

# Decumulating retirement savings: making the options work

## The rebirth of lifetime annuities in Australia – ‘like a retirement pay cheque’

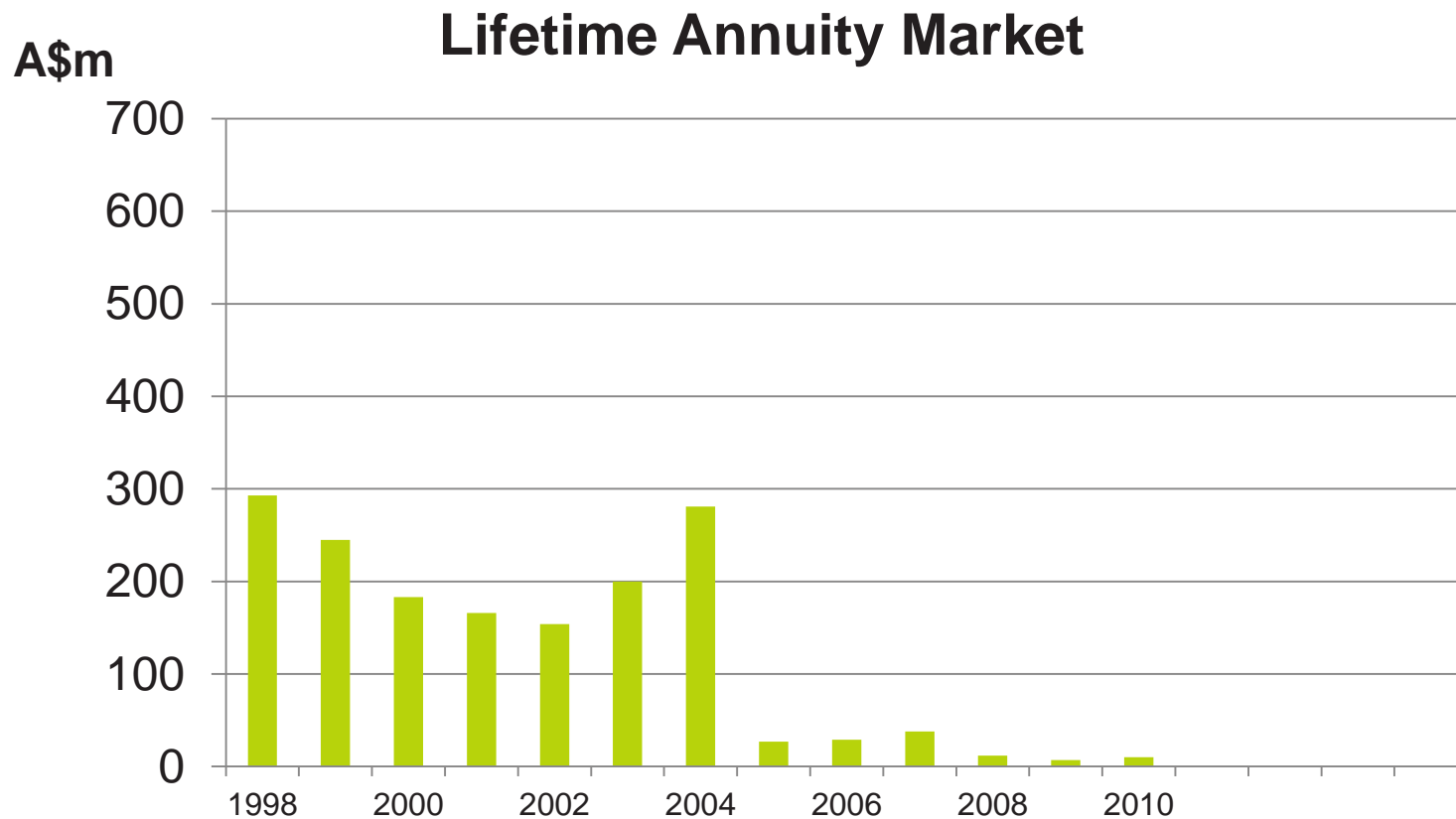
**21 November 2014**

**Jeremy Cooper**

Chairman, Retirement  
Income, Challenger

# Lifetime annuities seemed finished...

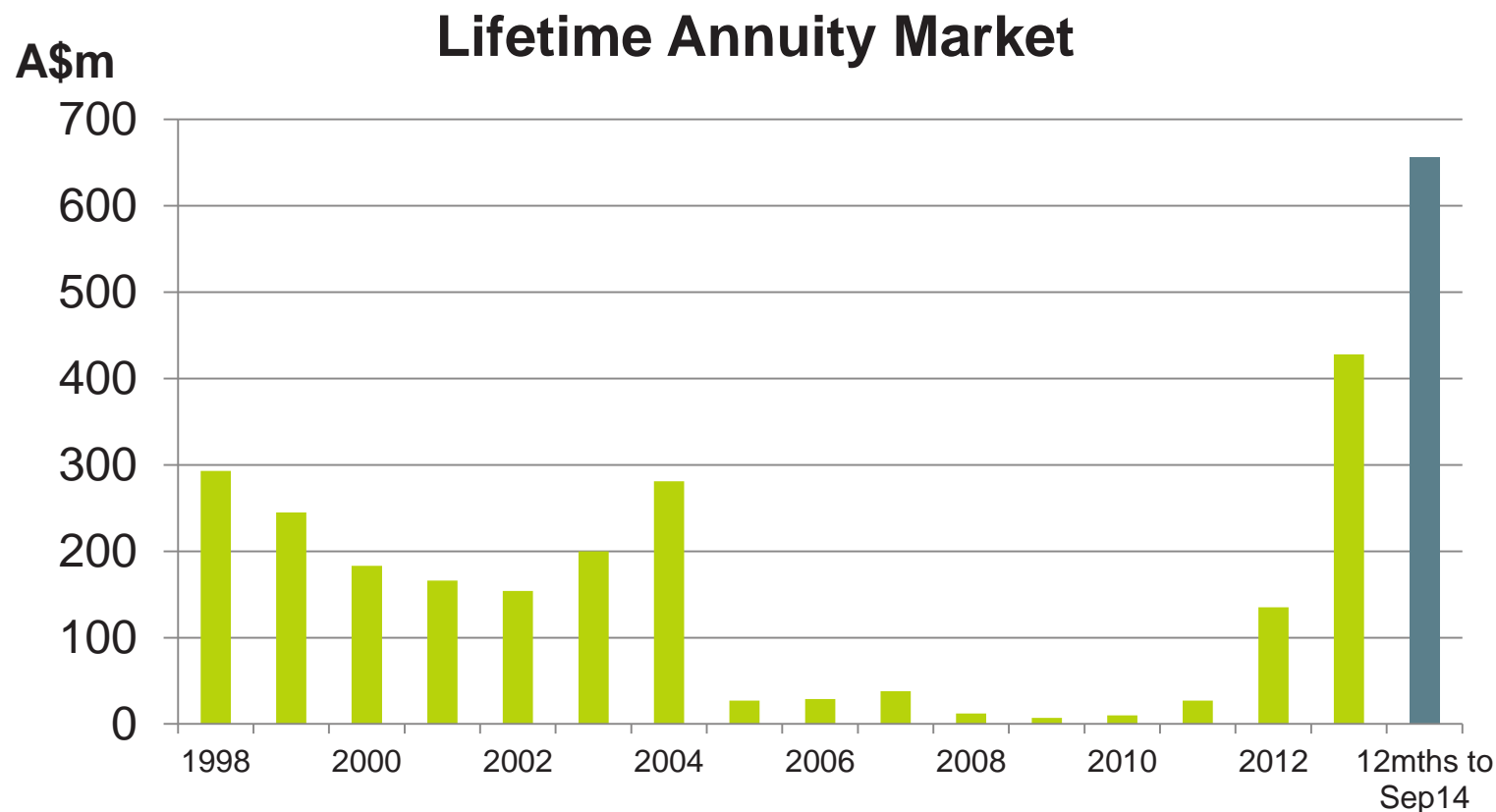
## Post-removal of complying income stream status



Source: Plan for Life

# ...until innovation reignited the market

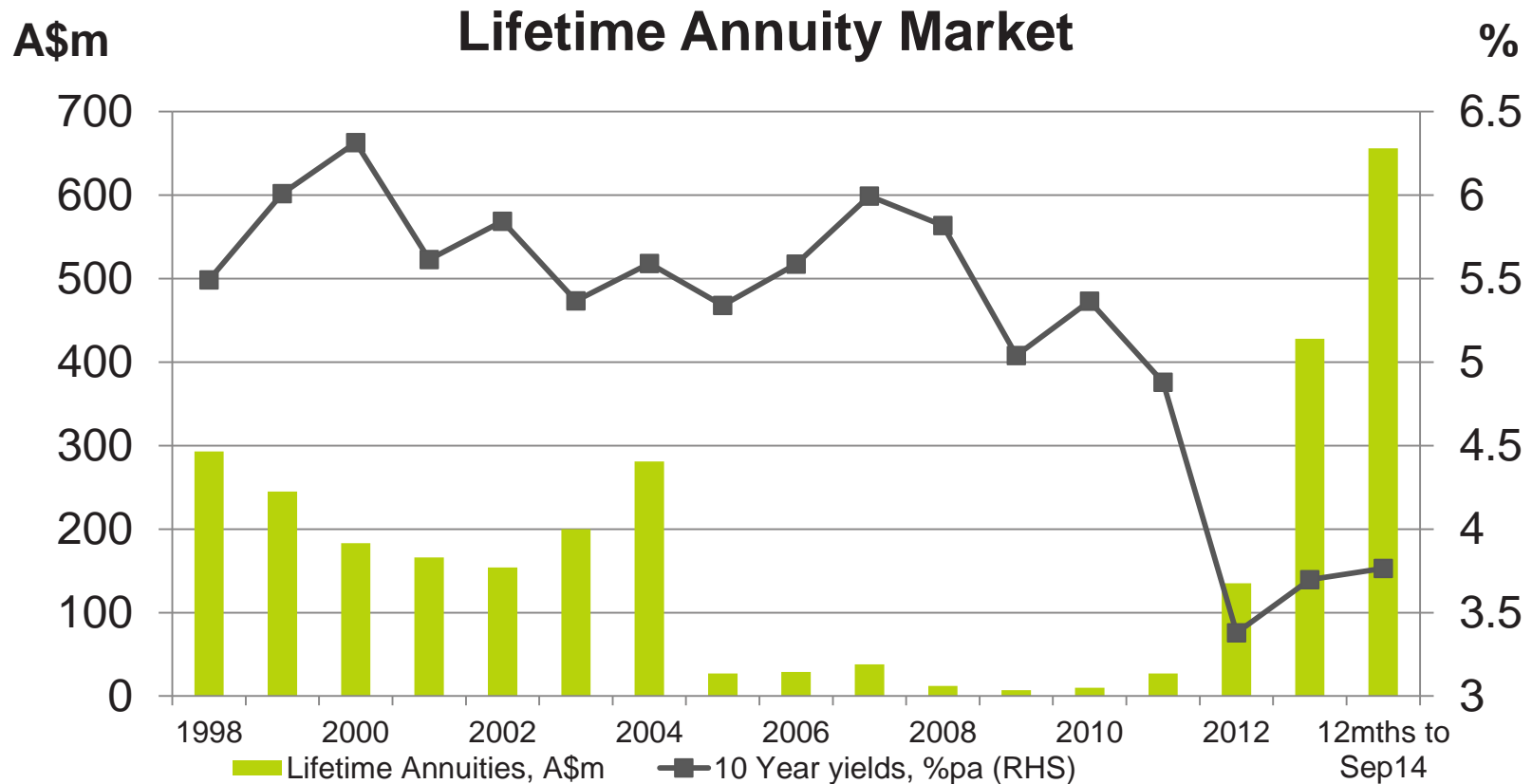
Liquid Lifetime provided access to capital



1. Source: Plan for Life

# ...and busted the 'expensive' myth

High sales growth during cyclical lows



1. Source: Plan for Life, RBA

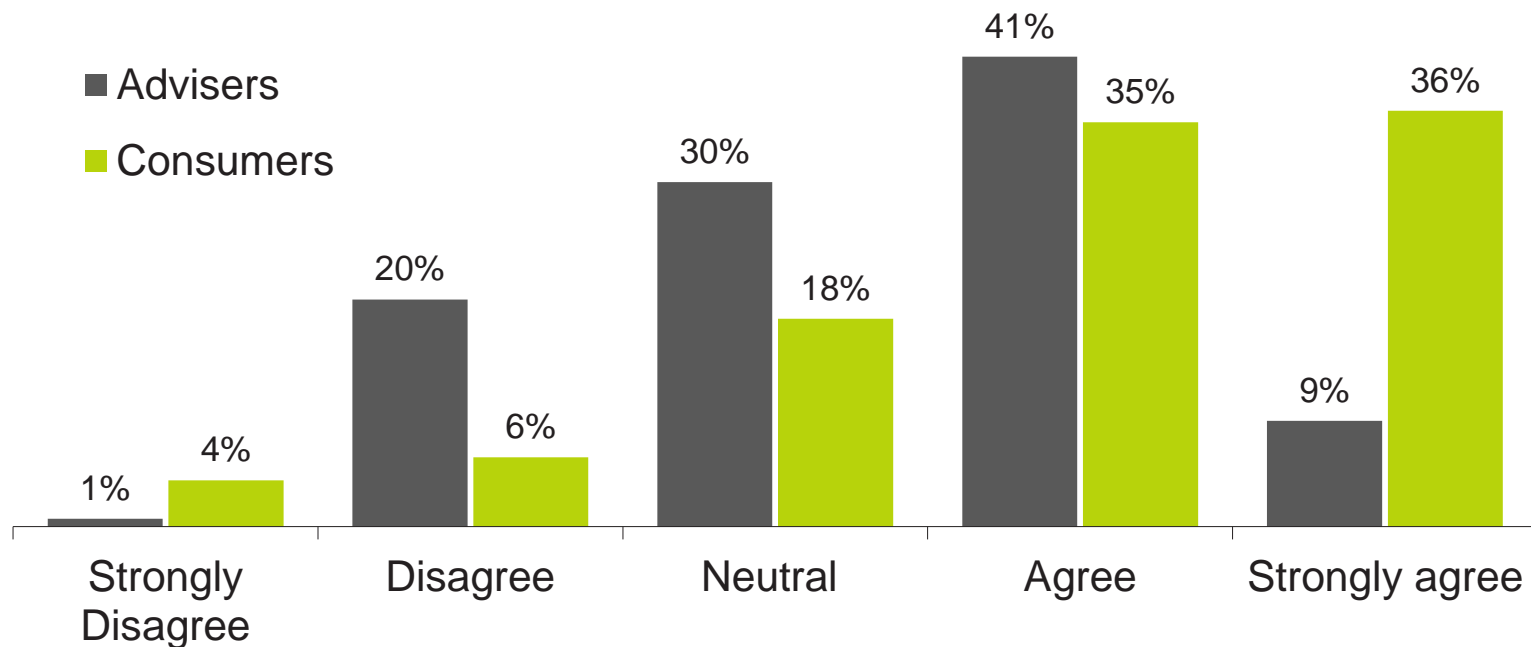
# Divergent views – not everyone agreed

## What retirees really want – capital preservation

Adviser: Retirees are mainly concerned that the value of their original investment doesn't decline

Retiree: These days I am mainly concerned that the value of my original investment does not decline

### To what degree to you agree with this statement?



Sources: Marketing Pulse Adviser study 2011 Financial planners across Australia, n=295  
Newspoll study 2011 Retired consumers aged 55-64 yrs, n=209

# ...and some disliked the traditional annuity

So we addressed 'What if I get hit by a bus tomorrow?'

- Challenger's innovation was a new annuity providing liquidity certainty
  - Liquid Lifetime offers up to 100% capital repayment in first 15 years
  - including in event of death or just the need for access to capital
  - while providing peace of mind security by protecting against retirees' longevity, market and inflation risks

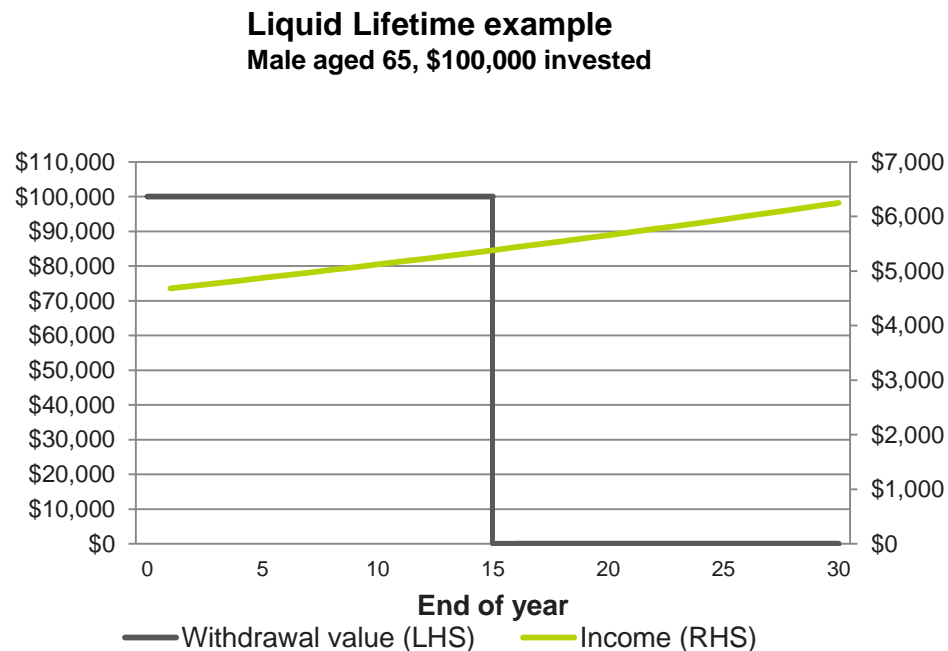
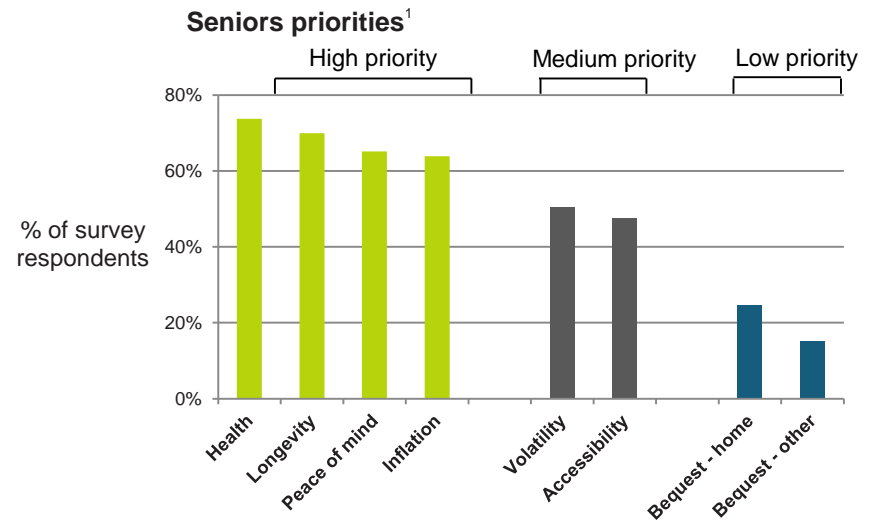


Illustration is indicative only, based on \$100,000 invested on 17 November 2014 for a single life. Male aged 65. Assumes partial indexation (change in CPI -2%). Assumes 3% inflation. Assumes yearly payments. Illustration of withdrawal value assumes no movement in interest rates from time of investment.

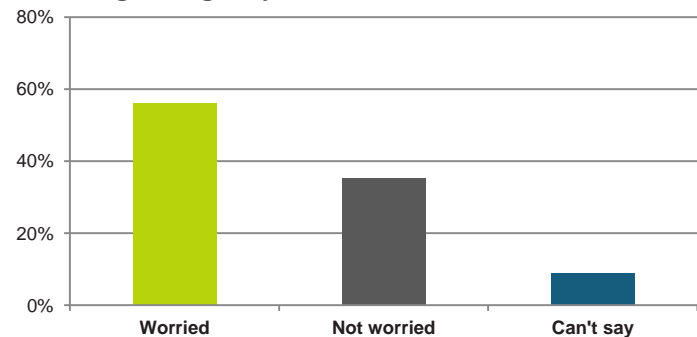
# The customer is always right

## 2013 survey reaffirmed priorities and busted myths

- National Seniors Australia survey shows retirees focused on:
  - Health
  - Longevity risk
  - Peace of mind
  - Inflation protection
- Retiree priorities mapped to annuity attributes
- Most dramatic findings related to risk aversion



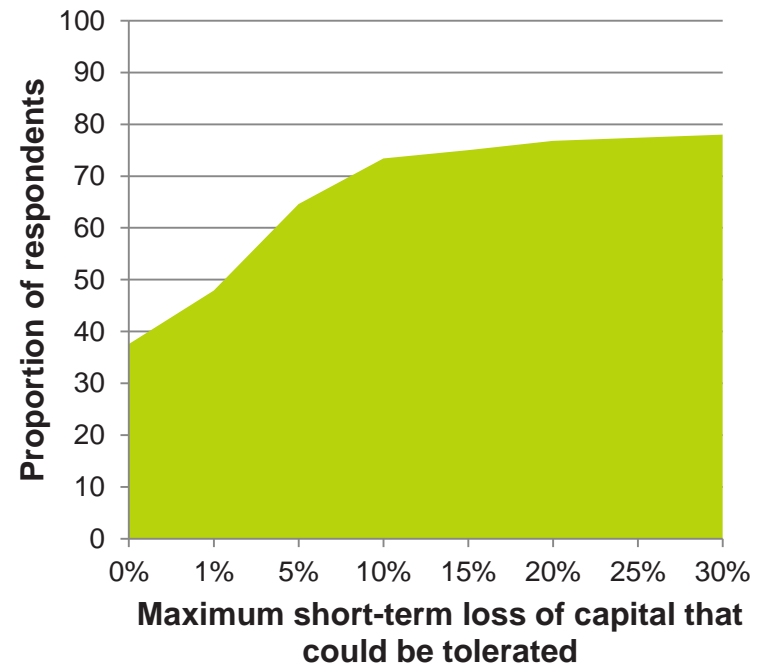
**Percentage of seniors worried about outliving their saving – longevity risk**



# The customer is always right...

And they are highly loss-averse

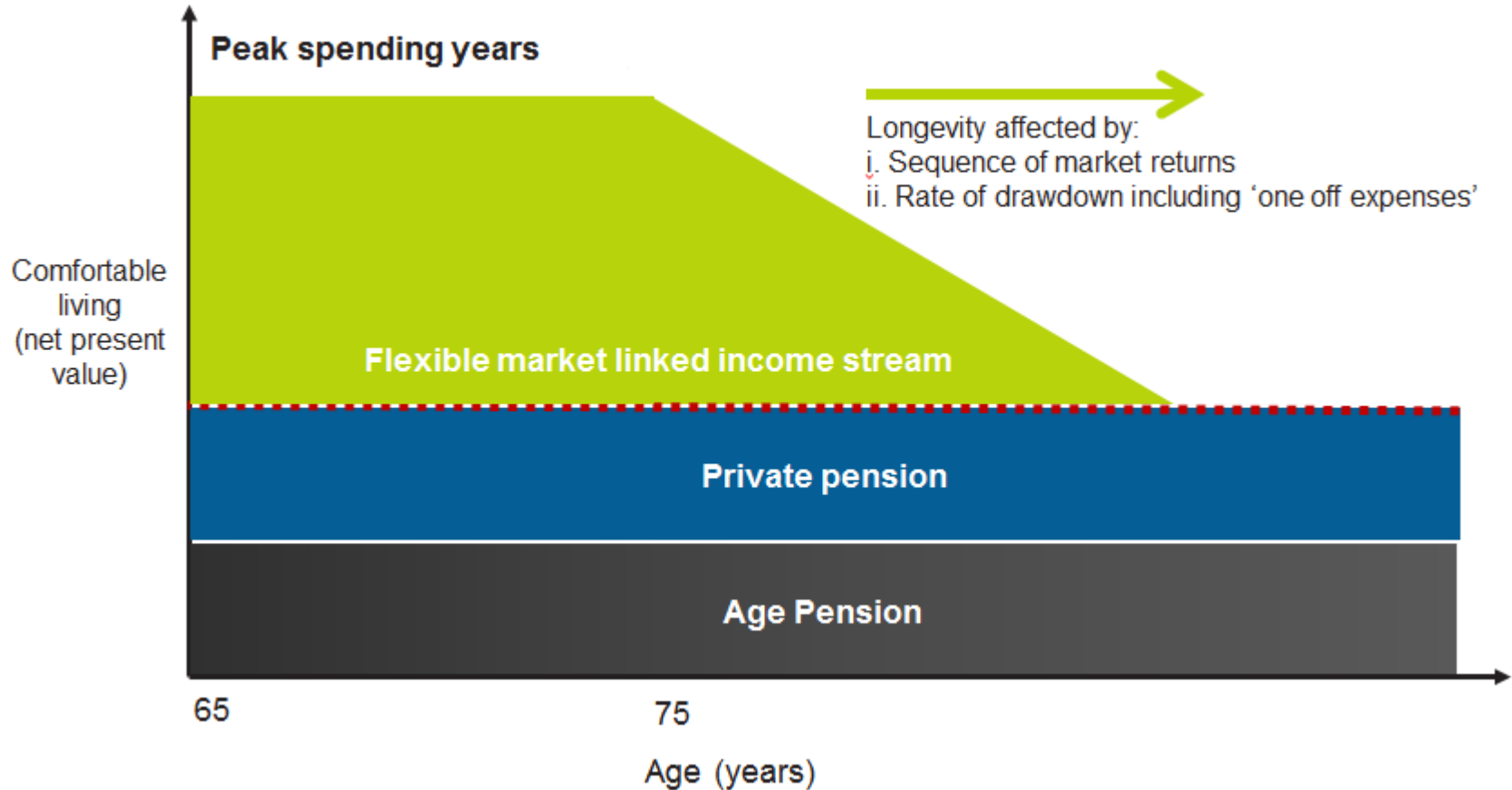
- Over 37% of over-50s say they cannot tolerate **any** losses and only 13% say they would tolerate more than 5% in any one year.





# But what would advisers think?

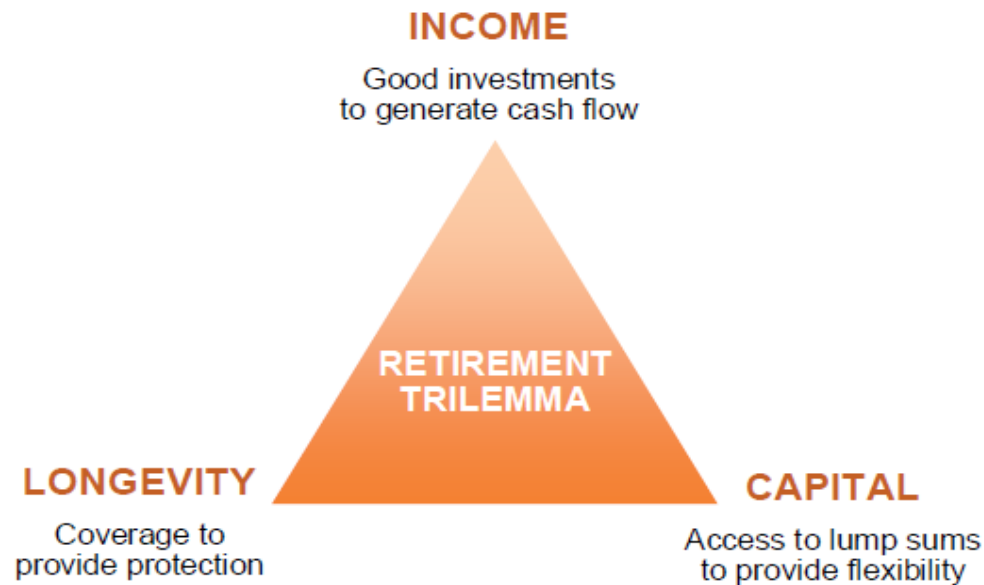
## Portfolio 'fit' crucial to adviser acceptance



# Partial annuitisation

## Independent validation of role in portfolio construction

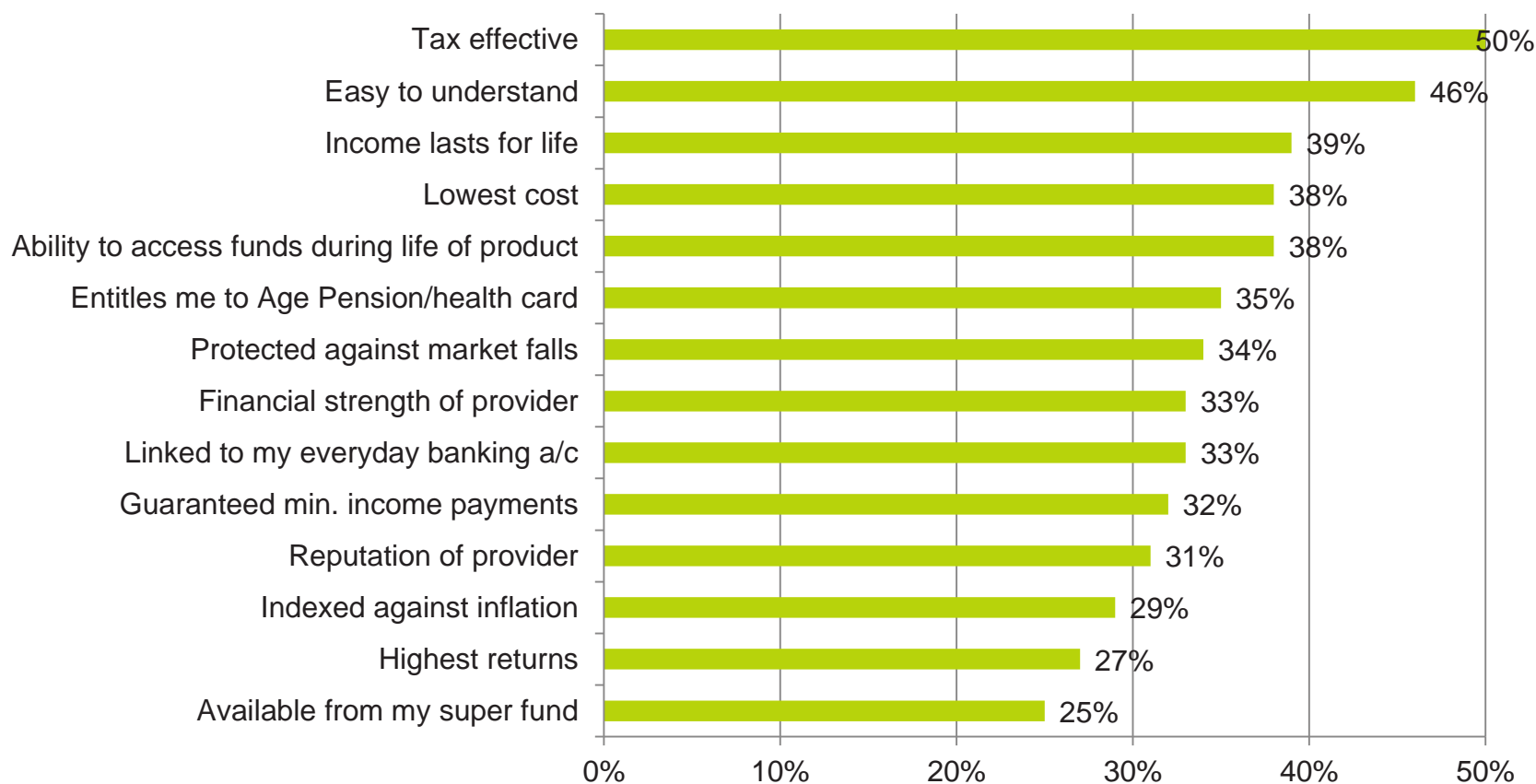
- Mercer developed retirement income portfolio construction guidelines
- Based around the retirement 'trilemma'



1. Source: Mercer, Partial Annuitisation: Retirement Income Portfolio Guidelines 2013

# What pre-retirees want - 2013

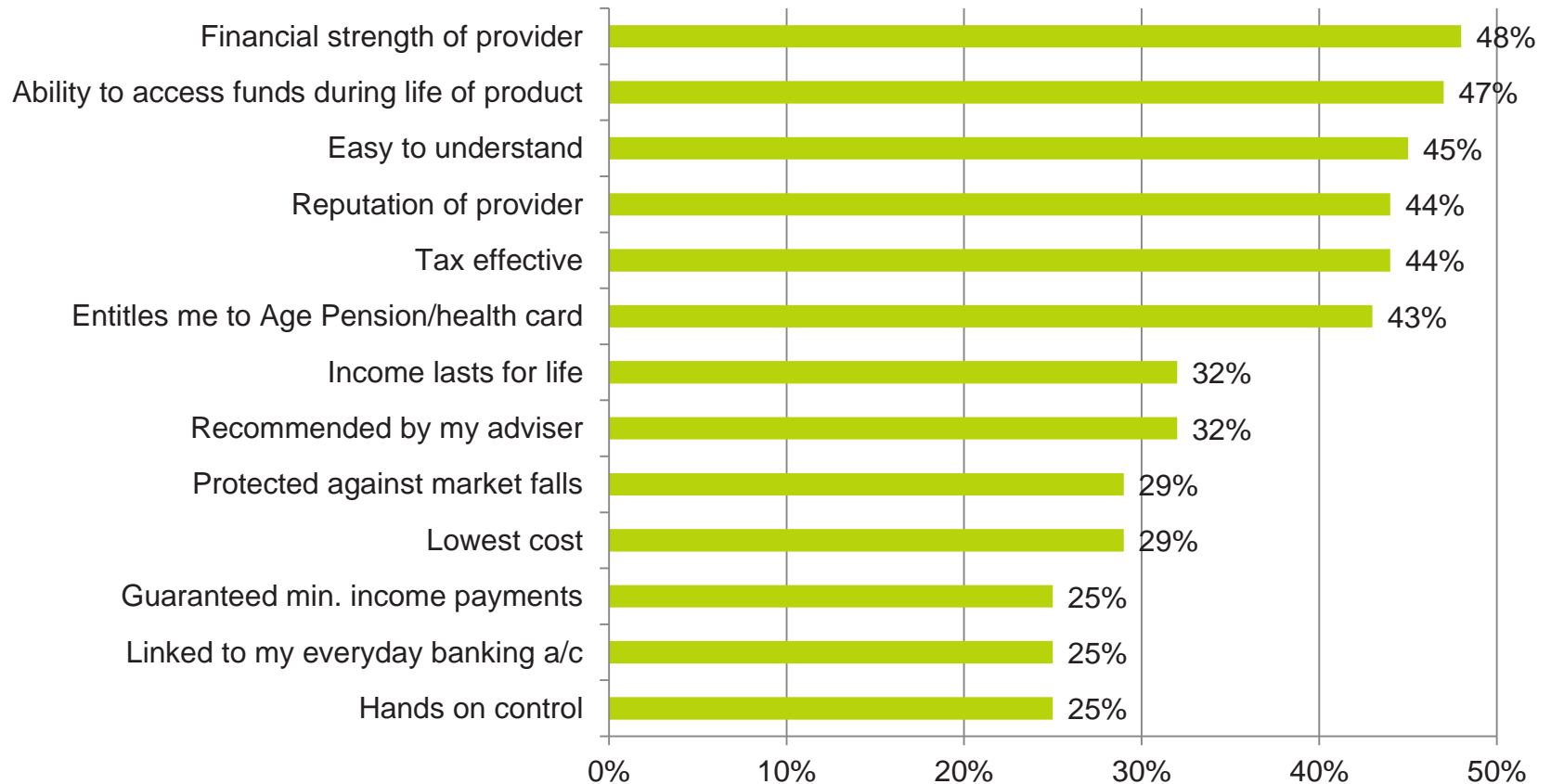
## 'Very important' features of retirement income products



Source: 2014 Investment Trends Pty Ltd, 2013 Retirement Income Report, n=1483

# What retirees want - 2013

## 'Very important' features of retirement income products



Source: 2014 Investment Trends Pty Ltd, 2013 Retirement Income & Planner Report, n=911

# 2012 'real stories' campaign

*It's time for me to control my income, not the market.*



**Future-proof your retirement.** Annuities are a safe-haven from the ups and downs of the share market, and an ideal way to 'pay yourself' regular income in retirement.

Investing in an annuity gives you the security of a capital guarantee with the convenience of regular monthly payments, inflation-linked if you choose, for as long as you like.

They may also entitle you to other special benefits such as higher age pension payments and lower aged care costs.

With Challenger annuities, you can take back control of your money and enjoy safe, reliable retirement income. Ask your financial adviser, visit [challenger.com.au](http://challenger.com.au) or call 1300 362 888.

**challenger**  
Pensions and your retirement

Challenger Life Company Limited ABN 44 072 486 938, AFSL 234670 (Challenger Life) issues Challenger annuities for terms up to 50 years, or for life. Before making any investment decision about annuities, consider the current product disclosure statement (available from your financial adviser or our website, [www.challenger.com.au](http://www.challenger.com.au)) and the appropriateness of the annuity to your circumstances (including the risks). It is assumed that an annuity is held until its maturity date. Challenger Life's obligation to make payments under an annuity is a contractual obligation and is subject to the terms and conditions of the applicable annuity and the Insurance Act 1973. The payment obligations of Challenger Life are limited to the available assets of the Challenger Life Statutory Fund No. 2, except if otherwise provided under the Act. This is not social security or tax advice. Challenger recommends that Centebank, other government agencies and/or a financial adviser be contacted regarding eligibility for the special benefits described above.

*My bills can't wait for the market to recover.*



**Future-proof your retirement.** Annuities are a safe-haven from the ups and downs of the share market, and an ideal way to 'pay yourself' regular income in retirement.

Investing in an annuity gives you the security of a capital guarantee with the convenience of regular monthly payments, inflation-linked if you choose, for as long as you like.

They may also entitle you to other special benefits such as higher age pension payments and lower aged care costs.

With Challenger annuities in your retirement portfolio, you can budget and spend with confidence. Ask your financial adviser, visit [challenger.com.au](http://challenger.com.au) or call 1300 362 888.

**challenger**  
Pensions and your retirement

Challenger Life Company Limited ABN 44 072 486 938, AFSL 234670 (Challenger Life) issues Challenger annuities for terms up to 50 years, or for life. Before making any investment decision about annuities, consider the current product disclosure statement (available from your financial adviser or our website, [www.challenger.com.au](http://www.challenger.com.au)) and the appropriateness of the annuity to your circumstances (including the risks). It is assumed that an annuity is held until its maturity date. Challenger Life's obligation to make payments under an annuity is a contractual obligation and is subject to the terms and conditions of the applicable annuity and the Insurance Act 1973. The payment obligations of Challenger Life are limited to the available assets of the Challenger Life Statutory Fund No. 2, except if otherwise provided under the Act. This is not social security or tax advice. Challenger recommends that Centebank, other government agencies and/or a financial adviser be contacted regarding eligibility for the special benefits described above.

*I should be cutting back my garden, not my spending.*



**Future-proof your retirement.** Annuities are a safe-haven from the ups and downs of the share market, and an ideal way to 'pay yourself' regular income in retirement.

Investing in an annuity gives you the security of a capital guarantee with the convenience of regular monthly payments, inflation-linked if you choose, for as long as you like.

They may also entitle you to other special benefits such as higher age pension payments and lower aged care costs.

With Challenger annuities, you'll spend less time worrying about money and more time enjoying your retirement. Ask your financial adviser, visit [challenger.com.au](http://challenger.com.au) or call 1300 362 888.

**challenger**  
Pensions and your retirement

Challenger Life Company Limited ABN 44 072 486 938, AFSL 234670 (Challenger Life) issues Challenger annuities for terms up to 50 years, or for life. Before making any investment decision about annuities, consider the current product disclosure statement (available from your financial adviser or our website, [www.challenger.com.au](http://www.challenger.com.au)) and the appropriateness of the annuity to your circumstances (including the risks). It is assumed that an annuity is held until its maturity date. Challenger Life's obligation to make payments under an annuity is a contractual obligation and is subject to the terms and conditions of the applicable annuity and the Insurance Act 1973. The payment obligations of Challenger Life are limited to the available assets of the Challenger Life Statutory Fund No. 2, except if otherwise provided under the Act. This is not social security or tax advice. Challenger recommends that Centebank, other government agencies and/or a financial adviser be contacted regarding eligibility for the special benefits described above.

# 2014 'retirement on paper' campaign



You can't stop  
the bills. But you  
can stop the worry.

When you retire, the bills keep coming in but a regular paycheque doesn't. Unless you have an investment like a Challenger annuity.

Annuities can pay you guaranteed, monthly income which moves with inflation, if you choose, and is tax-free if you're over 60 and investing your super money.

Annuities can help you access or increase your senior's benefits like the Age Pension and the Commonwealth Seniors Health Card.

Google 'Challenger annuities' or call 1300 362 888 today.  
[www.challenger.com.au](http://www.challenger.com.au)

challenger 

Challenger Life Company Limited ABN 44 072 486 938, AFSL 234670 (Challenger Life) issues Challenger annuities. Challenger annuities offer a range of terms, payment frequencies, return of capital and income and inflation options. Before making an investment decision, consider the current product disclosure statement (available from a financial adviser or [www.challenger.com.au](http://www.challenger.com.au)) and the appropriateness of the annuity to your circumstances (including the risks). This is not social security or tax advice. Challenger Life is not licensed to provide tax advice. We recommend that you seek professional tax advice or contact Centrelink, other government agencies and/or a financial adviser regarding your eligibility for seniors' benefits. \*Guaranteed refers to payments being guaranteed by Challenger Life from the assets of its relevant statutory fund.

Challenger 'Retirement on Paper' - Tree

# Closing remarks

- There is no silver bullet
- 'New' lifetime annuities are experiencing exponential growth
- They meet members' guaranteed retirement income needs
  - Guaranteed income for life
  - Access to capital
  - Simple with no product fees
- One simple innovation allowed them to be evaluated on their merits
- This innovation was driven by listening to retirees/members
- Role and value of partial annuitisation – not a binary equation

# Questions from the floor