



The Hong Kong Mortgage Corporation Limited



Introduction of the Life Annuity Scheme

27 November 2017

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Objectives of Life Annuity Scheme (LAS)



The LAS would help retirees to:

- (i) better plan for their retirement by providing certainty about the future stream of income; and
- (ii) address the longevity risk in retirement

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Annuity Market in Hong Kong



- ❖ Annuity market in Hong Kong is fairly under-developed, in particular immediate lifetime guaranteed fixed annuity products for the following reasons:
 - Intensive capital and reserves requirements
 - High investment management cost
 - High promotion cost
- ❖ Annuity business accounted for less than 2% of all long-term insurance businesses of private insurers¹
- ❖ Market gap unlikely to be filled by the private sector in the near term

1: Source: Insurance Authority Quarterly Release of Provisional Statistics for Long Term Business 2016

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Suitability of the HKMC



- ❖ Good track record of providing market-based products to meet public policy objectives
- ❖ The HKMC is wholly-owned by the Exchange Fund with strong credit standing
- ❖ Possesses relevant actuarial expertise
- ❖ Possesses relevant experience in providing the Reverse Mortgage Programme (RMP) as a product under retirement solutions
- ❖ Leveraging on the investment management expertise and experience of the HKMA

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Principles



- ❖ Payouts and terms should be relatively attractive, and easy to understand
- ❖ Risks can be prudently managed
- ❖ Adheres to commercial principles, financially viable and sustainable

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Eligibility Criteria



- ❖ Eligible entry age starts at 65
- ❖ Per capita premium cap at HK\$1 million
- ❖ Minimum premium amount at HK\$50,000

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Product Features



- ❖ Immediate lifetime guaranteed fixed-payout annuity
 - Annuitant to make one-off premium payment
 - Annuitant to receive immediately a stream of fixed and guaranteed amount of monthly payouts for life

Benefits

- Lifelong stream of income to address longevity risk
- Absolute certainty on the future amount of cashflows for retirement planning purpose
- Simple and easy for understanding

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Death Benefit



- ❖ Each annuitant is guaranteed to receive instalments of monthly annuity payment of a total amount equals to 105% of the premium paid (this **does not** mean when the annuitant dies, the beneficiary(ies) of the annuitant will receive an additional compensation equivalent to 105% of the premium paid)
- ❖ If an annuitant dies before receiving 105% of the premium paid, the beneficiary(ies) of the annuitant could choose to either receive (a) remaining unpaid monthly instalments until the total accumulated amount of payouts received reached 105% of the premium paid; or (b) a discounted lump sum payment equivalent to the present value of the remaining unpaid monthly instalments
- ❖ To address the key concern of annuitants about loss of value due to early death
- ❖ Also important for alleviating the risk of adverse selection: risk of only those anticipating a long life expectancy (hence requiring more payouts) more inclined to participate

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Surrender Arrangement



- ❖ An annuitant may opt to surrender the policy before receiving 105% of the premium paid
- ❖ The surrender value equals to the present value of the remaining unpaid instalments of monthly annuity payment and could be less than the premium paid
- ❖ The LAS is a long-term insurance product designed to provide a lifelong stable stream of income for retirement. Early surrender should not be encouraged. Purchasers will need to ensure that they have sufficient liquidity to meet their contingent funding needs in their decision to buy this product

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Estimated Monthly Payout Levels



Entry age at 65 (For each HK\$1,000,000 premium)		
	IRR ¹	4%
Male	Est. monthly fixed payout	approx. HK\$5,800
	(Annuity rate ²)	(approx. 7%)
Female	Est. monthly fixed payout	approx. HK\$5,300
	(Annuity rate)	(approx. 6.4%)

1: IRR: Internal Rate of Return to the annuitant assuming normal life expectancy

2: Annuity rate: Total monthly payouts per year as a percentage of the premium paid

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Premiums Investment



- ❖ The plan is to invest the premiums collected under the Scheme with the Exchange Fund (EF), and adopt the arrangements applicable to the management of other public funds by the EF
- ❖ A mutually beneficial arrangement between the Scheme and the EF
 - No management fee charged by the EF
 - Strengthens the resources of the EF in discharging its monetary and financial stability role

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Tentative Scheme Size



- ❖ Target issue amount for first tranche is HK\$10 billion
- ❖ Avoid one-off expansion in the portfolio size beyond a risk-manageable scale
- ❖ Allow gradual building-up of reserves to absorb any short-term volatilities, capital usage can be much economised
- ❖ Subject to prudent risk management principles, we will consider increasing the scale of the Scheme if the market response after the launch of the Scheme is favourable

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Way Forward



- ❖ To proceed with a number of preparatory tasks:
 - Seeking authorisation from the Insurance Authority
 - Developing the sales and distribution arrangements
 - Organizing education and promotional campaign
 - Ensuring operational readiness for implementation of the Scheme
- ❖ Target to launch the Scheme in mid-2018

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Thank you

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