

RETIREMENT POSITIONING PAPER

# TAL retirement income solutions

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**Helping Australians  
retire with confidence**



**TAL** / Insuring  
This Australian Life

# Working together to help Australians make the most of retirement

The Australian superannuation system is a world-leader in providing a cost-effective and efficient way for members to save for their retirement, while also protecting them against risks in their working lives through group insurance.

In this context, it has become increasingly clear that longevity risk is a key unmanaged risk in the superannuation system today. As research shows, many Australian retirees are reluctant to draw down their savings in retirement because they are concerned about outliving their savings – particularly future health and aged care costs<sup>1</sup>. They are living frugally and not enjoying the lifestyle they can afford.

These concerns aren't unfounded. Longevity risk has a compounding adverse effect on retirement outcomes, because as members age they have less capacity to deal with financial volatility. When health risks increase in the later stages of retirement, members are not always able to mitigate and protect their quality of life.

With regulator focus on the retirement income system higher than ever, super funds are increasingly lifting the bar to better support members in their retirement. It is worth drawing parallels between the way in which the group insurance system supports funds to protect their members during their working lives and the way we expect superfunds will look to protect their members in retirement.

Group insurance is a proven, successful model of delivering default protection at scale via mortality risk pooling. And with this experience, insurers such as TAL can apply the same philosophy to providing members with retirement protection.

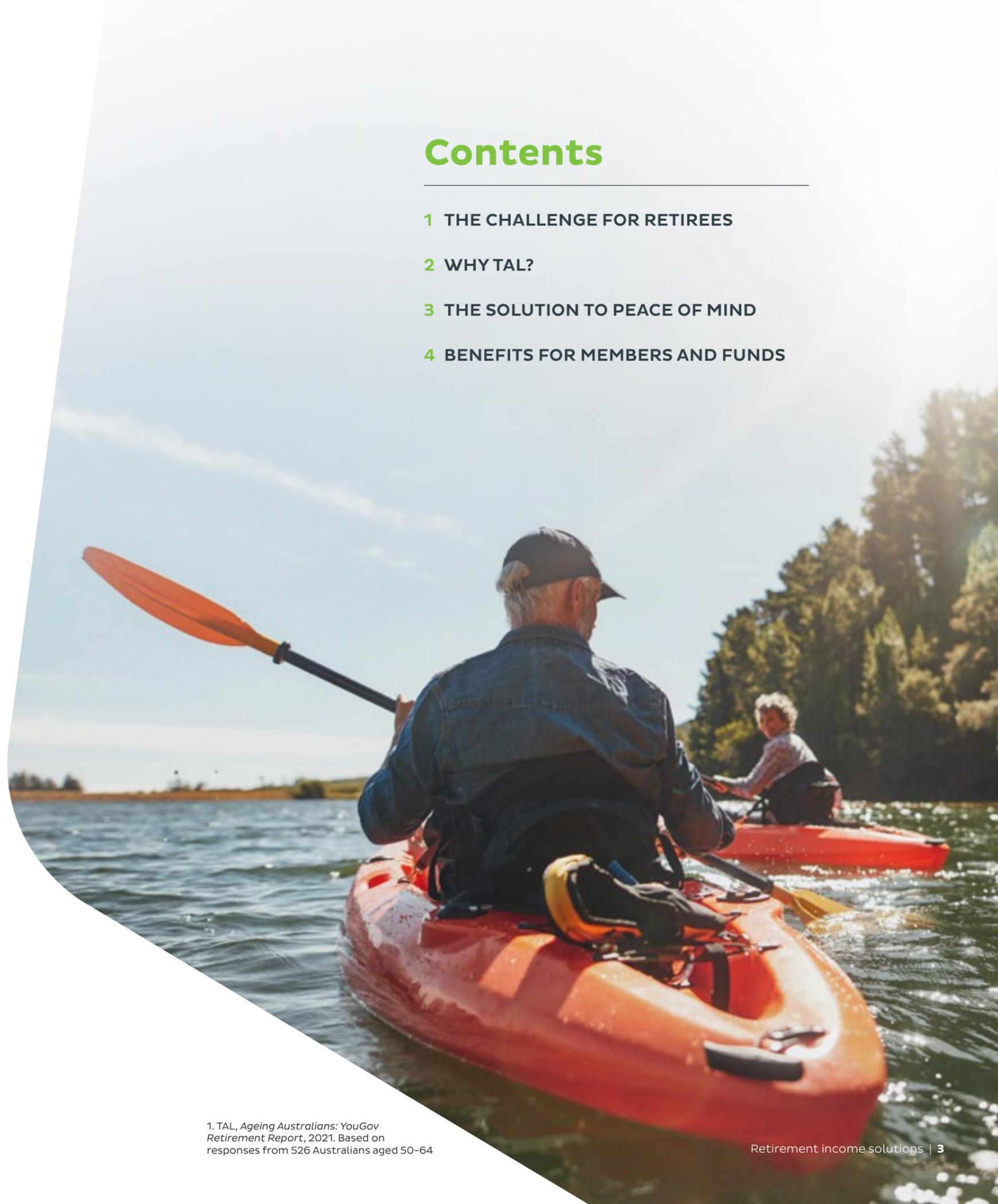
In our role as a leading group life insurer, we work with our super fund partners on retirement proposition design including a digital experience, tailored to suit the needs of their members. Our goal is to support super funds in meeting their obligations under the Retirement Income Covenant to ensure members balance three key objectives:

- 1 Maximise their expected retirement income.**
- 2 Manage expected risk to the sustainability and stability of retirement income.**
- 3 Have flexible access to funds.**

We look forward to working with you to deliver a tailored solution that improves retirement outcomes for your members and empowers them to spend confidently throughout their retirement.

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# The challenge for retirees

**Australians need support to smooth out their retirement income so they can live the lifestyle they want, while knowing their money will last, no matter how long they live.**



## MANY RETIREES ARE GOING WITHOUT

While super plays an essential role in helping retirees enjoy the lifestyle of their choice, the challenge for many Australians is planning their retirement spending. Since no-one knows how long they'll live in retirement, it's difficult to work out how much super it's safe to spend without running into problems later in life.

As the superannuation system matures, super has become an increasingly valuable asset. But the reality is that most Australians don't feel they have enough to spend confidently in retirement. In fact, 1 in 2 Australian pre-retirees worry about running out of money during their lifetime<sup>1</sup>. This can cause them to underspend in retirement and prevent them from enjoying the lifestyle they can actually afford.

This challenge highlights the need for financial solutions that protect retirees against longevity risk, so they can make the most of their super without worrying about outliving their retirement savings.

### 1 in 2

Australian pre-retirees worry about running out of money during their lifetime.<sup>1</sup>

### What members want

**TAL has recently worked with some of our super fund partners and their members to understand the needs and preferences around retirement solutions. Our research revealed some valuable findings.**



Members value a holistic retirement proposition offered by their super fund that provides them with the confidence of a regular income for as long as they and their partner live.



Members want guidance to better understand how a retirement income product would work – and in particular, how it would interact with the age pension.



Members value a digital income tool that can project how long their savings will last in retirement, as well as indicate how changes might improve their position.



For the proposition to be most effective, the solution should include a compelling member journey that makes it easy for them to make their own choices.

1. TAL, *Ageing Australians: YouGov Retirement Report*, 2021. Based on responses from 526 Australians aged 50–64.

# Why TAL?

As a partnership and protection business that specialises in providing institutional solutions, TAL is uniquely placed to collaborate with funds to build next generation retirement solutions.

## AN INSURER'S ROLE IN RETIREMENT SOLUTIONS

We believe the optimal retirement solution is one where super funds and insurers collaborate to enhance members' retirement outcomes. The role of the super fund is to offer and market the product to its members, deliver a compelling member experience, and manage the underlying assets.

As a leading life insurer, we are well established and positioned to provide solutions designed to evolve as the member moves through different stages of life. During their working years, the protection we offer members focuses on their life insurance needs, including death, TPD and income protection cover. This ensures they are able to keep building their retirement savings, no matter what happens. However, as they move into retirement, these benefits shift to focus on longevity protection so the member can be confident of receiving an income for life – even if their super balance depletes.

The role of the insurer is to act as their **risk specialist partner**

The role of the insurer is to act as their risk specialist partner, leveraging its risk capabilities and expertise to provide support to the fund in the areas of member proposition, product design and digital experience.

A key component of this partnership is member education. Retirement is no longer a 'point in time'. Insurers and super funds need to help members understand that retirement is an ongoing journey and support them as their needs and lifestyle change over time.



## MEMBERS' NEEDS ARE CHANGING AND INSURANCE CAN CREATE VALUE THROUGHOUT THE LIFE OF THEIR MEMBERSHIP



Work & save for retirement

Have fun

Slow down

Relax

Partner care

Insurance needs: Life risk

Living risk

Retirement is not just a point in time. We need to help members understand it as an ongoing journey and support them as their needs and lifestyle changes over time.



**Have fun:** Provide the flexibility to support lump sum spending earlier in retirement as members travel and set themselves up for life after work.



**Slow down:** Give members the confidence to continue to spend and enjoy important moments with family and friends knowing their income will not run out.



**Relax:** Members can rely on regular income as their support needs change, removing the worry of becoming a burden to family.



**Partner Care:** Comfort in the knowledge that their partner will continue to receive an income, even after they're gone.

## Our retirement capabilities

With a 42% market share<sup>2</sup> in group insurance and a long history of partnering with super funds to manage the risks members face during their working lives, it makes sense to extend that expertise to protecting members throughout retirement. In doing this, our retirement protection solutions enable our fund partners to deliver a unique whole-of-life solution that supports members from their first job right through their retirement.

Since 2015, TAL has invested in building our retirement income capabilities and expertise. TAL's scale has enabled us to invest in innovative capabilities that can help fund partners co-design a retirement solution specifically suited to their membership. We've also leveraged global longevity insights from our parent company, Dai-ichi Life, which has a retirement income presence in Japan and the United States.

Leveraging our group insurance expertise and retirement income capabilities, we developed solutions with benefits designed to evolve as the member moves through different stages of retirement. Our TAL retirement income solutions have group longevity insurance at their core. They protect members against the risk of outliving their savings by promising them an income for life.

With 42% market share<sup>2</sup> in group insurance, TAL has the experience to provide a solution which meets **unique member needs.**

## Flexible solutions

The driving force behind TAL's retirement income solutions is to help super fund members retire confidently, knowing they'll be financially protected for the rest of their life. That's why our solutions offer the flexibility of an account-based pension combined with the certainty of lifetime income.

TAL's retirement solutions offer various settings to provide flexibility so the solution meets the needs of unique member cohorts. They also have the flexibility to suit different fund types, such as master trusts and industry funds. In each case, we'll support the fund to develop an operating model and roadmap for delivery.

Depending on the needs of the fund's members, our retirement solutions can be designed to be distributed either via financial advisers or direct to the member.

## TAL'S RETIREMENT SOLUTION

	Account based pension	TAL integrated retirement solution	Traditional annuity
Flexible access to funds	●	●	●
Growth asset exposure	●	●	●
Maximise age pension	●	●	●
Lifetime income	●	●	●
Confidence to spend in retirement	●	●	●

Maximise Flexibility

Maximise Stability

Combining the benefits of ABPs and Annuities

## Why partner with TAL



**Supporting retiree quality of life**

Together with the piece of mind of a regular income, TAL's Health for Life provides tools and resources to help members live their life to the full in retirement – supporting their physical, mental and financial health.



**Innovation**

TAL is Australia's first provider of a wholesale longevity risk transfer solution supporting a trustee to issue lifetime income.



**Financial strength**

Retirement solutions are based on lifelong promises to members. TAL's 150+ year history of supporting Australians when they need it most, provides partners with confidence that our financial strength means we'll be there to support members throughout their retirement.



**Tailored solutions**

We collaborate with our fund partners to co-design a retirement solution specifically suited to their membership.



**Flexible operating models**

Instead of a one size fits all approach, TAL's operating models are flexible, meeting the unique needs of members.



**Member-tested solutions**

Part of our co-design process involves extensive member testing through innovation sprints. Our innovation capability in this area is unique within the retirement solutions market.



**Digital tools**

Our digital platform offers members a modern digital experience while providing seamless integration with funds and administrators.



**Educating teams**

TAL Insurance Academy education platform combines traditional learning modules with interactive and practical learning solutions to train fund teams.



**Global insights**

TAL has access to global insights, expertise and best practice achieved by protecting around 45 million people worldwide through valuable life insurance, disability benefits and retirement income solutions.



**Local strength and in-house expertise**

We maintain all our retirement, group insurance and investment operations onshore. Our well-resourced Retirement team have on average over 15 years' industry experience.



**Sustainable pricing with a long-term view**

Due to the long-term nature of retirement income products, we understand the importance of pricing our solutions to ensure they continue to be viable and sustainable over time.

2. TAL group channel market share by inforce premium at 31st March 2023, NMG Consulting, Risk Distribution Monitor (published May 2023)

# The solution to peace of mind

With longevity insurance at its core, our retirement income solutions provide certainty and peace of mind for funds and their members.

## THE FUND JOURNEY

Our longevity insurance essentially operates like life insurance in reverse, with 'claims' paid to members as annual bonuses and the 'premium' paid from the member's account when they exit the fund or pass away.

When a fund chooses to take up a TAL retirement income solution, we provide a wholesale longevity insurance contract to the fund's trustee. This insurance underpins a lifetime income offered to members and allows for a smoother drawdown experience. The lifetime income product then operates alongside, or is otherwise integrated with, the trustee's existing retirement product suite. The trustee is the product issuer.

A key element of our offering is that the investment assets underpinning the lifetime income product are retained by the fund, rather than by TAL. Our insurance offers protection against longevity risk to allow the fund to meet their promise to members, even for members who live longer than expected.

The structure of our longevity benefit design and operating model allows trustees the flexibility to offer various cohort retirement income strategies without requiring multiple product sets.

## HOW OUR RETIREMENT SOLUTIONS WORK

When a fund chooses to take up a TAL retirement solution, we provide a wholesale longevity insurance contract to the fund's trustee.

**TAL Longevity protection**  
**Fund investments** → **Lifetime Income Pool**

This insurance underpins a lifetime income offered to members and allows for a smoother drawdown experience

The product issuer is the fund trustee, and the lifetime pension then operates alongside, or is otherwise integrated with the trustee's existing retirement product suite.

**Trustee & Contract** → **Lifetime Pension**  
**Existing Suite**

The trustee maintains a segregated investment pool for the product. This is used to pay the lifetime income payments for all members who purchase the product.

**Trustee & Contract** → **Investment Pool**  
**Income payments**

TAL offers super funds **protection against longevity risk** to allow them to meet their promise to members regardless of lifespan.



## The retirement member journey

At the point of retirement (or soon after), members can opt into the fund's retirement income solution, combining the flexibility of an account-based pension with the certainty of lifetime income.

The fund continues to own the member relationship, with TAL supporting the member experience with a range of digital tools and calculators.

To help the member balance the three retirement income objectives – certainty, longevity and flexibility – they allocate a percentage of their super balance to lifetime income when they open an account-based pension.

Once payments commence from the lifetime income, they will continue for the rest of the member's lifetime (and the lifetime of the member's partner if the partner's reversionary feature has been selected). The value of these payments may fluctuate based on the investment performance of the underlying assets which are managed by the fund.

These income payments can be recalibrated to increase each year with inflation, and different rates can apply for singles and couples.

## Product features

Each fund can leverage our innovation and proposition development expertise to co-design their retirement income solution to reflect the needs of their membership. As part of the product design, TAL and the trustee need to agree on the following:

- What portion of their super will a member need to allocate to the product?
- At what age will the member's lifetime income payments start after purchase – immediately or after an agreed deferral period?
- What will the retiree's spending pattern look like, and how should the product be designed to support this?
- Will a death benefit (money back) option be included?
- Will a partner support option be offered, with payments reverting to the member's partner after the member dies?

## Members value a holistic retirement proposition

offered by their super fund that provides them with the confidence of a regular income for as long as they and their partner live.

## ADDITIONAL SERVICES

**Our core retirement offering is supported by a range of tools and services to streamline the member experience and support the fund's member-facing teams.**



### Digital retirement capabilities

Members value a holistic retirement proposition offered by their super fund that provides them with the confidence of a regular income for as long as they and their partner live.



### Assisted drawdown

Our assisted drawdown capability can give members the confidence to spend in retirement by providing an annual drawdown schedule. This will maximise the amount of income a member receives, while ensuring their balance sustains them until a target age. It can be integrated directly with the fund's administrator and can be especially powerful when paired with a deferred lifetime income solution.



### Retirement education

We are extending our successful Risk Academy and Insurance Academy training portals to include retirement-specific learning modules to help fund teams and advisers build their knowledge of retirement products. Our Retirement Academy can be integrated into a super fund's employee onboarding and training frameworks.



# Benefits

## Retirement solutions for members that support fund growth

### Enhanced retirement solutions

Improve member outcomes	Enhanced proposition	Growth of the fund
<ul style="list-style-type: none"> <li>• Provide income for life</li> <li>• May enhance eligibility for the aged pension</li> <li>• Confidence to spend savings</li> </ul>	<ul style="list-style-type: none"> <li>• Increase appeal in corporate super tenders</li> <li>• Differentiated proposition for advisers</li> <li>• Improve appeal as merger partner</li> </ul>	<ul style="list-style-type: none"> <li>• Grow membership and increase AUM</li> <li>• Improved member take-up of retirement products</li> <li>• Retain members for longer</li> </ul>



### For Members

Our solutions empower members by putting them in the driver's seat of their own retirement journey, so they can retire with confidence and dignity.



Members receive a lifetime income pension with the longevity component insured by TAL. This underpins the promise of an income payable for life.



Members can draw down and spend their super with confidence.



By keeping member assets with the fund, members receive the full benefits of the fund's investment performance.



Members continue to have flexible access to the portion of their super not allocated to lifetime income (i.e. the amount retained in their pension account).



TAL offers a simple digital experience that makes it easy for members to opt into a holistic retirement proposition.



Members may enhance their eligibility for the age pension and health care card due to the way their retirement savings are treated in age pension means testing.

### For Funds

Funds are able to retain more members for longer with support to meet their individual financial needs in retirement.



As a committed and locally based insurance partner, TAL will work closely with the fund to design the optimal solution for their members.



Funds can leverage TAL's deep retirement income expertise in product design and pricing, along with our investments in digital tools, administration models and registry systems to ensure speed to market with minimal upfront investment.



TAL supports funds to retain more members beyond their working lives and throughout their retirement years.



TAL's flexible product structure allows payments and benefits to be customised for different member cohorts.



TAL uses a flexible operating and service model that enables us to take on much of the upfront heavy lifting, with scope to transfer these activities to the fund over time.



Creating a combined product structure with a single insurer across group insurance and retirement can help funds simplify their product suite.



TAL's solutions can help funds meet the objectives of the Retirement Income Covenant and improve outcomes for their members in retirement.



Only APRA-regulated life insurers can offer longevity insurance (or any other life insurance). This ensures the fund will never need to 'top up' the pool's assets if the pool's actual mortality experience is better than expected.

## Find out more

To learn more or speak with one of our team about how TAL's retirement income solutions can support you and your members, please visit [group.hq.tal.com.au/retirement](https://group.hq.tal.com.au/retirement).

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### Important information

This information has been prepared by TAL Life Limited ABN 70 050 109 450 AFSL 237848 ("TAL"), is current at July 2023 and may be subject to change. The contents of these pages do not constitute legal or financial advice and should not be relied upon as such. Specific legal or financial advice about specific personal circumstances should always be sought separately before taking any action based on this publication.

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