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OverView Of The Australian Life Insurance And Wealth Management Sector

Clive Levinthal

Executive summary : Life Insurance

- The Australian life insurance industry continues to grow and now amounts to **$11bn** of in-force premiums.
- The retail life insurance segment makes up over **60%** of the life insurance market. Within that segment, **IFAs** make up about 60% of its size and **direct** business makes up about 10% of its size.
- The industry is **growing at over 10% per annum** and this is expected to continue because of high underinsurance levels, investment in the sector, population growth and growth funded from rising superannuation savings.
- **11 active insurers** are competing across 4 dominant channels being IFA's, bank distribution, group insurance and, more recently, direct distribution (mainly DRTV).
- **4 major reinsurers** are operating actively to support these insurers (there are 2 smaller reinsurers). One reinsurer is participating directly in both the group insurance and direct insurance channels. Another is participating directly in the "direct" channel.
- Despite the high growth in premiums, **profits are not strong**, with only retail life cover enjoying healthy margins.
- **Retail IP and group insurance profits are very weak** and lapse rates are generally high across all lines.
- Compounding this is the **run off of large profitable legacy portfolios** (both wealth and life) that enjoy relatively higher profit margins than newer business.
- The high premium growth and low profits are likely to clash soon, with price increases the likely consequence.

Executive summary : Life Insurance

- Australian consumers remain largely apathetic towards buying life insurance but this is common across the world. The understanding of how life products work is also low. Unless cover is automatically granted via arrangements like employer superannuation funds, consumers often need to be "sold" insurance via channels including advisers and telemarketers.

- **The type of product sold is often channel specific**. For example :

    - IP and trauma sales are dominated by advisers
    - TPD sales are dominated by group insurers
    - CCI sales are dominated by banks
    - Funeral products are dominated by DRTV
    - Accidental death cover products are sold mainly via TM

- **Life cover (for death)** is the only common product that stretched successfully across all channels

- Product competitiveness plays a very small role in channels where sales are sold directly to retail customers. The type of **direct distribution channel that is adopted is the largest influence on success**.

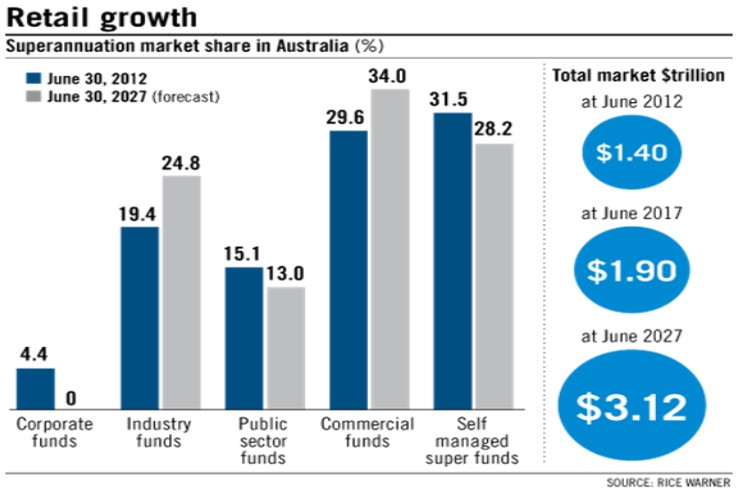
- The **internet remains an unattractive channel** for consumers to buy life insurance, because consumers often do not "seek" insurance and because of the low levels of understanding, and this has also limited the amount of competition in the direct channel.

Executive summary : Life Insurance

- The **retail advice channel is competitive** and reasonably efficient.
- **Commission rates are largely consistent** across insurers and so are underwriting medical limits.
- The **product design is also largely similar** across insurers with limited examples of competitive advantage.
- **Premium rates can vary widely** from insurer to insurer depending on cover amount, age and type of cover. Insurers can be very competitive in one segment and poor in another. Few insurers seem to be consistently competitive and there appears no rational strategy for this. This is arguably the least efficient segment of the industry (partly caused by history, system constraints and lack of data).
- **Control of distribution, relationship management, and underwriting service levels** continue to play crucial roles in determining adviser support levels, and this is likely to continue.
- Recent and ongoing technology investments have meant that the industry has moved out of the "dark ages" and now offers contemporary services such as on line applications and **self service websites** associated with most retail industries.
- Banks remain dominant players in the advice segment. However, some may slowly **withdraw from the IFA sector and replacing these sales with sales from in-house bank planners**. Accordingly, the Bank channel has grown recently whilst the IFA channel has not.
- **Superannuation** continues to emerge as a **dominant funder of life insurance premiums** and this is expected to continue.

Executive summary : Superannuation

- The superannuation industry size is $1.4tr and some have projected it to grow to $3tr by 2027
- It is expected that there will be **a move to personal super arrangements** (as opposed to corporate arrangements) which may favour retail funds and industry funds
- Corporate funds (incl employer super) are declining in popularity because of choice of fund and other reasons
- SMSF growth has been dramatic but it might slow because of contribution caps, people opting out at retirement phase and equivalent features being available in retail products
- Retail funds could gain some ground on the typical industry fund territory with MySuper products
- The superannuation wealth sector will dominate the non superannuation sector
- Asset management is trending towards in house solutions in the short term
- **Advisers/planners will gravitate to manufacturers because of FoFA with some small independent boutiques remaining. Planner numbers are unlikely to grow because of economic barriers to entry**
- Uncertain outlook regarding product development including the introduction of longevity solutions (possible developments for deferred annuities)
- Face to face advice will still be the preferred medium used by consumers but other methods including the phone will rise in usage
- Piece by piece, as opposed to holistic advice will be the most popular form of advice



Executive summary : Post Retirement

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- The age pension represents less than 40% of the average Australian wage
- As more money emerges from the accumulation stage of superannuation, **the age pension will become less relevant**
- **There is already as much being paid from super pensions as being paid by the government for age pensions**
- Post retirement assets will increase as a percentage of all super assets (to approx 30% within 10 years)
- The percentage of retirement proceeds being paid as pensions is rising and is now a similar amount to lump sums. This is expected to rise.
- The home remains the main source of wealth for retirees. Most retirees will own their home outright on retirement.
- Retirees will enjoy a rapid rise in relative wealth compared to non retirees over time.
- The rise in the wealth of retirees provide numerous planning and product opportunities.
- **Associated with the rise in the number of retirees will be a rise in the need for aged care services.**
- **The majority of care currently takes place in the home and this trend will continue.**
- However, **there will still be a high amount of usage of residential aged care services. These are expected to take place later in life and will have relatively short duratio**ns (commonly acute care and commonly for less than one year, and at a very high cost).
- Aged Care Legislation is changing more towards a user pays system which means higher costs for some, but also choices in how to pay for care (no longer forced to pay upfront bonds).
- Whilst superannuation balances and using home equity (via sale or reverse mortgage) will help fund aged care costs, there is an opportunity for an insurance product to fund costs for self funded retirees when the costs peak at a time of severe frailty. However, it should be noted that these have not been successful overseas.

The Australian Life Insurance Industry

- In force annual premiums of $11bn at June 2012, consistently growing at over 10% per annum
  - Retail makes up approx 2/3rds
  - Group makes up approx 1/3rd
- 11 dominant life insurers
- 4 dominant reinsurers and 2 smaller reinsurers
- 13 friendly societies that are capable of transacting some business but are very small and insignificant

50% Bank owned

11 Dominant Life Insurers
AMP
NAB
CBA
TAL
ANZ
AIA
Suncorp
Westpac
Zurich
Macquarie
ClearView

6 Reinsurers
Swiss Re
Munich Re
RGA Re
Hannover Re
Gen Re
SCOR Re

2 inactive (for life risk) insurers
Challenger
Gerling Re

7 "minnow" life insurers
Metlife
HCF Life
Allianz
St Andrews
GE Life
ACE
QBE life insurance

Sources : Plan For Life and APRA

Growth underpinned by the Australian Life Underinsurance Gap Levels

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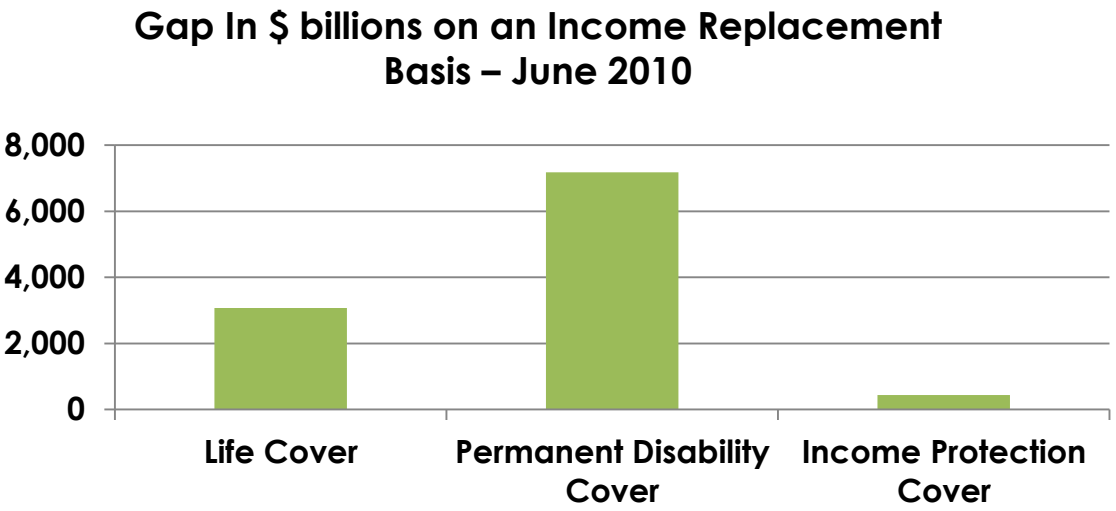


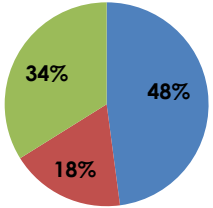
Source : FSC

- Despite the fact that almost every working Australian has a level of life insurance cover within their superannuation, Australia has proved to be one of the most underinsured nations in the developed world.
- A 2008 survey by the Australian Institute of Superannuation Trustees (AIST) and Industry Funds Forum (IFF) revealed that "one in two industry fund members were underinsured by $100,000 or more".
- Rice Warner Actuaries estimate that life insurance cover within super is on average only 20% of what is needed.
- Research commissioned by IFSA in 2005 showed that only 4% of Australian families with dependent children have adequate levels of insurance cover (that is 10 times earnings as recommended by Rice Warner Actuaries). This means that Australian families are critically underinsured to the tune of $1.37 trillion.

Recent growth has been led by the group insurance sector

Group risk has grown at the fastest rate, caused by the increasing funding pool created by mandatory superannuation contributions

In force mix

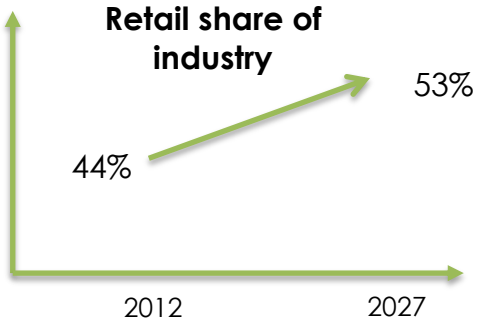


- Retail lump sum
- Retail IP
- Group risk

Segment	YOY Growth Rate
Retail lump sum	9.9%
Retail IP	10.6%
Group life	15.6%

Source : Plan For Life

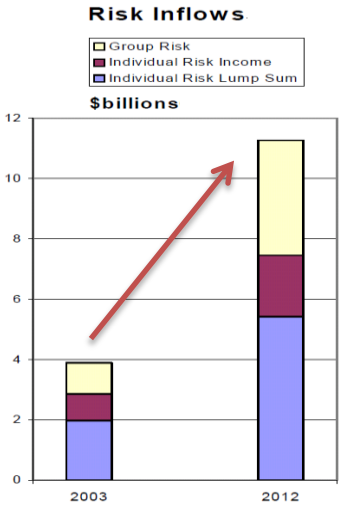
- Rice Warner Actuaries *Risk Insurance Market Projections Report 2012* released 9 Jan 2013.
- **Public sector superannuation and employer master trust insurance will grow more slowly** than other segments. For employer master trusts this reflects the **shift to personal superannuation** as a direct consequence of changing superannuation legislation.
- Risk insurance **sold through personal superannuation** will grow **5.5% per annum** in real terms, faster than in previous research and reflecting the growth of bank-developed 'low-cost' superannuation products to compete directly with not-for-profit funds.
- By 30 June 2027, **53%** of the market (in terms of amount of cover) will be **retail** business and 47% wholesale business. This compares with **44% retail** and 56% wholesale at 30 June 2012.



The largest life insurers

Total Risk Premium Inflows

$millions	Year Ended Jun-12	Annual Growth	Market Share
AMP Group	1,703.1	8.9%	15.6%
National Australia / MLC Group	1,502.9	3.8%	13.7%
CommInsure Group	1,484.8	21.6%	13.6%
TAL Group	1,442.9	16.2%	13.2%
OnePath Australia Group	1,240.1	3.0%	11.3%
AIA Australia	1,179.8	33.5%	10.8%
Suncorp Group	655.5	-6.9%	6.0%
BT / Westpac Group	564.3	18.3%	5.2%
Zurich Group	263.0	7.5%	2.4%
Others	899.7	14.2%	8.2%
Total	**10,936.1**	**11.9%**	**100.0%**



Source : Plan For Life

Growth has been a little bit below average in recent years

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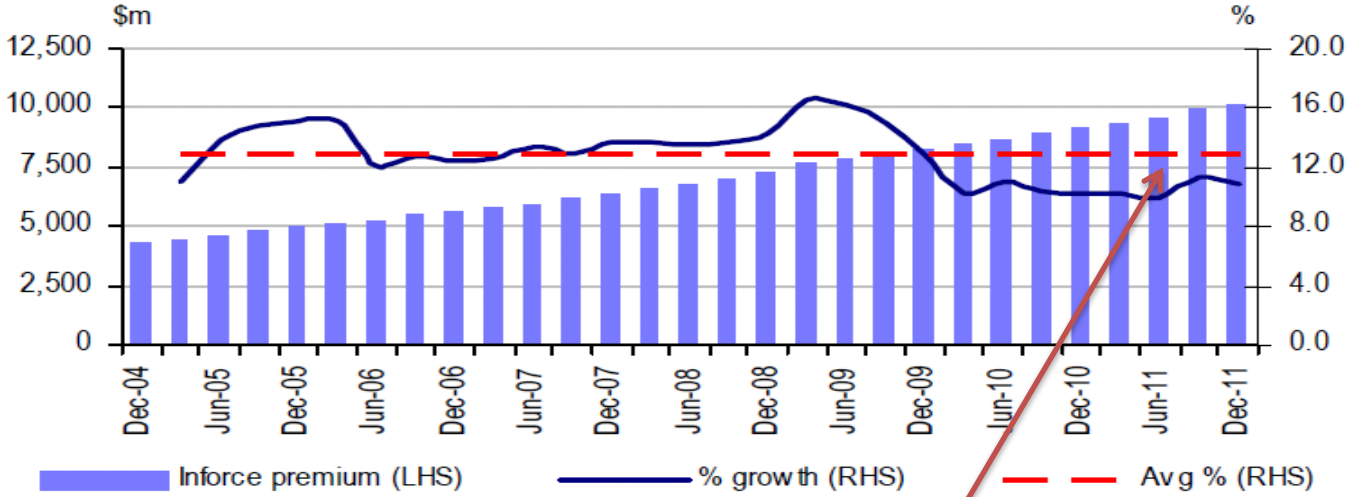
Total risk in-force premium (A$m) and growth (%)



In-force growth back comfortably above 10%, but has moderated slightly from September – now running at 10.9%

Source : Credit Suisse

Direct distributors are enjoying a stepped increase in sales but will the momentum continue ?

Insurer	Sales	Brands
hannover re, Hollard Insurance	Very large	real Insurance, Guardian, Australian Seniors Insurance Agency, Aussie
TAL		insurance line, nib, Virgin money, IAG
Suncorp	Medium	GIO, Million Dollar Woman, AAMI
Swiss Re, Hollard Insurance		medibank For Better Health, insa freedom insurance, Woolworths Insurance
AIA		insa freedom insurance, priceline
HCF	Small	HCF
ClearView		Bupa, insa freedom insurance, Call Insurance, Queensland Country Credit Union

Reinsurers play a very important role

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- **4 active reinsurers reinsuring about 25%* of the Australian market**
  - **Swiss Re**
    - Largest
    - Very strong in group risk and direct
    - Swiss has relationship with Medibank, Woolworths and Freedom for direct
    - Has potential to grow retail life advice
  - **RGA**
    - Second largest
    - Strong in group and life advice
  - **Munich**
    - Main player in life advice
  - **Hannover**
    - A "direct" reinsurer
    - Direct group insurance (ie not via a reinsurer)
    - Direct life insurance via Hollard partnership

Sector	Leaders
Group insurance	Swiss, RGA and Hannover
Retail life advice	Munich and RGA
Direct life	Hannover and Swiss

* Own research

4 reinsurers dominate the local market

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Reinsurer	Swiss Re	RGA	Munich	Hannover	GenRe	SCOR
Size (Annual Premiums)	Large	Large	Large	Medium	Small	Small
Group Insurance	Large	Large	Medium	Large	Small	Small
Retail advice	Small	Large	Large	Small	Small	Small
Direct life	Large	Small	Small	Large	Small	Small

medibank

insa freedom insurance

Woolworths Insurance

Hollard INSURANCE

Aussie

Data as at 30 June 12

Profits are not strong

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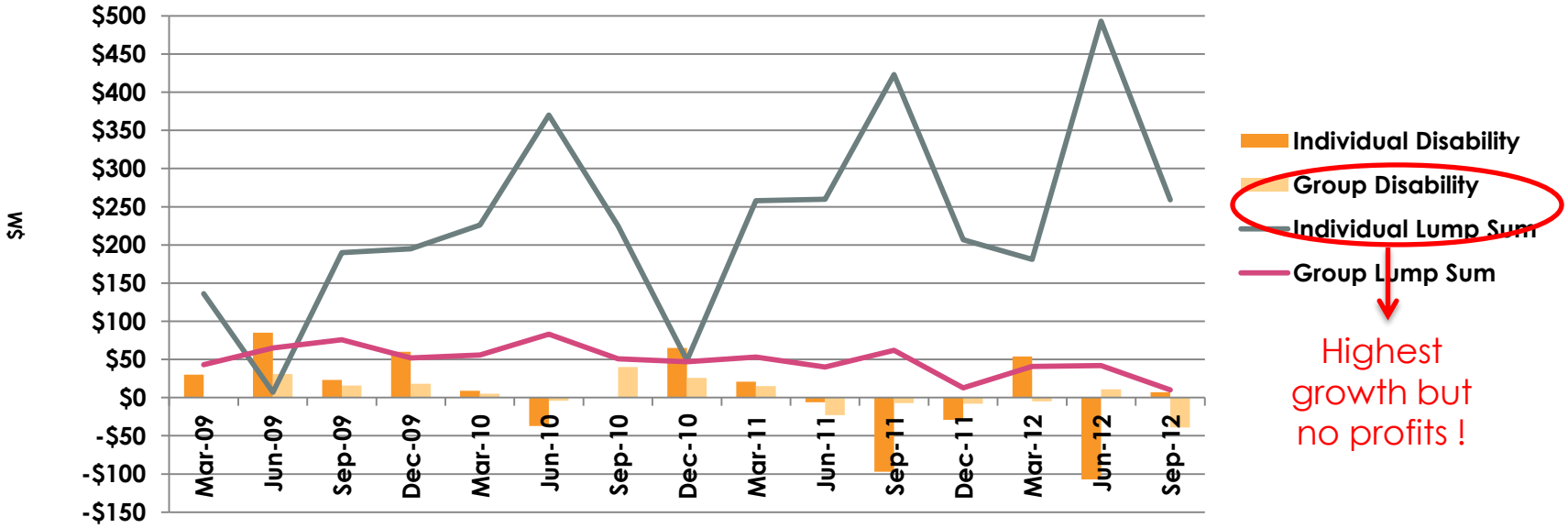
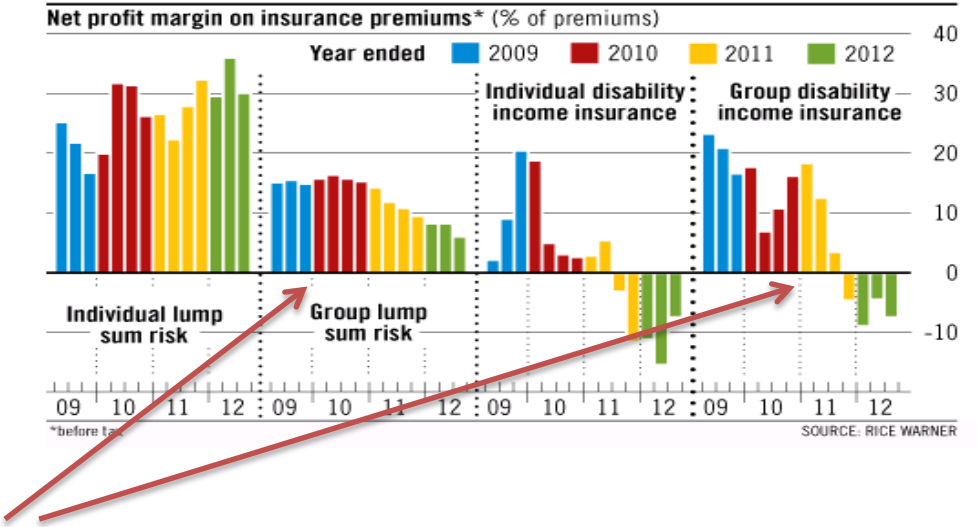
Only one sector (retail lump sum) is consistently profitable



Source: APRA Quarterly Life Insurance Performance Statistics

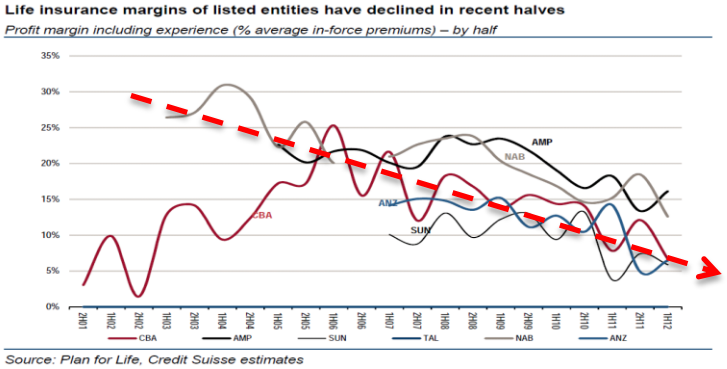
Premium increases are expected

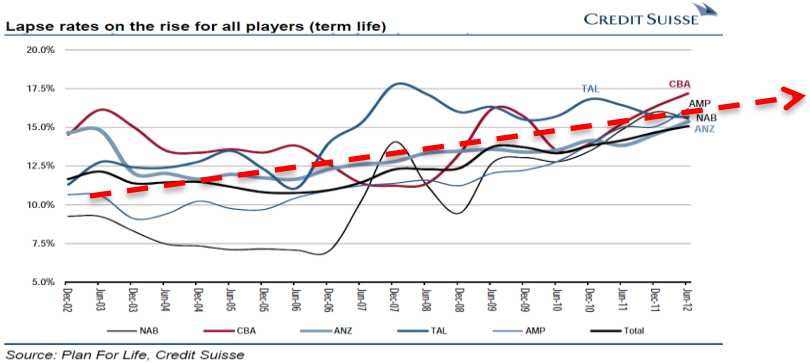


- Based on an AFR article on 15th January 2013 :
  - In Dec, the $3 billion Media Super scheme raised insurance premiums by an average of 45 per cent for its 110,000 members
  - About six industry funds recently lifted the cost of insurance premiums.
  - Premium rises of 30 per cent to 40 per cent have happened at several industry funds, including the Professional Associations Super Fund.
  - Industry sources said the 45 per cent rise in insurance premiums at Professional Associations Super was due to a blow-out in poor claims experience.

Profits are not strong

Credit Suisse released a report that highlighted the history of profit margins and lapse rates for the major life insurers over the past decade. This is shown in the graphs below.





As seen in recent company announcements, it is interesting to note how margins have fallen over the recent years. This is partly driven by lower margins on group risk business and problems in both group and retail income protection business.

Life Insurance Industry trapped in legacy IP problem ?

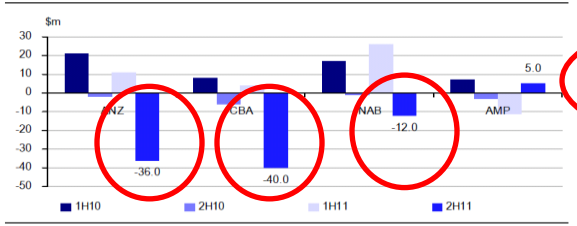
Munich RE

08 November 2011
Press release
Page 4/12

The earthquake that struck Japan on 11 March and subsequent tsunami still constitute the largest loss event to date, causing insured market losses of around €21bn and costing Munich Re around €1.5bn net before tax. The largest loss event in the third quarter was Hurricane Irene. Based on Munich Re's preliminary estimates, Irene caused insured losses in the order of US$ 7bn in the Caribbean and the United States. Munich Re estimates the pre-tax net burden for the Group to be €195m. The two earthquakes in the region of Christchurch, New Zealand, impacted Munich Re with around €1.1bn net before tax. According to current estimates, the consequences of the January floods in Brisbane, Australia, will cost Munich Re around €200m. In Copenhagen, intense rainfall on 2 July 2011 led to flooding, with a pre-tax net burden of around €50m for Munich Re.

Premium income grew by 13.3% in the first nine months year on year and totalled €20.0bn (17.6bn), with €6.6bn (6.1bn) accounted for by the third quarter. Adjusted to eliminate the effects of changes in exchange rates, premium volume would have increased by 16.2% in the first three quarters. In property-casualty business, Munich Re recorded premium growth of 9% to €12.8bn (11.7bn) from January to September and posted premiums of €4.3bn (4.0bn) in this segment for the third quarter. In motor business, premiums showed a year-on-year increase of €243m to €925m in the third quarter, mainly due to Munich Re concluding large-volume quota share treaties in Asia. Munich Re also participated to a substantial extent in an insurance solution providing the Mexican government with cover against natural catastrophes. In life reinsurance, Munich Re continued to benefit from brisk demand among insurers seeking capital relief through risk transfer, as well as from continued pleasing growth in Asia. Premiums written in this segment rose by around 21.7% to €7.2bn (5.9bn) in the first nine months. Munich Re strengthened its reserves for Australian disability business by approximately €150m; cases of disability are becoming more expensive market-wide in Australia due to a significant lengthening of run-off periods.

Chart 12: Life Insurance experience profits ($m)



Source: UBS estimates, Company data

Life experience losses were the largest contributors to earnings misses by far

After AMP's $12m experience loss reported for 3Q11, industry claims experience – driven mainly by Income Protection claims – should comfortably exceed $100m in C2H11

Many life insurers also trapped by the run off of very profitable legacy investment products

Total Inflows By Life Insurance Market

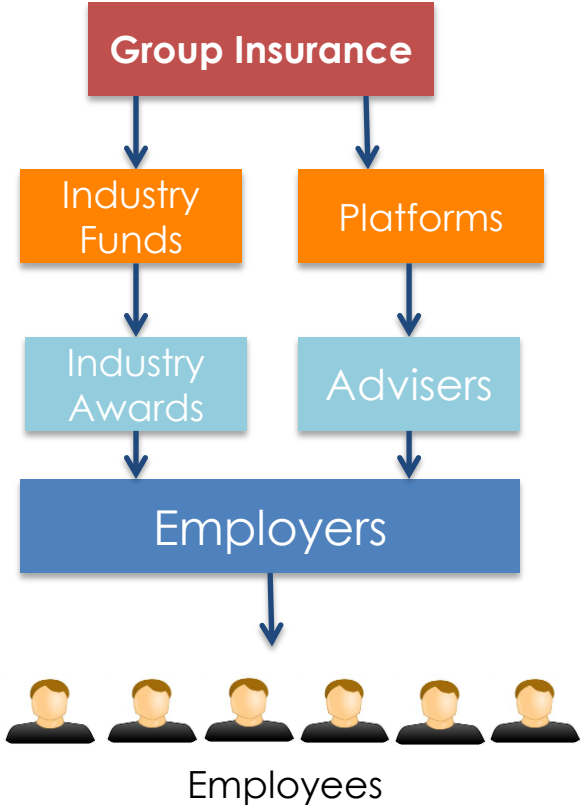
$millions	Year Ended Jun-12	Annual Growth	Year Ended Jun-11	Annual Growth
Retirement Income	6,903.8	4.7%	6,592.2	18.7%
Individual Superannuation Investment	10,439.4	14.6%	9,111.5	-2.1%
Group Superannuation Investment	8,953.6	-22.5%	11,560.4	-10.4%
Ordinary (Non Superannuation) Investment	475.3	-5.2%	501.3	-11.3%
Risk Insurance	10,936.1	11.9%	9,776.1	10.1%
Total	**37,708.2**	**0.4%**	**37,541.4**	**0.9%**

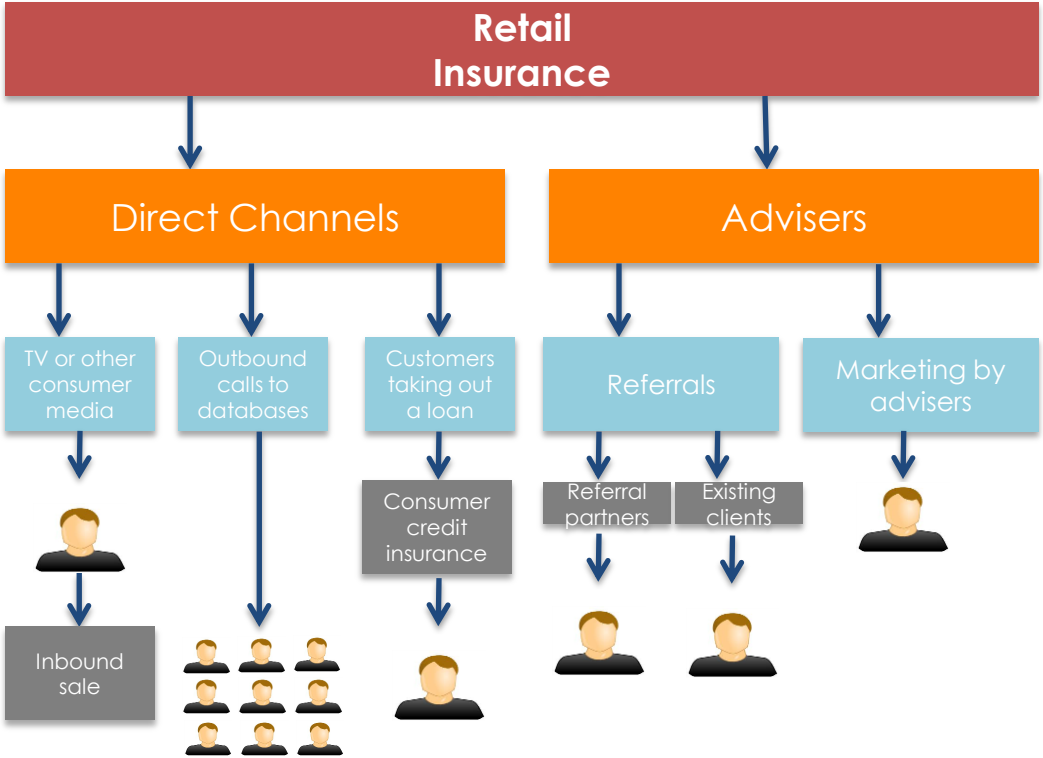
Source : Plan For Life

Growth only taking place in life risk insurance

Legacy risk and wealth products have much higher margins than new products. As these products run off, they need to be replaced by much higher sales to maintain absolute profits

How does each channel target their customers ?





Product usage is very channel specific

IP cover
Life cover
Trauma cover

Accidental death
Funeral cover

Consumer credit insurance
Life cover
IP cover
Redundancy cover

GROUP INSURANCE

TPD cover
IP cover
Life cover

Funeral cover

Product design needs to adapt as Australia, and our target markets, change over time

Selective Australian Demographic Measures 1960 vs 2010

	1960*	2010*
Median age (years)	29.6	36.9
Aged 65 and over (per cent)	8.5	13.5
Total fertility rate (babies per woman)	3.45	1.89
Average age at death (years)	63.6	74.9
Average household size (number of people)	3.6	2.6
Married (per cent)	64.2	49.6
Divorced (per cent)	1.1	8.2
Born overseas (per cent)	16.9	26.8
Living in capital cities (per cent)	59.9	64.0

*or closest year available.

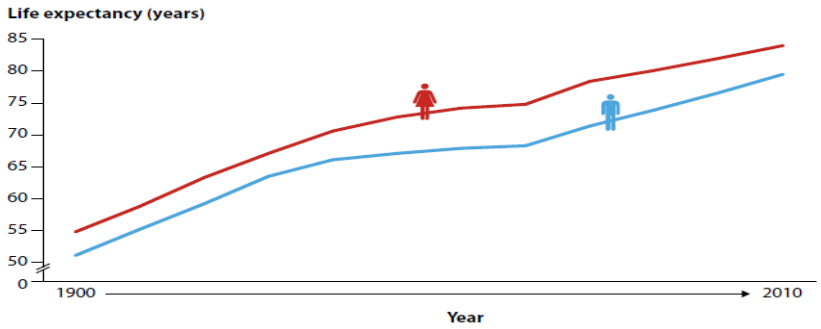
Greater need for products for seniors ?

More need for disability cover ?

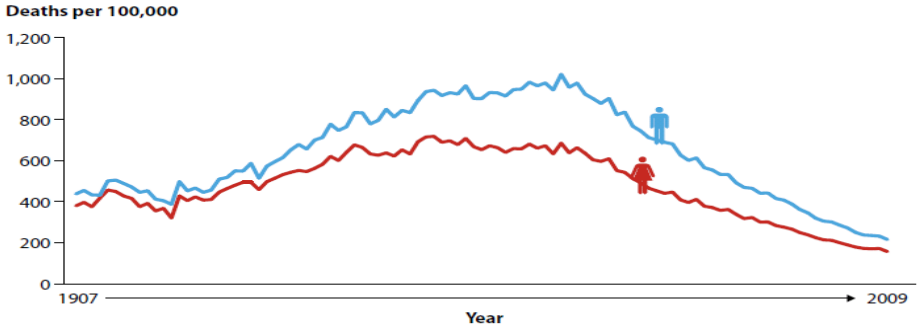
Source : AIHW

Product design needs to adapt as Australia, and our target markets, change over time

Life expectancy at birth since 1900

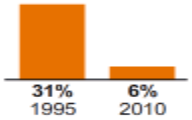


Cardiovascular deaths: trends



6%

of households with dependent children in 2010 had someone who smoked inside the home, compared with 31% in 1995



6 in 10

people who had a heart attack in 2009 survived, compared with less than half in 1997

Source : AIHW

Product design needs to adapt as Australia, and our target markets, change over time

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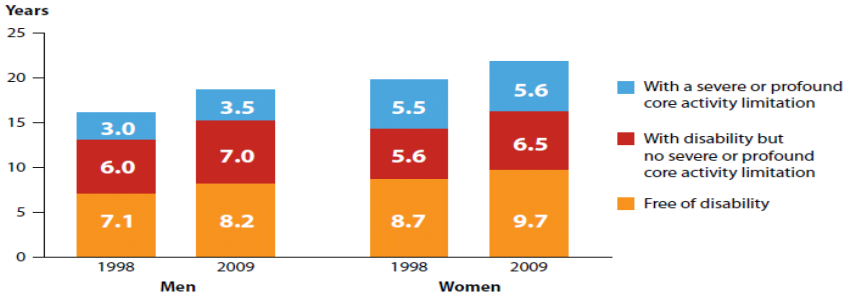
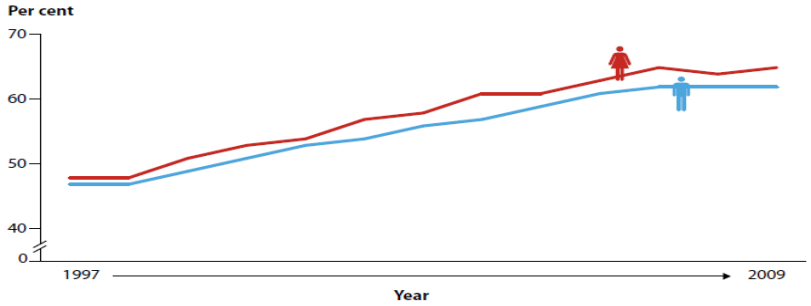
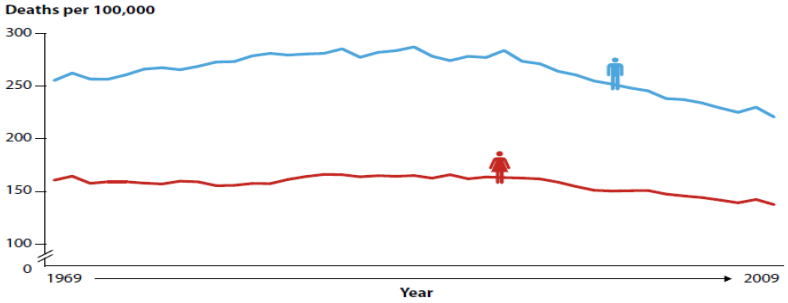
Expected years of life at age 65, 1998 and 2009



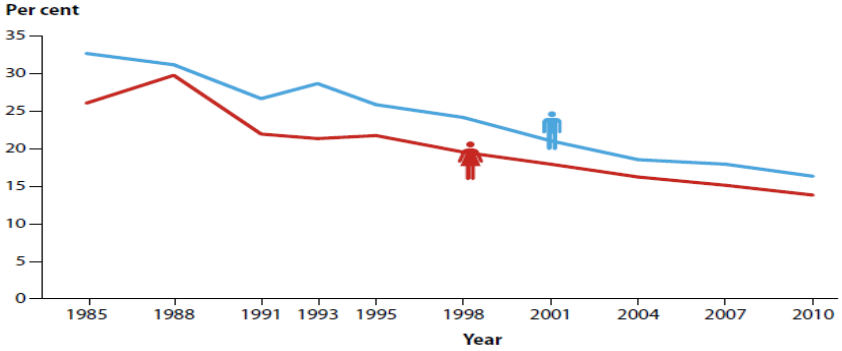
Survival after heart attack: trends



Cancer deaths: trends



Daily smoking among people aged 14 or older: trends



Source : AIHW

Positive & negative trends

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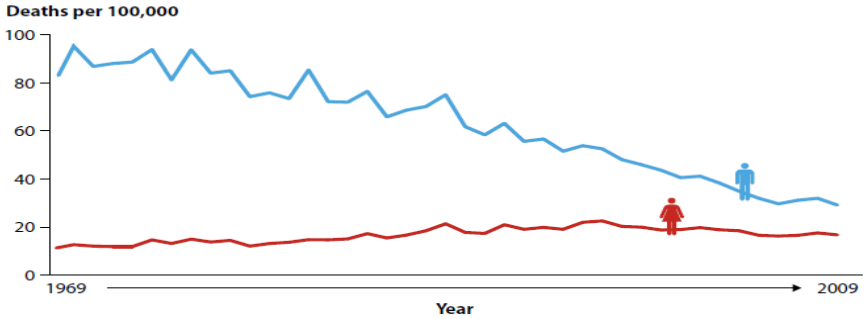
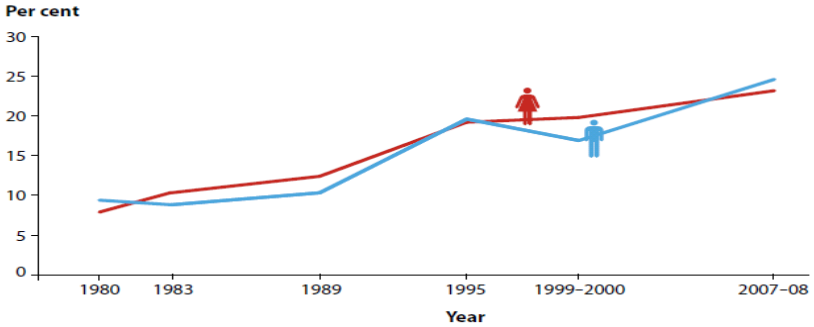
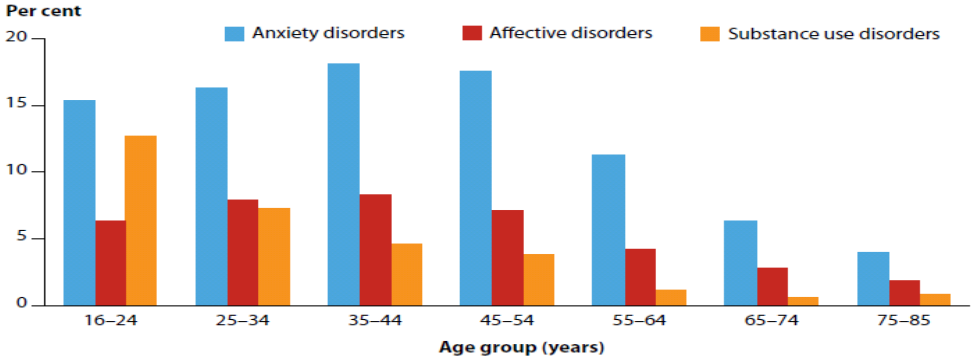
Chronic obstructive pulmonary disease deaths: trends



Obesity prevalence among people aged 25–64: trends

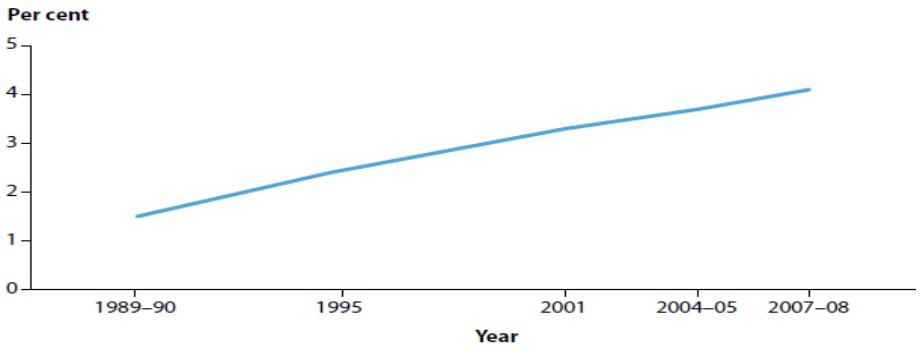


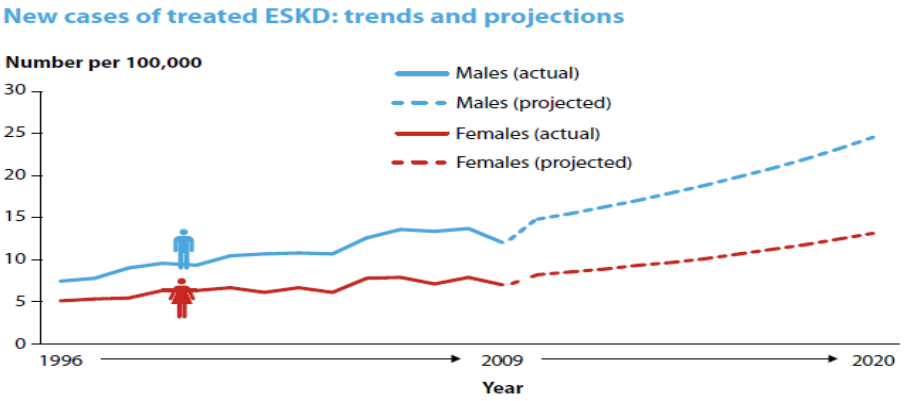
Prevalence of selected mental health disorders in previous 12 months

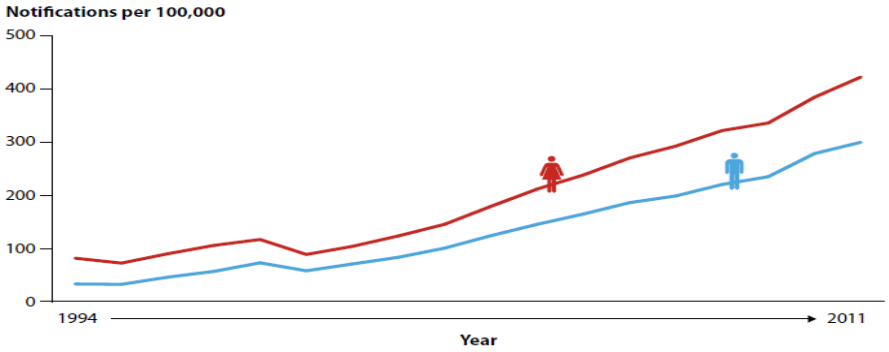


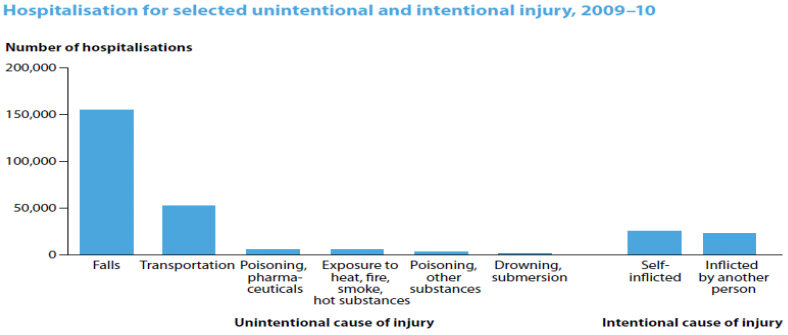
Source : AIHW

Positive & negative trends









Source : AIHW

Consumers are naive and apathetic towards life insurance

- According to Australian internet-based insurance broker Lifebroker, 67% of 1,000 respondents consumers surveyed for a report said **they believe insurers will use loopholes to avoid payouts**.
- Contributing further to a lack of trust consumers feel toward life insurance products and those that sell them, a further **58% incorrectly believe premiums for life insurance products are much higher than car and home insurance**.
- 41% of respondents said they agreed (strongly/somewhat) with the proposition that they generally **don't trust** advisers/insurance brokers.
- 41% of respondents said they agreed (strongly/somewhat) with the proposition that it is **difficult to get good independent advice** about life and income protection insurance.
- **71% falsely believe the government is required by law to provide financial support to families in the event of the death of a family member.**
- **70% falsely believe the government is required by law to pay a replacement income to workers if they stop work due to illness or injury not caused by work.**

Q. What do you think the annual premium would be for a one million dollar life insurance policy for a 40 year old non-smoker? Please give your best estimate even if you're not sure.

	Overestimated the Cost	% don't know the cost
Male	49%	42%
Female	65%	33%

Consumers are naive and apathetic towards life insurance

lifebroker™

% of Australians who have a 'good understanding' of different insurances

In general self-reported knowledge of life and income protection is poorer amongst the potentially more vulnerable groups, including those with larger mortgages and those with lower household incomes.
Knowledge levels of life and income protection insurance are greater amongst males and increase with age for both males and females

Statement	Correct Answer	% Correct
Life insurance is more expensive if the insurer does not ask for health and medical history on application	True	8%
If you have life insurance you receive a lump sum payout if you live past retirement age	False	15%
Income protection insurance pays a replacement income if you lose or quit your job	False	18%
Everyone who applies for life insurance must submit to a medical examination	False	22%
The government is required by law to provide financial support to families in the event of the death of a family member	False	29%
The government is required by law to pay a replacement income to workers if they stop work due to illness or injury not caused by work	False	30%
Income protection insurance pays a replacement income if you stop work due to illness or injury	True	38%
Life and income protection insurance premiums are the same for everyone, regardless of health, age and gender	False	41%
Life insurance pays a lump sum in the event of your death	True	42%

Similar findings by Deloitte in the USA

Voice of the USA Life Insurance Consumer Surveys, Deloitte Research, June/July 2011

- While life insurance is not the top financial priority for most, the coverage is very prominent on the to-do list for many respondents.
- The survey found that a significant number of consumers intended to buy a new policy in the subsequent two years, both among those currently without insurance as well as respondents looking for additional coverage beyond what they already have.
- The surveys revealed a fundamental failure to communicate, as many of those who are currently uninsured noted that **a prime reason they don't have coverage is no one has asked them to buy it.** Even those with insurance open to buying additional coverage often say they have not received offers from carriers. Meanwhile, most of those who have in fact received insurer solicitations to buy a policy said they were not influential in their purchase decision.
- At the same time, the surveys indicate that **carriers cannot afford to wait for prospects to seek them out**, as many respondents said they don't shop for life insurance on their own initiative.
- A generation gap was uncovered in a number of responses, including the fact that older prospects are generally harder to persuade with purchase offers, while younger consumers can be more easily influenced by such solicitations. The surveys also showed that the youngest respondents found the application and underwriting process to be much more onerous than was the case among older consumers.
- **Financial triggers are very significant in the life insurance purchase decision (such as getting a raise, thereby easing affordability concerns), and so are familiar life events (to provide income replacement and asset protection after getting married, having children or buying a home).**

Why don't non-buyer respondents have life insurance?

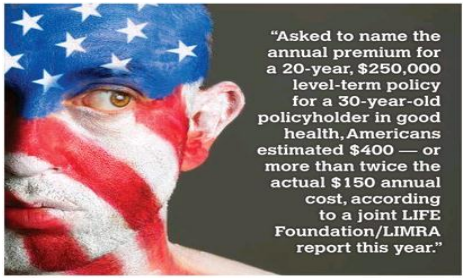
Need
- No dependents (50%)
- Too young (26%)
- Dependents have other means of support (20%)
- Dependents provided for without life insurance (19%)

Affordability
- Other, more important financial priorities (55%)
- Want coverage, but too expensive (51%)
- Let policy lapse, couldn't afford premium (21%)

Knowledge and trust
- Don't trust life insurers (25%)
- Don't trust life agents (25%)
- Don't understand the benefits of life insurance (23%)

Convenience
- No offer to sell them a policy (33%)
- Employer doesn't offer life benefit (30%)
- Buying process too difficult (26%)
- Lost coverage when left job (22%)

Percentages represent total of those who strongly agree/agree with these reasons.
Source: Voice of the Life Insurance Consumer Surveys, Deloitte Research, June/July 2011

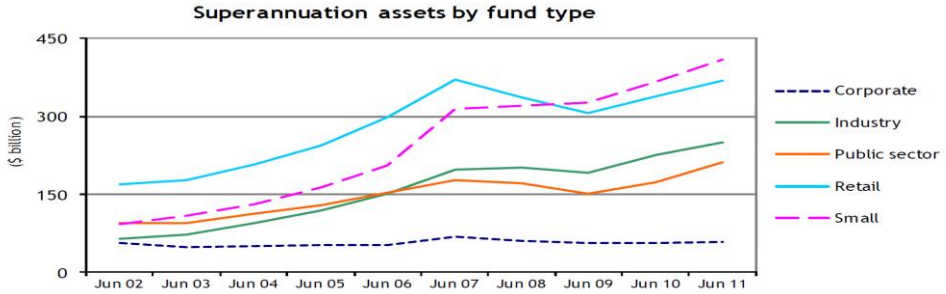


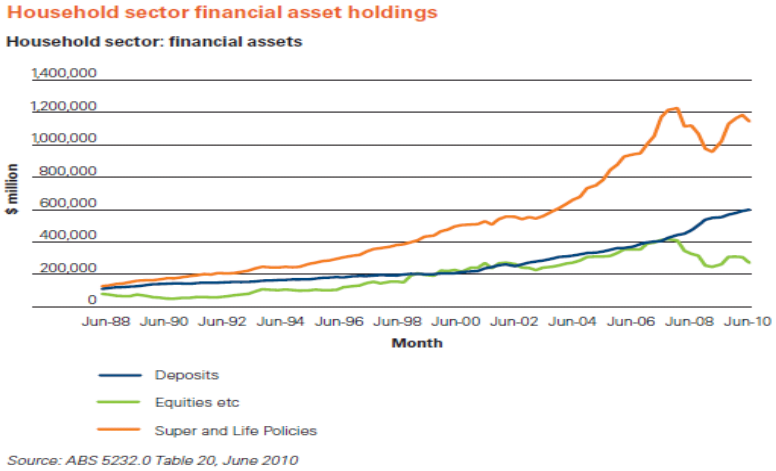
Recent retail industry product development trends

- **Sold by advisers**
  - Some price rises (eg legacy IP)
  - Product linking
  - Electronic applications/automated underwriting
  - More partial traumas
  - Not as "busy" with definitions and research houses
  - Small changes in underwriting limits
  - More coverage for traditionally higher risk occupations (eg miners and farmers)
  - Technology improvements for service (eg in force client viewing on line)
- **Sold directly**
  - Main focus is on use of more distribution channels and not product development (eg Priceline)
  - Some development on certain products (eg Freedom funeral insurance first year free)
  - No real improvement in terms and value for money
  - Little other activity such as price

Superannuation is becoming the largest pool of money in Australia

- Life insurance premiums can be funded from **bank accounts** or **superannuation accounts**
- Over **$1.4 trillion** dollars invested in Superannuation in Australia
- The life insurance industry size is **$11bn** of in force annual premiums
- The superannuation industry's current assets could fund the entire life insurance industry for 100 years !
- **Household deposits** at banks are **$600bn** for comparison





Insurance premiums paid in super funds now account for about 0.5 per cent of net assets, according to Chant West (Jan 13)

Retail Life Insurers have mainly obtained insurance premiums from bank accounts

ANZ

CommonwealthBank

Westpac

nab

Credit cards

Direct debits

MLC

AMP

OnePath

.....a funding pool of $600bn.....

Total Household Deposits $600bn

Credit cards

Direct debits

Retail Life Insurers can also offer life insurance to members of SMSFs...another $450bn funding pool

Total SMSF assets $450bn

Member assets

MLC

AMP

OnePath

Group Life Insurers generally have obtained insurance premiums from superannuation accounts

Actuaries Summit
get involved, get ahead
20 – 21 May 2013
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Actuaries Institute

cbus
Construction & Building Industry Super

healthsuper

BT Super for Life

Member accounts

MLC

AMP

OnePath

.....a funding pool of $600bn.....

Actuaries Summit
get involved, get ahead
20–21 May 2013
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Actuaries Institute

Total Industry Fund, Retail Fund and Corporate Super Accounts $600bn

Member accounts

Now insurers allow premiums to be paid from rollovers from any super fund, so there is a $2 trillion funding pool

Any super fund
$1.4 trillion

Rollovers

ClearView

MLC

AMP

OnePath

Total Household Deposits
$600bn

Credit cards

Direct debits

"But I have cover in my superannuation fund..."

- Does it offer level premiums so that cover remains affordable over the long term ?
- Does your cover stay the same even as you get older ?
- Does your cover end when you stop working ?
- Are your cover features guaranteed to never reduce ?
- Does your fund offer binding death benefit nominations ?
- Does your fund offer income protection insurance ?
- If so, does it offer long term income protection insurance ?
- Does your fund allow you to flexi link with cover held outside of super (eg trauma, TPD, TPD own/any structures and/or IP extras ?
- Can your cover continue after age 65 ?
- Do you get discounts for being a non smoker, or working in safe occupations, or because you are younger, or because you actively look after your health ?
- Does your cover index with inflation each year ?

Wellness programs are becoming common for insurance policies globally

Actuaries Summit
get involved, get ahead
20 – 21 May 2013
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Actuaries Institute

Wellness programs lower insurance premiums

By Donna Fuscaldo • Bankrate.com

Highlights

- Wellness programs mean spending less on insurance premiums.
- Lose weight and stop smoking in a wellness program on the company's dime.
- Participating in wellness programs can get you a flat-screen TV or iPod.

Losing weight or quitting smoking can save you big bucks on health insurance premiums and even land you a flat-panel TV.

With the nation entrenched in an obesity epidemic and millions of Americans suffering from chronic diseases, a host of companies around the country are offering employee wellness programs that reward workers when they take steps toward a healthier lifestyle. For the corporations, these programs can save hundreds of thousands of dollars in health care costs. For employees, participating in a wellness program reduces health insurance premiums, saves money on medical costs and can even get you points to redeem for merchandise.

Wellness programs mean spending less on medical costs

The goal of wellness programs is for employees to become healthier. Because they are healthier, the employees end up spending less for doctors, hospitals and prescription drugs, says Paul Solitto, chief financial officer at EngagementHealth, a Lombard, Ill.-based company that designs and manages wellness programs. Their life expectancy improves, meaning more years in the work force and more time to earn money.

According to Linda Lulli, associate vice president for human resources at Bryant University in Smithfield, R.I., which offers a wellness program, an inactive person spends $1,500 extra on health costs per year.

Lose weight on the company's dime

Wellness programs vary from company to company but generally start out with a health risk assessment. The assessment will evaluate the employees' current health and their risk of developing a chronic illness like diabetes. It typically comes with an incentive for taking it, such as a decrease in health insurance premiums, reward points to purchase merchandise or cash.

Employees who don't participate in the assessment may face penalties such as paying a higher premium or not having access to a cheaper, better plan, says Jerry Ripperger, director of business development for The Principal Financial Group in Des Moines, Iowa, which coordinates wellness programs for other firms. He says it's not uncommon for an employee to save $10 to $15 on each biweekly paycheck on health insurance for participating in a wellness program for a yearly savings of $300.

The program that Principal offers companies includes weight loss plans, nutrition coaching and smoking cessation programs. Employers are encouraged to give health risk screenings annually to track progress.

Given the high recidivism rate in some of the programs, most companies are encouraged to reward employees for taking action even if they don't succeed, such as those in a smoking cessation program who can't kick their smoking habit entirely, Ripperger says.

Participate in wellness programs, get a TV or iPod

Health insurance premium discounts and reductions in co-payments are the most popular incentives that employers are giving, but they aren't the only options.

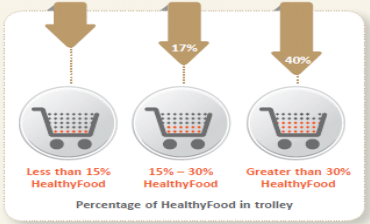
Vitality Group, the Chicago unit of South Africa-based Discovery Holdings Ltd., has a wellness program used by corporations that rewards a company's employees with points for use in the Vitality shopping mall.

"Our model includes more than 35 activities that all have varying point values," says Arthur Carlos, chief executive officer of Vitality Group.

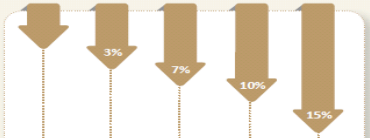
Discovery Vitality

As we gain a deeper understanding of the impact of healthy lifestyle choices, Vitality is uniquely positioned to drive the wellness evolution. Internationally recognised as the leader in incentive-based wellness programmes, the success of Vitality has been built on a deep clinical understanding of the factors that influence an individual's health risk.

Good nutrition is effective in managing the risk of developing a lifestyle-related disease. The probability of being diagnosed with a lifestyle-related disease decreases strongly with higher levels of HealthyFood purchases:



Regular physical activity is a key driver of health outcomes with a significant decrease in the probability of hospital admissions being observed for members with higher gym visit rates:



Vitality today has close to four million clients on three continents, with Vitality recently being introduced to the Chinese market. It is the longest-standing wellness programme of its kind in the world, and has been internationally recognised for its positive impact on healthcare costs.

Bupa — FIND A HEALTHIER YOU

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LIVING WELL PROGRAMS

You are here: Home / Health & wellness

When you're on a personal journey, Bupa's Living Well programs give you some practical support to help you on the way. Living Well helps cover the cost of health-related programs from approved recognised providers.

These include:

- Gym memberships*
- Yoga and Pilates courses*
- Assistance with the cost of kids' swimming lessons* ^
- First aid courses
- Nicotine replacement therapy
- Weight management programs

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Asteron Life

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Morning swim
Big splash
Huge rush
Revitalised
Joy

Home > Asteron Life Wellbeing Program

Asteron Life Wellbeing Program

At Asteron Life we love Life. And we believe that life insurance is about more than just protecting your lifestyle and your long-term financial security. We think that life insurance - and Asteron Life - can help make your life better today.

All Asteron Life policyholders have access to the Asteron Life Wellbeing Program which provides:

- information on health and wellbeing
- health assessment and tracking tools
- healthy recipes and diet plans
- easy to navigate step-by-step weight loss and lifestyle programs to help you reach your goals
- regular prize draws to reward you on the way!

Asteron Life is pleased to help its customers achieve healthier, happy lives through health literacy and wellness programs.

We think this is particularly important today, as we're a society that has some preventable (but serious) illnesses that are largely attributed to our lifestyle choices.

Have a look around the site. To get you started, there's videos and articles from our ambassadors on how to lead a healthier lifestyle. Then, with your Asteron Life policy number you can **register** and **login to the Asteron Life Wellbeing Program.**

About the program

Asteron Life Wellbeing Program is an online health and wellbeing resource, with information, tips, recipes, health assessment tools as well as meal, weight-loss and lifestyle programs.

> Learn more about Asteron Life Wellbeing Program

Before you start

Know the basics before you start, and do some quick self assessments, so you can track and measure your success!

> Important health checks

Eat well

Get the facts about food! Learn how to

Get active

Getting active - by adding more physical activity into your day - doesn't have to be hard, sweaty or time consuming!

Wellness programs are becoming common for insurance policies globally

- **Improved persistency**
- Lower claims rates
- **Leverage buying power for consumer group**
- Capture more statistics and leverage that information
- **It's the "right thing" to do**
- A way to get something back from insurance
- **Improves the industry image**
- Converts a dull and boring industry into a dynamic and valued industry

Superannuation products dominate the Wealth Management sector, although non super products are still a large part of the retail wealth management sector

Global Pension Assets Study 2013

Key findings - figures

	Total Assets 2012 (USD billion)	% GDP (Local currency)
Australia	1,555	101%
Brazil[1]	340	14%
Canada	1,483	84%
France	168	7%
Germany[2]	498	15%
Hong Kong	104	40%
Ireland	113	55%
Japan	3,721	62%
Netherlands	1,199	156%
South Africa	252	64%
Switzerland[3]	732	118%
UK	2,736	112%
US	16,851	108%
Total	29,754	78%*

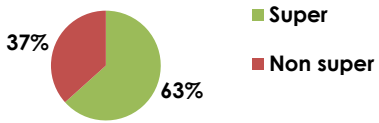
Source: Towers Watson and secondary sources
*Assets/GDP ratio for the world is calculated in USD and assets were estimated as of 31 Dec 2012
[1] Brazil Pension Assets only include those from closed entities
[2] Only collect pension assets for company pension schemes
[3] Only includes total of autonomous pension funds

Australia has the world's 4th largest pension pool

Superannuation	$1,400 bn
Non super retail products	$210bn

Type	Size ($bn)
Corporate	58
Industry	281
Public sector	232
Retail	363
SMSF	459
Other	47
Total	1,463

Retail segment

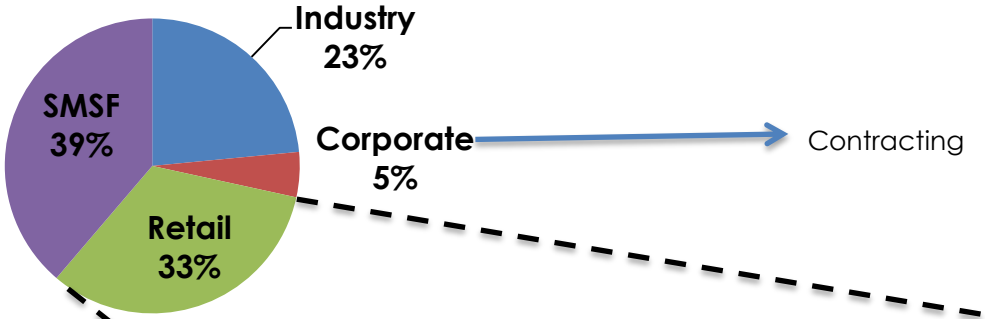


The superannuation sector dominates the wealth management sector, but the non super sector may see a resurgence if caps remain tight on maximum superannuation contributions. However, non super investments comprise about 37% of the retail wealth market and is not negligible.

Source : Plan For Life

The retail superannuation sector is large and growing, but not as fast as SMSF & Industry Funds

Contestable Superannuation Pool

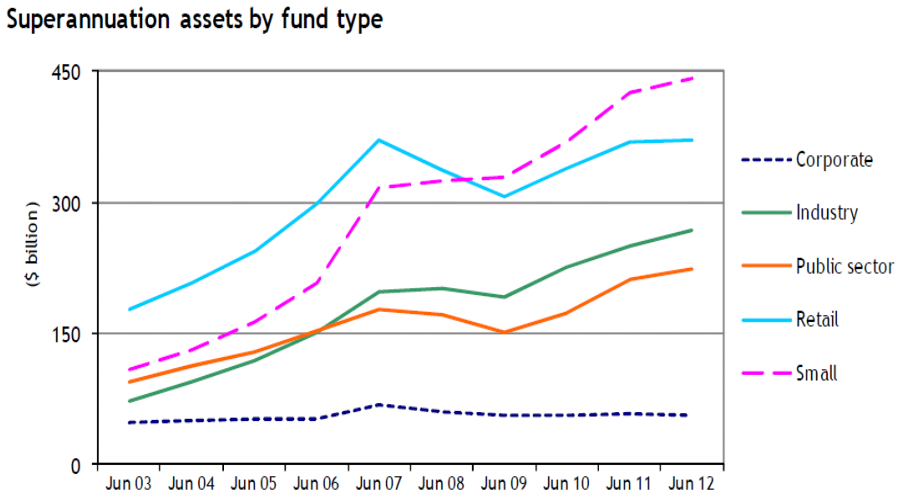


June 2012 Market Share	Market share	Net flows
Wraps	33.9%	**$6.4bn**
Platforms	50.4%	**-$2.2bn**
Other products	15.7%	**$4.0bn**

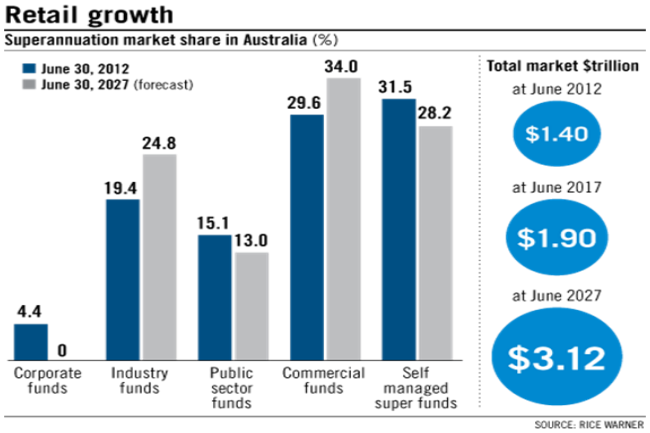
Note : non super investments are contained in the net flow table

Source : Plan For Life

Self managed super is the fastest growing category in the industry, and now also the largest sector. However, all sectors are large and growing – with the exception of corporate super schemes

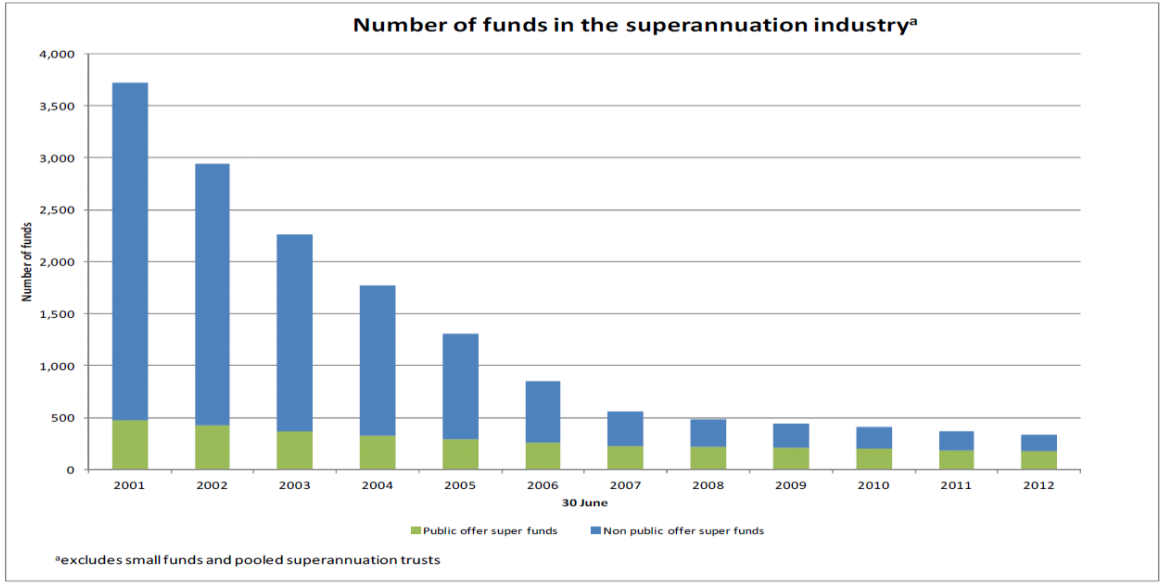


- Rice Warner predicts retail funds will grow at the expense of other segments
- A push by major lenders into low-cost superannuation products is expected to lift the banks' share of the personal retirement savings market by 25 per cent over the next 15 years.
- Actuarial firm Rice Warner predicts that retail super funds, which are largely owned by the banks and listed wealth companies such as AMP, will command a 14 per cent share of the personal super market by 2027, up from 11.2 per cent today.



Source : APRA Annual Superannuation Bulletin 2012

The superannuation industry has enjoyed massive consolidation with a 91% reduction in the number of APRA regulated funds in the twelve years from June 2001 to June 2012



- Despite this consolidation, the largest five funds by assets in 2012 comprised only 16% of the market share of the superannuation industry and no single fund had a market share of more than 4%.
- The largest ten funds by assets comprised 27% of the market share of the superannuation industry.
- By comparison, the four major banks comprised around 79% of the market share of banking industry assets in June 2012.
- While there was some increase in concentration, it has not been significant enough for the industry to now be considered concentrated.

Source : APRA

Inflows into retail products are largely driven by superannuation products

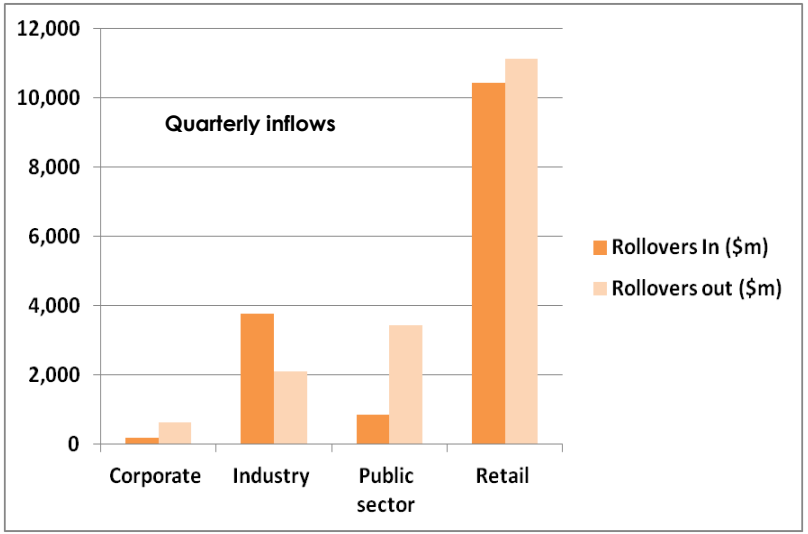
Type	Inflows ($bn) year ended July 2012	Inflows ($bn) year ended July 2011
Super : Accumulation	63	57
Super : Pension	33	29
Cash trusts	43	42
Unit trusts	25	27
Insurance bonds	0.6	0.6
Total	**165**	**156**

Type	Net flows ($bn) year ended July 2012
Super : Accumulation	10
Super : Pension	1
Cash trusts	-2
Unit trusts	-8
Insurance bonds	-0.2
Total	**1**

Super net flows are strong

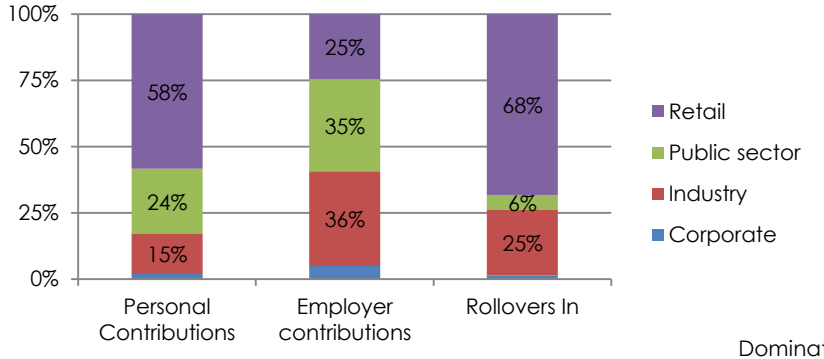
Legacy/non super net flows are poor

There is a fair amount of churn within the retail segment and net rollovers out are probably being placed in SMSFs



Source : Plan For Life

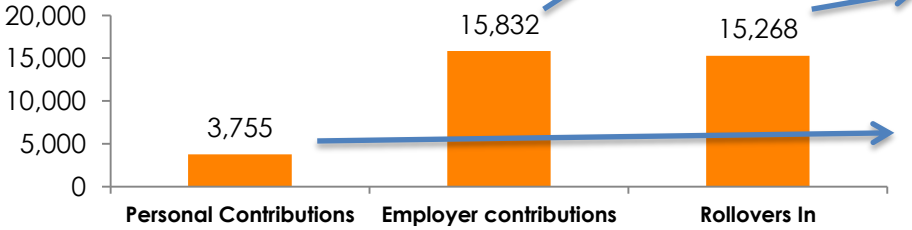
Excluding SMSFs, there is a clear distinction as to which sectors dominate the various inflow types



Note : *This excludes SMSFs which enjoy a high share of rollovers in and personal contributions*

Dominated by industry and public sector because of SG awards (71%)

Superannuation Inflows Per Quarter ($m)



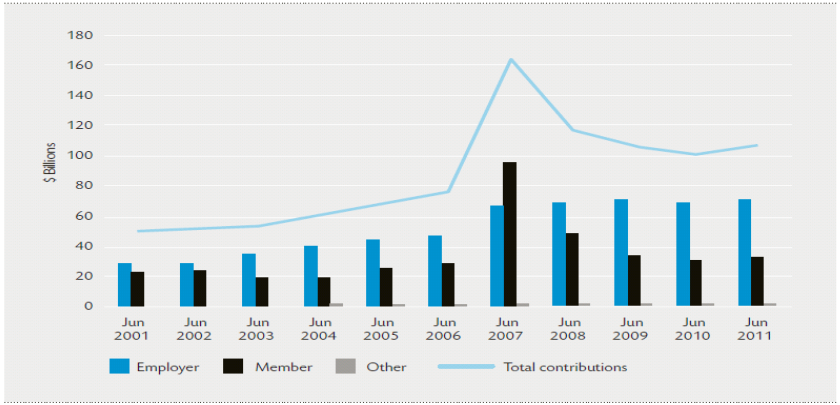
Dominated by retail sector (68%)

Dominated by retail sector (58%)

Source : APRA

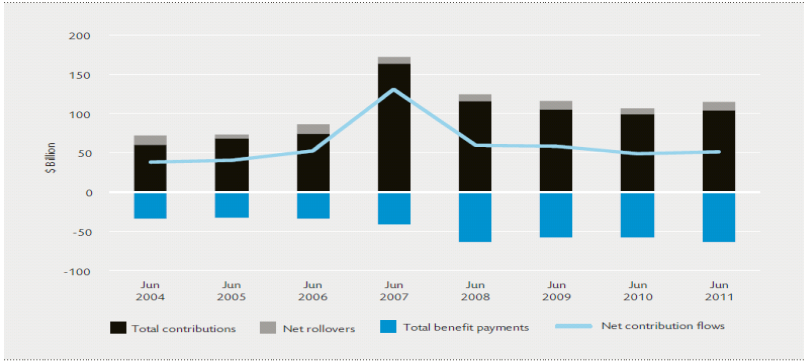
Total superannuation contributions have hovered between $100bn and $120bn p.a. in the recent past. Net flows into superannuation schemes (excl SMSFs) are consistent at approx $50bn per annum

Total contributions to superannuation – 2001 to 2011



Source: APRA *Annual Superannuation Bulletin* – June 2011

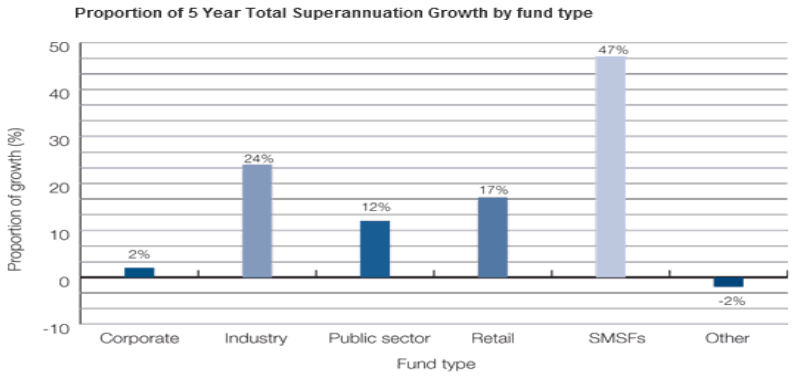
Net contribution and benefit flow



Source: APRA *Annual Superannuation Bulletin* – June 2011

SMSF's

- The SMSF sector remained the **largest sector** of the Australian superannuation industry, with 99% of the number of funds and 31% of the $1.34 trillion total super assets as at 30 June 2011.
- At 30 June 2011, there were around 456,000 SMSFs and **$418 billion in assets**. There were also approximately 867,000 members in the SMSF sector, about 7% of roughly 11.6 million members in Australian super funds.
- SMSFs directly invested **77% of their assets, mainly in cash and term deposits and Australian listed shares** (a total of over 60%). While smaller SMSFs tended to favour cash and term deposits, larger SMSFs had a greater tendency to invest in listed shares.
- In the five years to 30 June 2011, SMSFs have been the fastest growing sector of the Australian superannuation industry.
- During this period total **super assets grew by 45%, while SMSF assets grew by 89%.** The SMSF sector contributed the largest proportion with 47% of the total 45% growth in super assets.
- The graph below shows the breakdown of the 45% growth in total super assets by fund type, based on APRA data.
- A review of the three years to 30 June 2011 shows the growth in total super assets slowed to 17%. The breakdown of this growth between fund types has remained relatively unchanged.

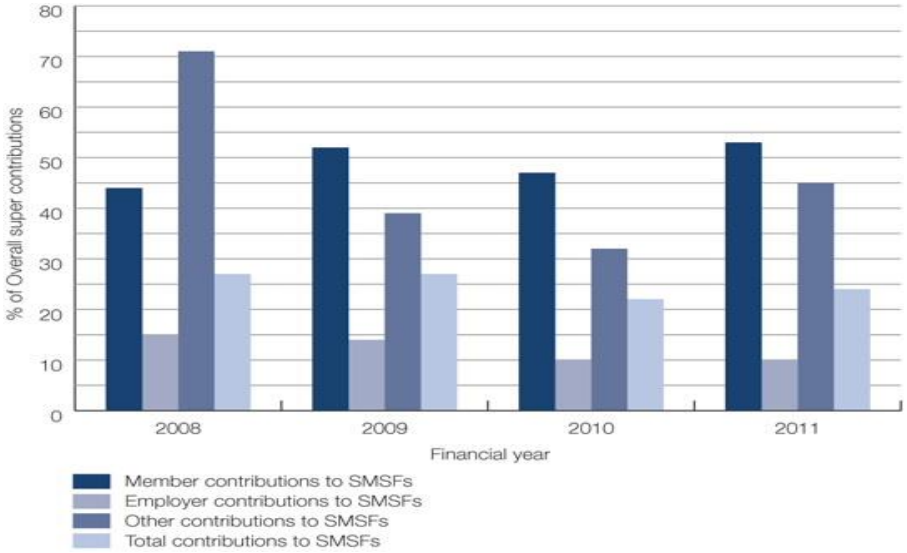


Source : ATO

As at 30 June 2011, contributions to SMSFs represent only 24% of all super fund contributions. Growth is mainly from rollovers

- This is due to the low proportion of employer contributions to SMSFs (10%). In contrast, member contributions to SMSFs have increased to 53% of all member contributions to super funds in that year.

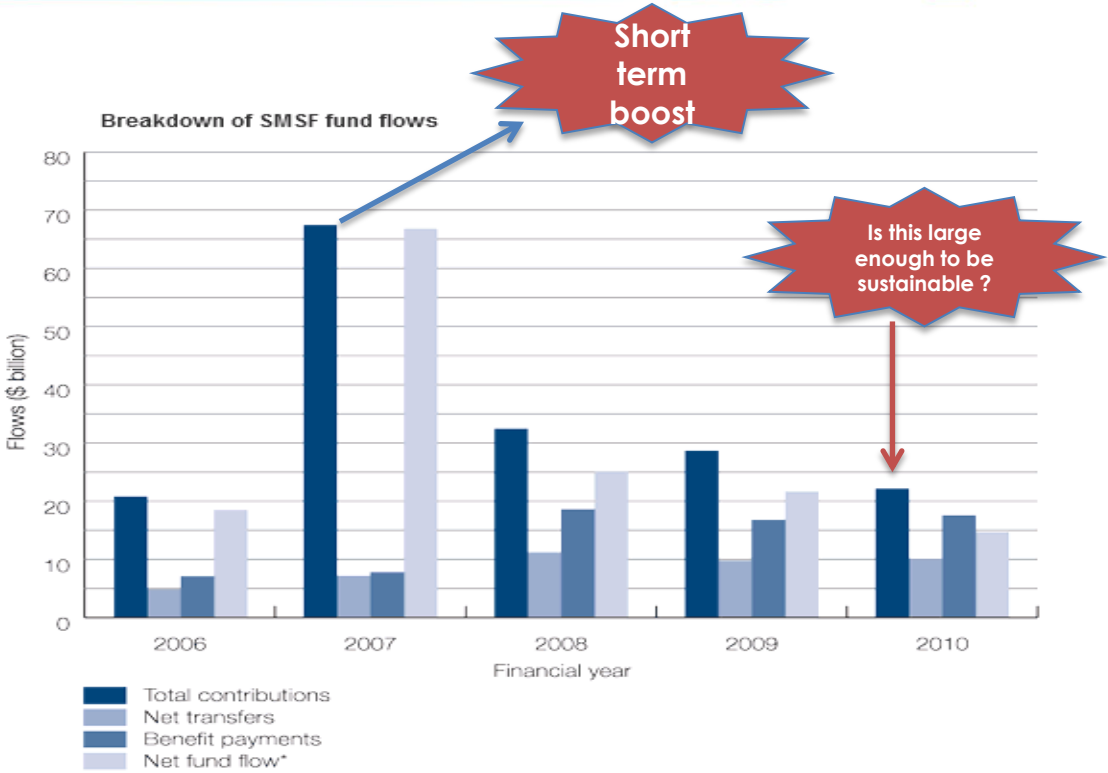
- Over the four years to 30 June 2011, the $58.8 billion rolled into SMSFs consistently exceeded the $16.6 billion rolled out of SMSFs. On average it was reported $14.7 billion is rolled into SMSFs and $4.2 billion is rolled out of SMSFs annually.



Source : ATO

But is the net fund flow rate slowing ?

- The overall net inflow into SMSFs was $146.1 billion during the five years to 30 June 2010.
- The graph shows this was **predominantly attributable to the surge in contributions in the year ended 30 June 2007.**
- Since 2007, there has been a decline in the net flow of money into SMSFs from $66.7 billion to $14.6 billion a year. This represents **a fall of 78%,** which is predominantly due to the fall in contributions.
- As a result, both net transfers and benefit payments, which remained relatively constant, had a greater affect on total net flows.
- Prior to 2007, benefit payments as a percentage of total contributions were below 34% (2006), while for the years after 2007, they were between 55-80%.



*Net fund flow = Total contributions + Net transfers (inward - outward rollovers) - Benefit payments

Retail sector dominated by a few major players

Leading retail platforms
BT Wrap
AMP North
FirstChoice Wholesale
FirstWrap
Macquarie Wrap
Navigator

70% of market

Other retail platforms
Netwealth Wrap
Oasis (Onepath)
IOOF
Mercer
Numerous legacy products
Perpetual

Leading industry funds	Size (end 2010)
Australian Super	$38bn
Qld Government	$35bn
Unisuper	$25bn
Rest	$18bn
Sunsuper	$16bn
Hesta	$16bn
Cbus	$14bn

$162bn

Large Public Sector Funds	Size (end 2010)
State Public Super	$28bn
First State	$18bn
Public Sector Super	$11bn
Australia Post	$6bn

Source : APRA

Legislative changes may close off corporate super plans

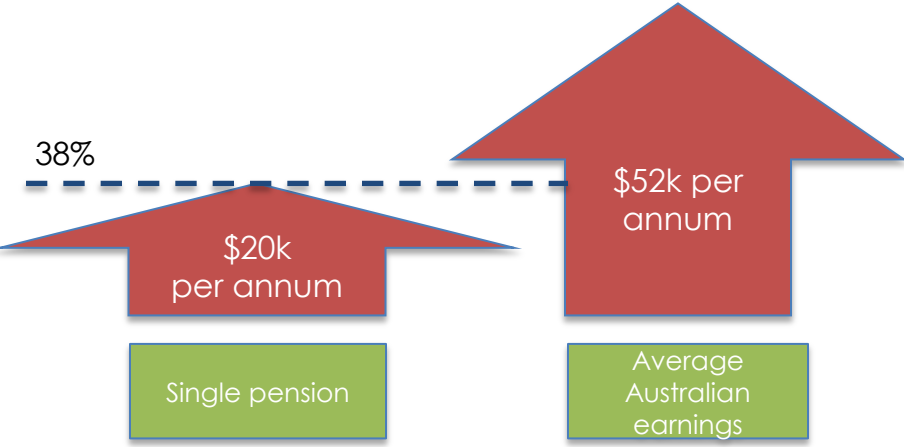
- There are 2 types or corporate super plans (other than those offered by Industry Funds)
    - In house staff super plans
    - Retail corporate super plans
- In house plans are likely to close because new legislation may not allow this fund to remain the default fund because it is not open to the public
- Retail corporate super funds will probably close because of the same reason as well as the new rule that will ban commissions on these products (and adviser service fees on an opt in basis are not practical for such arrangements)
- Industry funds likely to be the winner from the demise of corporate super plans and receive an increased share of SG contributions

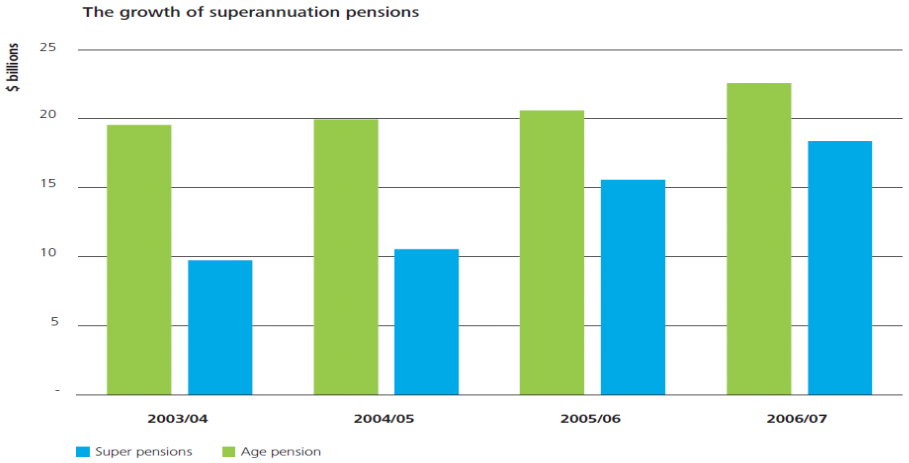
Post retirement……

- **The Government provided age pension should decline in relative importance as superannuation balances grow**
- More superannuation money seems to emerging as income streams rather than lump sum payments in the post retirement stage
- **A couple will need approximately $500k in superannuation savings when they retire to enjoy a comfortable retirement**
- The majority of older Australians own their own home and do not have a mortgage
- **Associated with the ageing population is a greater need for aged care services**
- These can be funded by the Government and/or pensioners via personal assets including superannuation balances
- **The majority of aged care is expected to take place in the home, with more acute services provided in the last few years of life via a residential centre (at considerable possible cost)**
- At June 2010, permanent residential aged care was provided to around 163 000 people. Of these, 70 per cent received high level care.

Source for numerous of the slides that follow : Caring for Older Australians. Productivity Commission Inquiry Report *Overview*. No. 53, 28 June 2011

The maximum possible aged pension is only 38% of the average earnings of an Australian



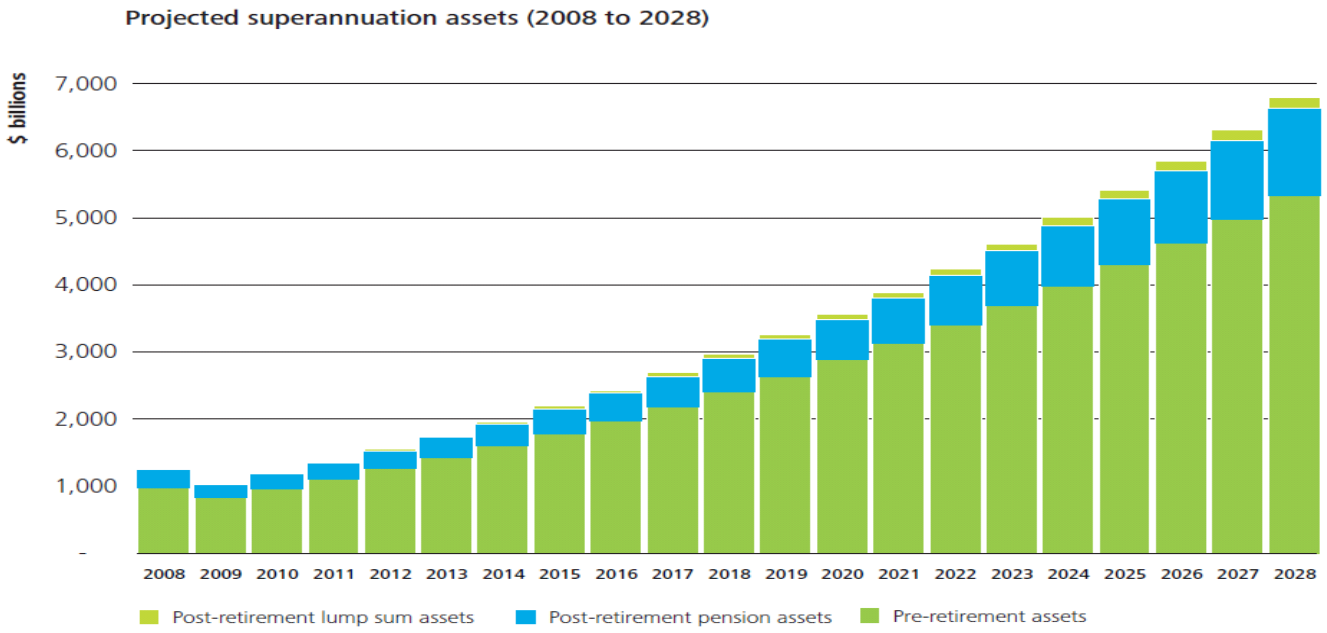


Source: APRA & Australian Year Book, 2008

At May 2011, estimated Government spending on the Age Pension in 2010-11 was $AUD 31.7 billion. Expenditure is expected to rise to $AUD 34.0 billion for 2011- 12. Superannuation pensions in 2011 amounted to $32bn.

As superannuation assets increase, the importance of planning strategies to maximise the age pension may decline, given its low relative value. Superannuation funded pensions will fund more of the post retirement incomes of Australians than the government

Post retirement assets will increase to 42% of all superannuation fund assets by 2026, compared to 30% at 30 June 2011 according to Rice Warner



Source: Deloitte Actuaries & Consultants, 2009

According to a 2011 Deloitte publication, post retirement assets are expected to represent almost 22% of total assets in 2030.

How much does a pensioner need when they retire ?

Actuaries Summit
get involved, get ahead
20–21 May 2013
Hilton Sydney

Actuaries Institute

Only $35k needed as super payout because balance funded from age pension

$510kneeded as super payout on retirement

$29k per annum

Age pension (couple)

VS

$32k per annum (for a couple)

Cost of a "modest" retirement

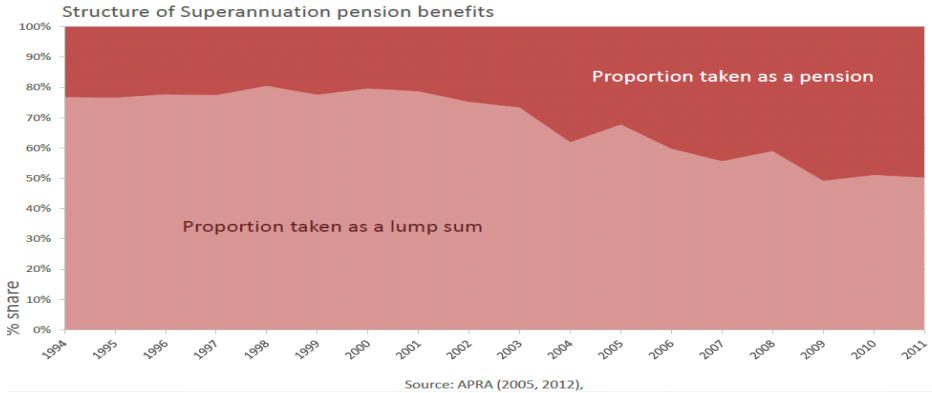
VS

$56k per annum (for a couple)

Cost of a "comfortable" retirement

Source : Association of Superannuation Funds of Australia (ASFA) Retirement Standard Report December 2012 quarter

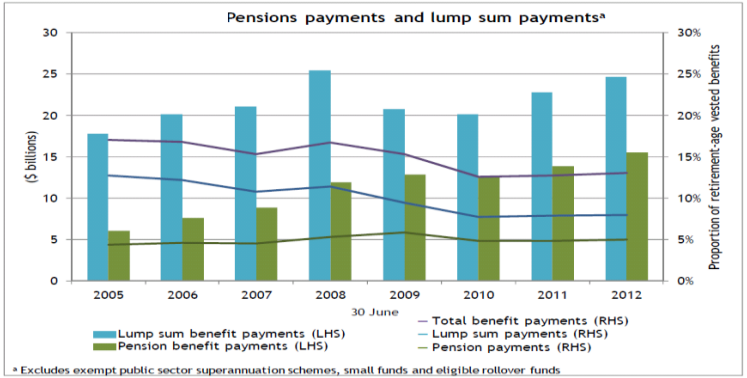
And more money is being taken as a pension vs a lump sum



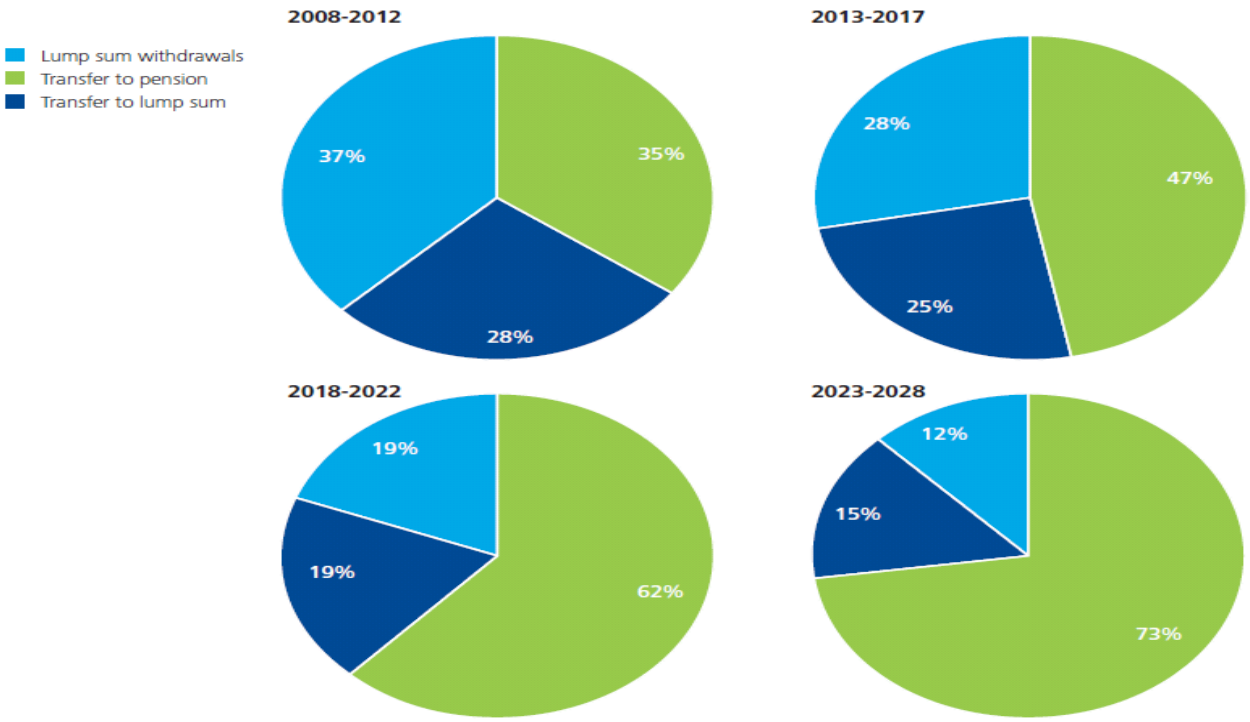
- The number of members that received pension payments more than doubled from **450,000** in 2005 to nearly **950,000** in 2012.
- The value of lump sum benefit payments increased by 39 per cent from 2005 to 2012 (from $17.8 billion to $24.7 billion) and **the value of pension payments increased by 155%** over the same period (from $6.0 billion to $15.5 billion)
- Over the same eight year period, the average pension payment per pension member increased by 24% (from $13,500 per annum to $16,700 per annum)

What are the lump sums being used for on retirement ?

Research by the CPA found that in 2010, the average household between the ages of 60 and 64 years had a debt to super ratio of 42 per cent, suggesting the need to withdraw considerable sums to pay off loans on retirement. Household debt of those aged 60-69 and not retired was $119,000, while in retired households it was $50,000. "Superannuation is clearly being used to reduce debt," the CPA concluded.



Over the four year period to 2012 more than a third of all retirees are expected to take a super pension; a figure that would have been unheard of only a few years ago. Fast forward to 2018-2022, and 62% of retirees are predicted to take a pension.



Source: Deloitte Actuaries & Consultants, 2009

The home is a major source of wealth for all ages, but more so for retirees

- The distribution of wealth has been shifting towards older Australians since the mid-1980s and this trend is expected to continue over the next few decades. Kelly (2002) estimated that the share of Australia's total household net wealth for those aged 65 and over could increase from around 22 to 47 per cent between 2000 and 2030, while their share of the population is projected to grow from 12 per cent to around 19 per cent over the same period.

Projected average family wealth by asset and age
Share of family wealth by asset class

	Cash deposits[a]	*Shares*	*Equity in own home*	*Equity in rental property*	*Super-annuation*	*Total net worth*
	%	%	%	%	%	In 2000 $
Year 2000						
65–69	20	7	56	5	12	270 000
70–74	22	6	63	5	4	221 800
75+	17	4	75	4	1	139 500
Year 2030						
65–69	31	8	43	3	14	811 400
70–74	32	6	53	5	4	691 300
75+	33	4	56	7	1	622 700

[a] Cash deposits also includes annuities, allocated pensions and managed funds.
Source: Kelly (2002, pp. 21–22).

- As the table above shows, equity in the home is a major source of wealth for all ages, but a greater share for older ages. This is expected as people draw on their assets during their retirement years, and will draw on the more liquid assets before accessing their home equity. The family home does, however, remain the main savings vehicle for most households.

- The vast majority of Australians aged 65 and over (around 83 per cent) own or are buying their home, while about 14 per cent are renting .

Housing tenure/landlord type for those 65 and over[a], 2007-08

Tenure or landlord type	*Number and proportion of households*	
	'000	%
Owner without a mortgage	1 332.5	77.9
Owner with a mortgage	92.7	5.4
Renter		
State/territory housing authority	108.6	6.3
Private landlord	114.2	6.7
Other landlord type	20.2	1.1
Total renters	241.0	14.1
Other tenure type[b]	45.0	2.6
All households	1 711.2	100.0

[a] Includes usual residents of private dwellings in urban and rural areas of Australia (excluding very remote areas), covering about 97 per cent of the people living in Australia. Private dwellings are houses, flats, home units, caravans, garages, tents and other structures that were used as places of residence at the time of interview. Long-stay caravan parks are also included. Residents of non-private dwellings (which include hotels, boarding schools, boarding houses and institutions) are excluded. [b] 'Other' forms of tenure including living rent free with other family members, and group households. This is more common with advancing age, reflecting in part moves to live with younger family members precipitated by increasing frailty and care needs.
Source: ABS (2009a).

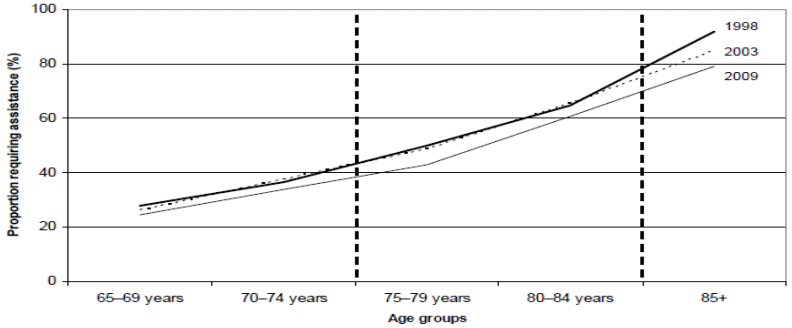
As retirees make up an increasing share of the future population, the demand for aged care services will rise

- The number of Australians aged 85 and over is projected to increase from 0.4 million in 2010 to 1.8 million (5.1 per cent of the population) by 2050.
- By 2050, it is expected that over 3.5 million older Australians will access aged care services each year, with around **80 per cent of services delivered in the community.**
- Almost **8 per cent of the population will be using aged care services by 2050**
- There is increasing diversity among older Australians in their preferences and expectations (which continue to increase), including a greater desire for **independent living and culturally relevant care**.
- The *Intergenerational Report 2010* estimated that Australian Government spending on aged care would increase from 0.8 per cent of GDP in 2010 to 1.8 per cent of GDP by 2050.
- While further advances in the management of some diseases are expected, more people will require complex care for dementia, diabetes and other morbidities associated with longevity, as well as palliative and end-of-life care.
- **The relative availability of informal carers will decline, reducing the ability of some older people to receive home-based care.**
- Demand for aged care services is expected to become more diverse in the future because of :
  - changing patterns of disease among the aged (including the increasing prevalence of chronic diseases and dementia)
  - a wider range of preferences and expectations (including rising preferences for independent living).
- It is expected that older Australians will also want to take advantage of advances in care and technology to assist them to remain independent and engaged in society for longer.

The majority of time and care will take place at home

- Most aged care is provided by **informal carers** (such as partners and children, mostly daughters, and neighbours and friends).
- In addition, many older people and their carers are supported by **charitable organisations and volunteers**. An extensive array of services are provided privately through the market, ranging from house cleaning and home maintenance to personal care and private nursing.
- A further subset of aged care services are subsidised, regulated and, at times, directly delivered by governments.
- Many older Australians live with multiple disabling conditions (or co-morbidities) — people aged 65 or over reported an average of **2.8 health conditions** in 2003 (Australian Institute of Health and Welfare 2010)
- The onset of age-related disability and frailty can create a need for assistance with everyday living activities and, progressively, personal care (see picture). Over half of all older people in 2003 reported having a disability that led to them requiring assistance, including with self-care, mobility and communication (ABS 2004).
- Over **one million** older Australians receive some form of aged care and support each year. **Services are delivered in the community and in residential facilities**, and include assistance with everyday living, personal care and health care.
- In 2009-10:
  - over **610,000** people aged 70 years or over received **Home and Community Care (HACC) services**
  - around **70,000** people received more intensive packaged community care **at home**
  - around **215,000** people received permanent residential care, of whom **70** percent received **high level care**.

Need for assistance by age of older person



Data sources: ABS Cat. no. 3201.0, 4430.0, and 44300do001.

The majority of time and care will take place at home

- Most older Australians, including those who receive formal aged care services, live at home. As the Australian Institute of Health and Welfare (AIHW) states:

  Despite a common myth that most older people live in some type of cared accommodation, the majority of older Australians (in 2006 92%) lived in private dwellings as members of family, group or lone-person households. Only 8% were usual residents in non-private dwellings, which include hotels, motels, guest houses, and cared accommodation such as hospitals, aged care homes and supported accommodation offered by some retirement villages. Although the proportion of older people living in non-private dwellings increased with age, most people in each age group — 65–74 years, 75–84 years and 85 years and over — lived in private dwellings. (2009)

- Overall, their needs tend to rise over time and the availability of able informal carers tends to decline. As a result, those aged 85 years or above have a higher level of reliance on formal care services.

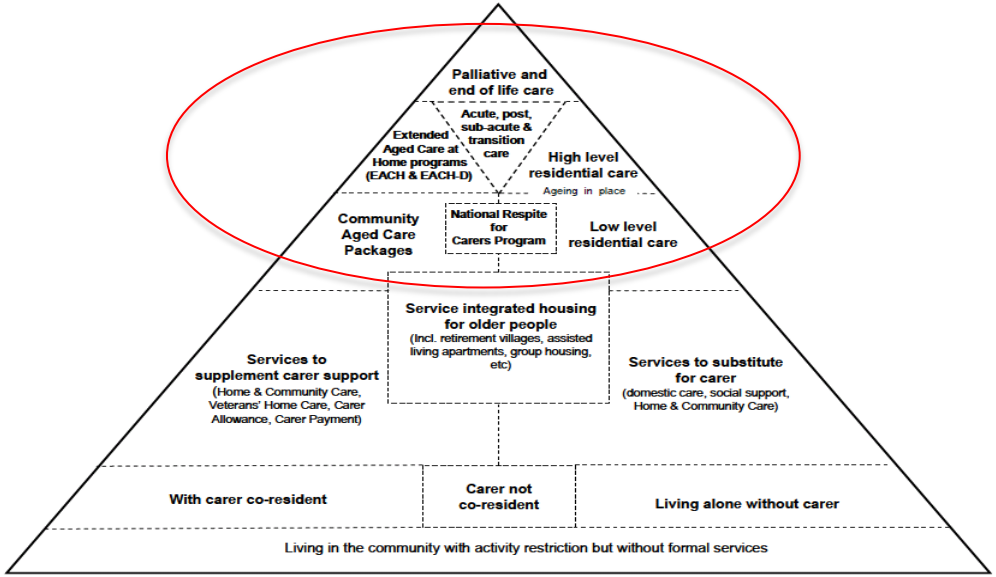
- Access Economics (2010) estimated that if the informal care provided by unpaid family carers to all people in need, including the frail aged, were replaced by formal paid care, the cost would be in excess of $40 billion per annum in 2010.

Where is the care provided ?

- Older people receive care and support from informal carers, from publicly subsidised formal community and residential care services and directly from market suppliers of services ranging from home maintenance to private nursing (see picture).

- The most resource intensive services are located in the upper half of the pyramid.

Current modes of care in the aged care system



Data source: Howe (1996), revised with advice from Howe, A., pers. comm., 18 May 2010.

The government funds residential and "at home care"

- The Australian Government and state and territory governments provide a number of subsidised formal aged care programs (table below). These include the block funded HACC program, community care packages, and residential aged care.

Total number of clients serviced by program, 2009-10[a]

Program	*Clients*
Residential care[b]	214 418
Community care packages	
CACP	57 742
EACH	7 995
EACH-D	3 847
Transition Care	14 976
Residential Respite	44 160
Home and Community Care[c]	616 000
Veterans' Home Care[d]	73 100
Department of Veterans' Affairs (DVA) Community Nursing[d]	33 100

[a] Some clients receive services from more than one program in any one year. As some people do not spend the entire year in residential care or on a community care package, multiple people can use the same residential place or package at different points of time through the year. As such, the number of people who receive care throughout the year exceeds the number of care places available. [b] 70 per cent of all permanent residents were classified as high care at 30 June 2010. [c] For those aged 70 years or over. [d] The 2009-10 numbers reflect the services provided as notified to the Department by the extraction date. Once all provider notifications have been received, the final number of clients is likely to be higher.

Sources: DoHA (2010n); DVA's DMIS Service Item Cube (extracted 17 June 2011).

Types of home care services provided via Government funding

Community care programs: services provided to clients aged 65 years or over, 2007-08

Per cent of clients in program

Service Type	*HACC*	*Veterans' Home Care*	*DVA Community Nursing*	*CACP*	*EACH*	*EACH-D*
	2007-08	2007-08[a]	2007-08	Dec 2008	Dec 2008	Dec 2008
Non-specialist care services						
Domestic assistance	32.6	93.1	×	81.5	68.3	61.6
Meals at home or a centre	19.5	×	×	13.7	7.4	8.1
Other food services	0.6	×	×	21.4	35.3	34.6
Transport services	17.0	×	×	20.8	9.9	14.2
Home or garden maintenance	17.8	18.7	×	11.6	11.4	11.2
Activity programs	10.9	×	×	3.1	9.8	9.8
Social support	12.0	×	✓	36.4	26.4	34.4
Personal care	10.0	4.3	31.2	39.3	83.3	74.2
Counselling (care recipient)	6.8	×	✓	✓	11.7	18.0
Counselling (carer)	1.3	×	×	×	×	×
Goods and equip.	3.1	×	×	✓	✓	✓
Home modifications	4.3	×	×	✓	✓	✓
Respite care	2.2	8.3[b]	×	4.4	32.2	44.0
Linen services	0.3	×	×	0.7	2.0	2.6
Accommodation and related services	×	×	×	×	×	×
Specialist services						
Nursing (home and centre)	21.1	×	78.7	×	21.9	16.9
Allied health/therapy (home and centre)	19.5	×	×	×	7.1	6.4
Total clients (number)	**638 218**	**77 284**	**32 625**	**33 411**	**3 354**	**1 314**

✓ Service type provided but data unavailable. × Service type not provided. [a] Clients who received VHC services may have received DVA Community Nursing at the same time. Data on simultaneous use is not provided. [b] Figure related to provision of in-home respite care and emergency respite care only, and excludes DVA clients who used residential respite

The goal seems to be to increase the support for "at home" services with a small shift away from supported low care residential services

Table 2.3 **Target provision ratios announced between 1985 and 2007**

Aged care places/packages per 1000 people aged 70 years or older, including Indigenous people aged 50–69 years

Year	*Residential high care places*	*Residential low care places*	*Total residential places*	*CACP packages*	*EACH & EACHD packages*	*Total community packages*	*Total aged care places & packages*
1985	40	60	100	..	..		100
1992	40	55	95	5	..	5	100
1993	40	52.5	92.5	7.5	..	7.5	100
1995	40	50	90	10	..	10	100
2004	40	48	88	20	..	20	108
2007	44	44	88	21	4	25	113

Sources: AIHW (1995, 2001); Cullen (2003); Hogan (2004b); PC (2008); Pyne (2007); Sanoro (2007); SCRGSP (2006).

Definitions :

- *Community Aged Care Packages (CACPs)*
- *Extended Aged Care at Home (EACH) and EACH Dementia (EACH-D) packages*

- The majority of primary carers of people aged 65 years and over care for their spouse or partner, while a smaller, but still significant, proportion of older Australians are cared for by a son or daughter

Relationship of primary carer to the person being cared for

Primary carers of people aged 65 years and over, 2009

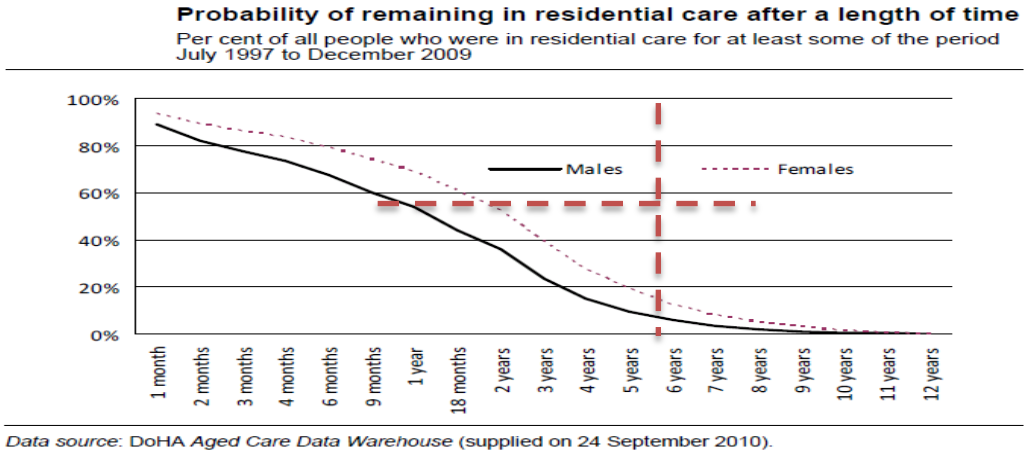
Relationship	*Number of primary carers*	*Per cent*
Spouse or partner	166 623	69
Son or daughter	58 007	24
Other (includes father or mother, relative, friend or neighbour)	17 659	7
Total	**242 288**	**100**

Data source: ABS Survey of Disability, Ageing and Carers 2009, CURF.

What is residential care ?

- **Residential care** is provided to older people when their care needs exceed the scope of community care.
- **Low level residential care** provides accommodation and related everyday living support (meals, laundry, cleaning), as well as some personal care services. 'Personal care services' can include assistance with bathing, toileting, eating, dressing, mobility, managing incontinence, community rehabilitation support, assistance in obtaining health and therapy services and support for people with cognitive impairments
- **High level care** covers additional services such as nursing care, palliative care, other complex care, equipment to assist with mobility, medical management and therapy services.
- **Extra service** places in high care facilities provide a higher standard of accommodation, food and other hotel-type services for a higher charge.
- At June 2010, permanent residential aged care was provided to around 163 000 people (with a greater number of people receiving residential care during the year).
- Of these, **70 per cent received high level care.**
- There has been **a steady increase in the proportion of residents being classified as needing high level care**. That is, an increasingly dependent and frail group of older people are entering residential aged care. Between 1998 and 2008, the proportion of high care entrants rose from 58 to 70 per cent of total residential aged care entrants (AIHW 2008).

Most people are in residential care for less than a year



33% of men and 50% of women who reach age 65 will enter aged care
Source: Department of Health & Ageing and ABS

Lifetime estimates show that **68 per cent of women and 48 per cent of men** at age 65 will require at least one **intensive** aged care service at some time in their remaining life.

Only a minority of older Australians are likely to face extended periods of intensive care, and therefore could find themselves liable for very expensive — or catastrophic — costs of care.

How much does residential care cost (current position) ?

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Accommodation fee		+	Care fee	
Low level care	High level care		Low level care	High level care
Lump sum with no limits	Set structure paid as daily fee		Daily care fee plus income tested fee	Daily care fee plus income tested fee

Upfront bond payment mainly used

No upfront bond payment

Summary of Fees

	Low Level Care – Hostel	High Level Care – Nursing Home
Asset Tested Entry Fee	Accommodation Bond: • Lump sum or interest on lump sum • Resident must be left with $40,500	Accommodation Charge: • Daily Fee: $32.58 • Daily fee reduces if assets less than $108,266.40
Retention Amount	$323.00 per month (maximum five years)	n/a
Basic Daily Fee	Up to $47.92 per day	
Income Tested Fee	Up to $67.04 per day	
Extra Services	Set by Aged Care Facility	

Home is exempt if occupied by a spouse or other protected person

Up to approx 84% of the age pension

How much does residential care cost (maximum current position) ?

Person with full age pension

Low level care	High level care
No accommodation fee (provider paid $30 per day by Govt but some exceptions may apply)	No accommodation fee (provider paid $30 per day by Govt but some exceptions may apply)
Daily fee of 84% of aged pension	Daily fee of 84% of aged pension
No income tested fee	No income tested fee
84% of aged pension	84% of aged pension

Self funded retiree

Low level care	High level care
Accommodation bond Unlimited but averages $290k	Accommodation daily fee of $33
Daily fee of $48	Daily fee of $48
Income tested fee of $67	Income tested fee of $67
$250k lump sum (but could be much higher) which is refundable plus $42k per annum	$54k per annum

Bonds in excess of $1m are not unusual

How much does residential care cost (current position)?

- A significant funding issue to date is the interaction between the income and assets tests for the Age Pension and for co-contributions for aged care.
- Incoming residents have an incentive to pay large accommodation bonds so as to retain their Age Pension and reduce their care co-contributions.
- Providers have an incentive to ask for high bonds as they are an interest-free source of debt financing, and their ability to get them has been reinforced by artificial supply constraints.
- The costs of aged care (not including accommodation and everyday living costs) vary considerably. They can range from less than $1000 per annum for basic home support to around **$50 000** for people with dementia on an intensive package in the community, and to around **$65 000** per annum for the highest cost of care services in a residential facility.

The average accommodation bond is $248,850 (2010/2011) and increased over the prior year by 7%.

Only 6% of residents entering Hostels elected to pay the Accommodation Bond by a combination of lump sum & periodic payment. The majority (91%) pay a lump sum only & 3% pay by periodic payment only.

Source: Department of Health & Ageing (2010/11)

Social security rules have been a clear driver of behaviour in how aged care (accommodation) fees have been paid

Centrelink assessment

The bond balance is **exempt** from the Centrelink and DVA Assets Test and is **not subject to deeming**, as the individual is not earning interest on this amount. **Residents who pay at least part of their bond via periodic payment are able to rent out their home and their home can remain exempt from the Assets Test. In addition, the rental income will not count towards the Income Test.**

Method of payment of bonds

Percentage of all bond-paying new residents

Method of payment	*2004-05*	*2005-06*	*2006-07*	*2007-08*	*2008-09*	*2009-10*
Lump-sum	91.8	91.2	91.1	91.0	89.3	89.6
Periodic payments	4.5	3.8	3.6	3.1	3.5	4.1
Lump-sum and periodic payment	3.7	5.0	5.3	5.9	7.4	6.3

Sources: DoHA (2009e, 2010n).

Low take-up of alternative accommodation payments can be explained by:

- providers' strong preference for bonds combined with constrained competition (arising from supply restrictions) which has allowed providers to offer care recipients little choice about the method of payment
- income and asset tests within the broader welfare system (the Age Pension in particular) which create incentives for residents to pay lump sum bonds
- evidence that clients are not well informed about their payment options.

The rules are changing.....

- Changes outlined earlier this year in the government's Living Longer Living Better aged care reform package mean aged care will increasingly become a user pays system – where more money buys better care – which will require more people to think about how they pay for their care. Some care recipients with greater means will be asked to make a greater contribution to the cost of the care that they receive. The Government will still remain the majority funder of care for most care recipients and will ensure that no one is denied access to care because of an inability to pay.
- The proposed reforms also include more home packages to enable people to stay at home longer
- These are not due to come into place until July 2014. Existing residents at 1 July 2014 will remain under old rules.
- There will be a removal of the distinction between payments for low and high care. The federal government will abolish the $32 cap on the daily accommodation charge for high aged care and replace it with a three-tiered system with no upper limit.
- At present, the daily fee for high care is capped at $32 and there is no set structure for low-care patients. Under the changes, there will be no distinction between high and low care and one fee structure for all.
- About 60 per cent of residents have the means to pay the daily charge while the government foots the bill for the other 40 per cent.

Payment of Accommodation Fees

Currently $32 per day.

To rise to $50 if the aged centre conducts refurbishments

The rules are changing.....

- Under the changes, which will apply to the 60 per cent with means, a nursing home can increase the daily fee to $50 with no questions asked, the tier-one fee level. Alternatively there is a lump sum Refundable Accommodation Deposit equivalent of $238,845.
- Tier two will be a charge between $50 and $85 a day. In return, the provider has to self-assess to justify the level of the fee against government guidelines. Alternatively there is a lump sum Refundable Accommodation Deposit equivalent of $406,037.
- The third tier places no cap on fees but the level must be pre-approved by a pricing regulator.
- All residents may choose to pay for accommodation as a Daily Accommodation Payment, an equivalent Refundable Accommodation Deposit, or a combination of both and will have up to 28 days to decide from entering care.
- For the 40 per cent of residents whose charge is paid by the government, it will continue to pay $32 a day. It will increase that to $52 a day if the operator refurbishes or expands its facility to boost capacity. The work must meet benchmarks to qualify for the extra money.

Accommodation fees

Old : If residents have means

Type	Maximum Daily Fee	Max Lump Sum Equivalent
Low Care	No structure	
High Care	$32	Not available

New : If residents have means

Type	Maximum Daily Fee	Max Lump Sum Equivalent
Tier 1	$50	$238,845
Tier 2	$85	$406,037
Tier 3	Unlimited	Unlimited

How much will residential care cost (new position)?

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Person with full age pension

Tier 1 only

Daily fee of 85% of aged pension

85% of aged pension

No change

Self funded retiree

Tier 1	Tier 2	Tier 3
Accommodation bond $50 per day	Accommodation bond $80 per day	Accommodation daily fee unlimited
Daily fee of $48	Daily fee of $48	Daily fee of $48
Income tested fee of up to $67	Income tested fee of up to $67	Income tested fee of up to $67
$60k per annum until cap reached, then $36k per annum	$71k per annum until cap reached, then $46k per annum	Unlimited
$239k upfront plus $42k per annum until cap reached, then $18k per annum	$406k upfront plus $42k per annum until cap reached, then $18k per annum	Unlimited

Lifetime cap of $60k

Regular payment option

or

Upfront payment option

The transition phases from retirement to aged care

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Stages of retirement	Retire and live at home	Live at home with home care services	Move into aged care
Low wealth	Age pension	Age pension and Govt home services	Basic facility funded by Govt
Part self funded retiree	Part aged pension and super savings	Part aged pension and super savings. Some Govt home services and some self funded home services	Choice of facility (Tier 1 or 2) funded partly by self
Wealthy or full self funded retiree	All personal and super savings	Fund home care costs by self	Choice of any facility with more paid if Tier 3. Funded by self.

Sector to target for product development

The international experience with Aged Care insurance products is not encouraging

- Internationally, private insurance plays a relatively small role in financing aged care.
    - In the US, where insurance is voluntary and privately provided, less than 10 per cent of the population aged 65 years and over are insured for aged care, despite tax incentives.
    - In Germany, private insurance is available for high-income individuals and as supplemental coverage for all. Participation rates are less than 10 per cent.
    - In France, 25 per cent of people over the age of 60 have private insurance.
- Myopia in planning for the risk of dependency, failure to recognise the potential risks of needing care into the future, and the high cost of care are factors explaining the relatively small size of the private LTCI market in the above countries.
- Private providers, in seeking to extend the market have simplified insurance products (moving towards policies that provide fixed cash benefits) and introduced hybrid financial products, including combined life and long LTCI cover. In France, for example, around 150 000 individuals have LTCI coverage as part of their life insurance policy.

Reverse mortgages as a post retirement solution is a small but growing market

- Deloitte Study as at 31 Dec 2011
- The reverse mortgage market in Australia consisted of approximately 42,000 reverse mortgage facilities
- Total outstanding funding of $3.3 billion.
- 10% growth in the value of new lending over the 12 months from 31 December 2010 and 22.5% growth in the last 24 months.
- 5,000 new borrowers accessing the equity in their homes in 2011 with settlements worth $317m.
- Average size of each loan is $79k.
- The majority of equity release customers (50%) are couples between 70-75 years old who have accumulated wealth through home ownership. They mainly use their released funds to undertake home improvements (18%), repay debts (16%) and supplement their retirement income (15%) following a decision to 'stay at home' during their retirement.

	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09	Dec - 10	Dec - 11
Market size	$0.9b	$1.5b	$2.0b	$2.5b	$2.7b	$3.0b	$3.32b
Number of loans	16,584	27,898	33,741	37,530	38,788	41,600	42,410
Average loan size	$51,148	$54,233	$60,000	$66,150	$69,896	$72,474	$78,249
Settlements	$315m	$520m	$466m	$321m	$264m	$322m	$317m
Facility (settlements)	$519m	$714m	$627m	$426m	$367m	$449m	$426m
Additional drawdowns	n/a	n/a	$125m	$116m	$126m	$131m	$135m
Discharges	n/a	n/a	$203m	$253m	$309m	$354m	$338m

Key takeaways

Life Insurance

- We have a vibrant and growing life insurance industry with 3 primary distribution channels.
- Competition is strong and this is causing profit pressures in several segments.
- Reinsurers play an important role in the industry but there are far fewer reinsurers than insurers.

Superannuation – pre and post retirement

- The superannuation and life insurance segments retain a strong linkage with superannuation emerging as the largest funder of life insurance premiums
- The superannuation sector continues to grow strongly underpinned by mandatory superannuation
- SMSFs have grown materially in the recent past but recent contribution caps may curb their growth. Industry funds and retail funds may now grow faster than SMSF and corporate super funds.
- The post retirement segment of the wealth industry and the interplay with aged care will be an emerging sector of focus for planners and manufacturers in the next decade.