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Retirement revolution

Delivering guaranteed retirement income for life

The number of Australians aged over 80 is expected to triple by 2064, and in less than 20 years the number of people aged over 100 will have doubled. With an ageing population, the proportion of younger, working people is shrinking, meaning the pool of taxpayers to help fund the Age Pension is diminishing.

The conundrum it presents is quite something, as the cost of living is increasing alongside our life expectancy, placing additional pressure on services and initiatives supporting older Australians.

The challenges facing retirees aren't just financial and economic, though. There are behavioural and emotional factors to consider as well, making meaningful and effective product innovation paramount.

"In accumulation, we feel the pain of a loss twice as much as we feel the joy of a gain, but when we're in retirement we feel that loss 10 times more than we feel the joy of a gain," explains Allianz Retire+ head of technical services Justine Marquet[01].

"So, there's a need to protect the retirement savings that people have accumulated so it can sustain income for longer. There's also a need to protect retirees from downside risk so they have the ability to sleep at night, and there's also a need to be able to secure stable, steady income throughout retirement to give them the confidence to spend."

Often, investment decisions and discussions are focused on the value of assets and funds, the return on those assets, and the volatility associated. However, typically the primary client concern is whether they'll have enough income to live on comfortably in retirement and they are looking for reassurance from their financial adviser. But how can that reassurance be provided?

"We can take some of that risk off the table and help shore up the retirement savings, particularly in the lead up to retirement, and we can give them some protection against sequencing risk as capital starts to be drawn down, and we can also focus on providing more certainty and stability around those income flows in retirement," Marquet says.

There are now several solutions in the market that meet these requirements, heralding somewhat of a revolution in retirement planning. One of them is Allianz Guaranteed Income for Life, also known as AGILE, which is designed to continue to grow assets so they can last for an individual's full retirement while also providing downside protection to guard against market volatility.

"It also provides flexibility in terms of when the guaranteed income is switched on, which is really important as clients aren't always sure when they're going to retire and sometimes the decision isn't up to them," Marquet explains.

"AGILE is designed to cater for that, and also has more flexibility around the ability to access capital. For example, if circumstances change, investors can access the underlying available investment value or if they pass away their beneficiaries can receive that investment value."

A beneficiary can receive the investment value either as part of an existing superannuation fund, because the investment in AGILE can sit within super, or outside of it, or the income stream can be continued for the benefit of a spouse.

This additional flexibility is increasingly attractive to investors knowing their retirement will likely be much longer than that of generations gone by.

"And the best part of all, by investing early you can lock in a known lifetime income rate, regardless of when you turn on the income or how much the investment value is at that time. It makes planning for retirement earlier easier, and it also provides more confidence around what the outcomes will be for the client," she says.

As for how much income is required to fund a comfortable retirement, the common measure used in the financial services industry, the Association of Superannuation Funds of Australia's Retirement Standard, dictates that – as at December 2023 – a couple aged 65-84 years would need income of $72,148 per annum, assuming they own their home. For a modest lifestyle, it's about $47,000 a year.

But these concepts – modest and comfortable – are incredibly subjective; it's not a one-size-fits-all, and very rarely are people's retirement objectives the same. And retirees of all ages are notorious for underspending in retirement, regardless of their assets.

AGILE's design attempts to mitigate the uncertainty retirees feel, with Marquet explaining that it's a lot easier to provide certainty and live up to the guarantee it promises when risks are pooled.

"Also, mitigating those downside risks can be achieved if the provider has experience in doing that. It's much harder for an adviser on their own to achieve the same outcomes with that same level of certainty with an account-based pension alone," she says.

Investing in AGILE as part of the broader portfolio of assets provides increased certainty because the portfolio can be de-risked to a certain extent, while also locking in the guaranteed income for life, she adds, saying the client then knows that will be there no matter what comes their way.

"They have that comfort of knowing that, even if things change, any underlying investment value will still be there… and they can still accumulate some growth along the way," Marquet says.

Some clients – and advisers – may think guaranteed income for life sounds too good to be true. For advisers looking to provide even more certainty to retiree clients who might still fear running out of money, an important piece of information to pass on to them is exactly how the income is guaranteed.

As a life insurance company, Allianz Australia Life is required by APRA to hold sufficient capital to ensure it can meet all current and future payments to policyholders. That capital is held in a statutory fund, solely for that purpose and it can't be touched for anything else; that money must be used for paying liabilities and to the benefit of investors and policyholders.

As Marquet explains, these requirements are quite strict. For example, Allianz Australia Life must be able to cover a once in 200-year adverse market event. If the company were to not meet those requirements, APRA can require it to contribute additional capital or assets of its own.

"Another thing worth mentioning is that the product construct itself doesn't rely on things like mortality credits or some of the people in the pool passing away earlier to fund reliable and stable income for those in the pool that live longer," Marquet says.

"There's a lifetime income premium that's payable from the underlying investment value that goes to ensuring the guaranteed income for life for that individual, so there's no interdependency; everyone's individual contractual terms are met by that guarantee and the promises we make in the product disclosure statement.

"So, everyone can feel comfortable that that income will be there for life, regardless of what happens to other investors in the pool." **FS**

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