

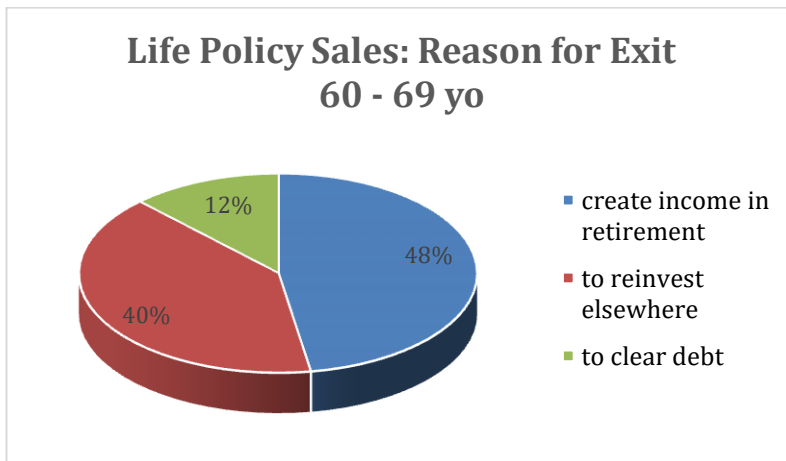
Life Policy Trading Macro Trends: Creating Retirement Income, Dealing with Financial Distress, Clearing Debts

Persistency rates high, matching pre-retirement asset accumulation phase

Annual premium income for with-profits life policies dropped by 1.2% to \$72M for the March 2017 quarter, according to latest statistics from the Financial Services Council. This quarterly drop-off of just under 1.2% is the smallest for several years: rates usually hover between 1.6% - 2%. Policy maturity/death claims and policy lapses/surrenders were also lower for the March quarter at 0.8% and 0.5% respectively; both are usually around 1.0%.

Persistency rates are relatively high by historical standards, understandable since a large portion of these policyholders nearing retirement and still accumulating assets prior to ceasing work.

Supplementing retirement income growing in importance



Policies being sold over the Policy Exchange trading platform show clear trends relating to post-retirement issues. Fully 50% (and rising) of enquiries received are from policyholders aged 60+, many of whom are no longer working and want to supplement their retirement income. Just under half this group cited ‘need income in retirement’ or ‘to cover living expenses’ as their reason for exit. One-in-five wanted to clear debts, including mortgages.

We see these exit reasons – supplementing retirement income and clearing debt – becoming even more dominant as an increasing number of baby boomers reach retirement in the next 5-10 years.

Historical trends based around financial distress continue, although this is usually younger policyholders (50-59 yo) for whom retirement is not imminent. One in three policies traded are by this age group.

In summary, we believe **persistency rates** will continue at close to current levels as more with-profits policyholders move into the 50+ asset accumulation phase, and **will likely increase** the closer this group

gets to retirement. When retirement is imminent, **creating income in retirement** will become the predominant reason for policyholders to exit their contracts.

Financial distress – a rise in Endowment surrenders

We're seeing more **Endowments** being surrendered simply to cover living expenses. Recently we were approached by an adviser whose client, under financial pressure, had cashed in all their reversionary bonuses during 2016. This was an attempt to release some cash but still retain the policy. However, their situation had not improved and they were forced to cash in the balance of the policy. The adviser utilised the Policy Exchange service to get a few hundred dollars more for the policyholder.

Whilst it is of course preferable for policyholders to retain their policy, due to circumstances sometimes they have no choice but to exit. Situations involving **external debt** or debts built up against the policy due to **unpaid premiums or policy loans** are where the adviser has a real opportunity to help a client obtain a little more by using the Policy Exchange policy trading service.

Looming retirement: clear the debts

Using the cash value of a life policy to clear a mortgage is another rising trend: 20% of policyholders in the 60+ age bracket using Policy Exchange in the past 12 months were clearing a mortgage or other debt.

Recently, an Auckland teaching couple close to retirement and keen to remove their mortgage repayment burden decided to cash in all their life policies. Trading these through Policy Exchange provided them with enhancement amounts which added significantly to the surrender values. They were able to substantially reduce their Auckland-sized mortgage, and will gain the peace of mind of being mortgage-free just 18 months later.

Get an answer quickly

For an immediate indication of whether Policy Exchange can make an offer, plus the likely enhancement amount, you can use the pre-qualifying form on our website:

www.policyexchange.co.nz/do-you-qualify

This service is free, and there is no obligation to continue through to a quote if you don't wish to.

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