


# Not all retirement products are created equal: Challenger

As people increasingly change the way they think about retirement, Challenger is changing the way we think about retirement income.

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When it comes to retirement income products in Australia, choice is limited. In a world fixated on accumulating wealth, focus is shifting to how best to manage that wealth in our later years.

And as financial advisers scrambled for solutions in recent years as interest rates and fixed income returns languished and volatility reigned supreme, institutions also now find themselves under the pump.

The Retirement Income Covenant is set to become mandatory from July this year, creating a new obligation on superannuation fund trustees to design and implement a retirement income strategy for members.

With no product prescription, trustees may adopt one product or a combination of products to meet the needs of their members, ensuring market risk and longevity risk are effectively addressed.

And while the legislation has only just been passed in Parliament, product issuers have been hard at work developing offerings that meet these criteria.

Challenger is one such issuer, which makes perfect sense given its standing as one of Australia's leading retirement solution providers.

In October 2021, preempting even the tabling of the Retirement Income Covenant legislation, Challenger introduced their first market-linked lifetime annuity.

The product launch is part of a broader strategy to lead industry innovation, expand Challenger's range of innovative retirement income solutions, increase customer reach, and provide retirees with better financial outcomes, Challenger general manager, distribution Luke Cheetham explains.

"It complements our range of guaranteed income annuity options to help solve a key retirement problem for advisers and their clients. It also provides a flexible and powerful capability that can help super funds address longevity risk," he says.

"What advisers have been asking us for is greater flexibility when it comes to retirement income solutions and that does make a lot of sense when you think about how long Australians are going to spend in retirement," Cheetham says.

"Australians have one of the longest life expectancies in the world and that's why advisers and clients are looking for more sophisticated retirement solutions... One thing that we do know is that retirees come in all shapes and sizes but what's common to all of them is the need to have certainty of income."

So, what's the benefit of the annuity being linked to the market?

"Market-linked lifetime annuities help financial advisers build a lifetime relationship with their clients," Cheetham explains.

"Our market-linked lifetime annuity combines the benefits of a monthly income for a client's lifetime and exposure to investment markets while offering flexibility to switch the client's payment indexation options annually, at no further cost."

The role the product plays in a portfolio can also be customised, with five diversified market-linked indexation options to choose from that can be changed each year in line with other retirement income streams and risk appetite as client preferences or needs change. These include Cash index; Conservative index; Conservative balanced index; Balanced index and Growth index.

Payments move up and down annually with changes in the market-linked indexation payment option chosen by the client, Cheetham notes, adding that only the first year's monthly income amount is guaranteed.

"The real innovation in the market-linked lifetime annuity is really how the payments will alter over the course of the life of the policy... the annual income for the client will index in line with changes in the market-linked index chosen by the client" he explains.

"In periods of strong market performance, payments can be higher than the starting payment. In periods of poor performance, payments can index down below the starting payment."

And, contrary to most products, there's no investment management fees charged which, over the life of the annuity, can add up to a significant saving.

"Investing in a lifetime annuity may also help boost the client's Age Pension – and stretch their retirement savings," Cheetham notes.

"Although in periods of strong market performance, Age Pension benefits may reduce to reflect higher income received."

The payments received are also tax-free if it's their superannuation that is invested.

It's an interesting concept given retirees' well-known desire for reliable income; the ability to provide such security is arguably a product issuer and financial advisers' greatest selling point.

But attitudes are changing, as are the financial needs of Australians as they live longer. In the accumulation phase we often hear that time is on an investors' side, and increasingly retirees are feeling the same; looking at a 65-year-old couple today in Australia, on average one of them will live to see their 94th birthday.

"Simply, market-linked lifetime annuities are suitable for those clients that want their payments linked to changes in investment markets. While many retirees enjoy the safety and security of a guaranteed income stream and no market risk, others may prefer to have exposure to investment markets' ups and downs," Cheetham says.

"People are living longer, and many retirees are more financially aware than in the past. They want to stay exposed to markets and have the potential to grow their income over time while accepting some downside risk."

And as the retirement product landscape evolves, particularly with the introduction of the Retirement Income Covenant, the number of products that will become available may well prove overwhelming.

Cheetham says the number one thing to remember is that not all retirement income products are created equally.

Retirement can be a long journey, one that is getting longer as life expectancies rise; "that's why it's important to view the product's payments in their entirety, throughout the many years retirees can expect to enjoy in retirement, as only then can the value of the product to the client be fully appreciated".

Challenger will continue to expand its suite of retirement income solutions, Cheetham adds, not only to provide people with greater choice in retirement but also to provide them with greater confidence to retire. **FS**



## The quote

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