 years

<sup>1</sup> Annual drawdown rate of 5% of initial balance indexed to inflation of 2.50%. For illustrative purposes only.

# What retirees and advisers value

The certainty that comes with a lifetime income to mitigate longevity risk is highly valued by retirees and advisers



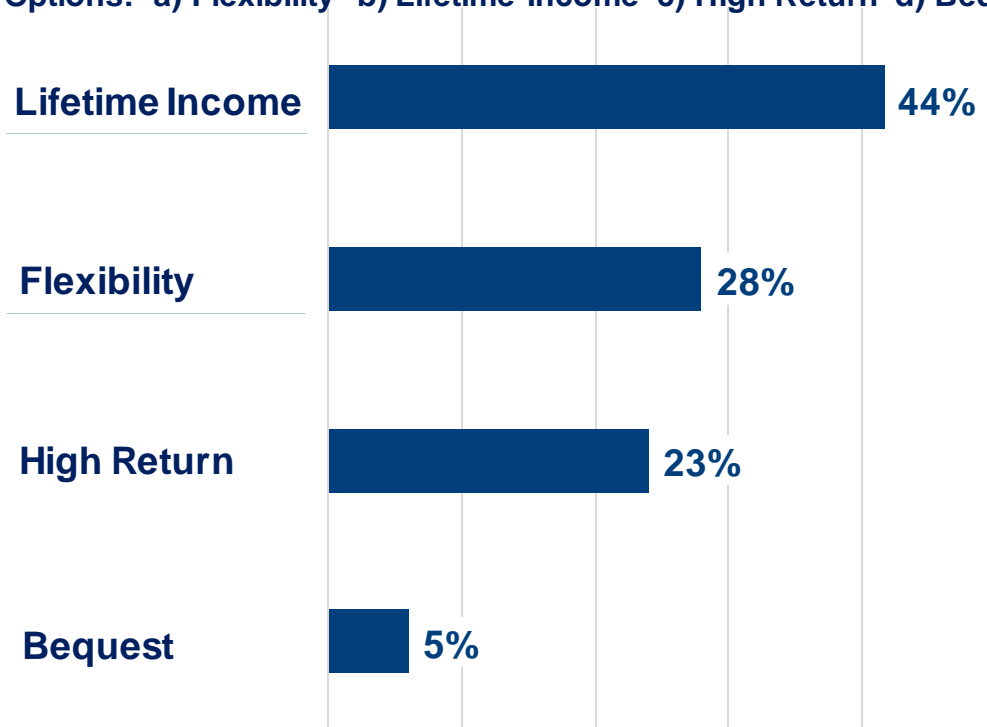
## RETIREES

What do you value most from your superannuation in retirement?

(first priority from over 3,500 members approaching retirement)

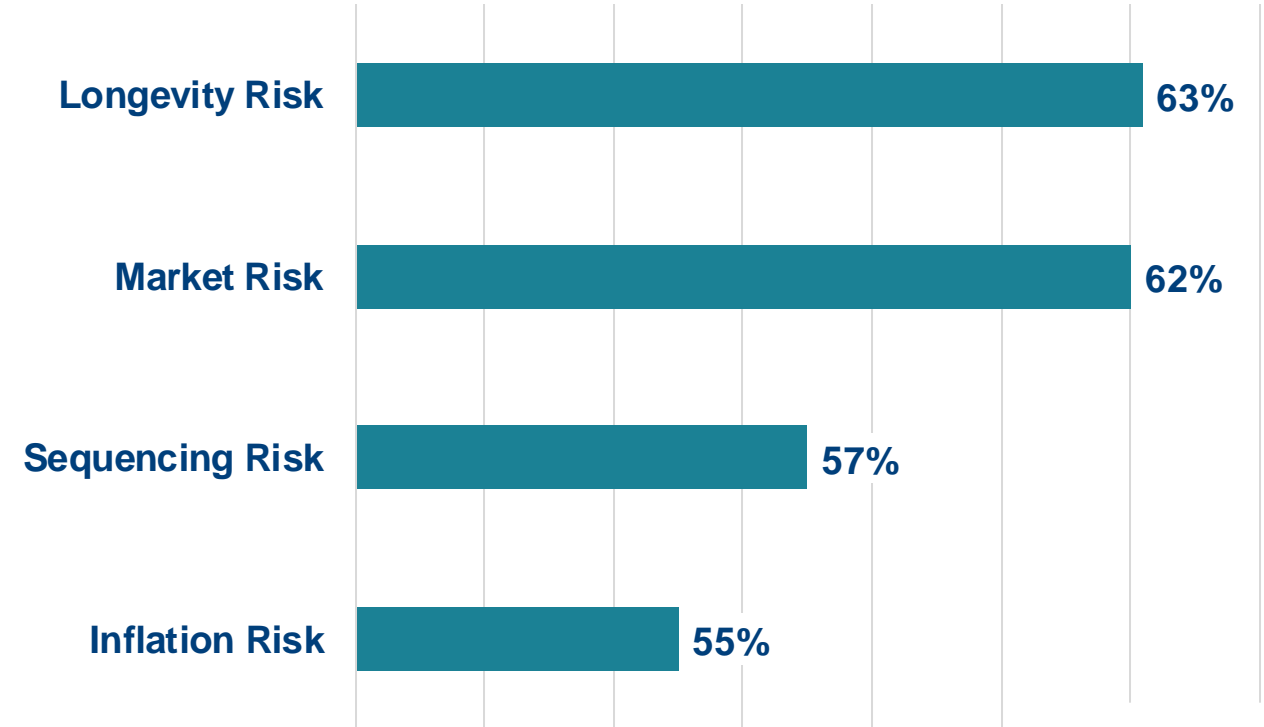
Questions | What do you think retirees ranked the highest?

Options: a) Flexibility b) Lifetime Income c) High Return d) Bequest.



## ADVISERS

What two retirement risks are you most interested in solving for your clients? (from 97 advisers engaged independently)



*“For life insurers in particular, an expansion into the retirement income market represents a significant opportunity – if managed well with some innovative thinking ....”*

**Helen Rowell – APRA Deputy Chair**  
Speech to the Australian Financial Review Super and Wealth Summit (November 2021)

*“That muscular approach will continue this year as APRA seeks to further transform the industry to one where... innovative retirement income products begin to move from an aspiration towards a reality”*

**Margaret Cole – APRA Deputy Chair**  
Speech to the Investment Magazine Superannuation Fund Chairs Forum (March 2022)

*“We are urging the industry to develop high-quality retirement income strategies”*

**John Lonsdale – APRA Chair**  
Senate Economics Legislation Committee (February 2023)

02

# New Age Retirement Solutions

Changing the way, we access income in retirement



# Unique attributes of a life company

Truly solving for retirement risks requires a unique set of characteristics that will result in a small number of Life Companies entering and maintaining a significant presence in the market



## Life Company License

Ability to guarantee income for life backed by the promise and capital of a life company



## Significant Capital Requirements

Depending on the product, up to 20% capital for every \$1bn invested to meet regulatory requirements to sustain market and other economic shocks



## Assets & Liabilities Matching

Investing in assets to match the long-dated nature of guaranteed lifetime income liabilities



## Global Retirement Expertise

World class expertise and experience in retirement investment which can be applied to the Australian market



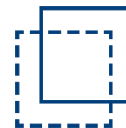
## Product Innovation

Product innovation to open new retirement market segments shifting away from conventional target markets



## Leading Technology

Considerable technological capability required to support all facets of lifetime income solutions



## Premium Transparency

Full disclosure and transparency on the lifetime income premium to advisers and retirees in line with the value proposition

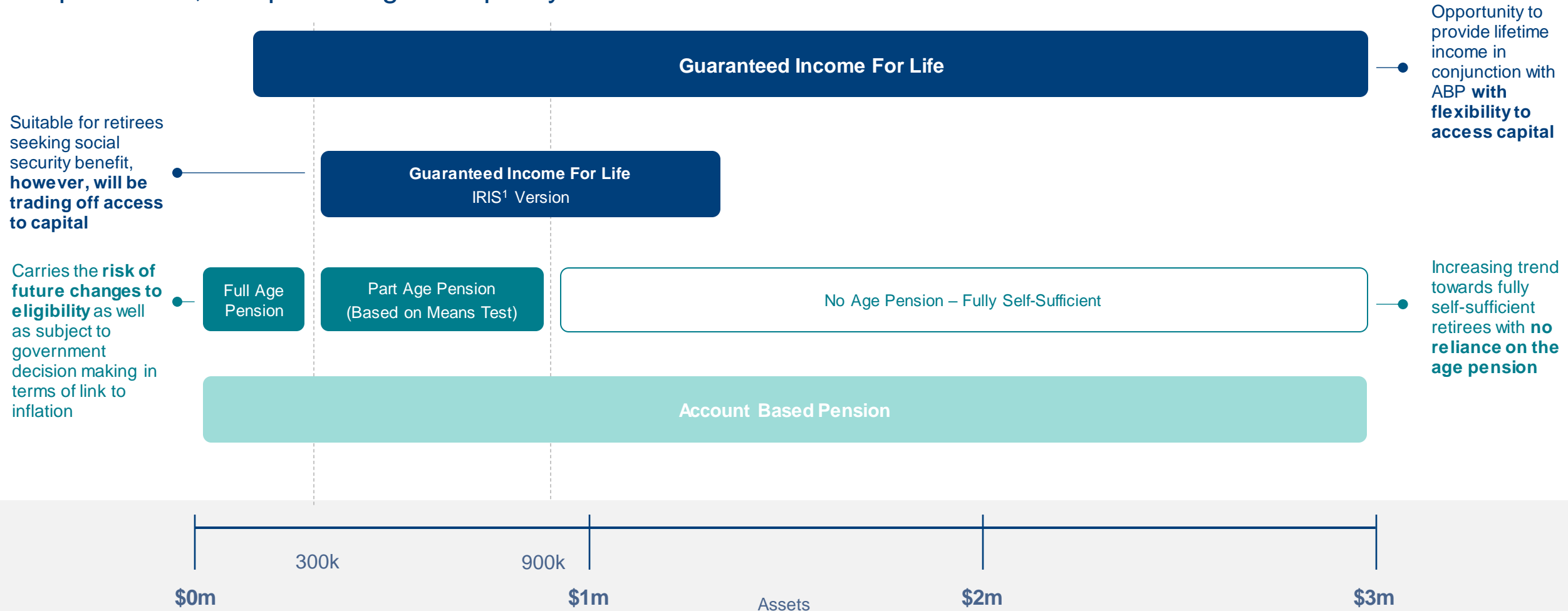


## Long Term Commitment

Commitment and patience to support retirees for their lifetime with improved quality of life

# Longevity risk is agnostic to capital value

Retirees are living more frugal lives than needed due to the fear of running out of money, regardless of capital value, compromising their quality of life























1. Innovative Retirement Income Stream (IRIS) as defined in the Superannuation Industry Supervision (SIS) Act 1993



# Current vs next generation retirement solutions

After 30 years of no retirement innovation the new world is looking completely different

Characteristics	Current	Next Generation
1 Target Market	 Narrow market on retirees eligible for Age Pension uplift	 All retirees after certainty in retirement
2 Access To Capital	 Limited as per capital access schedule	 Flexible access to capital
3 Guaranteed Income For Life	 Yes, however with trade-offs	 Guaranteed income for life with no trade-offs
4 Market Linked Income Returns	 Yes, however with no downside protection	 Exposure to market growth with downside protection
5 Investment Balance Growth	 Not available	 Exposure to market linked returns with protection
6 Death Benefit Payable	 Limited as per capital access schedule	 Payable upon death
7 Accessible within Account-Based Pension	 Not accessible	 Accessible
8 Accessible via Platform	 Advisers trained to sell annuities off-platform	 Advisers educated and well supported to sell on-platform
9 Transparency	 No transparency and disclosure with hidden fee structure	 Transparent longevity premium
10 Customer Simplicity	 Historically complex products	 Offered in a simple manner through innovative legal structure



1. Superannuation and Retirement – **Change is here**
2. There are **numerous products and tools** in managing fear and uncertainty for retirees
3. Guaranteed income for life **provides the certainty** to spend in retirement

# Questions



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