

**Developing an Annuity Market in the Maldives**

# **Challenges and opportunities**

# What is Annuity?

Annuity is a stream of monthly payments made by an insurance company to the annuitant in consideration of lump sum/monthly premiums received from him.

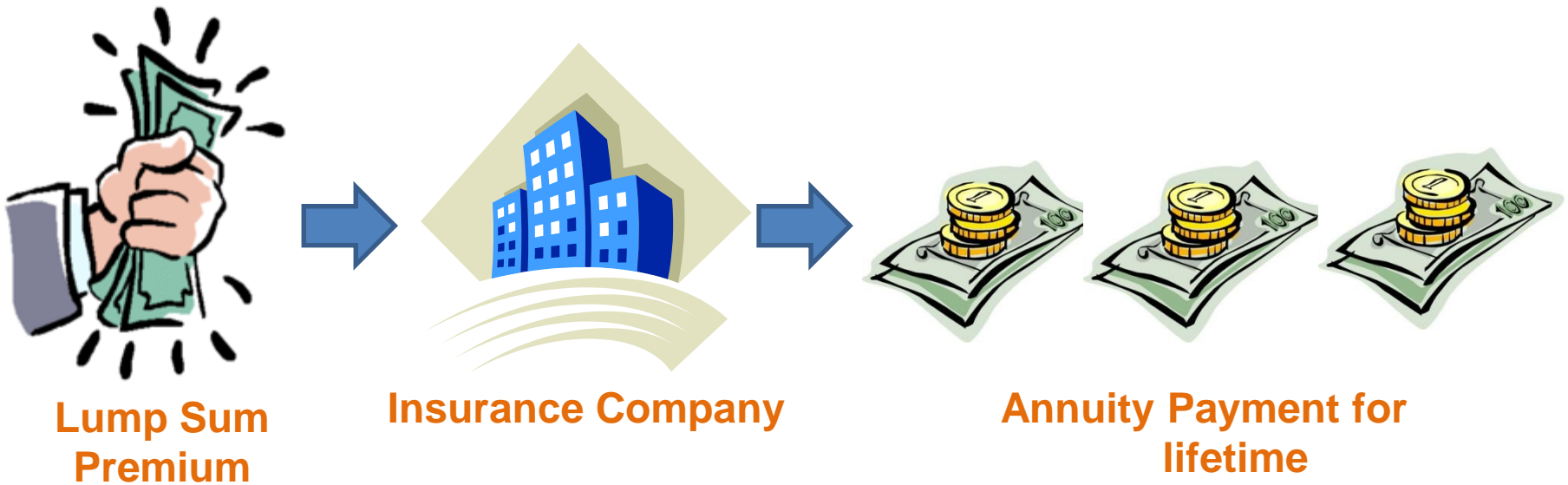
It generates regular cash flow in old age

It ensures we don't outlive our savings in old age

It supplements the pension retirement scheme income.

# Immediate Annuity

Immediate Annuity – Payment starts immediately against lump sum premium received at commencement of policy



# Immediate Annuity

Pension for Purchase Price 4,089,619 , age 65

Type of Pension	Yearly	H Yearly	Quarterly	Monthly
Life	265,007	129,845	63,594	19,835
Life + 5 yrs certain	262,758	128,823	62,980	19,630
Life + 10 yrs certain	257,646	126,369	61,958	19,426
Life + 15 yrs certain	249,467	122,280	59,913	18,812
Life + 20 yrs certain	238,220	116,759	57,255	17,790
Life + ROC	202,641	99,173	48,666	15,132
Life increasing @ 3%	158,473	77,703	38,033	11,860
Life + 50% to spouse	185,260	90,790	44,577	13,905

# Available annuity options

- Annuity payable for lifetime of annuitant.
- Life annuity guaranteed for a period of 5,10,15 or 20 years and payable for life thereafter. In event of death of annuitant during guarantee period unpaid balance annuity is paid to beneficiary.
- Life annuity with return of purchase price to beneficiary on death of annuitant.
- Life annuity increasing every year @3% simple interest.
- Life annuity with 50% annuity payable to wife for her life time after death of annuitant.

# Structure of Allied Immediate Annuity

- Designed by Actuary
- Regulated by MMA
- Entry age minimum 40 , Maximum 79 years
- 4% assumed rate on investment yield
- 6.25% bench mark yield on Government securities.

Revision in Annuity rates for every 50 basis points change

- Annuity depends on purchase price and yield
- Risks involved a) longevity b)inflation c) yield

- Premiums are invested for maximum returns commensurate with security of funds.
- Periodical valuation is done to ensure asset – liability match.
- Sources of premium - maturity proceeds from life insurance policy , term deposits, business profits, balance in retirement savings account in pension scheme.
- Product launched in 2009 .

# Deferred Annuity

Annuity payment commence from retirement date while monthly premiums are received till then





# Deferred Annuity

Deferred Annuity Entry age 30, retiring age 65, term 35 years

Monthly contribution	350	1,000	2,500
Amount accumulated at age 65	659,369	1,883,127	4,694,708
Amount commuted	164,842	470,782	1,173,677
Purchase Price	494,527	1,412,345	3,521,031
Lifetime Annuity	2,720	7,768	19,366
15 years certain plus life	2,448	6,991	17,429
Life plus return of purchase price	2,151	6,144	15,316
Life plus 50% to spouse	1,830	5,226	13,028

# Deferred Annuity

Deferred Annuity Entry age 30, retiring age 65, term 35 years

Monthly premium	2,500	2,500	2,500
Amount accumulated at age 65	4,694,708	5,588,325	6,489,382
Amount commuted	1,173,677	1,397,081	1,622,346
Purchase Price	3,521,031	4,191,244	4,867,037
Lifetime Annuity	19,366	23,052	26,769
15 years certain plus life	17,429	20,747	24,092
Life plus return of purchase price	15,316	18,232	21,172
Life plus 50% to spouse	13,028	15,508	18,008
Impact of interest rate	4%pa	5%pa	6%pa
Longevity Impact	15 years	15 years	15 years

# Structure of Deferred Annuity

- Amount accumulated in individual account depends on deferment period, monthly premium and yield on investment of funds.
- Investment avenues - treasury bills, money market instruments, long term government securities, government and corporate bonds, debt instruments, company shares, company deposits, loans and debentures, mutual funds, overseas markets, etc.

- Efficient fund management for maximization of returns commensurate with security of capital.
- Periodical valuation is done to ensure funds are sufficient to meet future commitments
- Commutation up to 25% of funds at retirement date
- Death benefit as value addition
- Awaiting long term investment avenues to develop the Product.

# Allied Annuity Policy & Maldives Pension Scheme – Commonalities

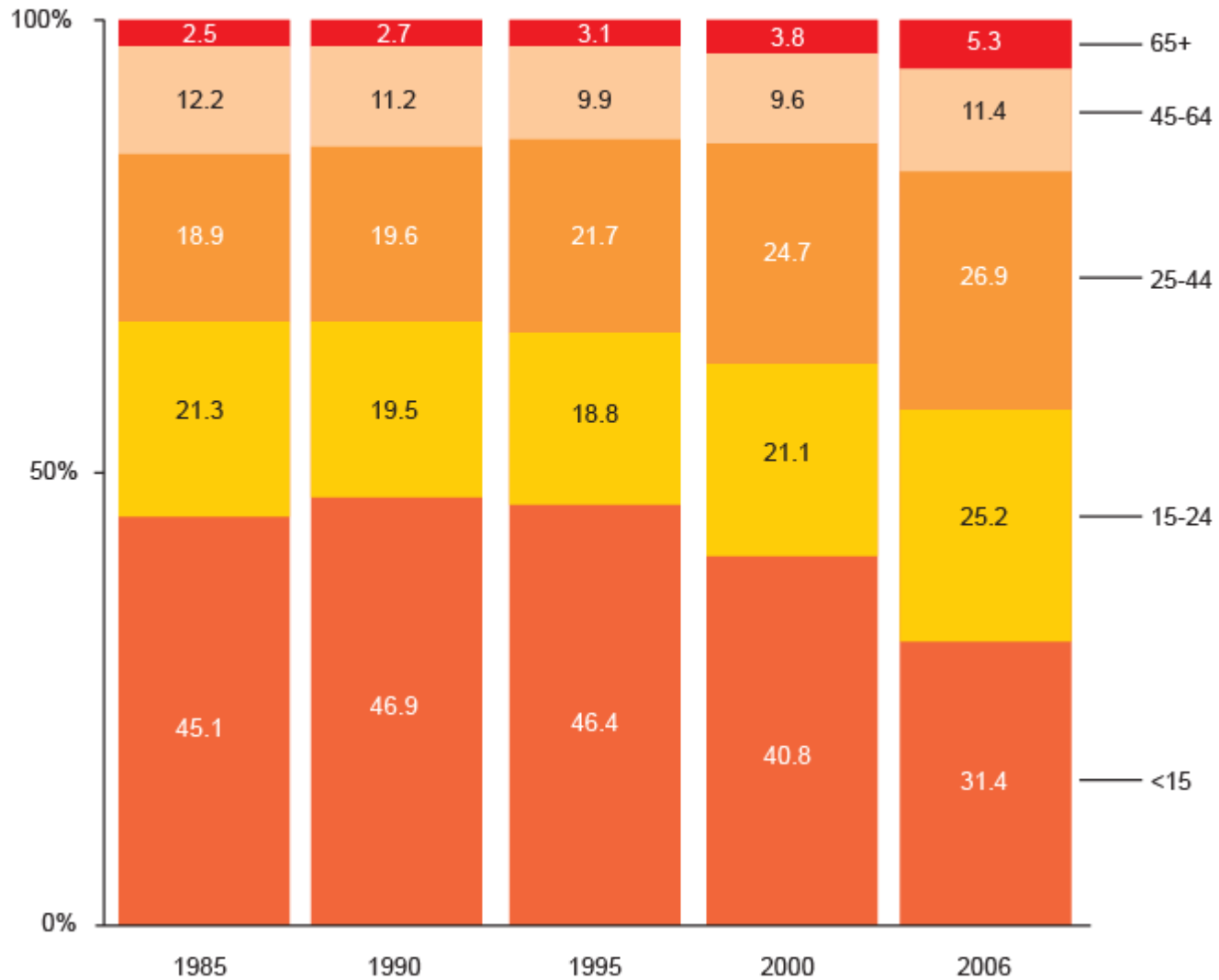
- They complement each other
- Accumulation phase followed by payout phase
- Fund management
- Investment of funds for maximum benefit of member
- Defined Contribution scheme
- Both provide Old age provision

- Balance in retirement savings account of pension scheme can be used to purchase Allied immediate annuity policy with varied options
- Valuable Death benefit to pension subscribers can be purchased through Allied group term assurance at nominal premiums.

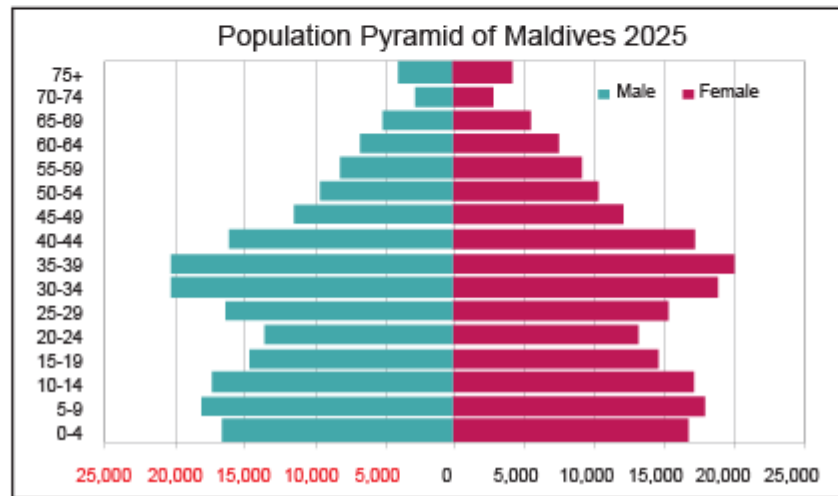
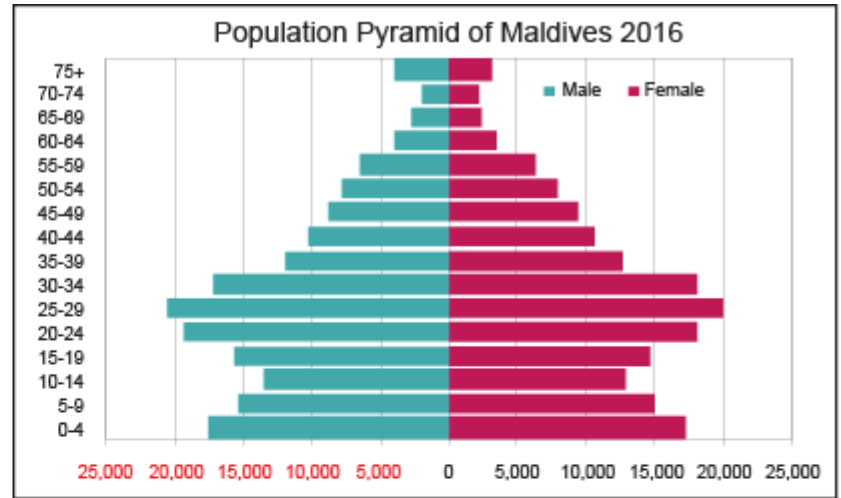
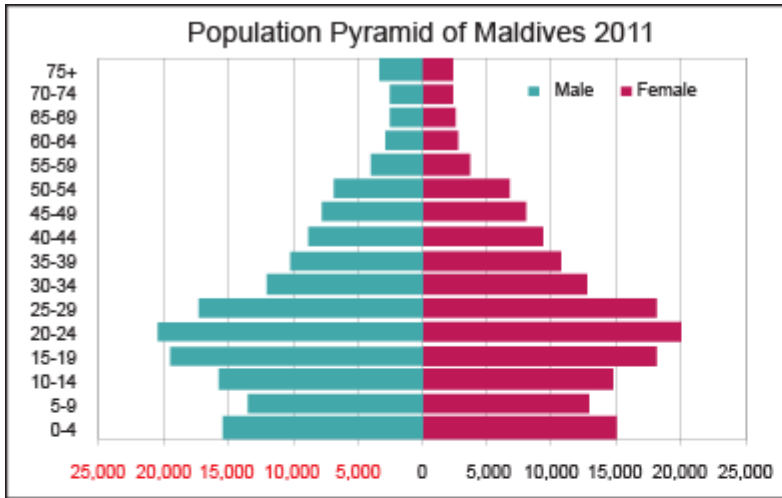
Source: Census Data

### Percent distribution of the total population by age

1985-2006



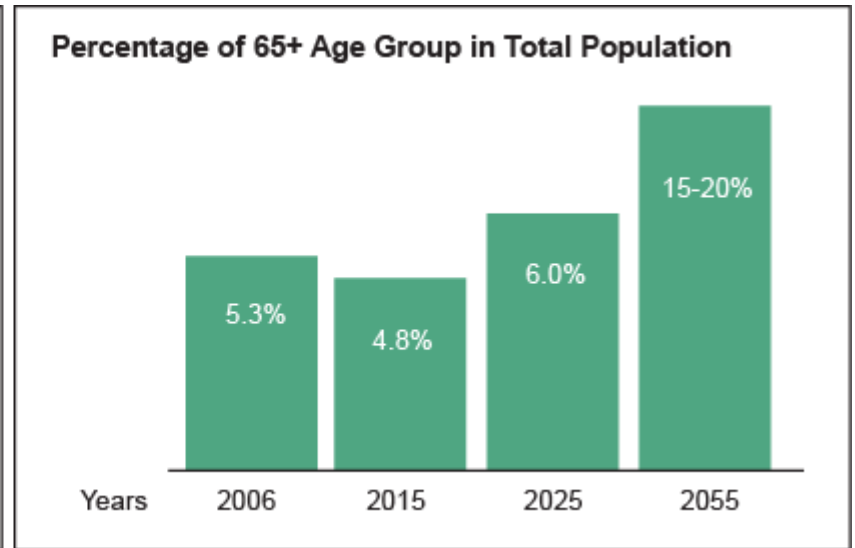
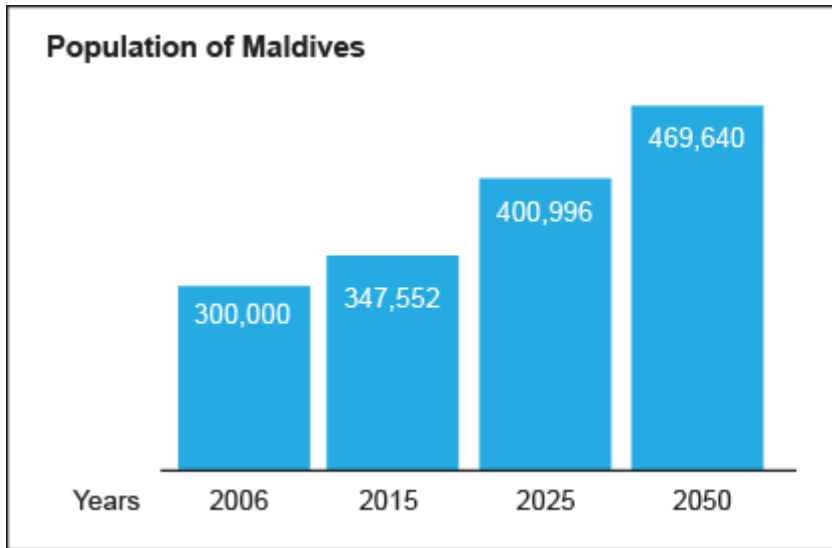
# Population Projection



**Source:**  
 Department of  
 National Planning,  
 Census Data  
*planning.gov.mv*



# Demographic Transition

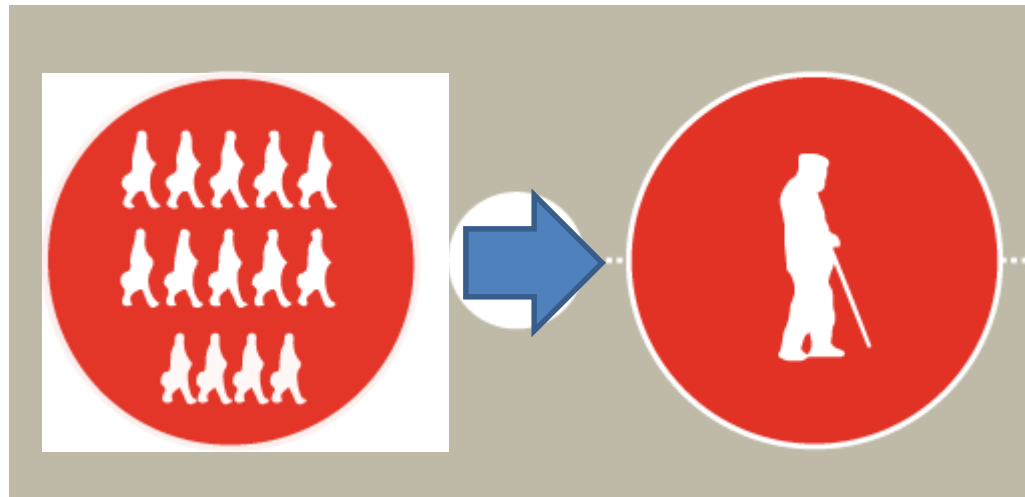


Older age groups form larger proportion of population due to decline in mortality

Increase in aged persons will pose immediate challenges unless the special and growing needs of the ageing population are addressed beforehand

# Dependency Ratio 2015

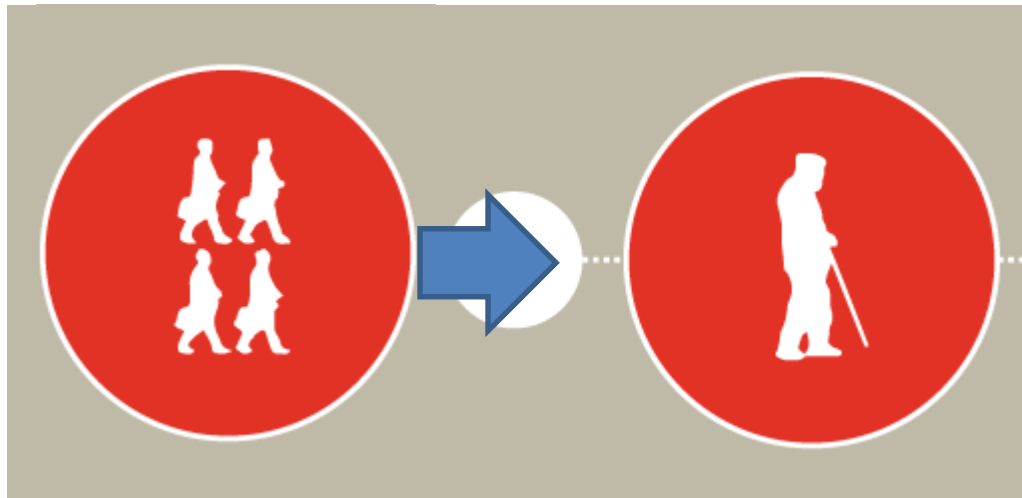
$$\frac{\text{Working population (15 – 64)}}{\text{Retired population (65 and above)}} = \frac{240,448}{16,678} = 14$$



# Dependency Ratio 2055

estimated

$$\frac{\text{Working population (15 – 64)}}{\text{Retired population (65 and above)}} = \frac{421,251}{122,299} = 3.4$$



# Assumptions for Population Estimates

- 1.69% growth in population every year
- Dependency ratio will decrease from 14 in 2014 to 4 in 2055.
- Percentage of 65+ age group will increase from 5.3% in 2015 to 18% in 2055.
- Reducing dependency ratio indicates it is more onerous for working population to support the needs of older retired population

# Sources of Retirement Income

- State pension (unfunded) – Maybe unsustainable in the long run
- Personal savings – Requires planning & self discipline
- Post retirement work – May not be available. Also health issues in old age
- Allied Individual pension (funded) – Higher returns through investments of funds

# Challenges for Starting Annuity Business

- Long term Government & corporate bonds
- Capital Market development
- Regulatory Frame work
- Incentives for saving
- Insurance awareness
- Financial literacy

# Opportunities for Starting Annuity Business

- Ageing population
- Nuclear families
- Untapped market

