

THE YEAR OF ANNUITIES: PENSIONS PERK UP

David Chaplin

For the third year running, IFA has teamed up with actuarial and research company Plan for Life to produce the Australian Annuity of the Year Competition. And 2005 looks like being a year of big changes both for the industry and the leaders in the competition.

For the first time in the history of the IFA/Plan for Life annuity award, Challenger has surrendered its spot at the top of the overall annuity providers' table - a fact that reflects a new, more conservative policy at the restructured company, according to Plan for Life managing director, Simon Solomon.

"Challenger took its rates back as it moved from a more property-based to fixed interest backing," Solomon says.

"So its rates were not quite as good as the others."

Under former Challenger chief, Bill Ireland, the company was able to offer aggressively priced annuity rates using a unique model that backed the annuities with property.

Earlier this year, Challenger announced it would sell down its international property assets and increase its weighting towards fixed interest investments in the funds backing its annuities.

In addition, Challenger lowered its annuity rates.

David Asplin, Challenger head of retail distribution, says the firm has not completely abandoned the property model and will hang on to its domestic property assets, which account for 60 per cent of the annuity funds.

Asplin also says while its annuity rates did drop earlier this year, they are trending up again - with a rate rise of 50 basis points in its long-term products over the last month.

"And that [rising rates trend] should continue until September 20," he says.

He says the second quarter competition results should see Challenger climb the tables again and notes a rule change, which has penalised it one point for not offering a lifetime annuity product (see

information below).

September 20 is an important date for the annuity industry because it marks the cut-off point for the sale of long-term products that still qualify for the 100 per cent exemption for the social security assets test.

Following September 20, the assets test rule will change with the introduction of the new 'growth' or 'market-linked' pensions.

In the interim, sales of long-term annuities have been brisk, with Challenger reporting a doubling of weekly volume compared to last year from \$7-8 million to \$15 million a week.

"These are exciting times for annuities - and it's not often you can say that," Asplin says.

Plan for Life's Solomon agrees the annuity market has been energised by the recent changes.

"It certainly makes the market look more interesting," he says.

Competition leaders

In short-term (one to five-year) annuities, Axa leads with AMP and CommInsure tied in second place 0.5 points behind and Challenger in fourth place.

In the long-term market, CommInsure leads with AMP in second place, and Axa and Challenger in third and fourth place respectively.

In the lifetime market, AMP and CommInsure are equal leaders with Axa in third place 1.5 points behind.

In overall terms, CommInsure is in first place, closely followed by AMP and Axa, then Challenger and Citicorp in fourth and fifth place respectively.

Other companies do not offer products across the whole spectrum.

The scoring system has been adjusted to compensate.

Thus, Challenger, Citicorp, BT/Westpac and Zurich (which do not offer lifetime) are affected by this situation.

The Annuity Provider of the Year Competition has particular empha-

sis placed on the financial strength of each provider.

While rates, rate consistency, product scope and special product or system features all play their part in the scoring, special attention is given to the way in which each company: invests annuity moneys; matches the length and types of assets against annuity liabilities; maintains particular levels of excess reserves (those not already locked up in solvency) and is able to sustain the sale of new business at existing levels and rates.

The competition has been updated so that the ratios to determine the overall annuity provider's score is based on each quarter's sales.

In addition, for companies that do not provide a full range of products, their overall scores have been adjusted so they are penalised an extra point.

USE OF THE LEAGUE TABLES

The tables provide a particular way of viewing how the five underlying factors set out above combine to produce a total set of scores per company.

These are not ratings, however, and Plan for Life makes it clear that it does not recommend or favour any of the companies or their products, nor is it providing any investment advice in this regard.

Only the results of the leading seven companies in each category have been published.

Full details as to each of the scores per company and the methodology used in scoring the factors are available on request to Australian Financial Services Licence holders and can be obtained from Stephen Dingjan at Plan For Life, <mailto:sdingjan@planforlife.com.au> or on 03 9886 4400.

When the final quarter's results have been prepared, final standings will be advised and the awards made to the companies who head up the league tables.

This will happen at an award ceremony in Sydney in early 2005. ■■■

Annuity of the Year Overall Score - Qtr 1 - Short-Term Annuities

Annuity Provider	Financial Strength Score	Market Strength Score	Annuity Rates Score	Product Score	Service	Overall Score	Rank
Maximum Possible Score Total	26	10	10	5	5	56	
AXA Australia	22.5	9.0	8.0	5.0	3.0	47.5	1
AMP Financial Services	21.0	10.0	8.0	5.0	3.0	47.0	2
CommInsure	24.0	9.0	6.0	5.0	3.0	47.0	2
Challenger Financial Services Group	18.5	9.0	10.0	5.0	3.0	45.5	4
CitiGroup	19.0	8.0	10.0	5.0	1.0	43.0	5
ING Australia (ex ANZ)	19.0	7.0	8.0	5.0	1.0	40.0	6
MLC	21.0	7.0	7.0	4.0	1.0	40.0	6

Annuity of the Year Overall Score - Qtr 1 - Long-Term Annuities

Annuity Provider	Financial Strength Score	Market Strength Score	Annuity Rates Score	Product Score	Service	Overall Score	Rank
Maximum Possible Score Total	26	10	10	10	5	61	
CommInsure	24.0	9.0	8.0	7.0	3.0	51.0	1
AMP Financial Services	21.0	9.0	10.0	6.0	3.0	49.0	2
AXA Australia	22.5	7.0	6.0	9.0	3.0	47.5	3
Challenger Financial Services Group	18.5	10.0	10.0	4.0	3.0	45.5	4
CitiGroup	19.0	10.0	10.0	3.0	1.0	43.0	5
ING Australia	19.0	7.0	8.0	4.0	1.0	39.0	6
MLC	21.0	7.0	5.0	5.0	1.0	39.0	6

Annuity of the Year Overall Score - Qtr 1 - Lifetime Annuities

Annuity Provider	Financial Strength Score	Market Strength Score	Annuity Rates Score	Product Score	Service	Overall Score	Rank
Maximum Possible Score Total	26	10	10	10	5	61	
AMP Financial Services	21.0	10.0	10.0	6.0	3.0	50.0	1
CommInsure	24.0	9.0	8.0	6.0	3.0	50.0	1
AXA Australia	22.5	9.0	6.0	8.0	3.0	48.5	3
ING Australia	19.0	8.0	8.0	5.0	1.0	41.0	4
MLC	21.0	7.0	8.0	4.0	1.0	41.0	4
Aviva	19.5	6.0	6.0	4.0	1.0	36.5	6

Annuity of the Year Overall Score - Qtr 1 - Total Annuities

Annuity Provider	Short Term	Long Term	Lifetime	Total Weighting	Overall Score	Rank
Weighting for Overall Score	46.9%	48.6%	4.5%			
CommInsure	47.0	51.0	50.0	100.0%	49.08	1
AMP Financial Services	47.0	49.0	50.0	100.0%	48.11	2
AXA Australia	47.5	47.5	48.5	100.0%	47.55	3
Challenger Financial Services Group	45.5	45.5		95.5%	45.50	4
CitiGroup	43.0	43.0		95.5%	43.00	5
MLC	40.0	39.0	41.0	100.0%	39.56	6
ING Australia (ex ANZ)	40.0	35.0		95.5%	37.46	7