Retirement strategy

Overview

Webinar for accredited financial advisers
Date: 11 September 2018
Presenter: Tom Garcia, Head of Product and Communications
This is general information only

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There are references to performance in this presentation. It is important to note that investment returns are not guaranteed and that past performance is not a reliable indicator of future returns.

AustralianSuper Pty Ltd ABN 94 006 457 987 AFSL 233788
Trustee of AustralianSuper ABN 65 714 394 898
Presenter – Tom Garcia

As Head of Product and Communications, Tom is responsible for the development and maintenance of our product offer to meet our customer’s needs, as well the communications to our members, businesses and advisers.

He was previously the CEO of the Australian Institute of Superannuation Trustees, and prior to that worked as a financial planner and paraplanner at IFS.

With a background in engineering, Tom spent eight years of his working life developing tyres for Michelin.
Agenda

- Outlook on Retirement
- Response to CIPRs
- Introduction of Balance Booster
- Upgrades to Member Direct
- Changes to reversionary beneficiaries
- Q&A session
Outlook on Retirement
We wish to be a holistic retirement services provider and facilitator to drive the best outcomes for members throughout the different phases of retirement.

I Income
- Whilst retirees want income to last their lifetime, their demand for income is likely to change through the different phases of retirement.
- As a fund, we also need to be aware that for most members' income consists of:
  - Government Aged Pension;
  - super; and
  - non-super investments.

II Health
- Always a key concern with retirees. Health is crucial to their quality of life. As health fails expenses increase. This can be a gradual movement or a step change.
- As a fund, we need to be aware of these often later in life expenses and work with members and third parties to facilitate optimum outcomes to maintain dignity in ageing.

III Housing
- Affordable, stable housing is essential for retirees’ quality of life. Need to focus on how we can help achieve housing certainty for members in retirement.
- Housing is most often a retirees largest asset. We need to facilitate access to equity for our asset rich, cash poor members to fund lifestyle and emergency needs.
- Housing needs may change for the different phases of retirement. Those changes may require different funding that needs to be catered for in our retirement solutions.

IV Community
- Community isolation in retirement may have an insidious effect on retirees’ quality of life. Isolated retirees are more at risk of:
  - needing long term care;
  - at risk of suffering depression; and
  - being vulnerable to elder abuse.
- The Fund needs to facilitate links with organisations that provide support and community to retirees e.g. Men’s Shed
Members have a number of key needs to solve in retirement…

- Building product options for retirees is complicated by the number of needs that need to be met
- We are asked to take into account:
  - Volatility risk
  - Inflation risk
  - Liquidity risk
  - Longevity risk
  - Estate planning
  - Access
- Overwhelmingly our members worry most if their money will last
- Most AustralianSuper members have modest balances
- Addressing their needs will necessarily require compromises and possibly a combination of solutions.
No single source of income that can solve all a member’s needs

<table>
<thead>
<tr>
<th>Sources of Income</th>
<th>Design Criteria</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Volatility</td>
</tr>
<tr>
<td>GAP</td>
<td>✓</td>
</tr>
<tr>
<td>Pension</td>
<td>?</td>
</tr>
<tr>
<td>Account Based Pension</td>
<td>?</td>
</tr>
<tr>
<td>Longevity</td>
<td>✓</td>
</tr>
<tr>
<td>Non Super Savings</td>
<td>✓</td>
</tr>
<tr>
<td>Housing</td>
<td>✓</td>
</tr>
</tbody>
</table>
## Main sources of retirement income and what we offer

<table>
<thead>
<tr>
<th>Sources of Income</th>
<th>Comments</th>
<th>AS Current Offer</th>
<th>Future Offer</th>
</tr>
</thead>
</table>
| **GAP**           | A means-tested annuity providing longevity protection  
                    • Tightening means test forcing members to use super  
                    • Trend from full GAP to partial GAP  
                    • Predominantly Account based pensions  
                    • Flexible, uncomplicated, suitable to vast majority  
                    • Market linked, no protection  
                    • Costly and poor reputation (legacy products)  
                    • Few providers and small market  
                    • Restricted by legislation (being amended)  
                    • CIPR proposed to incorporate ABP and longevity products  
                    • Most members have no non-super savings  
                    • 21% have shares, 19% have a second property – low % are members of AS  
                    • AS has no track record in sales of non-super products  
                    • Nascent thinking – pressure due to affordability crisis  
                    • Enormous market – ~$5.7T – an emotive subject  
                    • Some providers in reverse mortgage market, most offer poor value | Estimate included in calculators | Integrated income view incl GAP data share |
| **Pension**       |          | Choice Income, TtR, Member Direct, lump sum payment | Smart Default, CIPR, Balance Booster (CGT) |
| **Longevity Products** |          | None | CIPR, Annuities, Sequencing Overlay, Insurance overlay |
| **Non Super**     |          | None | Managed Funds, Term Deposits, Help & Advice |
| **Housing**       |          | None | Aged Care, Home Equity Release, Co-build, Co-Buy |
## The “Middle Affluence” retirees are our target segment

### RETIREMENT SEGMENT – CUSTOMER SEGMENTATION

<table>
<thead>
<tr>
<th>Strategic segments</th>
<th>Sub-segments &amp; their objectives</th>
<th>Description</th>
<th>Financial need</th>
<th>Primary forms of engagement</th>
<th>Indicative balance at retirement</th>
<th>Proportion of AS Planners(1)</th>
<th>Strategic approach</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LOW AFFLUENCE RETIREEs</strong> Lower 20% of market</td>
<td><strong>‘Debt busters’</strong> Highly dependent on aged pension</td>
<td></td>
<td></td>
<td>Information</td>
<td>Less than $50k</td>
<td>40%</td>
<td><strong>ACTIVELY GROW BALANCE</strong> (internal members)</td>
<td>Many in this segment are not engaged and not financially eligible. However, cannot ignore 2nd largest sub-segment so earlier engagement can increase eligibility.</td>
</tr>
<tr>
<td></td>
<td><strong>‘Little luxury seekers’</strong> Highly dependent on aged pension</td>
<td></td>
<td></td>
<td>Information</td>
<td>$50k to $300k</td>
<td>51%</td>
<td><strong>ACTIVELY PURSUE</strong> (internal and external members)</td>
<td>Largest sub-segment and highly suited to our retirement products. Aligns with our identity to help everyday Australians. Opportunity to take market leadership in this sub-segment as there is no clear leader.</td>
</tr>
<tr>
<td></td>
<td><strong>‘Lifestyle extenders’</strong> Moderately dependent on aged pension</td>
<td></td>
<td></td>
<td>Information</td>
<td>$300k to $800k</td>
<td>8%</td>
<td><strong>ACTIVELY PURSUE</strong> (internal and external members)</td>
<td>Despite being a smaller proportion pre-retiree cohort, still very suited to our retirement products. Major players will actively pursue upper end of this sub-segment, but passively pursue lower end.</td>
</tr>
<tr>
<td><strong>MIDDLE AFFLUENCE RETIREEs</strong> Middle 60% of market</td>
<td><strong>‘Portfolio optimisers’</strong> Not dependent on aged pension</td>
<td></td>
<td></td>
<td>Information</td>
<td>More than $800k</td>
<td>1%</td>
<td><strong>PASSIVELY PURSUE</strong> (internal members)</td>
<td>Small proportion of our pre-retiree cohort. Highly contested with many major players (e.g. AMP, BT, Colonial, etc.). Often seeking highly-serviced offerings.</td>
</tr>
<tr>
<td><strong>HIGH AFFLUENCE RETIREEs</strong> Higher 20% of market</td>
<td></td>
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<td></td>
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(1) The proportion of our pre-retirees (56+ yo) in our membership base
Our current offer focuses on the Fund’s priority segments of mid-balance retirees

<table>
<thead>
<tr>
<th>Segments</th>
<th>Solutions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Debt Busters</strong></td>
<td>TTR Save More</td>
</tr>
<tr>
<td>Focus to clear debt before retirement to avoid servicing debt for the Aged Pension</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Little Luxury Seekers</strong></td>
<td>TTR Save More</td>
</tr>
<tr>
<td>Looking to top up the GAP with an income stream to provide the little luxuries in life</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Lifestyle Extenders</strong></td>
<td>TTR Save More</td>
</tr>
<tr>
<td>Looking to maintain their lifestyle through their lifetime</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Portfolio Optimisers</strong></td>
<td>TTR Save More</td>
</tr>
<tr>
<td>Most likely have an investment portfolio outside super and are using their investment in super as an effective tax vehicle</td>
<td>✓</td>
</tr>
</tbody>
</table>

**Key**
- ✓ Solution suitable for segment
- In development
Developing a ‘full retirement offering’

### FY21 Retirement – Future State Products and Solutions (1)

<table>
<thead>
<tr>
<th>Value proposition</th>
<th>Solution</th>
<th>Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>A promise of value to be delivered, and communicated. Explains how we can solve member problems and deliver benefits</td>
<td>Name of package that fulfils value proposition</td>
<td>A physical instrument developed by the Fund that can be offered to a member as part of a value proposition</td>
</tr>
<tr>
<td>Reduce your working hours without reducing your income</td>
<td>TTR Work Less</td>
<td>Accumulation, Account-based pension</td>
</tr>
<tr>
<td>Boost your super for retirement without losing income today</td>
<td>TTR Save More</td>
<td>Accumulation, Account-based pension</td>
</tr>
<tr>
<td>Have a simple, effective and low-cost retirement income stream</td>
<td>Ready-Made Option</td>
<td>Accumulation, Account-based pension</td>
</tr>
<tr>
<td>Make your choice of income and investments throughout retirement</td>
<td>Choice Option</td>
<td>Accumulation, Account-based pension</td>
</tr>
<tr>
<td>Achieve a superior retirement outcome that covers you for life</td>
<td>CIPR</td>
<td>Account-based pension, Longevity based product</td>
</tr>
<tr>
<td>Protect your super savings against market volatility before and during retirement</td>
<td>Market protection</td>
<td>Accumulation, Account-based pension, Sequencing risk overlay</td>
</tr>
<tr>
<td>Keep your retirement income as safe as possible</td>
<td>Risk protect plus</td>
<td>Accumulation, Account-based pension, Longevity based product, Sequencing risk overlay</td>
</tr>
<tr>
<td>Boost your retirement and save on tax by sticking with us</td>
<td>CGT uplift</td>
<td>Accumulation, Account-based pension</td>
</tr>
</tbody>
</table>

**Key**
- New Product / Solution
Response to CIPRs
Demographic shifts ➔ Government proposals to alleviate longevity market barriers

**Regulatory drivers for better longevity risk management**

**Population 85+ (past life expectancy)**
- From July 2017, the Age Pension qualifying age increased from 65 to 65.5 and then by an additional six months every 2 years to reach 67 by 2023.
- From January 2017, pension reduction per $1,000 over assets test threshold to increase from $1.50 to $3.

**Expected Govt. measures to facilitate longevity risk management**
- Changes made to DSS age pension test rules to facilitate longevity products
- Govt. Retirement Covenant seeking to introduce CIPRs
- Increasing awareness that Govt. pension and healthcare spending unsustainable

1. ABS (2012), 3222.0 - Population Projections
2. JP Morgan, Chase Manhattan Bank Research; ASFA and AMP research also finds that spending increases in old age due to rising health and aged care support costs
Longevity risk is... where an individual may be forced to adjust their standard of living due to a drop in the total income they receive, at life expectancy through to end of life.

Customer Longevity risk – income gap causes a significant drop in standard of living

Longevity risk – customer

- Retiree (aged 65) adopts an investment/consumption strategy based on how many years they expect to live (~85 on average)
- Longevity risk (for customers) is the risk that they live longer than they expect, running out of assets, and living the rest of their life on the government pension resulting in a significant drop in lifestyle
- Longevity products aim to mitigate this risk by providing income after life expectancy is reached until end of life

Customer segment at risk

Middle Affluence - High Need
- Insufficient retirement savings to self fund retirement, most exposed to longevity risk
- Part age pension will supplement retirement income, but may require additional income security to mitigate longevity issues

High Affluence - Med Need
- Can self fund retirement above pension access level and mitigate longevity risk
- Can afford, but propensity to buy longevity protection depends on risk tolerance

Low Affluence - Low Need
- Low balance assets, allowing full or part pension access
- Age pension is main longevity solution cannot afford to purchase longevity protection

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1. ASFA Retirement Standard, min income for singles/couples to have a ‘comfortable’ retirement lifestyle is $43k/$59k per annum
2. Current pension payment is $23k/34k for singles/couples per annum
3. Income gap between ‘comfortable’ retirement income (defined by ASFA) and age pension approximately $20k for singles and $15k for couples per annum
Government wants action
Background

• In May 2018 Treasury released the Retirement Income Covenant Position Paper. This paper outlines the Government’s proposal to introduce a Comprehensive Income Product for Retirement (CIPR) from 1 July 2020.

• Treasury invited submissions on this position paper which were submitted in July. The key message in the responses was that 2020 did not provide the industry sufficient time to implement.

• The industry is now awaiting an update from Treasury on this. However it remains unclear whether they will agree to defer the implementation date.

• To prepare ourselves for this product implementation, work is now underway to assess how we would implement a CIPR.
The Retirement Covenant

PRINCIPLES

1. **Retirement income strategy**: Trustees should assist members to meet their retirement income objectives throughout retirement by developing a retirement income strategy for members.

2. **Engagement**: Trustees should assist members to meet their retirement income objectives by providing guidance to help members understand and make choices about the retirement income products offered by the fund.

3. **Definition of a Comprehensive Income Product for Retirement**: A CIPR is a retirement income product which is designed to provide:
   1. efficient, broadly constant income, in expectation;
   2. longevity risk management (income for life); and
   3. some access to capital.
   4. A 100 per cent allocation to an ABP alone would not meet the definition of a CIPR.

4. **Offering a flagship CIPR**: All trustees should offer a flagship CIPR to members at retirement, subject to limited exceptions (see principles 7 and 8).

5. **Third party products**: Trustees can fulfil their obligation in part or in full by using a third party.

6. **Consent**: Consent should be required for a CIPR to commence.

7. **Offering an alternative retirement income product through advice**: Trustees may offer an alternate CIPR or another retirement income product to a particular person or cohort of people through any form of personal financial advice, including scaled personal advice, intra-fund advice, or full financial planning.

8. **Exception for individuals for whom CIPRs are unsuitable**: Trustees may choose not to offer a CIPR at all to a particular person if the trustee has reliable information that a CIPR would not suit that person.
What is a CIPR?

Definition

- A CIPR is expected to be a combination of an allocated pension (Account Based Pension or ABP) + a longevity product
- The longevity product may either:
  1. Commence payments immediately and paid in conjunction with the ABP e.g. ABP + Lifetime Annuity OR
  2. Be a deferred product designed to commence payments at approximately the age where an ABP is expected to run out of money e.g. ABP + Deferred Lifetime Annuity
While retirees may not directly ask for a product to address longevity risk, they do desire a secure income for life, not just life expectancy.

<table>
<thead>
<tr>
<th>What customers say</th>
<th>What advisers say</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Customers want a longevity product that:</td>
<td>▪ Advisers want an integrated solution</td>
</tr>
<tr>
<td>▪ Provides certainty about level of income for their lifetime. Despite more than adequate capital to live desired lifestyle to life expectancy, many underspend in case they live long (quality of life lower than it should be)</td>
<td>▪ Reduce cost to served</td>
</tr>
<tr>
<td>▪ Simple to understand, not complex</td>
<td>▪ Single source for reporting</td>
</tr>
<tr>
<td>▪ Has favourable pension impact (pension impact part of ‘all-in’ rate of return on longevity product)</td>
<td>▪ Customers indirectly express concern about longevity risk e.g.</td>
</tr>
<tr>
<td>▪ No/Low market risk/volatility exposure</td>
<td>▪ I’m worried I’m going to run out of money and be a burden on my family</td>
</tr>
<tr>
<td></td>
<td>▪ I don’t use things/go out as much as I want to save money</td>
</tr>
<tr>
<td></td>
<td>▪ I’m worried that the age pension level and/or access requirements will change</td>
</tr>
</tbody>
</table>
## What longevity options are there?

<table>
<thead>
<tr>
<th>Concepts</th>
<th>Account-based pension</th>
<th>Group self-annuitisation</th>
<th>Investment-linked annuity</th>
<th>Lifetime annuity</th>
<th>Deferred lifetime annuity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Member benefits</strong></td>
<td>Provides the ability to withdraw and disseminate assets at convenience. Will not qualify as a CIPR on its own.</td>
<td>Adds a dimension of pooling, providing a lifetime income that varies with the investment and mortality experience of the pool. Flexible withdrawal is a key benefit, though impacts future income.</td>
<td>Similar to GSA, with the added benefit of guaranteeing a minimum level of income and increases. Continued participation in market risk (diversified).</td>
<td>Simplest lifetime income as the life company absorbs all risks in return for a product with deterministic outcome. Simplest lifetime income as the life company absorbs all risks to provide a deterministic outcome.</td>
<td>Guaranteed income for life from a pre-determined point e.g., from age 85. Premiums can be reduced if customers where customers are willing to further displace the date from income commencement (assumin a higher risk of loss).</td>
</tr>
<tr>
<td><strong>Product overview</strong></td>
<td>Flexibility and access in earlier years of retirement is highly important, though does not imply customers are prepared to manage investments.</td>
<td>Stochastic outcomes make it difficult to provide customers with confidence of future income.</td>
<td>Stochastic outcomes are limited to positive future income. Guarantees may be configured to create a bespoke product.</td>
<td>Currently available on standard basis (income varies only by age and gender.</td>
<td>Closest retirement income product to conventional insurance given the separation of premium payment and receipt of a benefit.</td>
</tr>
<tr>
<td><strong>Interaction with other products</strong></td>
<td>Foundation for blending with any longevity product.</td>
<td>Ability to withdraw allows GSAs to be stand-alone. May also be blended with other components.</td>
<td>May be used as a holistic solution, or combined with an account-based pension.</td>
<td></td>
<td>Requires combination with an account-based pension.</td>
</tr>
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</table>

Source: JUST presentation.
Retail post-retirement market focused on account-based pensions

Current Market overview

Retail post-retirement market FUM ($bn) in 2016

Compared to other markets, the Australian post-retirement market is heavily weighted towards account based pensions

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount ($bn)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account based pensions</td>
<td>153.2</td>
<td>92%</td>
</tr>
<tr>
<td>Term annuities</td>
<td>7.3</td>
<td>4%</td>
</tr>
<tr>
<td>Lifetime annuities</td>
<td>3.2</td>
<td>2%</td>
</tr>
<tr>
<td>Variable annuities (estimated)</td>
<td>2.6</td>
<td>2%</td>
</tr>
<tr>
<td>Group self annuitisation</td>
<td>~0.0</td>
<td>0%</td>
</tr>
</tbody>
</table>

Approximate share of longevity market

- Lifetime annuities: >90%
- Term annuities: <10%

Offered by:
- Challenger
- CommInsure: 80%
- AMP: 10%
- MLC: 20%
- Mercer

Source: Plan for Life
Our CIPR design principles

<table>
<thead>
<tr>
<th><strong>Member</strong></th>
<th><strong>AustralianSuper</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income for life</strong></td>
<td>Provide a stable income that gives me confidence and security over my retirement and considers my changing needs over time.</td>
</tr>
<tr>
<td><strong>Flexibility</strong></td>
<td>Feel a sense of choice and control over big and small decisions (lump sums, investment choice, portability, access to capital). Flexibility to cater for life’s uncertainties and changes e.g. top up and withdraw funds.</td>
</tr>
<tr>
<td><strong>Simplicity</strong></td>
<td>Easy to understand, giving me confidence in the decisions I’m making about my retirement savings.</td>
</tr>
<tr>
<td><strong>Operationally robust</strong></td>
<td>Flexibility to take up the product in a way that suits me best. e.g. online, paper, app or adviser. Cost effective.</td>
</tr>
<tr>
<td><strong>Fairness</strong></td>
<td>Feel that I’m getting a fair deal that is valuable to me.</td>
</tr>
<tr>
<td><strong>Differentiation</strong></td>
<td>I trust AustralianSuper and feel confident the product will meet my needs.</td>
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</table>
Introduction of Balance Booster
What is Balance Booster?

- Balance Booster is a credit of tax which has been accrued in order to fund future liabilities for tax. These liabilities would be payable for capital gains tax on assets when they are sold at a profit in the accumulation phase.

- As tax is not required to be paid when the assets are sold in the retirement phase, the amount that was set aside in super or TTR Income to cover a tax liability can be passed onto the member as a 'bonus'.

- Eligible members will receive their Balance Booster payment when they roll their current AustralianSuper accumulation or TTR Income account to a new Choice Income account.
Upgrades to Member Direct
Investment options in Member Direct

Member Direct investment options

- **Cash Account**
  - Cash Account

- **Term Deposits**
  - Cash Account
  - Term Deposits

- **Shares & ETFs**
  - Cash Account
  - Term Deposits
  - Shares & ETFs

To invest you will need to open a cash account, which has a competitive high interest rate.

Includes the cash account option plus you can also invest in term deposits.

Includes the first two options plus the ability to buy and sell shares and ETFs.

Market News, Information & Research

All the options include access to market news, information and research. Eligible members can choose to access this information without the need to open a cash account.
## Member Direct Pricing Structure

<table>
<thead>
<tr>
<th></th>
<th>Cash account option</th>
<th>Term Deposits option</th>
<th>Shares &amp; ETFs option</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash account fee</strong></td>
<td>0.12% pa of the balance in the cash account</td>
<td>0.12% pa of the balance in the cash account</td>
<td>0.12% pa of the balance in the cash account</td>
</tr>
<tr>
<td><strong>Portfolio administration fee (PAF)</strong></td>
<td>-</td>
<td>$150 pa</td>
<td>$395 pa</td>
</tr>
<tr>
<td><strong>Term deposit &amp; Brokerage costs</strong></td>
<td>-</td>
<td>If you (or your beneficiaries) redeem your term deposit(s) prior to their maturity date, penalties will apply. Refer to table on Term Deposit costs.</td>
<td>If you choose to trade in share and ETFs brokerage fees will apply starting with a flat fee applies to the first $5,000 of your trade. Scaled cumulative brokerage rates apply above this. Refer to table on Brokerage costs. For details on the management fees for the ETFs, please visit the ETF provider's website. For a list of available ETFs visit australiansuper.com/MemberDirect</td>
</tr>
<tr>
<td><strong>Other fees</strong></td>
<td>You will also pay an AustralianSuper administration fee and investment fees for investment options that are managed by AustralianSuper for you (e.g. PreMixed or DIY Mix options). Investment management fees vary depending on the investment option you choose. See the Investment Guide for more details.</td>
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*All fees are GST inclusive. They are calculated daily and automatically deducted from your cash account on the first business day of each month.*
Changes to reversionary beneficiary nomination
Changes to reversionary beneficiary

What’s changing?
From December 2018, members will be able to add, change or remove their reversionary beneficiary on their Choice Income or TTR Income account. These changes will be reflected in our member communications.

How does this benefit our members?
If a member wants to change their reversionary nomination, they currently have to close their pension account and open a new one, potentially affecting any grandfathering rules the account may have been under.

The system change implemented in December will allow members the flexibility to change their reversionary beneficiary and keep their estate planning up to date.
Thank you
Please feel free to ask us questions.