
'New generation' VAs proposed for Australians

By Editor Test *Wed, Feb 23, 2011*

The Australian government should try to deal with longevity risk by developing a "new generation variable annuities market," according to the Institute of Actuaries of Australia.

"Superannuation"—Australia's \$1.3 trillion national defined contribution pension program—probably won't provide enough retirement income to participants, because of market risk and longevity risk, says the Institute of Actuaries of Australia.

To correct that problem, the Australian government should take new measures to deal with longevity risk, such as developing a "new generation variable annuities market," according to the Institute of Actuaries of Australia.

"We urge the Government to prioritize Budget policies aimed at managing Australia's aging population, including flexible 'new generation' annuities, which protect against the risk of outliving your retirement savings and the market risk of losing superannuation capital in retirement," said the institute's chief executive, Melinda Howes.

New generation annuities should seek to emulate some features of popular account-based products like allocated pensions, which provided retirees with access to their capital, payment flexibility and potential benefits from a rising share market, Howes said. Innovation around annuities would enable retirees greater access to their capital when needed while protecting against market downturns.

The institute is therefore asking the Government to change the Superannuation Industry Supervision Act Regulation 106, which it described as "unnecessarily prescriptive" and a reversal of the unfavorable treatment of annuities under aged care and Centrelink rules.

The institute also asserted that annuities and deferred annuities should be able to be issued as a component of an account-based pension, and that tax rules on deferred annuities should be changed so that, if taken out in the drawdown phase, the product is regarded as a pension (rather than a non-pension) for tax purposes. There should also be a clear, regulatory regime for variable annuity style products, the institute stated.

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