



# MLC ANNUITY PRODUCTS

## 2020 Annual Outcomes Assessment

The MLC Annuity products give members access to guaranteed regular pension payments provided by MLC Limited. In exchange for a one-off lump sum payment, these products pay a guaranteed regular payment to the member for the duration specified.

MLC Annuity products form part of the MLC Super Fund, of which NULIS Nominees (Australia) Limited ('NULIS') is the Trustee. NULIS is responsible for all fiduciary, legal and regulatory obligations in relation to running the superannuation fund.

Each year, NULIS is required to conduct an Outcomes Assessment which determines whether it has 'promoted the financial interests' of the members of the MLC Annuity products.

The Outcomes Assessment is performed by MLC Wealth Limited (MLC) with the assistance of MLC Limited, on behalf of NULIS using industry benchmarking and in-house data. The Outcomes Assessment helps us to understand how we are performing on a range of measures. This benefits members since it helps us identify ways to improve the benefits and services we provide to them.

Note that MLC Limited is a different entity from MLC Wealth Limited. MLC Limited uses the MLC brand under licence. MLC Limited is part of the Nippon Life Insurance Group.

The Outcomes Assessment for the 2020 calendar year concluded that overall, **the MLC Annuity products are promoting the financial interests of members.**

This document provides a summary of the factors that were assessed in reaching this conclusion, including what we are doing well, areas identified as requiring improvement and how we intend to enhance the outcomes of members in future.

It should be noted that this document reflects an assessment of product performance based on data collected during the 2020 calendar year. Our members receive yearly updates about their own superannuation product, as well as details about any product changes, in their annual statements and other communications.

MLC Annuity products comprise:

- MLC Fixed Term Pension
- MLC Super Pension
- MLC Super Pension Plan

Each time a member commenced an MLC Annuity product, a life insurance policy was purchased. The insurer is MLC Limited. NULIS is the owner of this policy and the member is the life insured. Under that policy, MLC Limited has an ongoing liability to make the pension payments for the amounts and the frequency and term agreed when the policy was established. Our obligation to pay the member, or the reversionary beneficiary if applicable, is limited to the amount we receive from MLC Limited.

These products are no longer offered to new members (which is also referred to as being 'off sale').

The MLC Annuity products were assessed together as they largely provide the same features and benefits.

### Product Assessment

#### Options, benefits and facilities

The options and benefits relating to each MLC Annuity policy were determined at the time the policy was purchased, based on a quotation provided by the insurer. These terms are now guaranteed by MLC Limited.

The variables that were agreed for each MLC Annuity policy include:

- The purchase price, paid to the insurer to initiate the policy
- The initial amount and frequency of the pension payments
- The basis for future pension payment increases
- The duration of the pension – fixed term or lifetime
- Whether payments continue after the member's death (reversionary annuity)
- For reversionary annuities, the nominated beneficiary and the regular pension payments they will receive after the death of the original annuitant (may be a reduced amount)
- The Residual Capital Value (RCV) – an amount as agreed that may be paid at the end of the policy term, or in the event of the member's death or, for reversionary annuities, once both the member and the reversionary annuitant have passed away. The MLC Fixed Term Pension may also include a RCV payment at the end of the pension term

Members are provided with reporting and regular communications and have access to MLC Limited's customer services, such as call centres. However, given the guaranteed contractual nature of these products, the types of options,

benefits and facilities that may be offered with account based pension products are not comparable for these products.

Overall, the options, benefits and facilities offered to members in each of the MLC Annuity products have been assessed as being appropriate.

### Investment Strategy

The lump sum investment paid by members to purchase their pension was used to buy a life insurance policy. The insurer for all MLC Annuity products is MLC Limited and the member's pension purchase payments are invested in the MLC Limited Statutory Fund 1. There is no investment choice for annuitants and they are not entitled to participate in the distribution of any surplus from Statutory Fund 1.

The investment objective of Statutory Fund 1 is to secure the guarantees to policyholders by investing part of its investment portfolio in a suitably structured portfolio of interest bearing securities that matches those guaranteed obligations.

Surplus assets over and above those required to fund guaranteed benefits will generally be invested in a more return-seeking, diversified portfolio.

The benchmark asset allocation of Statutory Fund 1 is 100% defensive assets, in Australian interest bearing securities.

We consider that the investment strategy is appropriate for ensuring that MLC Limited can meet its financial commitments to members.

### Insurance Strategy

This assessment factor is not applicable as insurance is not offered with the MLC Annuity products.

### Insurance fees

This assessment factor is not applicable as insurance is not offered with the MLC Annuity products.

### Scale

Scale is important because operating a large business supports the long-term sustainability of our products and our ability to deliver member outcomes.

For the purposes of this part of the assessment, 'scale' was considered at two levels – the scale of NULIS' business operations as the Trustee and the scale of MLC Limited as the Insurer.

NULIS operates four superannuation funds including one of the largest in Australia, which includes the MLC Annuity products. Our total funds under management was \$96 billion as of 30 June 2020 (#5 in the market), and we had 1.2 million members (#5).

We concluded that NULIS' large scale permits us to effectively oversee the management of these super products.

MLC Limited, the insurance provider of the MLC Annuity products, is one of the five largest insurers in the Australian market by in-force premium income. As one of the largest life insurers in the market, MLC Limited has extensive expertise and enjoys the scale benefits derived from providing insurance to a very large number of customers and investment expertise from managing large investment pools. In addition, MLC Limited has adequate capital in order to meet the underlying insurance risks according to Australian regulatory requirements, as attested annually by MLC Limited's Appointed Actuary.

We consider that MLC Limited's scale is supporting the financial interests of members on the basis that:

- MLC Limited is one of the largest life insurers in Australia
- MLC Limited has capital reserves adequate to meet prudential regulatory requirements

With all these factors in mind, we have concluded that the scale of both NULIS' and MLC Limited's business is appropriate.

### Operating costs

'Operating costs' in this context means the costs to operate the business. It does not refer to costs paid by members.

The operating costs incurred in relation to the MLC Annuity products are primarily borne by MLC Limited. The parent company of MLC Limited is Nippon Life Insurance Group, a mutual life insurance company. As MLC Limited is a separate entity, not related to NULIS and given the commercially sensitive nature of this information, it was not appropriate for MLC Limited's operating cost information to be incorporated into the assessment.

We can normally infer operating cost from an 'outside in' perspective based on fees charged to members. However, this is not possible for these products as there are no explicit fee charges. Instead, fees and costs are deducted from the reserves held by MLC Limited that are used to make the pension payments.

Market comparisons of fees charged by MLC Limited for other products indicate they are competitive and therefore there is no evidence that MLC Limited's operating costs are disadvantaging or inappropriately affecting members.

As a result, we have concluded that the operating cost of MLC Limited's business is appropriate.

### Basis of setting fees

MLC Limited has guaranteed to make regular pension payments to the annuitants for a fixed term or for the rest of the member's



life (or their reversionary beneficiary's life if applicable), in exchange for a lump-sum investment. The calculation of these payment amounts is fixed at commencement and includes an allowance for MLC Limited costs and expenses.

MLC Limited does not deduct ongoing fees or charges from these policies or from the regular pension payments.

NULIS considers that the fees and costs charged for the MLC Annuity products are reasonable and appropriate on the basis that there are no ongoing fees and the pension payments are guaranteed based on the terms quoted before each policy commenced.

We concluded that the basis of setting fees for the MLC Annuity products is appropriate.

### The basis of our conclusion

The following factors were found to be supporting NULIS' objective of promoting the financial interests of members:

- *Options, Benefits & Facilities:* we consider that the options, benefits and facilities available to members in the MLC Annuity products are appropriate and adequate given the fixed, contractual nature of these products
- *Investment Strategy:* We consider that the investment strategy for MLC Limited's Statutory Fund 1 is appropriate for ensuring that MLC Limited can meet its financial commitments to members

- *Scale:* The scale of NULIS' operations is substantial, which permits us to effectively oversee the management of these super products. In addition, MLC Limited is one of the five largest insurers in the Australian market by in-force premium income and has achieved the benefits of scale. In addition, MLC Limited has adequate capital to meet the underlying insurance risks according to Australian regulatory requirements
- *Operating Costs:* Since MLC Limited is a separate legal entity to NULIS, operating cost information is not available to NULIS. However, given the market competitiveness of MLC Limited's other products, it was concluded that their operating costs are not having a negative impact upon members
- *Basis for setting fees:* MLC Limited has guaranteed the regular payments based on the terms quoted before each policy commenced. MLC Limited does not deduct ongoing fees or charges from these policies or from the regular pension payments

NULIS' conclusion has taken into consideration the off-sale nature of these products and the fact that peer comparison is therefore challenging.

Having regard to all the factors we assessed in performing the Annual Outcomes Assessment for the 2020 calendar year, we concluded that overall, the MLC Annuity products are promoting the financial interests of members.

### Important information

NULIS Nominees (Australia) Limited (ABN 80 008 515 633 AFSL 236465) (NULIS) is the Trustee of MLC Super Fund (ABN 70 732 426 024) (Fund). If you are a current member holding any of these products, you should consider the disclosure material you received on joining, together with any significant event notices and regular reporting from us, for information about your interest in the product and to help inform any decisions. MLC Wealth Limited has conducted the Outcomes Assessment on behalf of NULIS. The Outcomes Assessment is based upon data collected in the 2020 calendar year. The relevant data and assessments reflected in the Outcomes Assessment may change from year to year. This document has been prepared for reporting purposes only and should not be used for the purpose of informing investment decisions. This information is of a general nature only and does not take your specific needs or circumstances into consideration. You should consider the appropriateness of the information having regard to your personal situation before making any financial decisions. Past performance is not a reliable indicator of future performance. The value of an investment may rise or fall with the changes in the market. Returns are not guaranteed and actual returns may vary from any target returns described in this communication. The final authority on any issue relating to members' interests in the Fund is the Fund's Trust Deed, and any relevant insurance policy, that govern members' rights and obligations.