



SYNOPSIS

ANNUITIES: FUTURE MARKET POTENTIAL AND CONSEQUENCES FOR REPORTING UNDER NEW IFRS 4 PHASE II

Martin Lam and Cornelis Slagmolen

Key words: Annuities, Longevity risk, IFRS 4 phase II, Retirement income

Purpose of your paper: This paper provides insight into the possible future landscape of life insurance products in Australia as retirement income strategies as well as the impending IFRS 4 Phase II standard come into focus.

Synopsis: Historically, Australians tend to bear longevity risk (relating to their retirement income) themselves. That might change in the future as “baby boomers” reach retirement age which brings strategies around retirement income into focus. Tax reforms that enhance annuity type of products could relieve pressure on Government pension payments. This presentation briefly discusses the potential of annuity products in Australia in the future and considers the consequences on financial and actuarial reporting in the scenario where annuity products are widely adopted in Australia. The presentation will also compare the IFRS 4 phase II requirements against the current MoS requirements for an example annuity product. Using this example, the Building Block Approach (the ‘General Model’) is explained for both measurement at initial recognition and subsequent measurement. The presentation will conclude with possible implications for product design of annuities and the required changes to reporting systems and processes.



SYNOPSIS

EFFECTS ON SUPERANNUATION OF BROKEN SERVICE AND PART-TIME WORK AND POSSIBLE SOLUTIONS

Saffron Sweeney

Key words: superannuation, part-time, women, leave without pay

Purpose of your paper: To raise awareness of the effect of broken service and part-time work on superannuation outcomes as well as possible solutions.

Synopsis: There has been a lot of media coverage regarding inadequate superannuation balances to provide people with a comfortable lifestyle in retirement. There is evidence to suggest that women's superannuation balances are lower than men's and there has been a Senate inquiry set up to look into the causes of this differential. Many acknowledge that the gender pay differential is somewhat to blame for the difference in women's superannuation balances compared to men's, however, there are other factors that affect superannuation account balances, and many women are affected in particular. The session will provide examples of the effect on superannuation of broken work and part-time work as well as provide possible solutions. The aim of the presentation is to encourage discussion of options their pros and cons which may provide opportunities for actuaries to be involved in discussions with Government and/or Employers to improve retirement outcomes.



SYNOPSIS

GOOD PRACTICE PRINCIPLES FOR MODELLING RETIREMENT

Superannuation Projections & Disclosures Committee

Key words: retirement, risk, good practice principles, superannuation projections, investment, financial planning, age pension, modelling, communication

Purpose of your paper: To propose a set of good practice principles for the industry to consider when modelling retirement in Australia.

Synopsis: Where a household has very large retirement assets they can have it all. Those with small retirement assets will have to rely on the Age Pension. But those in the middle have to make choices, often involving complex cashflow shapes and significant uncertainty. The role of retirement models is to make sense of the decisions households face and to help people make informed choices.

For retirement models to achieve this they need to be relevant, easy enough to digest, and give people total confidence that the complexity and assumptions 'under the bonnet' are accurate, fit-for-purpose and can be trusted.

In this paper we look at retirement through the eyes of the consumer. What decisions must they make? How do they frame the trade-offs they must make such as risk versus reward, and short-term versus long-term cashflow?

We consider what a retirement model needs to deal with in order to assist properly and we set out a set of good practice principles for professionals who build retirement models to refer to, along with examples. The paper also considers how an actuarial control cycle approach can assist a retired household to make the most of their retirement assets in light of investment experience and evolving health status.

The principles will consider both the technical specification of the model and, just as importantly, what concepts need to be presented to users given the nature of modern retirement in Australia. The principles address issues such as aligning the complexity of the model with the user's key decisions, quantifying uncertainty, allowing for a spouse and non-superannuation assets, modelling fees, modelling longevity risk, modelling post retirement, including the Age Pension and other sources of income, modelling tax, dealing with risk preferences and comparing scenarios.

This paper draws on the work of the Superannuation Projections & Disclosures Sub-Committee as well as UK research on how to best communicate financial concepts to consumers.



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UNLOCKING HOUSING WEALTH - OPTIONS TO MEET RETIREMENT NEEDS

Actuaries Institute Housing Working Group – Catherine Nance (Chairperson)

Key words: Housing, Retirees, Equity Release, Aged Care, Age Pension, Income support

Synopsis: The paper examines how government retirement income policy influences the housing decisions of older Australians. Underpinned by six principles the paper suggests policy changes that will allow retirees to better utilize the wealth stored in the family home to cover retirement costs such as income support, aged care and accommodation and health leading to a more comfortable living standard post-retirement.



SYNOPSIS

A DIFFERENT APPROACH TO MEETING CHANGING NEEDS IN RETIREMENT

David Rush, Martin Paino

Key words: longevity, retirement income, needs, uncertainty, stochastic, pension, annuity, guarantees, advice

Purpose of your paper: The purposes of this paper are to:

- Illustrate the outcome of uncertainty in providing income to meet retiree's needs by developing an "Individual Stochastic Model" that takes into account all the various sources of uncertainty.
- Investigate current customer and advisor approaches for managing the uncertainty of life outcomes
- Assess the suitability of asset side and other tools for managing the uncertainty (financial advice, products, government safety nets, family support, etc.).
- Interaction of the uncertainty around the needs with uncertainty on the asset side (e.g. aged pension uncertainty, asset return, future home value, etc.) illustrating that any one product can ultimately only serve a particular or limited number of customer segments.
- Introduce a new longevity product which, instead of focusing on income - and the guarantee thereof, focuses on ensuring (to the extent possible) that the source of income doesn't run out. It thus facilitates movement between segments (and hence changing needs) over time.

Synopsis: -

- Identify various retiree segments with differentiated needs where these have not been considered before
- Note that each person's needs will be unique, and that they will vary over time
- Develop a stochastic model for a person moving through various stages of retirement, and illustrate the volatility of individual outcomes
- Investigate how financial advisors and existing products are addressing these issues, noting that any one product only meets a few needs
- Develop a measure for assessing how well needs are met
- Outline a new product and see how it helps solve some of these problems.



SYNOPSIS

PERSONAL FINANCIAL PLANNING CALCULATORS: COMMUNICATING LIFE-TIME CONSUMPTION RISKS

Anthony Asher, Adam Butt, Ujwal Kayande, Gaurav Khemka

Key words: Loss aversion, retirement planning, calculators, utility

Purpose of your paper: This paper will discuss the development of a prototype personal financial calculator that will elicit users risk preferences concerning consumption over their future lifetimes

Synopsis: This paper will report on a project to develop a coherent framework for the design and use of financial calculators for use in deciding on retirement, investment and insurance in superannuation particularly.

It will report on the development of a prototype calculator, and the considerations of making the risks clear by alternative graphical methods, eliciting user's coherent utility functions, using appropriate investment models and communicating the results.



SYNOPSIS

THE GROWTH OF AUSTRALIA'S VERY ELDERLY POPULATION: PAST ESTIMATES AND PROBABILISTIC FORECASTS

Wilma Terblanche and Tom Wilson

Key words: Very elderly, Australia, centenarians, probabilistic, forecasts, survivor ratio; extinct cohort

Synopsis: The very elderly population, defined as those aged 85 years and older, is the fastest growing age group in Australia. Their increasing numbers have huge implications for pensions, aged care and healthcare. Detailed and accurate information about their past and future numbers and demographic characteristics are essential for proper planning and budgeting. Official population estimates in Australia are overstated at the very highest ages, resulting in inaccurate mortality rates, and unreliable forecasts. Furthermore, official population forecasts are not accompanied by information about their uncertainty, and do not extend into the centenarian ages. This paper presents more accurate estimates of the very elderly population of Australia (those aged 85+) from 1971 to 2014, and probabilistic forecasts out to 2051 by sex and single years of age up to age 110+. Population estimates were calculated from death counts using Extinct Cohort and Survivor Ratio methods. Population forecasts were produced using a probabilistic cohort-component model. The 85+ population of Australia grew from 69,000 in 1971 to 456,000 in 2014, in large part due to mortality reductions. It is forecast to increase to 1.90 million by 2051, with the 95% prediction interval spanning 1.51 to 2.37 million. The future growth in centenarians is proportionally far greater, but relatively more uncertain. Although the extent of future growth cannot be forecast precisely, huge increases in Australia's very elderly population will eventuate.



SYNOPSIS

SM BONDS: A PROPOSAL TO MANAGE, PRICE, AND TRANSFER LONGEVITY RISK

Piet de Jong and Shauna Ferris

Key words: longevity risk, pension, annuity, longevity bond, CIPR

Purpose of your paper: The Murray review has suggested that the private sector should develop new and better products to enable retirees to manage longevity risk. In this paper we propose a new type of longevity-risk management tool: the SM Bond.

Synopsis: Retirees bear the risk that their retirement savings will be insufficient to provide a comfortable retirement. The main risks are longevity risk, investment risk, and inflation risk. Theoretically, they can manage these risks by buying indexed lifetime annuities. However, in practice such products are unpopular: sales of voluntary lifetime annuity products are very low. As a result, many people outlive their savings and become dependent on government safety-net benefits (such as the old-age pension). Effectively, the government (i.e. taxpayers) bear a significant amount of financial risk and longevity risk. As the population is ageing, the burden of such risks is increasing.

In this paper we propose a new product, the SM Bond, which could be used to manage these risks. SM bonds are fixed-interest zero-coupon bonds issued by the government to superannuation fund members (called bond originators). The bonds have two components: the Survivor Component and the Mortality Component.

The Survivor Component (S component) is retained by the originator and provides a fixed government-guaranteed payment to the originator upon survival to the maturity date. By purchasing a series of S components with different maturity dates, the fund members can purchase a government-guaranteed retirement income.

The Mortality component (M component) is tradeable. The owner of the M component receives a variable payment at maturity: the amount of the maturity payment will depend on the mortality experience of the pool of bond originators. The value of the M components will be determined by market forces and therefore the market will bear the mortality risk.

The combined payoff from both components will be a fixed amount. If the number of Survivors is higher than expected, the total of the S payments paid to individuals will increase; but the payments to the M-components will decrease by the same amount. Since the total maturity payments are fixed, the government which issued the SM bonds will not bear any longevity risk.

As explained in the paper, we believe that the SM bonds will alleviate many of the obstacles which have prevented the successful development of private-sector longevity risk management products: that is, these SM bonds are likely to be more attractive to retirees than traditional lifetime annuities issued by life insurers. By issuing SM bonds, governments will be able to transfer longevity risks to the market, hence reducing the burden on the next generation of taxpayers. The development of the market for M components will create an efficient market for the pricing and hedging of longevity risks.



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SUPERANNUATION PRACTICE COMMITTEE – RECENT DEVELOPMENTS

Superannuation Practice Committee (Chair: Andrew Boal)

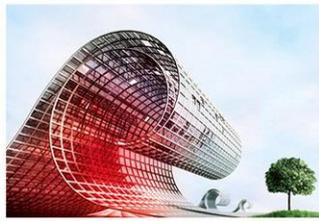
Key words: superannuation, retirement incomes, defined benefits, longevity, sustainability, professional development

Purpose of your paper: The Superannuation Practice Committee will provide an update on recent developments affecting superannuation funds and will discuss and seek feedback on work in progress in relation to actuarial professional standards and guidance.

Synopsis: The Superannuation Practice Committee will provide an update on recent developments affecting superannuation funds and will discuss and seek feedback on work in progress in relation to actuarial professional standards and guidance.

Topics for discussion will depend on what is most current at the time of the Financial Services Forum, noting that there are various topics of interest in the market at the time of writing this synopsis including:

- Tax reforms affecting superannuation
- Retirement income streams – legislation and product innovation
- Adequacy of superannuation
- Government's response to Financial Systems Inquiry
- Updated professional standards and guidance



SYNOPSIS

THE NON-CHALLENGES OF AN AGING POPULATION

Frank Ashe

Key words: intergenerational, aging population, pension costs, cornucopia machine

Purpose of your paper: Argue that many of the problems that people associate with an aging population are not problems in the sense of having negative connotations.

Synopsis: The discussion concerning the aging population in many countries is rife with terms that constitute negative connotations. This is unfortunate because it clouds serious discussion of the issue. We know from psychology that the framing of a problem has serious implications on the decisions that are made. This paper challenges the currently dominant negative framing of the social changes that will come with an aging population and presents a more realistic, positive framing.



SYNOPSIS

TILL DEATH DO US PART

Nathan Bonarius and Alun Stevens

Key words: Intergenerational Transfers, Bequests, Superannuation, Age Pension

Purpose of your paper: This paper will measure current and historic levels of intergenerational wealth transfers in Australia as well as estimating projected levels of such transfers in the future. The paper will examine the impact that such transfers have and will have on household wealth, personal retirement incomes, and Age Pension entitlements.

Synopsis: The adequacy of retirement provision is dependent on the value of assets accumulated over a working life that can be used to generate income in retirement. Standard financial analyses consider the accumulation of contributions or savings under various investment, salary and cost scenarios. These analyses provide a good estimate of what a person can expect to accumulate during a working life by their own actions, but take no account of wealth that can be received from bequests or other intergenerational transfers. This is a particular issue when considering housing wealth which constitutes a significant proportion of most retirees' wealth. This paper seeks to address this knowledge gap and thereby contribute to better forward estimates and better advice.