



Institute
and Faculty
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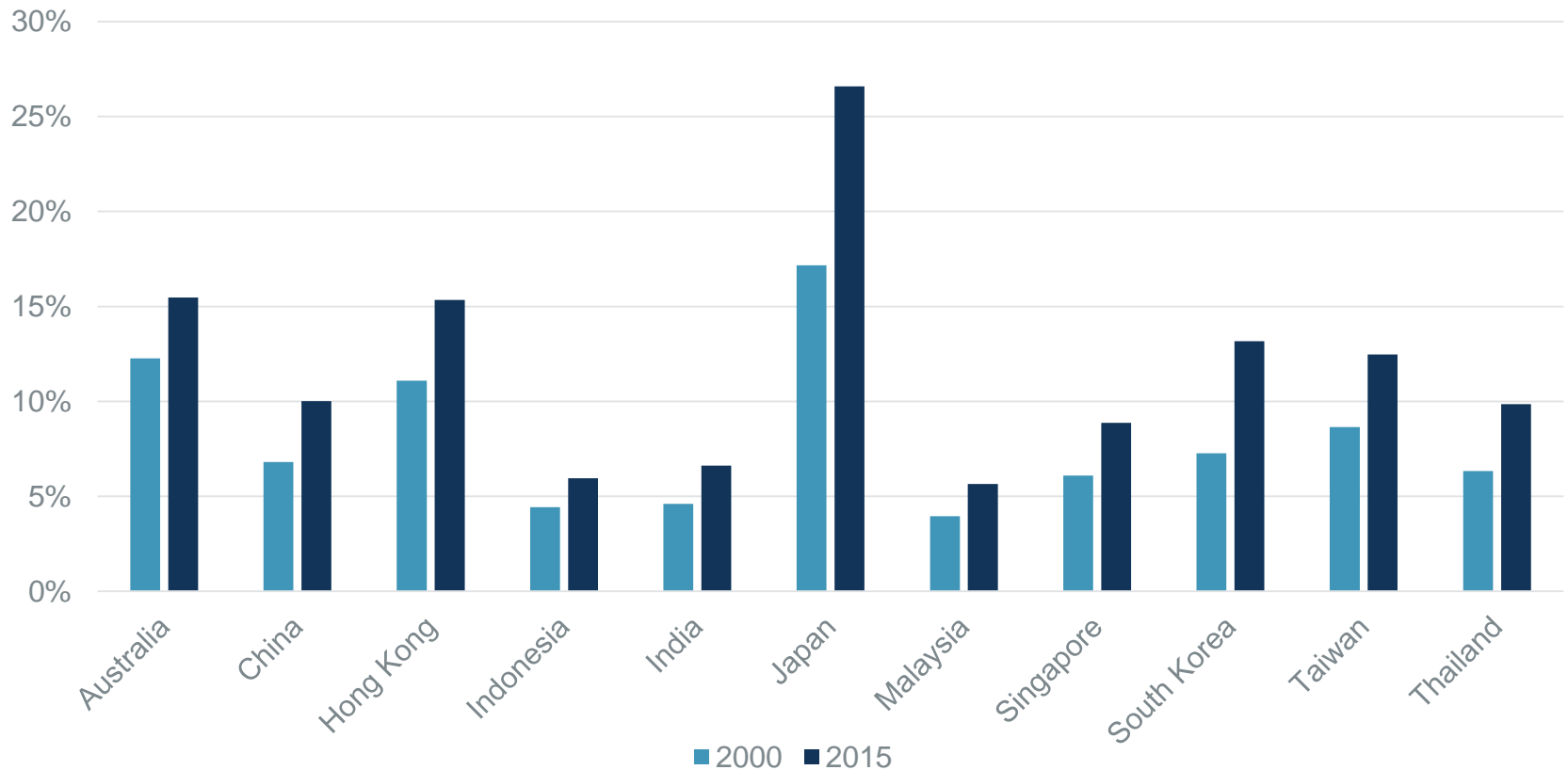


B1: Challenges and Opportunities in the Asian Retirement Space

Richard Holloway and Wade Matterson

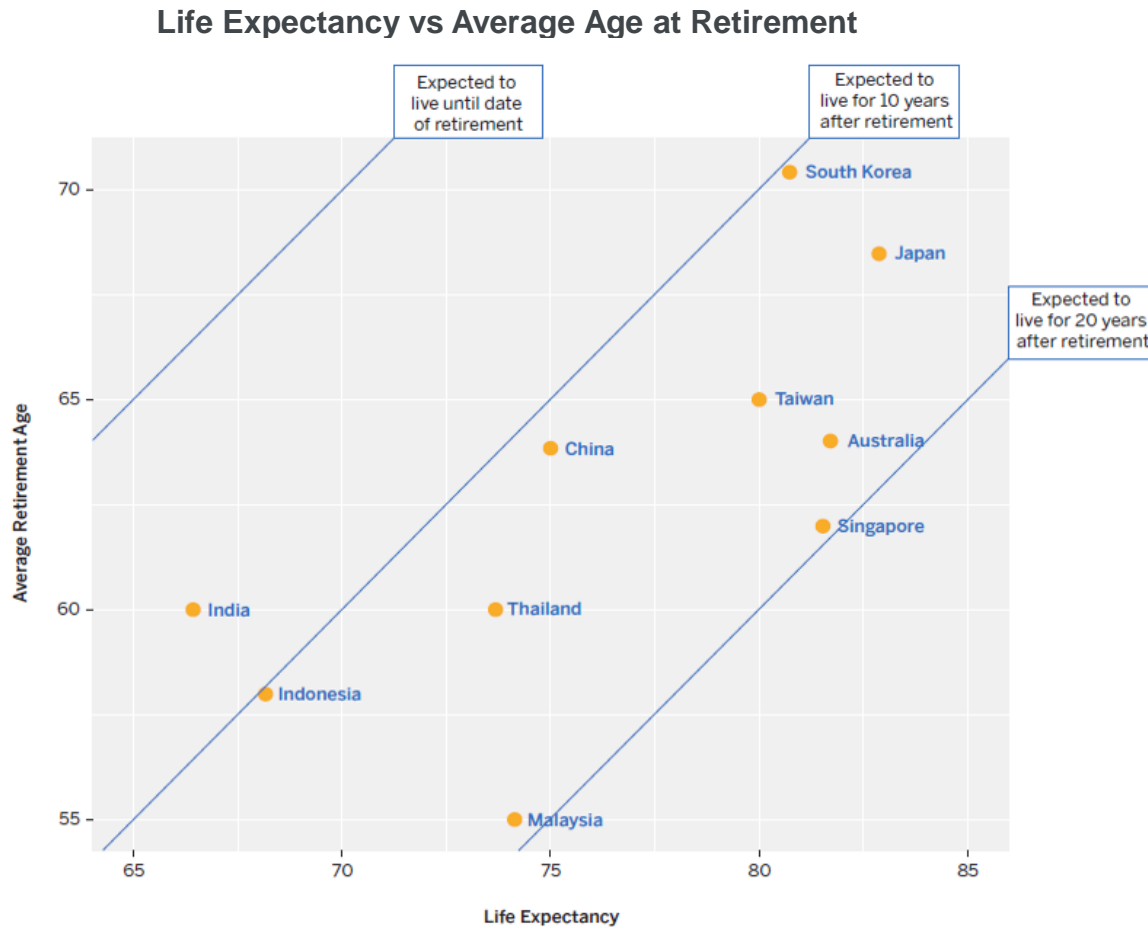
Retirement populations across Asia are growing

Proportion of population above age 65 by country and year



Source: US Census Bureau

Funding longevity an increasing issue for Asia



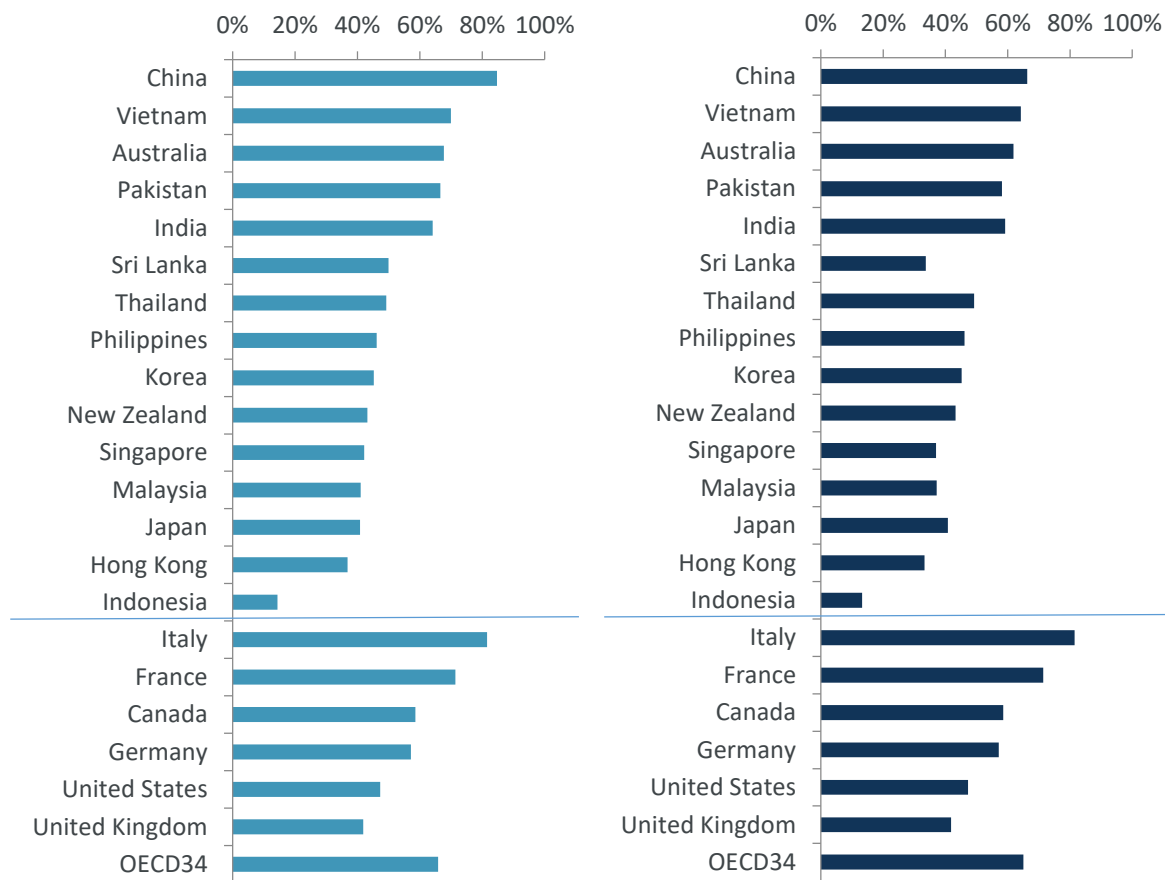
Sources: World Bank, OECD

- A tendency to look at the average future lifetime after retirement.
- A need to look at the distribution of future lifetime and the impact on retirement provision.
- Life expectancy also increasing, in some countries dramatically. World Bank cites that Asia ageing faster than any other region in the world.

Funding longevity an increasing issue for Asia

Average Male Net Replacement Rate

Average Female Net Replacement Rate

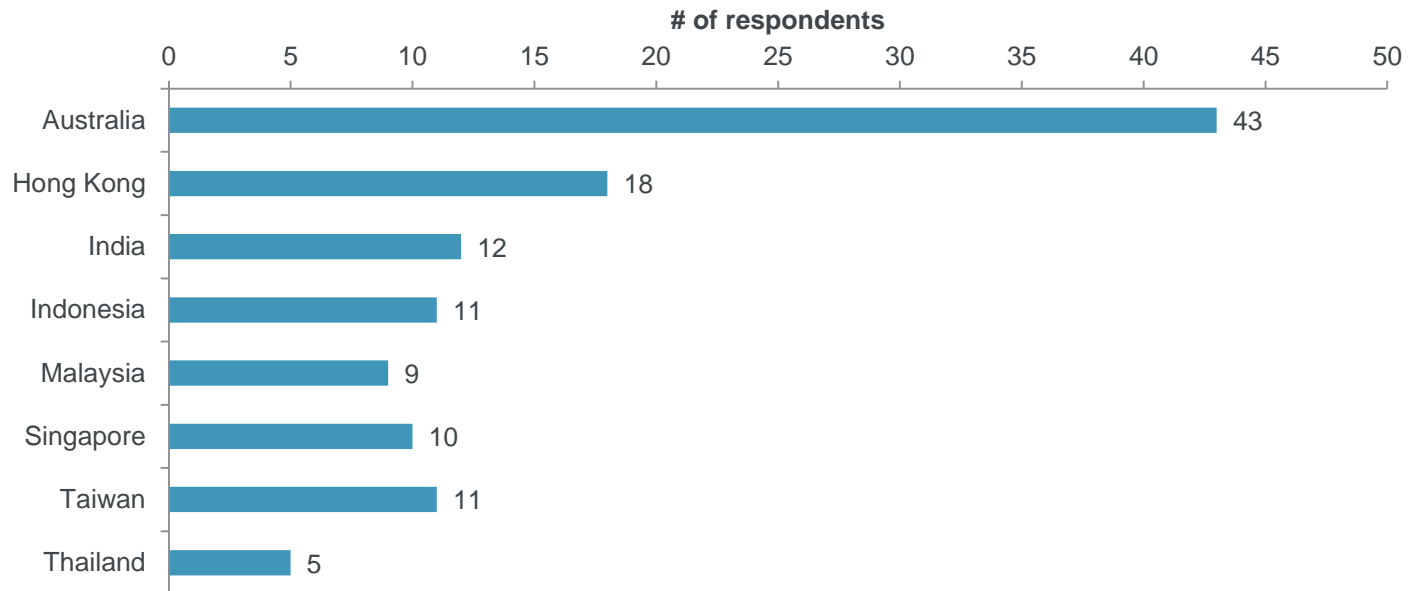


Source: OECD

- Net Replacement Rate (“NRR”) is defined as the ratio of pension income over the average life time earnings of the individual, net of individual taxation. Rule of thumb is for the NRR to be 60-70% of preretirement income.
- NRR for Asian countries are visibly lower than more developed countries and for some lower than the OECD34 average.
- A sense that many systems are ‘unsustainable’ (e.g. a combination of generous benefits, low contribution, ageing populations, low retirement ages, lack of enforceability etc.).

Asia Retirement Survey

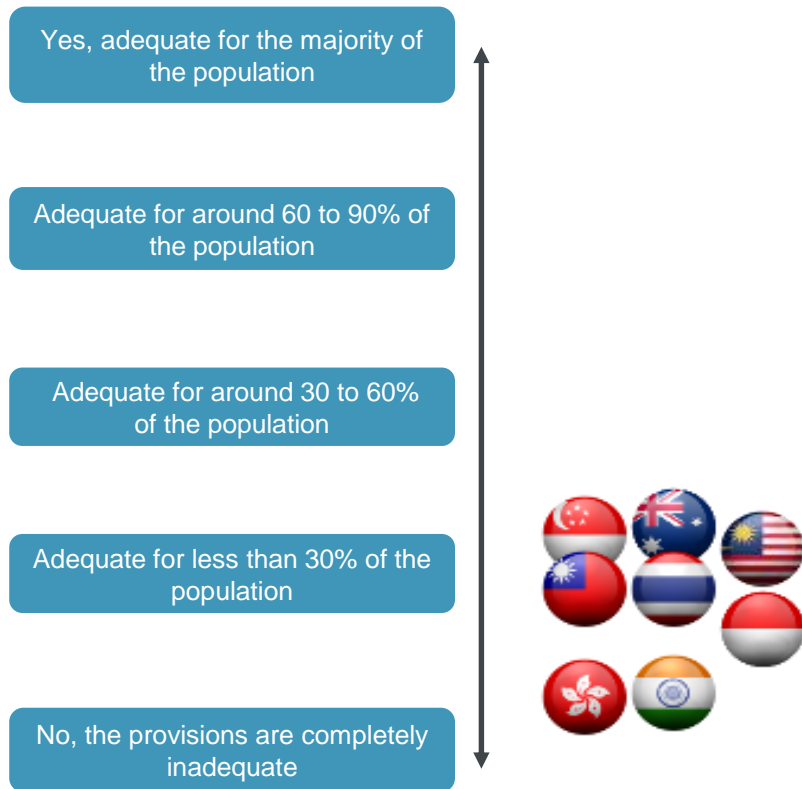
- Milliman conducted a comprehensive survey of over 100 insurance companies and financial institutions across Asia. The demographics are as follows:



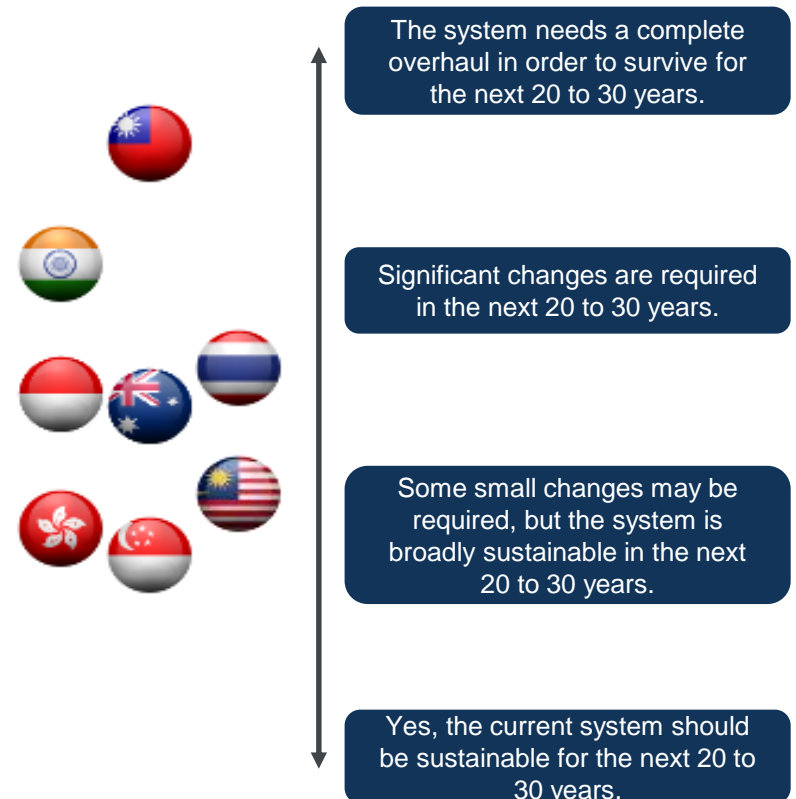
Source: Milliman Asia Retirement Survey

Asia Survey Findings

Q: 'Are the retirement income provisions adequate?'

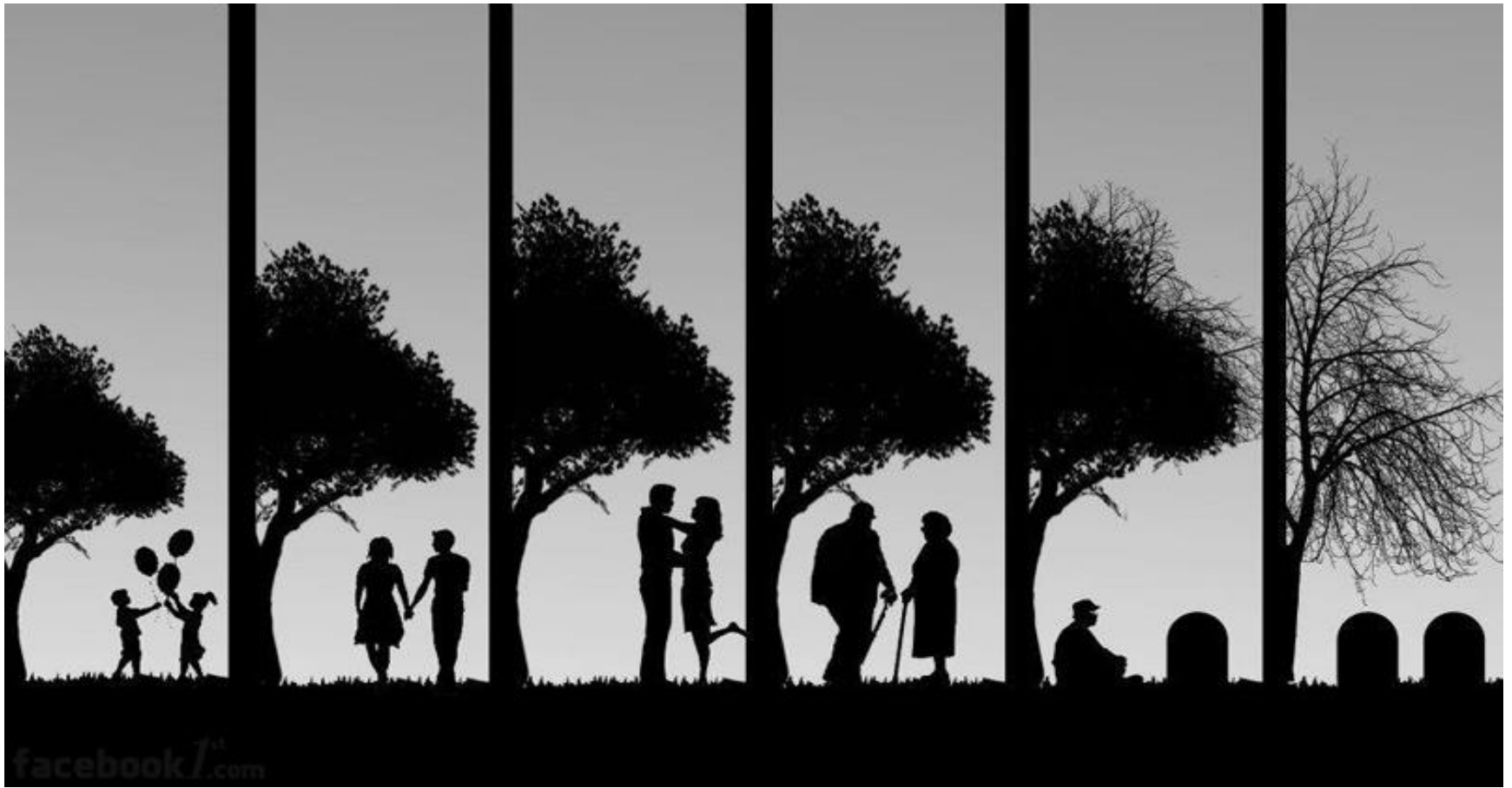


Q: 'Is the retirement system sustainable?'



Source: Milliman Asia Retirement Survey results, using weighted average

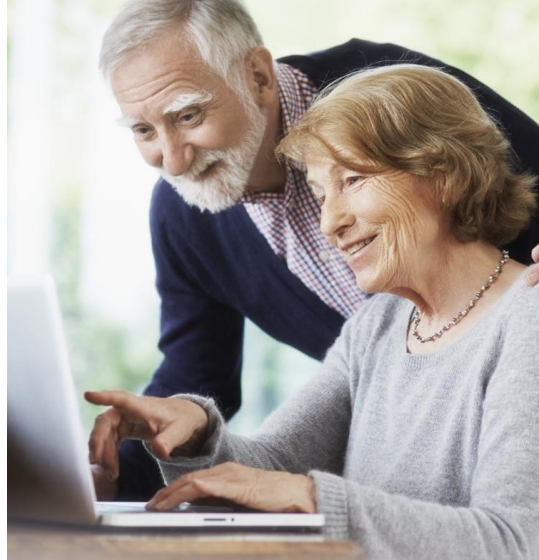
Life, a perpetual state of transition...



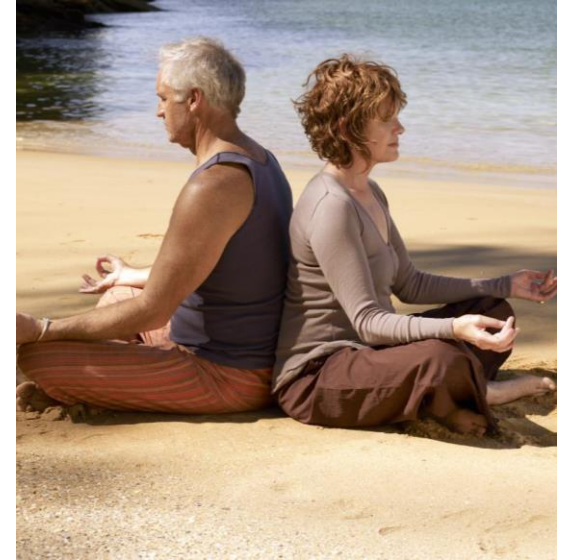
Empowering clients to achieve their lifestyle goals



Confidently



Conveniently

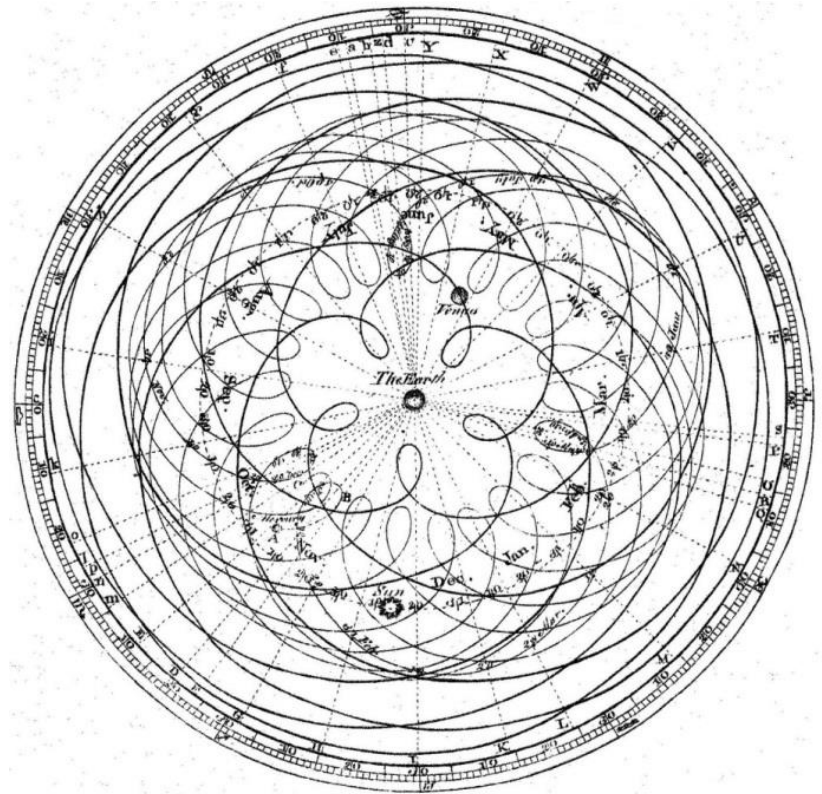


Without Worry

Realignment required

Current business models have evolved based on an environment that is now under threat:

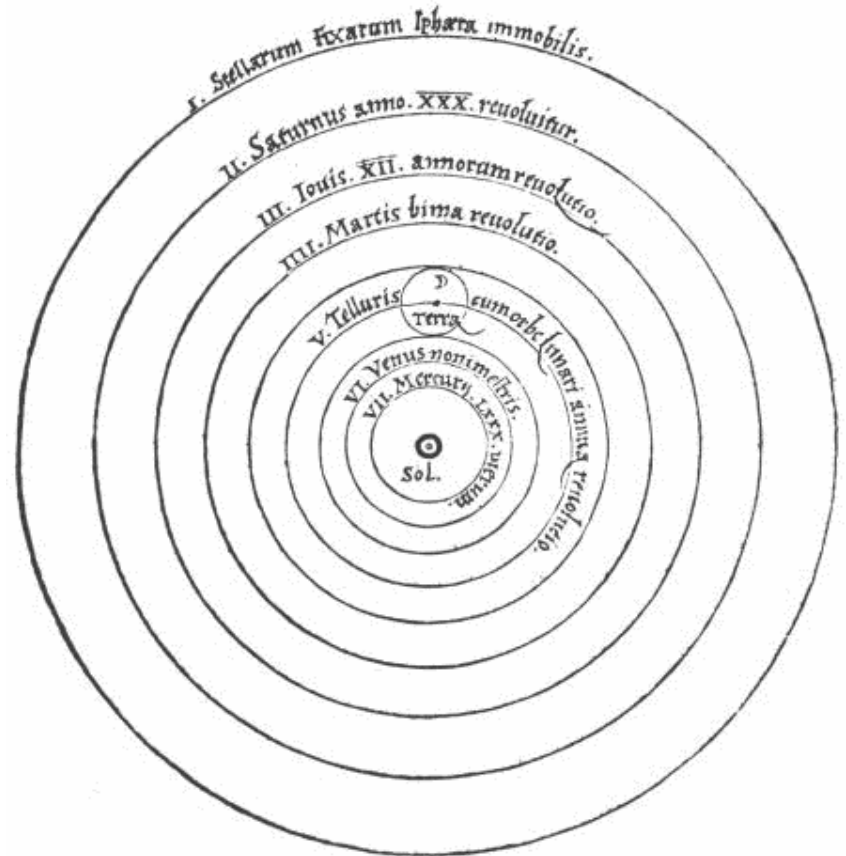
- Accumulation focus
- High levels of disengagement
- Conflicted & commission led advice practices
- Communications and marketing approaches based on product centric business models
- Limited use of technology



Business in the “Age of You”

To truly become a member centric business, pension funds (and life insurance companies) need to become a valued partner:

- Laser focus on member goals
- More sophisticated member segmentation
- Tailored communications, investment strategies & product solutions
- Interactive & on-demand content
- Engagement & education in a format fit for various segments
- Access to advice & support services
- Increasing focus on technology & best of breed business models



Otherwise...



Developing robust retirement solutions is a three legged stool



- Product Toolkit
- Analytics, Advice & Education
- Data & Personalisation / Tailoring
- Covered with a sturdy layer of engagement & ongoing communication

Asia Survey Findings: Product Development

- Investment-linked products

- Australia: 14%
- Others: 71%

- Annuity products

- Average 36%
- Insignificant for Indonesia and Malaysia

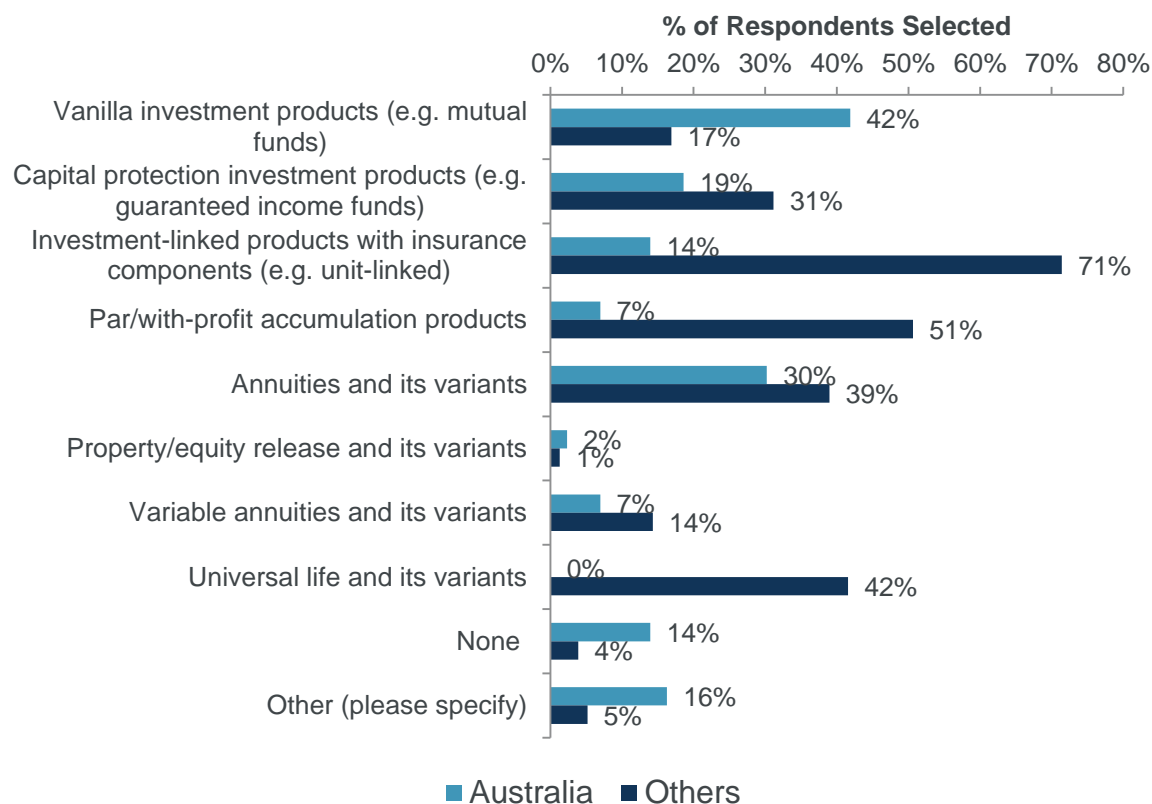
- Universal Life

- Hong Kong (61%), Singapore (60%) and Taiwan (45%)
- Virtually none in other countries

- Equity release

- Average 2%

Q: ‘What products is your company developing for your country’s retirement market?’



Source: Milliman Asia Retirement Survey

Risk management rather than return management?

Retirement outcomes for retirees are driven by the presence of risks, including:

- Adequacy
- Behaviour
- Market
- Inflation
- Longevity
- Liquidity



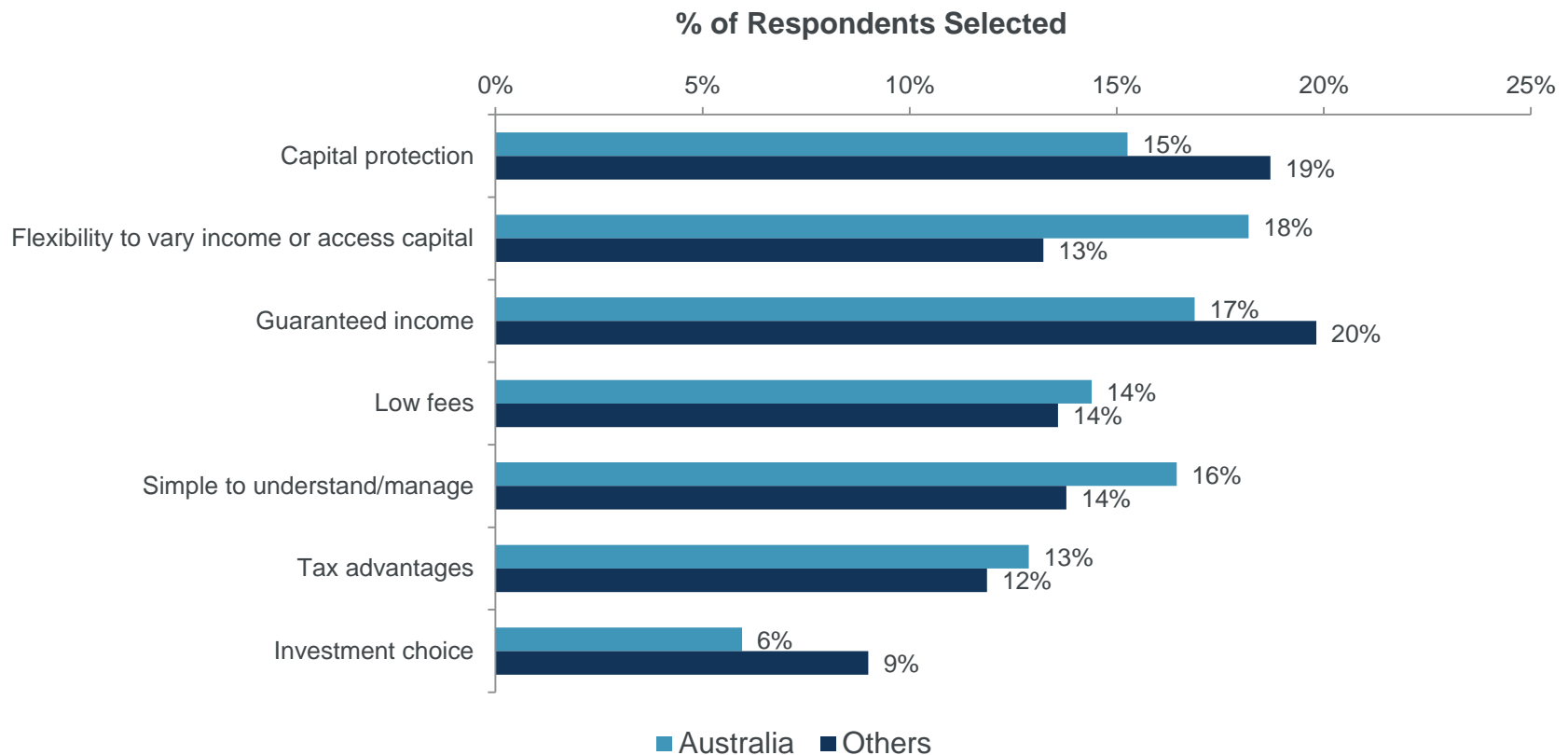
Must begin with a deep understanding of pension dynamics



- Government guaranteed
- Indexed
- Lifetime income
- Means tested
- Subject to regulatory risk

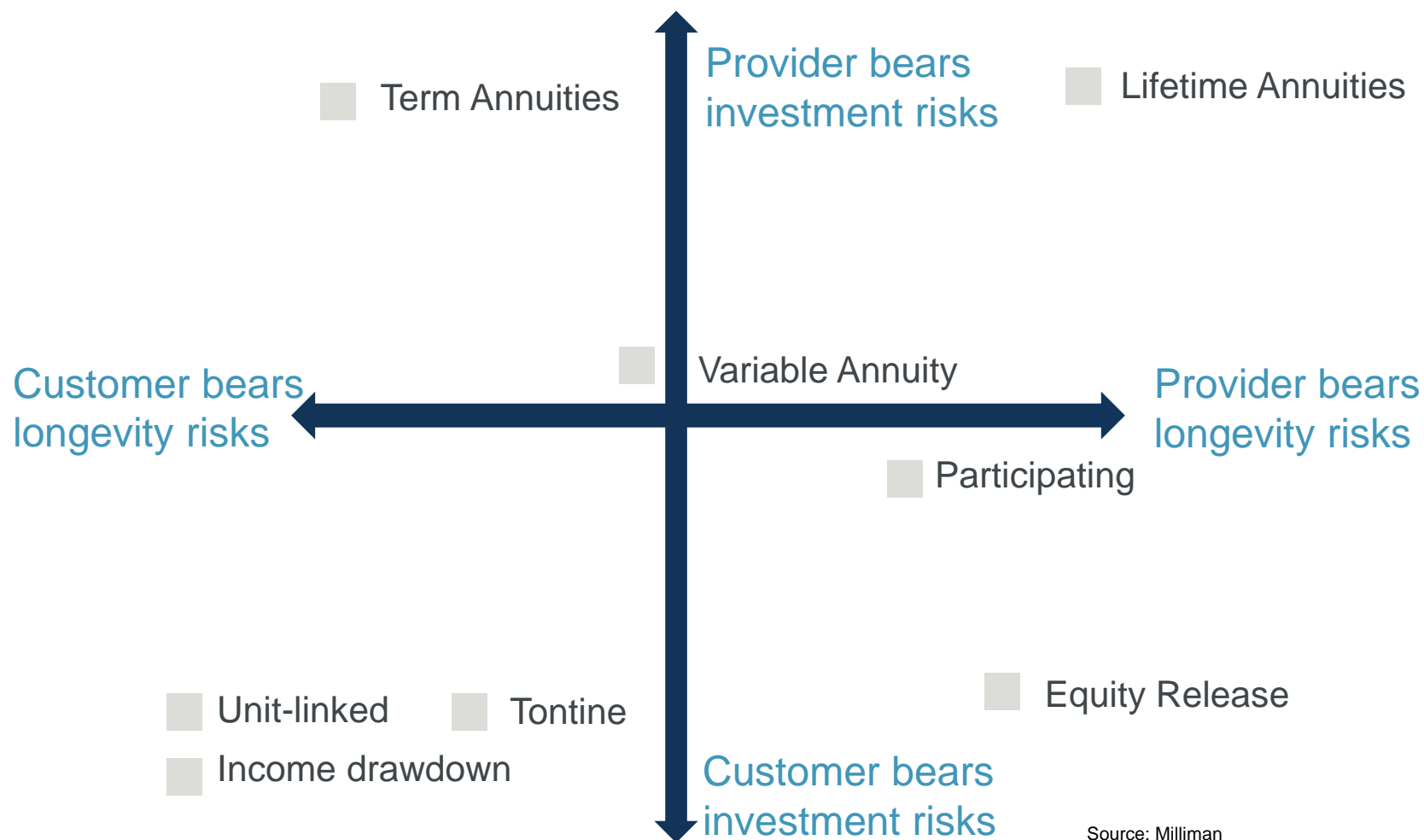
Asia Survey Findings

Q: 'What are the most important features in a retirement income product for the consumer?'



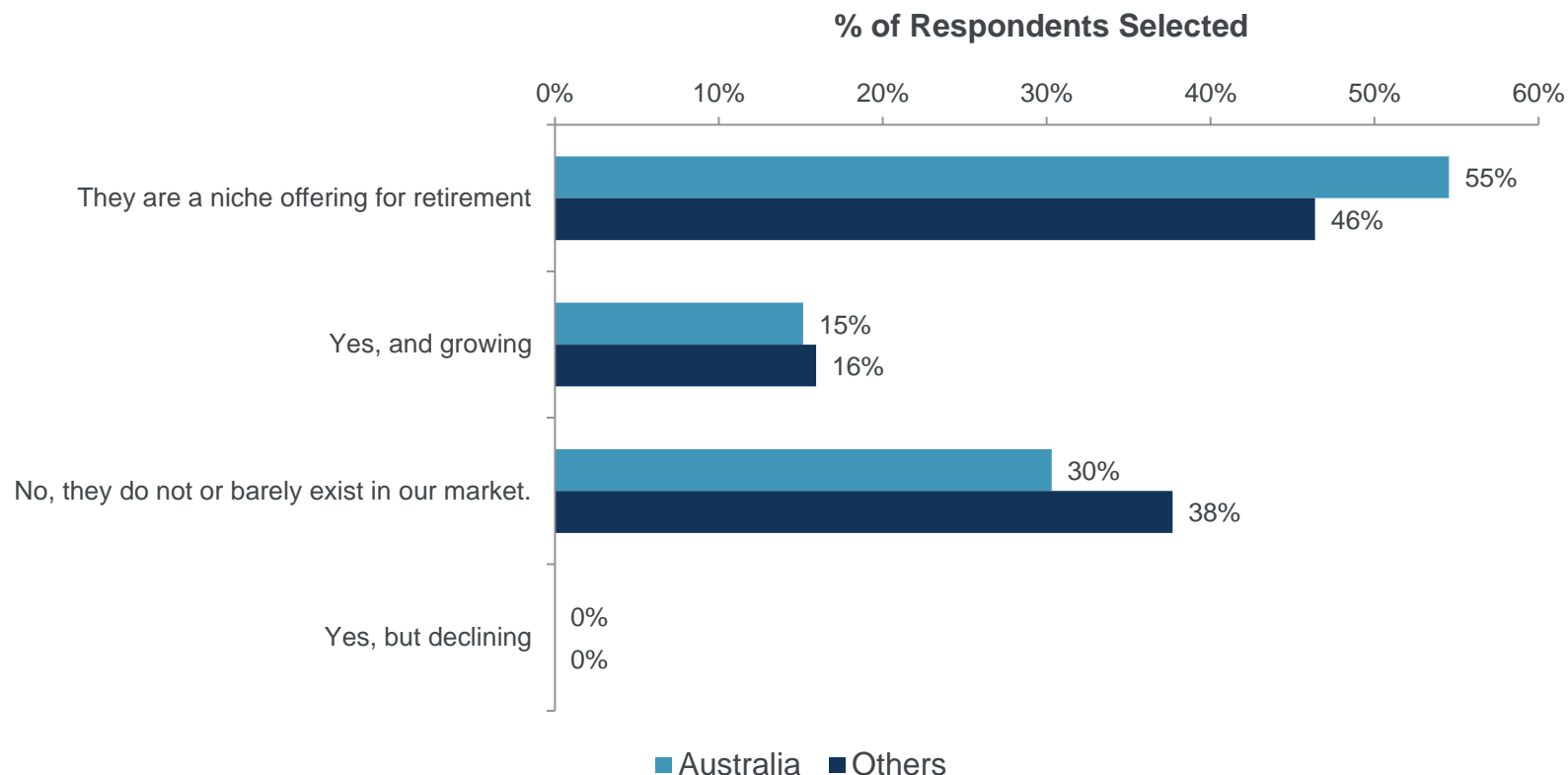
Source: Milliman Asia Retirement Survey

Product Considerations



Product Considerations

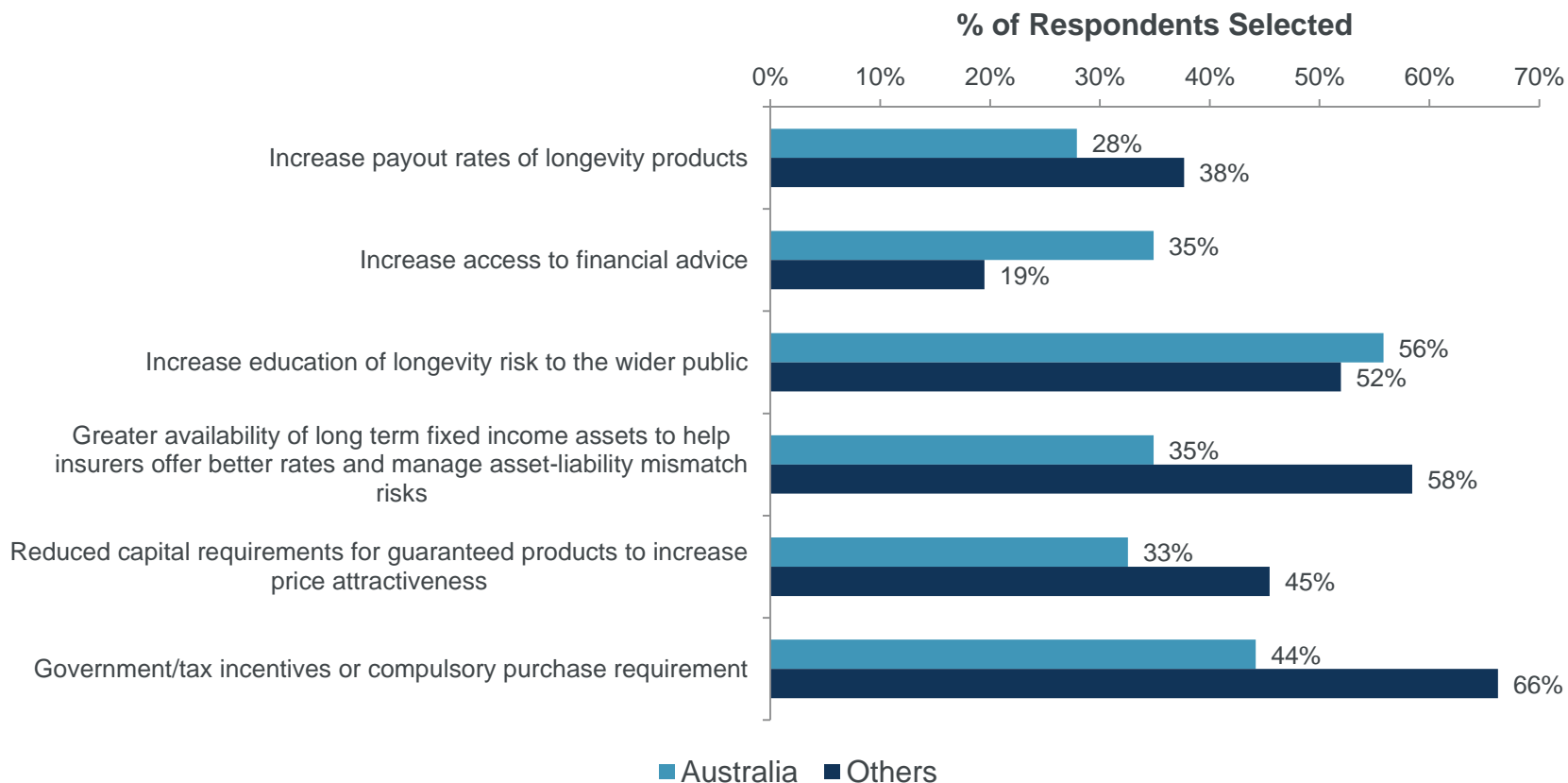
Q: 'Are guaranteed income products (e.g. annuities) successful?'



Source: Milliman Asia Retirement Survey

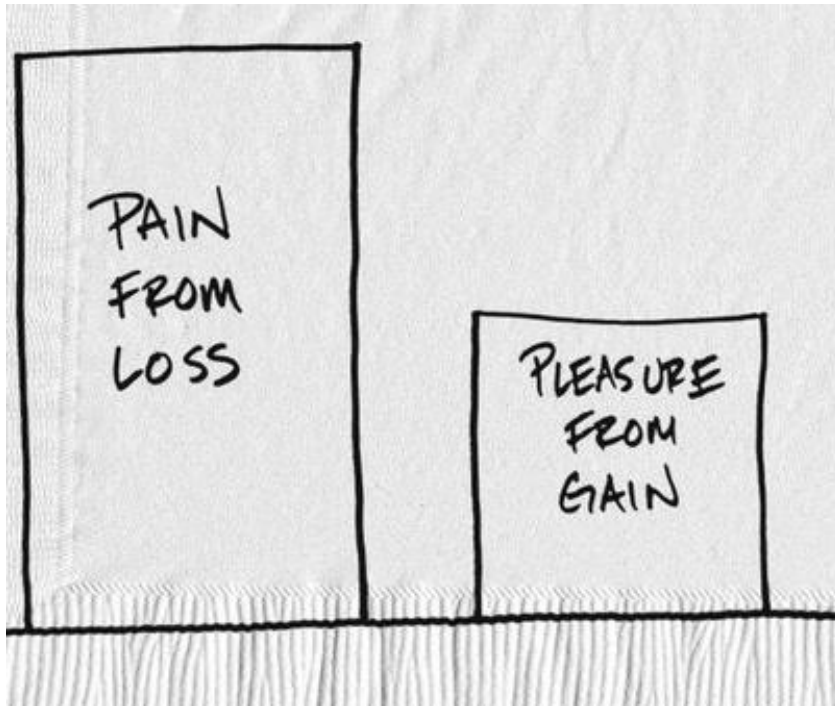
Product Considerations

Q: 'What needs to be done to increase the uptake of longevity products?'

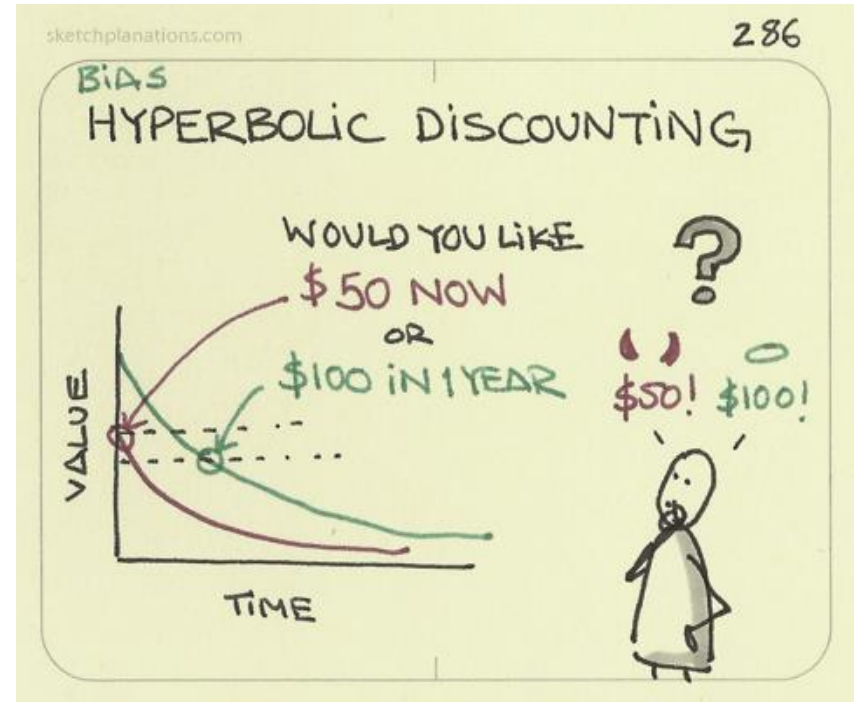


Source: Milliman Asia Retirement Survey

The push & pull factors of retirement behaviour



Loss Aversion



Hyperbolic Discounting

Retirement Products & Services for Individuals

- Term deposits
- Capital protection and risk management solutions
- Annuities & longevity products
- Wider array of ancillary services



Get on board for a smoother ride

Most members choose an investment strategy designed to deliver an expected level of investment growth for their super, but all too often they go off-course during periods of volatility and switch to lower-risk investment options that don't support long-term savings goals.

Maritime Super aims to provide members with opportunities for long-term investment growth to help deliver financial freedom in retirement. To offer you flexibility and choice when it comes to investing your super, we offer a range of investment options, both diversified and sector options. Our range of investment options allow for the fact that members have different investment objectives, risk tolerances and return expectations.

Introducing an optional new feature in our Growth and Balanced options

To help members with less tolerance to market volatility, we've developed an optional new feature to be available in our Growth and Balanced investment options that aims to provide a smoother investment journey during periods of extreme volatility.

It's called the "Managed Volatility Process" (MVP), and you can add it to either the Growth or Balanced option from 1 July 2014. The underlying investments of the Growth and Balanced option are still the same, but the MVP is an overlay that places more emphasis on managing volatility. The aim is to reduce the severity of return fluctuations, be it positive or negative.

The Managed Volatility Process aims to:

- provide a smoother investment experience by reducing the impacts of extreme market volatility
- protect your super balance by cushioning falls in the market
- improve the potential for consistent investment growth

It's important to note that, while the MVP can reduce the impact of downside risk, it can also reduce the height of upside results. All investments carry a degree of risk, and risk can never be completely eliminated without giving up some potential return. The MVP is designed to more actively manage risk during periods of market volatility. This process incurs an additional management cost of 0.25% pa on amounts invested in an MVP option.

If you want to protect against extremes in your investment journey, you may wish to explore this opportunity in the Growth and Balanced options

Investment performance expectations

The investment strategy under the MVP delivers investment returns that are less volatile in the short term. When markets are 'up' and doing very well, you may receive a comparatively lower return than the standard options. However when markets are 'down' and performing very poorly, you should not experience the extreme downside. Investment performance may even be greater in the long term where 'down' markets override 'up' markets. It's possible that investment performance may match the performance of the standard options over time, however your investment experience will be comparatively less volatile.

Avoid jumping ship!

Generally, the worst thing you can do during periods of volatility is to switch your investment option to a perceived safer option like cash. Evidence shows that investors who do so generally miss the recovery in the market and are often worse off. What they're essentially doing is jumping ship at a low price and trying to get back in at a higher price, but by this stage they've locked in significant losses.

The MVP aims to deliver a smoother investment journey, keeping your super exposed to growth cycles and cushioning the fall during market declines. For members who have less tolerance to volatility, this process provides a level of comfort while staying on course with your investment strategy.

Let's take a look at this concept. For illustration purposes only, the chart below shows an investment over a 10-year period with a standard option and an option with the MVP.



For more information or to speak with one of our financial planners, call Member Services on 1800 757 607. You can also learn more by referring to the *Investment risk, return and volatility fact sheet* available under Publications at www.maritimesuper.com.au.

Source: Maritime Super, Australia

Asia Survey Findings:

Impediments to product development

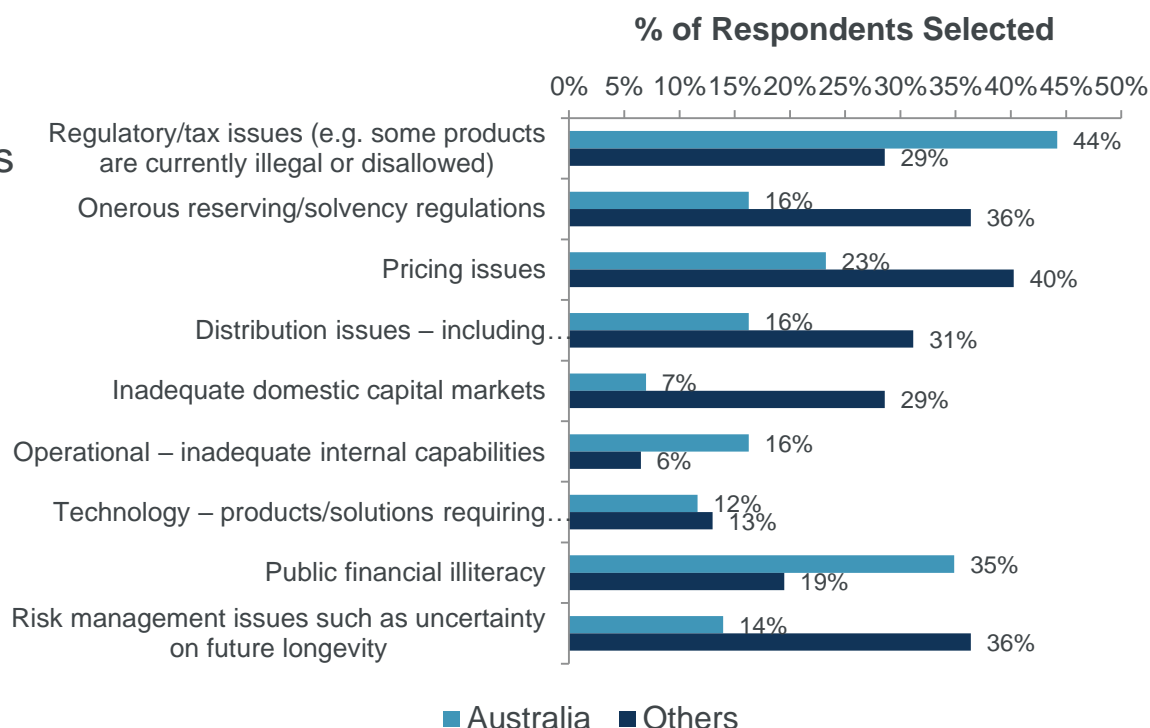
- Regulatory/tax (34%), pricing (34%), and solvency regulation issues (29%)

Q: 'What are the main impediments to your company developing retirement income products?'

- Distribution issues (26%)
 - Primarily by respondents in India, Indonesia, and Malaysia

- Inadequate capital markets (21%)

- Inadequate operational capabilities (10%) and technology issues (13%) were highlighted only by a small number of respondents



Source: Milliman Asia Retirement Survey



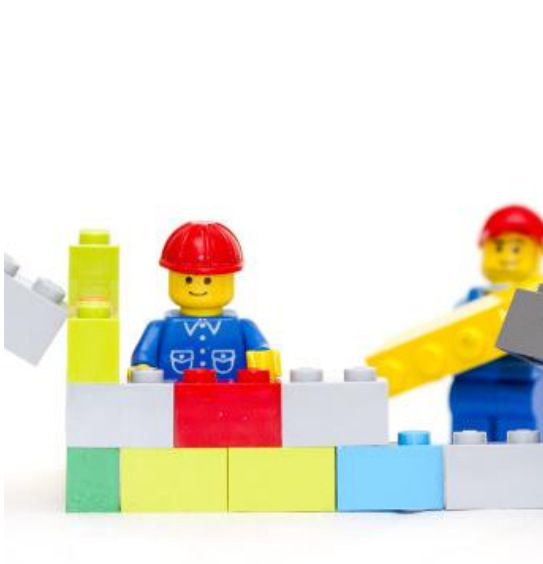
Goals...



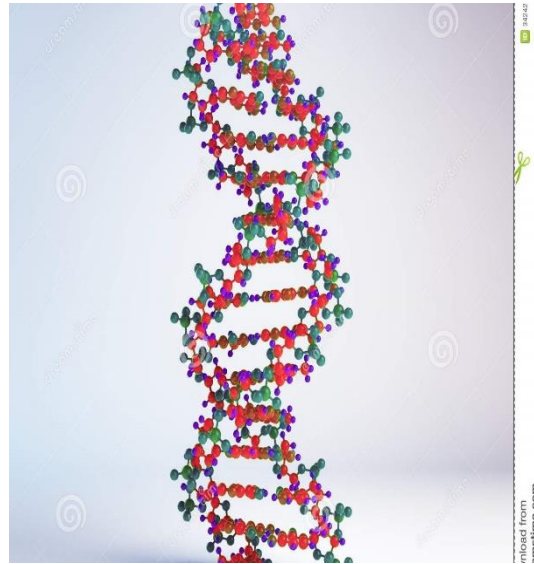
The personal financial management challenge is about balancing assets and liabilities (goals) in an uncertain world

- Traditionally, done with relatively simplistic analysis & heuristics
- Technology advancements make personal, real-time ALM analysis feasible
- This is the traditional domain of actuarial firms, such as Milliman
- However, requires range of other skills to engage members, communicate effectively, and provide confidence to act

Advice models



**Robo v1.0, 2.0,
3.0...**



Scaled



Comprehensive & holistic

Digging Deeper



- Assumption of a single income requirement for all customers is problematic
- Moving to better information on customer needs & objectives produces a very different segmentation picture
- Focus on risk of achieving outcomes

Source: Milliman analysis, ABS Household Spending Survey, ASFA Retirement Standards

Big data and open architecture systems offer truly personalised solutions

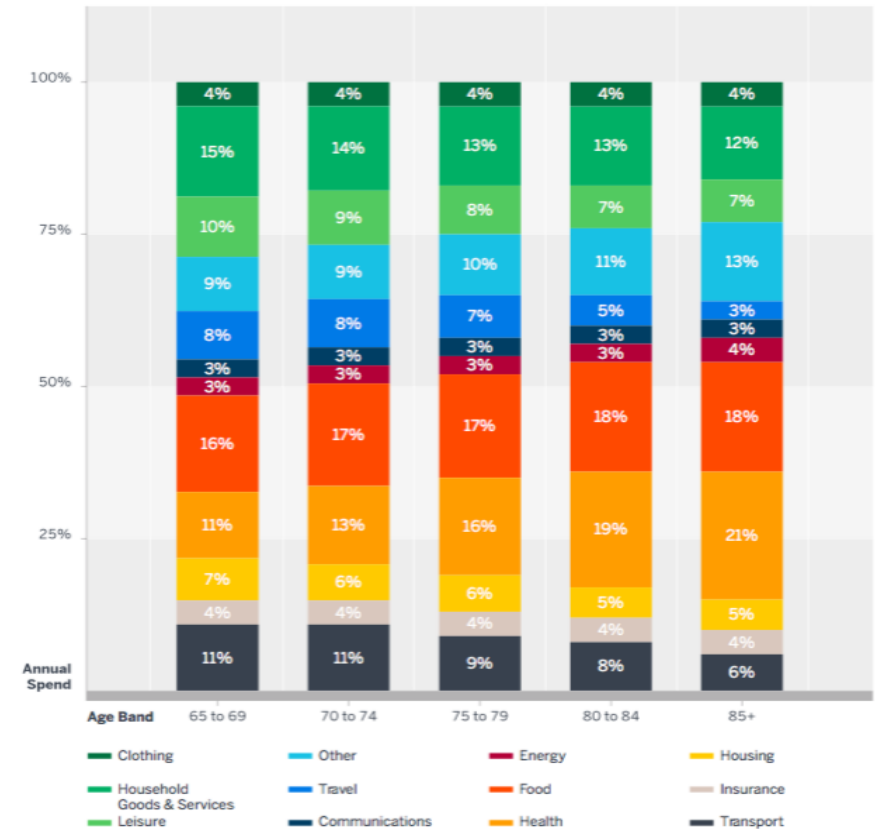
- Open data APIs & FinTech innovation
- Personal financial management software
- Organisations leveraging data or making it more accessible



Big data and open architecture systems offer truly personalised solutions

- Open data APIs & FinTech innovation
- Personal financial management software
- Organisations leveraging data or making it more accessible
- Calibrate goals and spending expectations of retirees
- Target specific solutions based on need

Composition of Spending Basket by Age



Source: Milliman Retirement: Expectations and Spending Profiles, Milliman Australia

Big data and open architecture systems offer truly personalised solutions

- Open data APIs & FinTech innovation
- Personal financial management software
- Organisations leveraging data or making it more accessible
- Calibrate goals and spending expectations of retirees
- Target specific solutions based on need
- Design portfolios & asset allocation, potentially dynamic
- Smart application of annuities for income layering approaches

Funding the 75th Percentile Spend in Detail



Source: Milliman Retirement: Expectations and Spending Profiles, Milliman Australia

Putting it together



Investment Bucket
Existing process
Manages inflation risk &
long-term returns

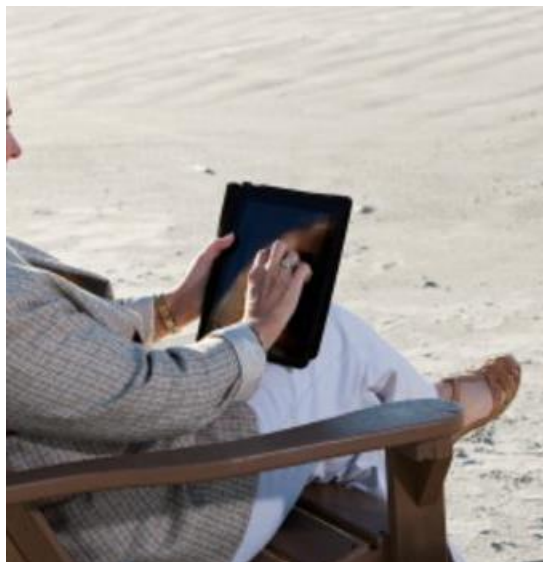


Market Risk Bucket
- Overlay to protect
against short-term
volatility & market
corrections



Longevity Risk Bucket
- Protection of long-term
income needs

Putting it together



DIFM

Intelligent default approaches can combine these elements to solve for an individual's objectives

Flexibility to target either a capital value or income



DIWM

Pre-defined models for target member segments or risk / objective profiles can be developed



DIY

Members can elect to 'opt-in' to apply these components directly to their account

A Framework

We propose a sample goals-based segmentation framework for pension funds:

- 1 Identify Membership.** Can be all members or representative sample
- 2 Define Objectives.** Must be tailored to membership. Assume or ask?
- 3 Define Solution Set.** A pragmatic, implementable and communicable universe of possible solutions
- 4 Define Success and Risk.** May differ for all funds, depending on trustee objectives and membership needs
- 5 Simulate, Measure & Segment.** Consider segmentation based on customer outcomes, not traits
- 6 Evaluate.** Sensitivity Test & Refine

NANOTAINMENT





Questions



Comments

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