Creating a portfolio which improves client outcomes

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Allianz Retire+ is an Australian company dedicated to developing retirement products to meet the unique needs of Australian retirees.

We have brought together Allianz' world-class insurance know-how with PIMCO's unrivalled investment expertise to deliver security and stability throughout retirement.

Our combined heritage, longstanding stability and global reach ensures that our retirement products can last a lifetime and evolve with the ups and downs of the market and the changing needs of our clients.

Accurium provides professional services in Australia to accountants, financial advisers, lawyers, and financial institutions. Accurium's actuaries have specialised expertise in Australia's retirement income system and products, superannuation valuation techniques, and actuarial modelling.

Accurium bring a practical focus and unbiased perspective to help simplify complexity and make well-informed decisions where an analytical analysis or assessment is required.

Their services include SMSF actuarial certificates, life interest and income stream valuations, pension restructuring, retirement income research, product development and strategies, model reviews, calculator and educational tool development.

Allianz Retire+ engaged Accurium Pty Ltd, a commissioned research house, to conduct stochastic modelling across a range of hypothetical retirement income portfolios that incorporate a Lifetime income stream based on the product features of Allianz Guaranteed Income for Life (AGILE) for the following presentation.

Presenter

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Justine Marquet
Head of Technical Services, Allianz Retire+

Justine is a highly credentialed leader with over 20 years' experience in financial services, working across technical services, product development, regulatory change, operations, and sales functions. Her career has spanned superannuation, retirement, wealth, insurance, and financial advice, giving her a deep understanding of the challenges Allianz Retire+ is committed to solving.

Justine began her career at AMP and BT before heading up the Professional Development business at Kaplan. Justine then joined AIA, creating and leading their Technical and Education Centre of Excellence, and was most recently Head of Technical Services, Research and Regulatory Change at MLC Life, delivering technical advice strategies, product and sales training, regulatory change and advocacy to improve partner and client experience, increase brand awareness and sales. Justine's qualifications include M Comm. (Fin. Planning) and Dip. Supn Management.

Presentation agenda

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1. The retirement income landscape
2. Financial risks to retirement portfolios
3. Findings from research into retirement portfolios with next-generation lifetime income solutions
4. Case study of retirement strategy outcomes
5. Conclusion

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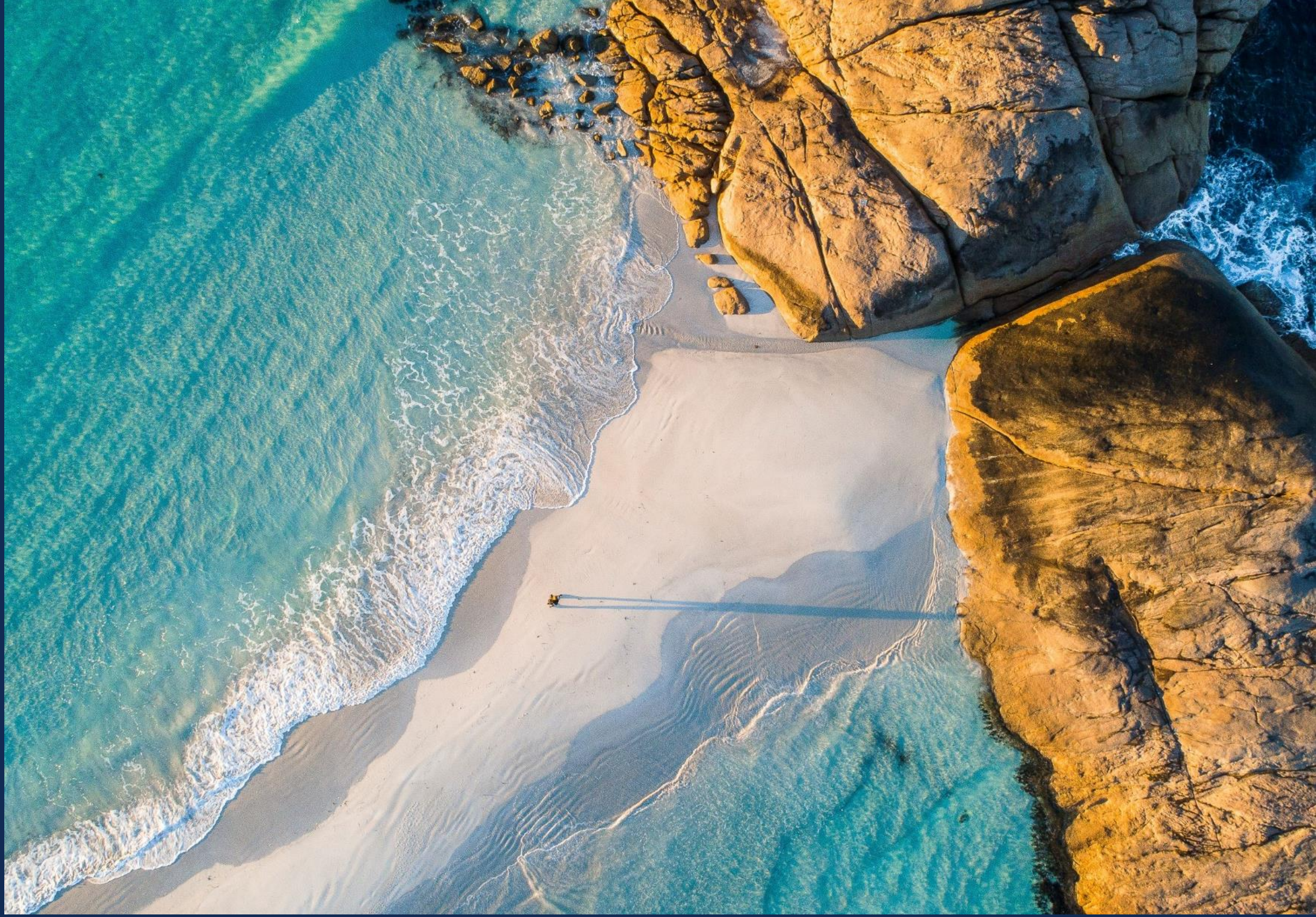
The retirement income landscape



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Retirement income in Australia

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Australia has over 4 million retirees!

Around 140,000 Australians are retiring each year
Average age at retirement is around 64 years old[1]

So why is it that …

Only 51% of members in APRA funds who may be eligible to commence a retirement income stream have done so[2].

Making decisions about retirement is complex:

- When to retire?
- How to invest?
- How much to spend?

Over 50% of people who received advice did so about Investments and Retirement income planning[4]

More than half of older Australians are afraid their savings will not last through retirement[3]

1 - Australian Bureau of Statistics, 'Retirement and Retirement Intentions, Australia', 2020-21 financial year, August 2023.
2 - Australian Prudential Regulation Authority, 'Annual superannuation bulletin June 2015 to June 2022- superannuation entities' [dataset], January 2023.
3 - National Seniors Australia, 'Retirement Income Worry: Who worries and why?', January 2020.
4 - Australian Securities & Investments Commission, 'Report 627 Financial advice: What consumers really think', August 2019.

Retirement income products in Australia

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Pension member accounts[1] (funds with more than six members in 2020-21)

Next generation lifetime income solutions are now available:

- Greater flexibility in the design of income
- Features beyond traditional lifetime annuities

Retirement income opportunity:

Account-based pension + Lifetime income stream

1 - The Association of Superannuation Funds of Australia Limited (ASFA), 'An update on superannuation account balances', November 2023.

Retirement portfolio construction

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New research[1] analysed whether an allocation to a next generation lifetime income stream in a super portfolio would improve retirement income outcomes.

Strategies which included an allocation to the lifetime income stream provided higher retirement income confidence compared to strategies which solely used an ABP.

Nearly 4,000 combinations of client scenarios and retirement strategies were stress tested across 2,000 market simulations to assess the confidence a target income would last for life.

To understand when and why this is the case requires an examination of financial risks.

1 – Accurium and Allianz Retire+, 'An examination of retirement portfolio outcomes using AGILE', December 2023.

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Financial risks to retirement portfolios

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Inflation risk

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The Consumer Price Index (CPI) is a measure of inflation which considers the change in prices of household expenditure:

- Annual CPI growth to Sep 2023 was 5.4%, CPI has been falling from peak of 7.8% in Dec 2022.
- The most significant prices rises in the quarter to Sep 2023 were:

Automotive fuel +7.2%

Rent +2.2%

Electricity +4.2%

Example: If a retiree client's lifestyle cost $60,000 last year, this year the cost for that same lifestyle will be higher. Assuming the cost of the goods and services they consume has risen 5.4%, then this year the client will need $63,240 in retirement income to afford the same lifestyle.

Inflation makes retirement more costly, but if not allowed for, a retiree may overestimate the lifestyle they can afford.

Source: Australian Bureau of Statistics, 'Consumer Price Index, Australia', September Quarter 2023.

Market and sequencing risk

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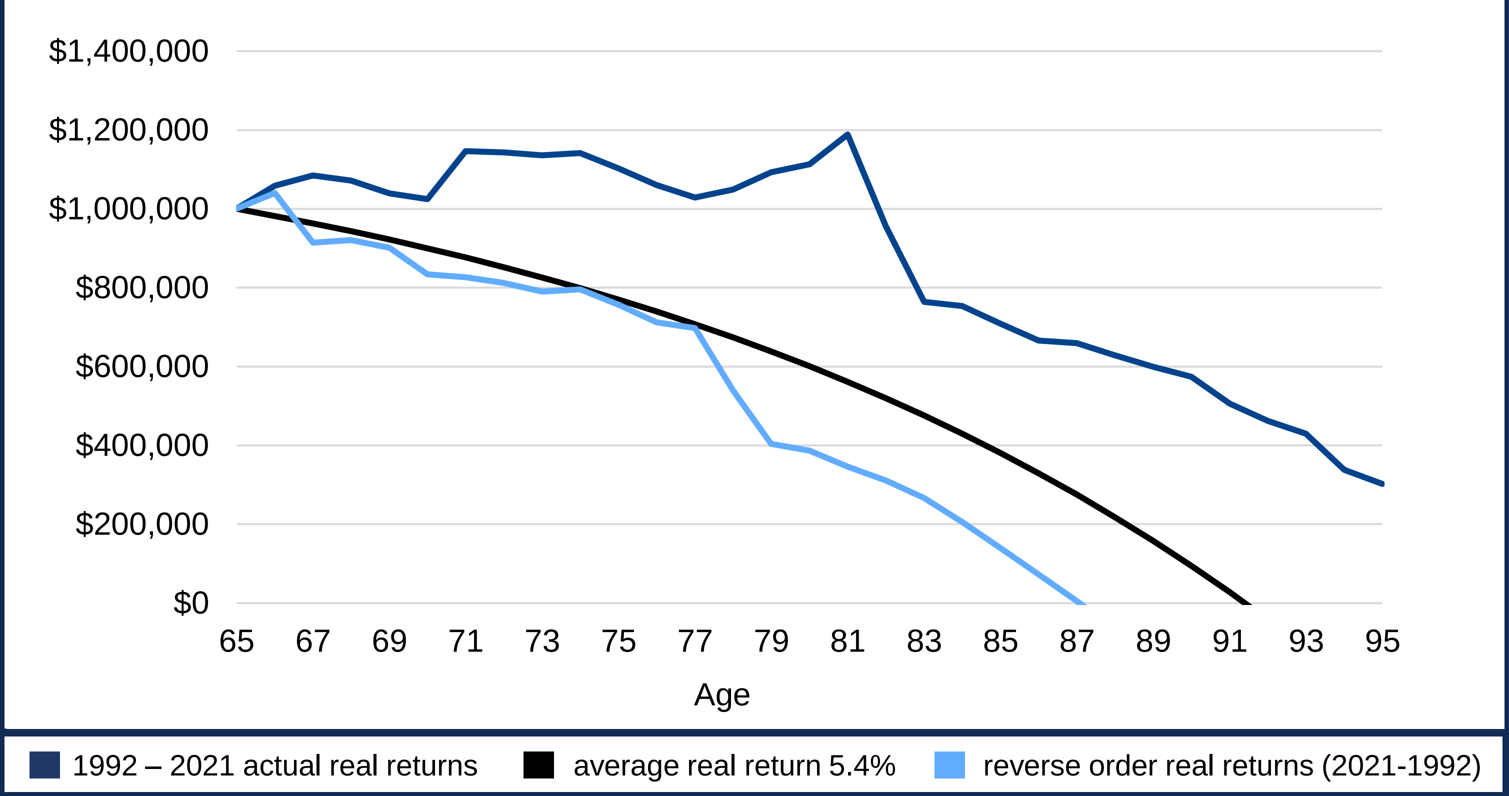
Risk vs return when investing for retirement

Timing risk in deciding when to retire

Sequencing risk when drawing a retirement income

When future returns are uncertain, the sequence of returns can be very material to a portfolio's outcome.

Case study: Projection of retirement savings over 30 years when drawing a cashflow



Assumes 25% Aus Equity, 25% Aus Bonds, 25% Cash, 25% Aus Listed Property portfolio. A retiree with $1m draws $70k p.a. increasing annually with inflation.
Source: Vanguard Investments Australia, 'The power of perspective', 2021 Vanguard Index Chart. and Reserve Bank of Australia, 'G1 Consumer Price Inflation', 2023.

Impact of future uncertainty on retirement

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Common advice tools = **deterministic** approach

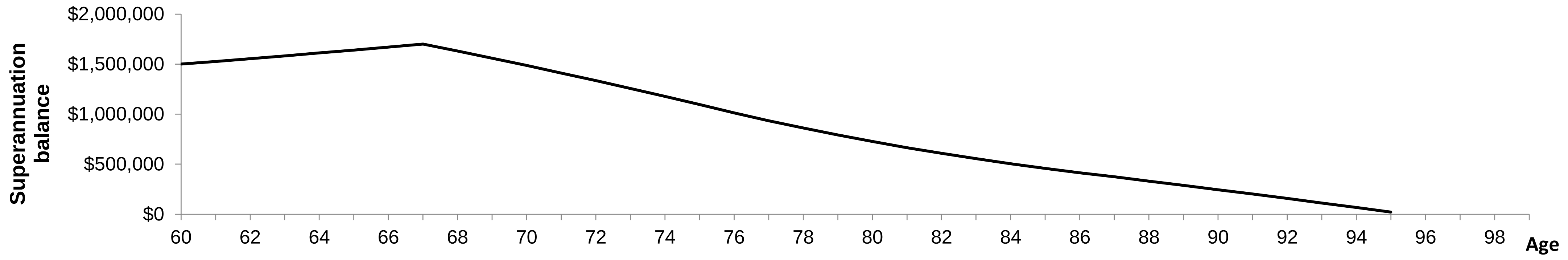
- Fixed return and inflation assumptions
- Illustrates one simulation of retirement
- Output is charts of income sources, Age Pension, capital balances

No uncertainty in returns = does not allow for risk

To assess impact of risk = **stochastic** approach

- Investment returns and inflation vary year-to-year
- Thousands of simulations of retirement
- Output is a risk measure e.g. probability a desired level of spending will be sustainable

A risk focused assessment of a retirement strategy



Longevity risk

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The uncertainty around how long a person will live …and so how long retirement income needs to last.

Life expectancy for the purpose of retirement planning:

Gender	Life expectancy	Life expectancy with improvements	Age 25% of people will survive to	Age 10% of people will survive to	Couple life expectancy with improvements
Male age 67	18.2 (past age 85)	20.9 (past age 87)	93	98	26.5 years (past age 93)
Female age 67	20.7 (past age 87)	22.7 (past age 89)	95	99	25% chance to age 97 10% to age 100

Calculating the 25% age for persons around retirement age

Rule of thumb:

Life expectancy allowing for mortality improvements plus:

+ 3 years for couples
+ 5 years for a single female
+ 6 years for a single male

Source: Australian Government Actuary, 'Australian Life Tables 2015-17', 2019.

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Findings from research into retirement portfolios with next-generation lifetime income solutions

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Next-generation lifetime income streams

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Feedback is that the following features are beneficial:

- Income for life - no matter how long that is - to manage longevity risk
- Investment options with varying exposure to market volatility to manage market risk
- Income payments guaranteed and may be fixed, or grow with markets to manage inflation risk
- Invest inside a client's superannuation account in accumulation or retirement phase
- Defer commencement of lifetime income until a time that best suits the client

What was needed? Evidence for if, and when, the strategy may improve retirement outcomes.

Measure of success

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'Retirement income confidence level' = likelihood that a client's target retirement income is sustainable for life

Analysis of 72 client scenarios each tested across 55 retirement strategies for a total of 3,960 strategy scenarios assessed

- Client scenarios covered:
  - persons aged 55 to 70
  - risk profiles 30%, 50% and 70% growth
  - singles/couples
  - assets per person of $400k, $600k, $800k
- Baseline strategies: no lifetime income stream
- Other strategies included a range of next generation lifetime income stream implementations[1]
- Assumed super used to commence an ABP at retirement at age 67

Each retirement strategy tested across 2,000 simulations of inflation and investment returns to stress test against key risks

- Retirement income confidence level for each strategy: proportion of the 2,000 scenarios in which the target income could be sustained until at least the 25% age
- Calculated change in confidence for strategies which included a lifetime income stream vs those which did not

1 – Lifetime income stream implementations modelled using Allianz Retire+ AGILE. Assumptions, refer to final slide 31.

Key findings from the research

An adviser should consider an allocation to a next generation lifetime income stream in a client's retirement income strategy to improve retirement outcomes.

A retirement strategy with an allocation to the next generation lifetime income stream[1] was found to provide a higher retirement income confidence compared to a strategy without across all client scenarios.

About half provided a significant increase in retirement income confidence of more than 10%

A wide range of implementations provide a higher retirement income confidence.

Advisers can feel comfortable in customising the next generation lifetime income solution in a way best suited to their client.

Next generation lifetime income streams can exhibit both 'growth' and 'defensive' characteristics = advisers may form different views of how to treat the investment in a client's risk profile.

Whether an investment was allocated as a growth or defensive asset it remained true that the strategy could lead to higher retirement income confidence

1 – Lifetime income stream implementations modelled using Allianz Retire+ AGILE. For assumptions, refer to final slide 31.

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Case study of retirement strategy outcomes

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Case Study: Paul and Mary

$1.5 million in super ($750,000 each) invested 60% growth / 40% defensive

Aged 60, healthy, own their home and looking forward to retiring at age 67

Are hoping for a retirement income of $100,000 increasing with inflation

Comparison of:

Strategy A

Current superannuation portfolio

Strategy B

20% in a next generation lifetime income solution

For key case study assumptions refer to final slide 31.

Retirement planning horizon

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Adviser uses the 25% age as retirement planning horizon to cover longevity risk.

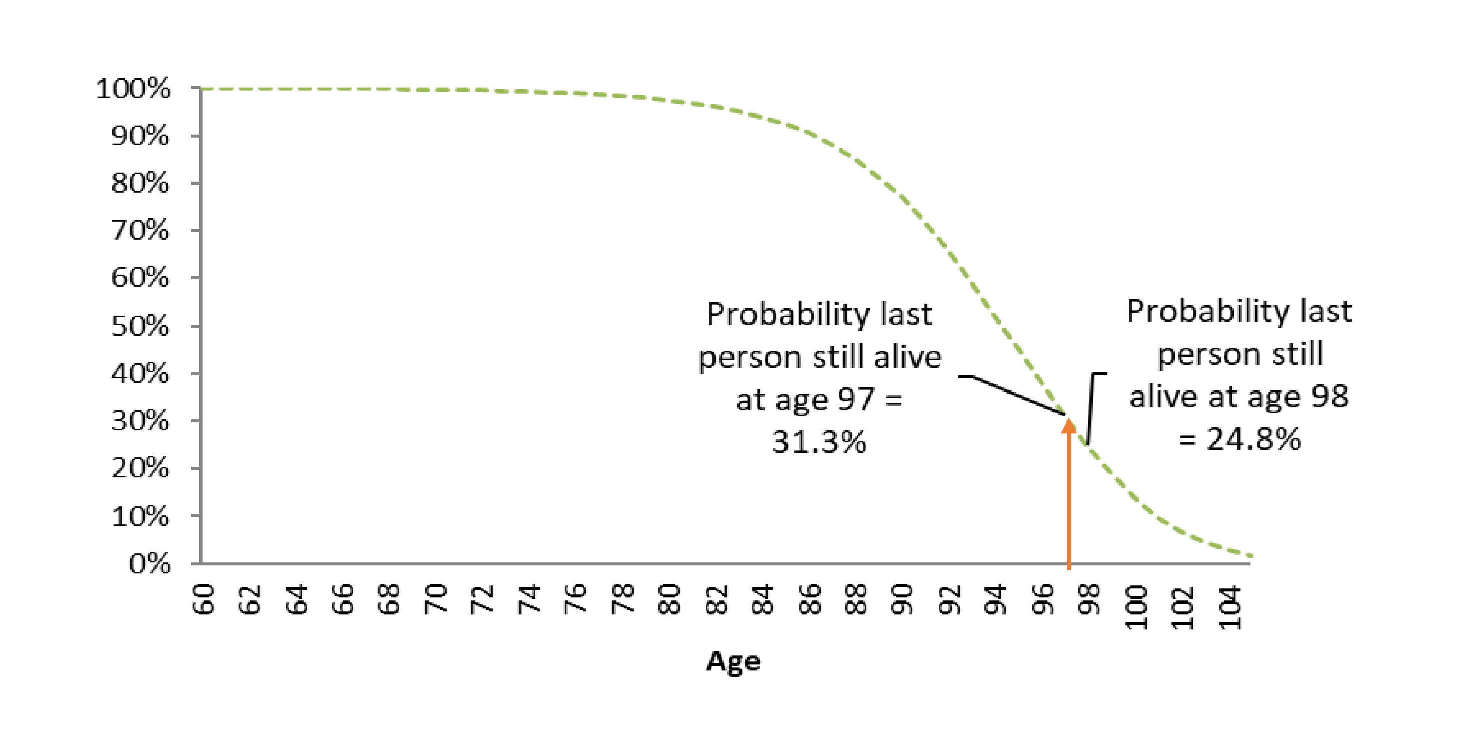
Exact calculation: a 25% chance the last of Paul and Mary will pass away between age 97 and 98.

Rule of thumb: life expectancy + 3 years

Life expectancy of an Australian male and female couple both aged 60 = 34 years

Retirement planning horizon = 34 + 3 = 37 years

Probability of last person in couple is still alive



Testing whether Paul and Mary can achieve a $100,000 income sustained until at least age 97.

Source: Australian Government Actuary 2015-17 life tables with 25-year improvement factors.
Couple life expectancy calculated as the average number of years until the last person in the couple passes away.

Strategy A – current portfolio

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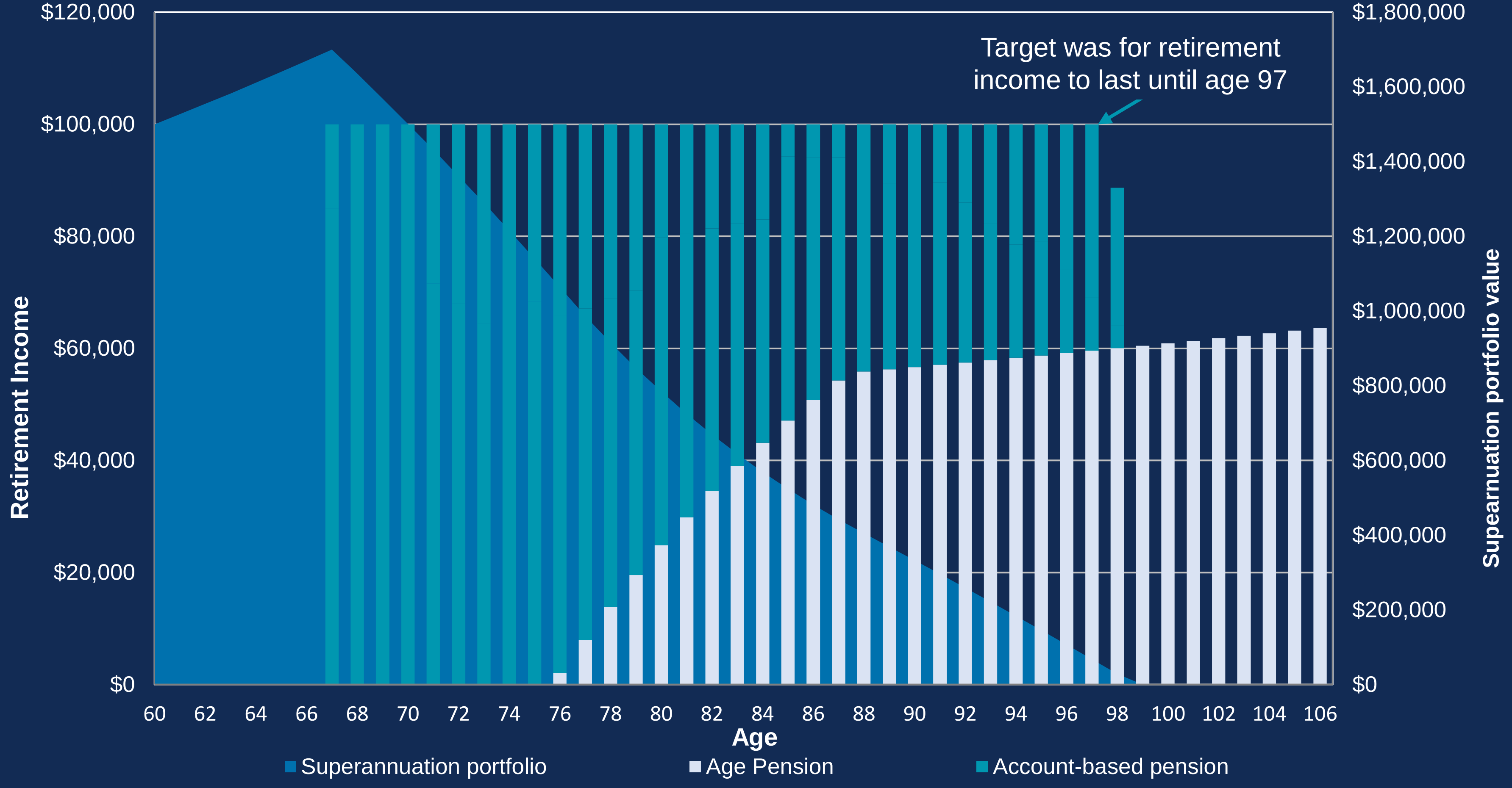
At age 60 Paul and Mary have $750,000 each in a 60% growth super portfolio
Retire age 67, commence an ABP and start drawing a retirement income of $100,000 in today's dollars



Deterministic forecast assumes average returns over retirement

Target retirement income of $100,000 might last to age 97

From age 99, Paul and Mary may rely solely on the Age Pension

For assumptions refer to final slide 31.

Strategy A – current portfolio

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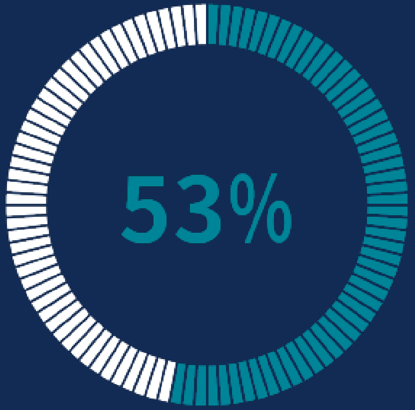
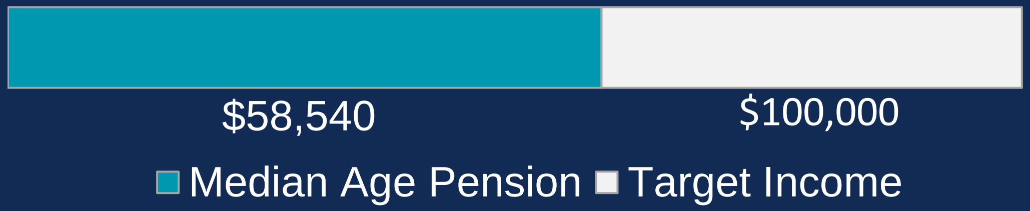


Retirement income confidence level

Only a 1 in 2 chance Paul and Mary can afford their target retirement income of $100,000 in today's dollars to age 97

Is the client comfortable with this chance of relying solely on the Government Age Pension?

Median Age Pension entitlement at age 97 in today's dollars:



Source: Accurium's retirement income model with investment simulations from February 2023 calibration of 10E24 Regime Switching Asset Model. For assumptions, refer to final slide 31.

Strategy B – invest 20% in next generation lifetime income solution

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Paul and Mary invest $150,000 each in a next generation lifetime income stream[1] available in their super fund

1. Plan to commence lifetime income after 12 years at age 72 using fixed payment option

- Certainty of the income amount paid even if other investments run out
- Initial payment based on income rates set at investment (9.65% of investment balance at age 72)

2. Investment in Australian equity and global equity with partial protection, until lifetime income payments start

- Balance risk and return on the investment balance
- Investment will be funded from across the growth assets of the superannuation portfolios

1 – Lifetime income stream implementations modelled using Allianz Retire+ AGILE. For assumptions refer to final slide 31.

Portfolio construction for Strategy B

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The proportion of each growth fund manager or asset to sell to fund the lifetime income investment is calculated as:

- Total investment amount from each growth portfolio = $150,000
- Total growth assets in each portfolio = 60% of $750,000 = $450,000
- Proportion of assets to sell = investment amount / assets from which investment funded
  = $150,000 / $450,000
  = 33.33%

Growth assets in portfolio	Strategy A investment	Sell 33.33%	Strategy B investment
Australian Equities	$157,500	$52,500	$105,000
Global Equities (Hedged)	$112,500	$37,500	$75,000
Global Equities (Unhedged)	$112,500	$37,500	$75,000
Australian Listed Property	$22,500	$7,500	$15,000
Global Listed Property	$22,500	$7,500	$15,000
Infrastructure	$22,500	$7,500	$15,000
Next generation lifetime income stream	$0		$150,000
Total	**$450,000 (60% of total portfolio)**	**$150,000**	**$450,000 (60% of total portfolio)**

Portfolio construction for each strategy

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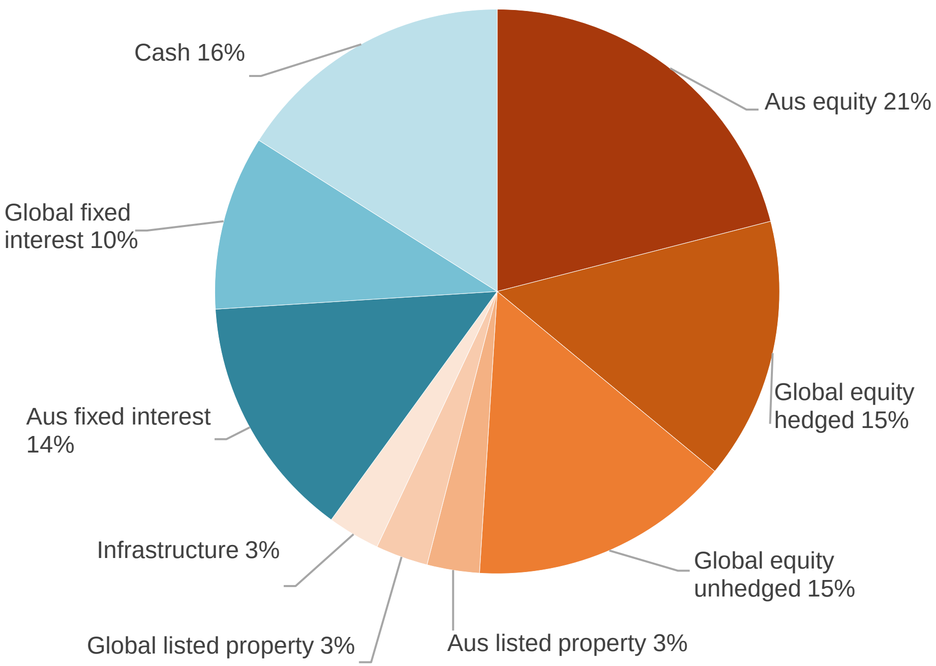
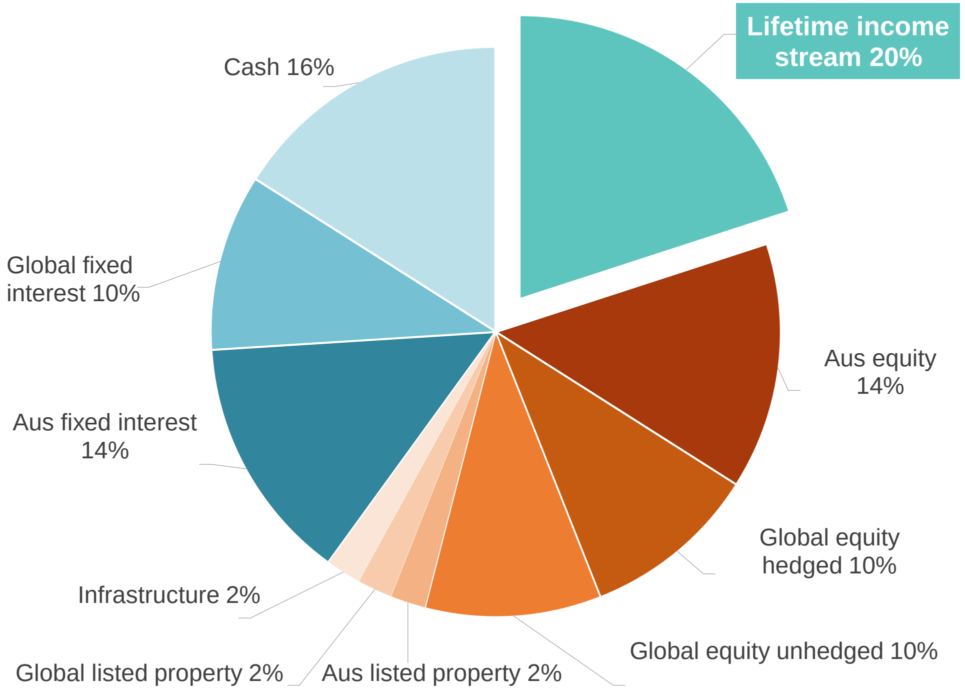
Strategy A – current superannuation portfolios



Strategy B – with 20% allocation to next generation lifetime income stream



Strategy B – investment in lifetime solution

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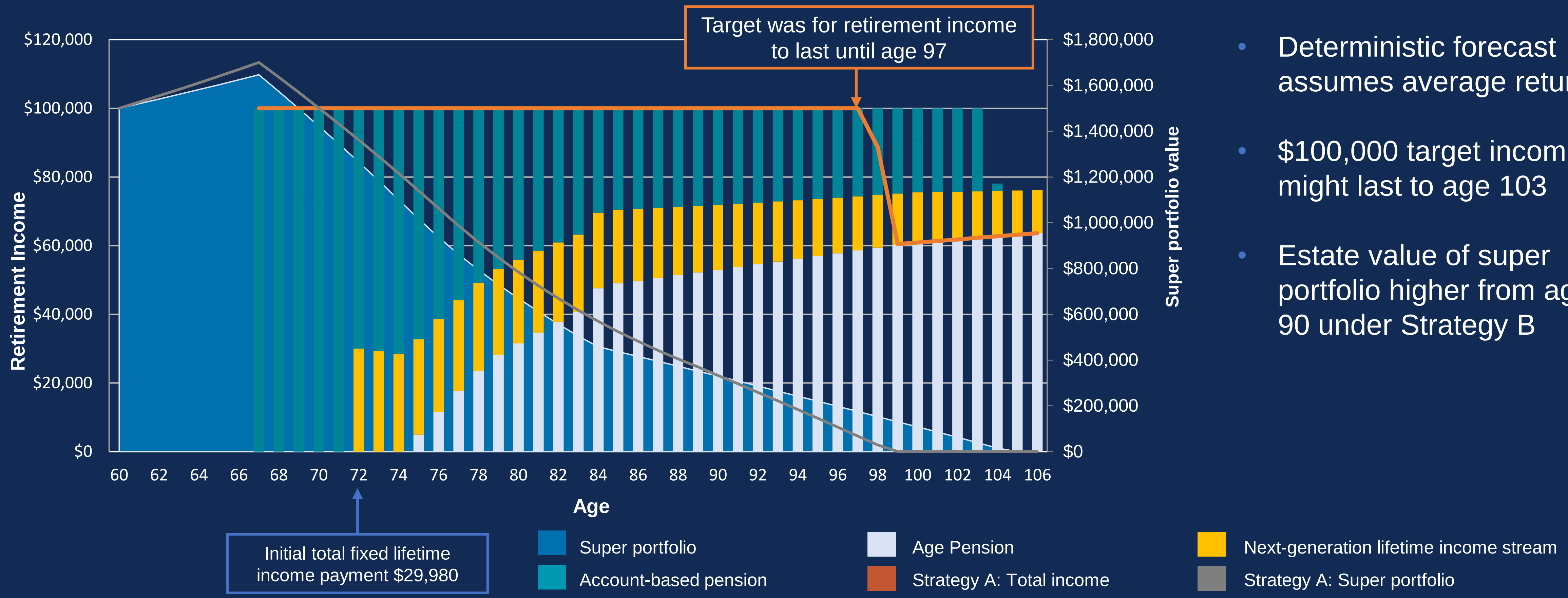
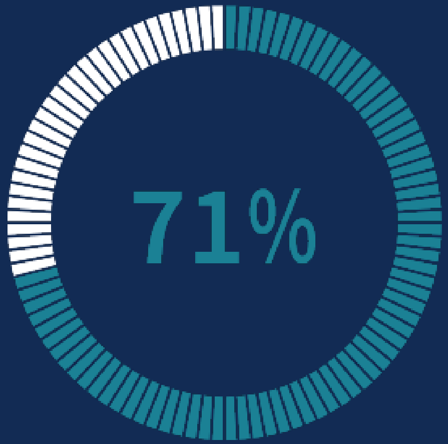
Retire age 67, start ABP and draw an income of $100,000 in today's dollars, at age 72 commence lifetime income payments



- Deterministic forecast assumes average returns
- $100,000 target income might last to age 103
- Estate value of super portfolio higher from age 90 under Strategy B

For assumptions, refer to final slide 31.

Strategy B – investment in lifetime solution



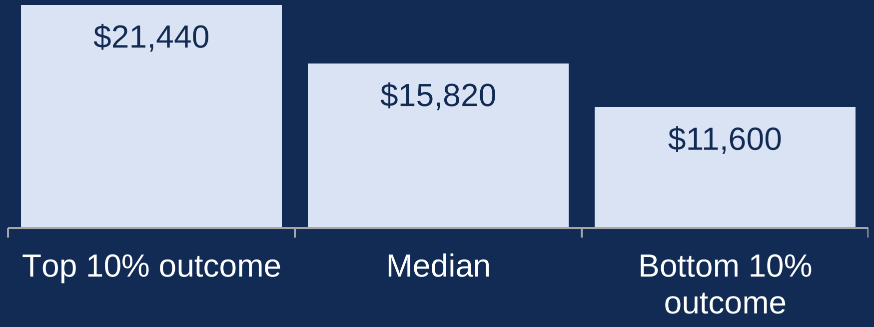
Retirement income confidence level

Almost a **3 in 4 chance** Paul and Mary could afford their target retirement income to age 97

+18% increase in confidence compared to Strategy A

If savings did run out, would always have income from the lifetime income stream in addition to any Age Pension.

Lifetime income payment at age 97:



Assumptions: Accurium's retirement income model with 2,000 investment simulations from February 2023 calibration of 10E24 Regime Switching Asset Model. Next generation lifetime income stream based on Allianz Retire+ AGILE PDS 6 Mar 2023 and lifetime income fees, lifetime income rates at Nov 2023. Refer to final slide 31 for further key assumptions.

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Closing remarks

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Conclusion

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1. Research found that retirement strategies which include **both** a guaranteed lifetime income stream & an account-based pension can improve clients' confidence of achieving their retirement income objectives

2. Allianz Retire+ has developed 'AGILE' = a next generation lifetime income stream which can achieve this AND:
   - can sit as an investment within an existing super fund in both accumulation and pension phase
   - provides market exposure with downside market risk protection
   - can allow access to capital or align to limited capital access rules to access reduced assets test means testing
   - is portable and has choice and flexibility of features

3. Retirement strategies with an allocation to AGILE were found to provide a higher level of retirement income confidence compared to strategies without AGILE across **all** client scenarios for age, balance, relationship, risk profile, and portfolio construction philosophy

Disclaimer

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Guide to portfolio construction with Allianz Guaranteed Income for Life (AGILE) - research and assumptions

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Allianz Retire+ has engaged Accurium Pty Ltd, a commissioned research house, to conduct stochastic modelling across a range of hypothetical retirement income portfolios that incorporate a Lifetime income stream based on the product features of Allianz Guaranteed Income for Life (AGILE). The client scenarios and conclusions contained in this presentation are based on projected portfolio outcomes using non-actual performance information produced by stochastic model simulations constructed by Accurium. The stochastic modelling simulates the outcome of thousands of investment strategies and potential outcomes that could occur using hypothetical investment market performance. The calculations are based on various portfolio allocations and financial assumptions that are predictive in nature. Confidence levels are estimates only. The outcomes actually achieved may differ materially from these projections and should not be relied on to make a decision about a financial product. Past performance is not a reliable indicator of future performance.

Fixed assumptions: CPI 2.6%, growth return 6.5%, defensive return 4.8%, Age Pension MTAWE 3.4%, Australian Equity Index - Partial Protection return 4.9%, Global Equity Index - Partial Protection return 4.8%. Stochastic assumptions: September 2023 calibration of the 10E24 Regime Switching Asset Model.

Other assumptions: Growth fees 1.2%, defensive fees 0.8%, tax on earnings in accumulation phase 15%, no contributions to super. Age Pension rates and thresholds at Sep 2023. Next generation lifetime income stream based on Allianz Retire+ AGILE PDS 6 Mar 2023, 1.95% total product and lifetime income fees, lifetime income rates at Nov 2023.

Paul and Mary case study:

Strategy A: No AGILE
Retain their current superannuation portfolio invested 60% in growth and 40% in defensive investments.

Strategy B: With AGILE (lifetime income commencing at age 72)
A $150,000 allocation each to AGILE with 50% Australian Equity Index - Partial Protection, and 50% Global Equity Index - Partial Protection in growth phase, with a plan to start lifetime income phase using the fixed payment option after 12 years at age 72.