

# ANNUITIES IN THE DECUMULATION PERIOD

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# New Zealand faces considerable ageing problems – like many countries

| Year | Life Expectancy From Age 65 | Population Proportion Aged 65+ | Balanced Retirement Age |
|------|-----------------------------|--------------------------------|-------------------------|
| 2003 | 20 years                    | 12%                            | 65                      |
| 2013 | 22 years                    | 14%                            | 67                      |
| 2028 | 26 years                    | 20%                            | 70                      |
| 2053 | 32 years                    | 26%                            | 75                      |

# Pensions Industry

- Considerable damage from move to TTE tax basis in 1989 – many pension funds closed to new members – funds planning to open stopped
- Most other countries still on EET – a much fairer basis
- Limited industry pension volumes resulted in low demand for long term bonds

# Standard Annuities

- No long term bonds to match annuity liabilities
- Poorly taxed as investment income taxed at the corporate rate – usually  $>$  individual rate
- No product flexibility – e.g. annuitant may need to extract additional sums
- Public think their life expectancy is shorter than reality
- \$20m of in force regular annuities in NZ – less than 1,000 annuitants

# Guaranteed Draw Variable Annuities

- Developed in USA about 20 years ago
- Introduced in Europe about 8 years ago and Australia and Japan about 5 years ago – none yet in NZ
- Unit-linked fund - decumulation phase of Kiwisaver
- Guaranteed annuity for life, even when U/L fund reaches zero – longevity charge against fund
- Remaining fund paid out on death
- Flexibility to make partial withdrawals – annuity level then reduces
- Reserving does require a strong margin for longevity risk – longevity bonds unnecessary with our small market
- Investment strategy should be reasonably conservative as it is a shrinking fund as money is withdrawn

# Home Equity Release

- Good addition to product range would be an HER annuity for life – i.e. annuity by deferred premium paid on sale of home
- I think there is a tendency in the market for clients to take available funds early and not leave anything for the later years
- The old tax basis would have been very penal for this product – current basis fine