



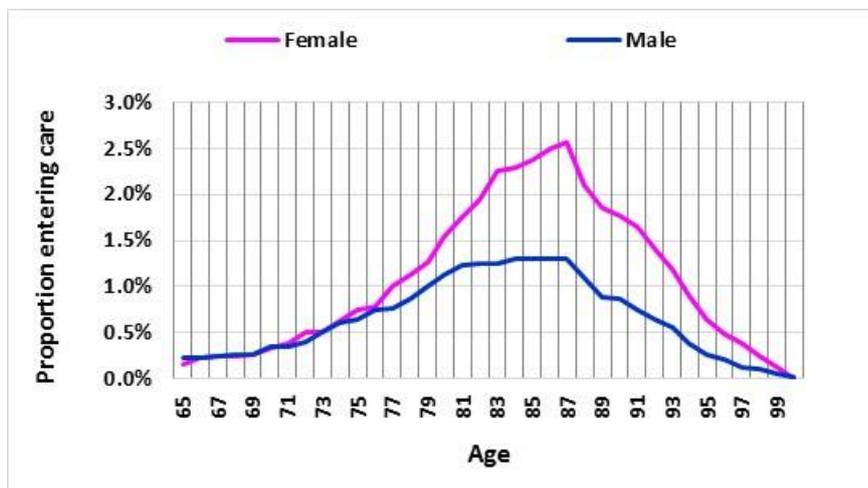
## Mutual Pensions

Harnessing the Power of Averages.

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### COMPREHENSIVE INCOME PRODUCTS RETIREMENT TRUSTEE BRIEFING PAPER

1. The Government is working towards permitting superannuation funds to offer a default retirement phase product without requiring the funds to investigate members' personal situations. These products are called Comprehensive Income Products Retirement (CIPRs). Treasury has also suggested they be called "My Retirement". Fund members can commit all or part of their superannuation balance to CIPRs.
2. Part of the need for CIPRs is the cost of care as people age. The following chart shows the proportions of the population entering aged care facilities.



3. Central to CIPRs is the provision of longevity protection. The Superannuation Industry Supervision Regulations have been changed to permit CIPRs under the name "innovative income streams". Regulation 1.06B limits commutation

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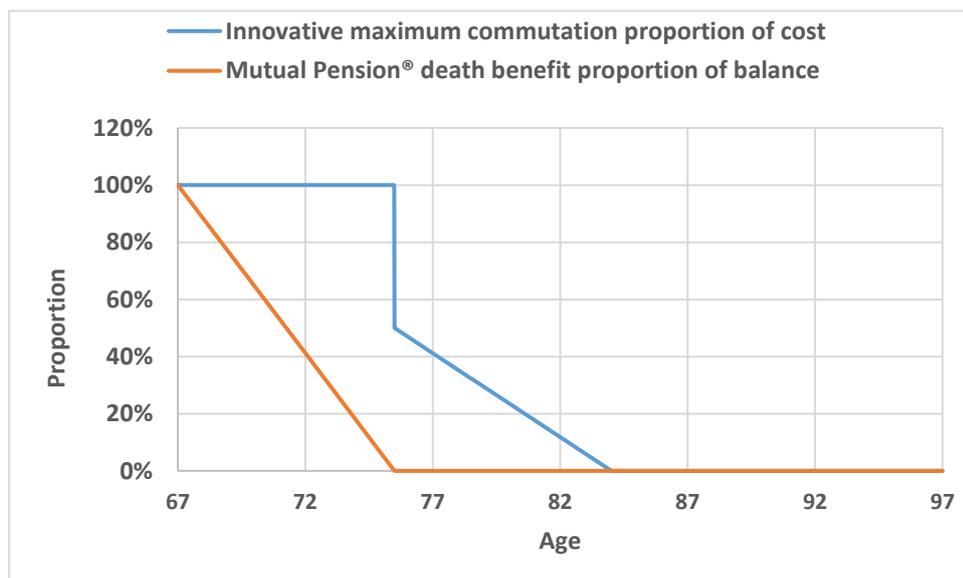
20 July, 2018



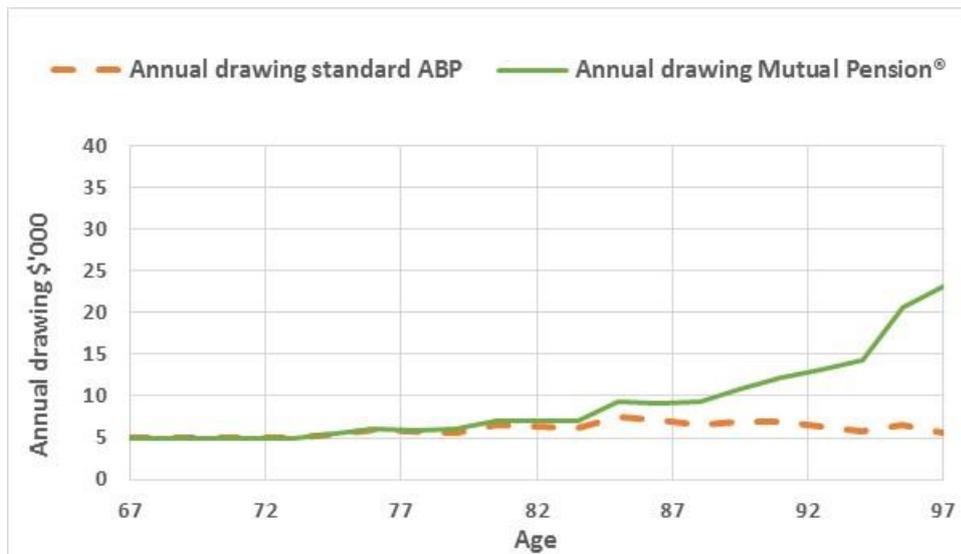
payments after the expiry of half of the life expectancy at commencement (expressed as 365 times a rounded down number of years, divided by two and rounded down). After that time, the maximum commutation amount bears the same proportion to the purchase price as the remaining period of the life expectancy bears to the original life expectancy.

4. Mutual Pension Pty Ltd has designed a product that comfortably meets the innovative definition. In return for a commitment of an increasing proportion of a member's account balance invested in the Mutual Pension® on death to a longevity arrangement, the member shares in the commitments of predeceasing members. The proportion committed increases to 100% over half of the member's life expectancy.

5. The following chart shows the maximum commutation proportions and the Mutual Pension® death benefit proportion for a male aged 67.

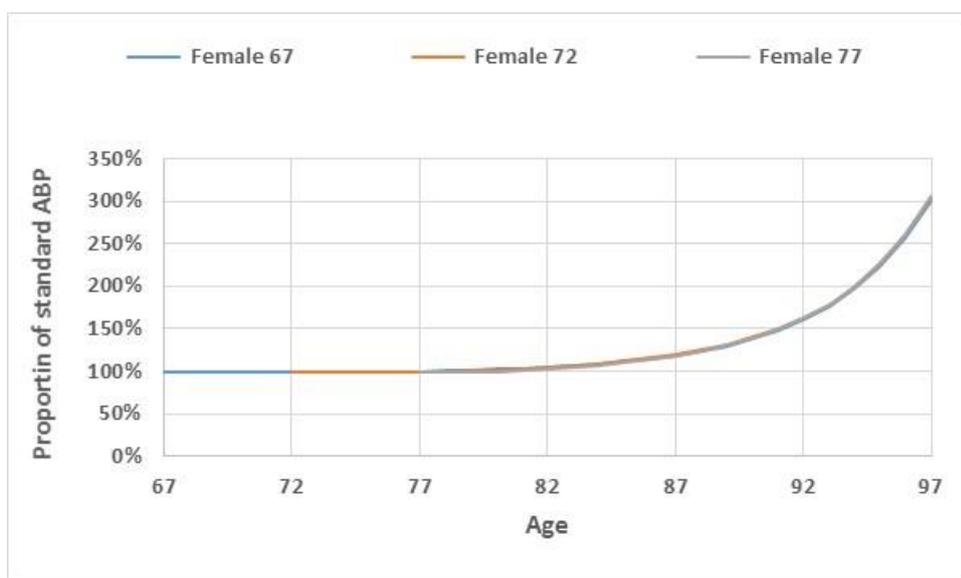


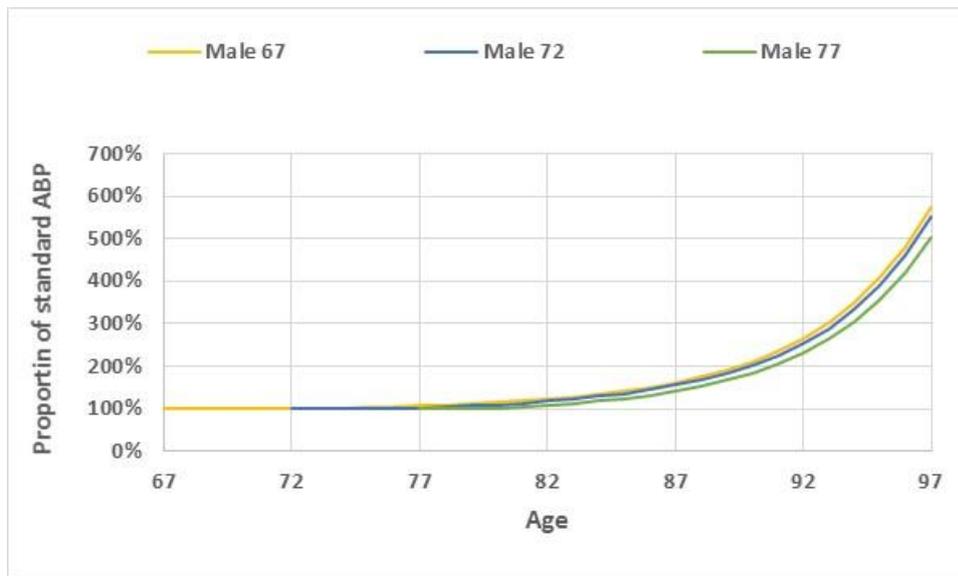
6. The following chart shows the annual drawings on a \$100,000 investment in a Mutual Pension® for a male aged 67. It assumes 5% annual investment earnings and mortality 70% of Australian Life Tables with allowance for future improvement.



7. The chart above shows the significant increase in later ages as care costs rise.

8. The benefits of a Mutual Pension® depend on gender and commencement age. The following charts shows the level of Mutual Pension® drawings as a proportion of the drawings that a standard ABP would provide for each gender and various commencement ages. It shows the female proportion is insensitive to commencement age, while the male proportion is more sensitive to commencement age.



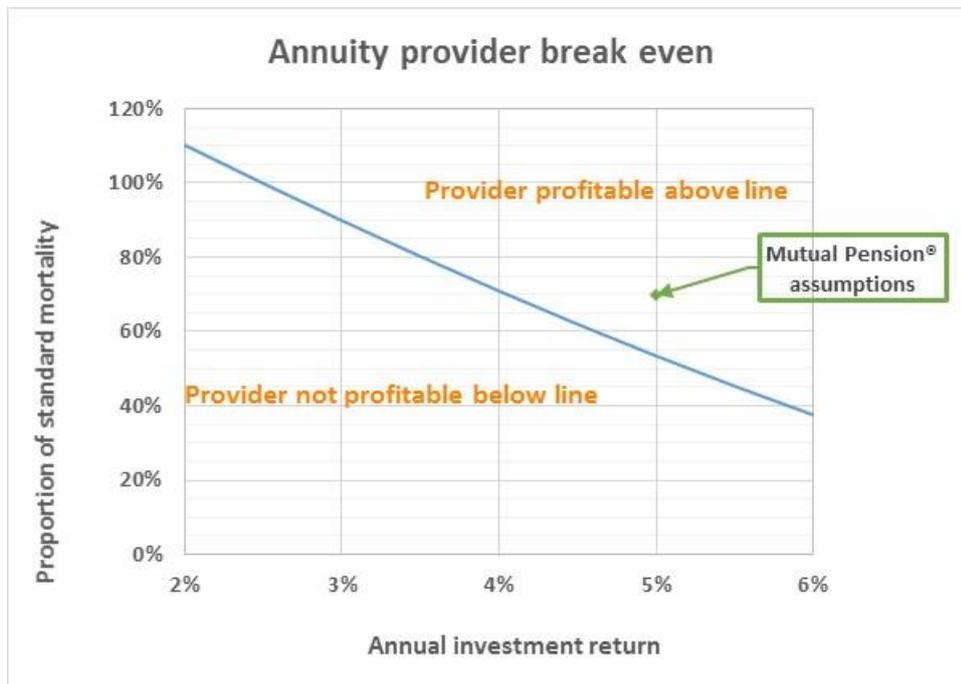


9. The charts indicate that commencement age is more important for males than females. This reflects the relatively light mortality of females in early post retirement years.

10. Mutual Pension<sup>®</sup> differ from annuities in that: -

- a. Mutual Pensioners<sup>®</sup> can choose their own investment strategy;
- b. Mutual Pension<sup>®</sup> fees and costs are clearly disclosed but
- c. Mutual Pension<sup>®</sup> longevity protection is not guaranteed. It depends on the death of other participants.

11. The relative value of Mutual Pension<sup>®</sup> and annuities can be seen from the following chart. The chart shows, for a provider of an annuity to a male aged 70, the combination of mortality proportion of standard and investment earnings at which the annuity provider breaks even.



**12.** The profitability of the annuity provider at any point on the chart is a reflection of the price paid by annuitants for the guarantee implicit in an annuity. Opting for a Mutual Pension® provides a larger expected, but not guaranteed, pension.

**13.** It is expected that 60% of Mutual Pensions® income will count towards the Social Security income test and 60% of the purchase price will count towards the assets test until the later of five years duration and age 84 when 30% of it will count.

**14.** For more information on how a Mutual Pension® can help your fund provide a CIPR to its members, please contact

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