

Macquarie Lifetime Income Guarantee Policy



Key Information

Investment Type

The Macquarie Lifetime Income Guarantee Policy is a life policy under the Life Insurance Act 1995. The Policy is designed to provide Trustees of superannuation funds with an investment suitable for a member to be paid a superannuation pension from the fund.

Issuer Macquarie Life Limited ("Macquarie Life").

Investment Manager Macquarie Investment Management Limited (MIML).

Investment Account An account maintained by Macquarie Life and invested across the Investment Funds chosen.

Guarantee Base Initially, the sum of an investor's investment in the Macquarie Lifetime Income Guarantee (net of upfront fees). The Guarantee Base is recalculated **on each anniversary of the commencement date**.

Income Rate = **Base Rate + Lifestyle Bonus Rate**

60 – 64 yrs **5.5%** = 3.5% + 2.0%

65 – 69 yrs **6.0%** = 4.0% + 2.0%

70 + yrs **6.5%** = 4.5% + 2.0%

The Lifestyle Bonus Rate is 2.0% p.a. for at least the first 5 years. On each subsequent investment anniversary, if the Investment Account balance is below 80% of the Guarantee Base, the Lifestyle Bonus Rate will decrease by 0.5% p.a. (cannot fall below 0%).

Guaranteed Lifetime Income Calculated as Guarantee Base x Income Rate. The Guaranteed Lifetime Income will continue to be paid even when the Investment Account runs out.

Investment Funds The Investment Account is invested in Growth and Defensive Asset Funds managed by MIML.

Minimum Investment \$50,000

Maximum Investment Amounts over \$1 million are subject to approval from Macquarie Life.

Withdrawals Investors retain full access to their funds (subject to superannuation rules). Withdrawals in excess of the monthly pension income amounts reduce the Guarantee Base and Guaranteed Lifetime Income.

Fees & Commissions

Establishment Fee 1% of initial investment.

Investment Management Fee 1% p.a. of the Investment Account.

Guarantee Premium 1.1% p.a. of the Guarantee Base.

Excess Withdrawal Fee 2% of any Excess Withdrawals during the first 7 years.

Estate Protection Option Premium 0.35% p.a. of the Guarantee Base (optional).

Spouse Option Premium 0.50% p.a. of the Guarantee Base (optional – includes EPO at not extra cost).

Adviser Service Allowances **Initial:** up to 3% of the initial investment.
Ongoing: up to 0.70% p.a. of the Investment Account balance.

What this Rating Means

The Recommended rating indicates that Lonsec has conviction that the fund or product can achieve its objectives and, if applicable, outperform peers over an appropriate investment timeframe. The manager or product has a number of competitive advantages in people, process and product design. The investment is a recommended entry point to access this asset class or strategy.

Scope of this Rating

The research process has included, but is not restricted to, the Lonsec Ratings Process for structured products. Lonsec has not sought legal advice regarding the structure of the product. Lonsec has not engaged specialist taxation or actuarial advice.

Lonsec is not authorised to provide any taxation or actuarial advice regarding this product and investors should seek their own independent advice in this respect.

Lonsec Opinion of the Policy

➤ Macquarie Lifetime Income Guarantee Policy ("Policy") has been designed to complement other retirement investments by providing a guaranteed income for life. The Policy seeks to provide a solution to the growing number of Australians at risk of outliving their retirement savings. Lonsec considers the Policy can play a legitimate role in the suite of retirement products available to Australian retirees.

➤ The Policy offers investors the flexibility to choose an asset allocation for their Investment Account or adopt a "set & forget" strategy which automatically allocates according to an investor's age. Any gains are locked in annually by adjusting the Guarantee Base which is used to determine the Guaranteed Lifetime Income. The Income Rate comprises an age based Base Rate and a Lifestyle Bonus Rate which is 2% p.a. for the first 5 years and then depends on the performance of the Investment Funds. Structuring the Policy in this manner means investors potentially receive the benefits of strongly performing investment markets earlier in retirement, when, arguably, their requirements to draw a higher level of income are greatest. Lonsec considers the product structure to offer flexibility, with a number of attractive optional features.

➤ The Policy has advantages over market linked retirement products, such as allocated pensions, which rely on positive product balances in order to pay a regular pension. For a fee (akin to an insurance premium), the Policy pays a guaranteed lifetime income even where the account balance falls to zero.

➤ The Policy is structured by Macquarie Longevity Solutions, a team of 17 personnel drawing on the resources of the broader Macquarie Funds Group and Macquarie Life. Lonsec considers the Policy to be soundly structured and managed by experienced investment professionals.

➤ Although there are few products directly comparable to the Policy, Lonsec considers the fees compare favourably to alternatives and the Policy is currently Lonsec's preferred product in this space.

How to Use this Policy

This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page. Investors are advised to read the Product Disclosure Statement prior to making any investment decision.

The Policy has been designed to appeal to SMSFs or more specifically provide Trustees of superannuation funds with an investment suitable for investing assets held for a member of a superannuation fund who is to be paid a superannuation pension from the fund. The Policy is a contract between Macquarie Life and the Trustee of the superannuation fund.

An investor with an allocated pension (including SMSF pensions) may invest a portion of their balance into the Policy, thereby enhancing their market-linked pension with a lifetime income guarantee.

Lonsec considers the Policy to have a place alongside other retirement products available to Australian retirees and form part of an overall retirement strategy.

Issuer

Macquarie Life was established in 1992. It is a wholly owned subsidiary of Macquarie Bank Limited. Macquarie Life is a life insurance company which is registered with and supervised by APRA and has been issuing life insurance policies since 2000.

Further information about the Macquarie Group structure and Macquarie Life (including its most recent financial statements) is available on the Macquarie Life website at:

<http://www.macquarie.com.au/macquarielife/>

Macquarie Life is rated by external credit rating agencies.

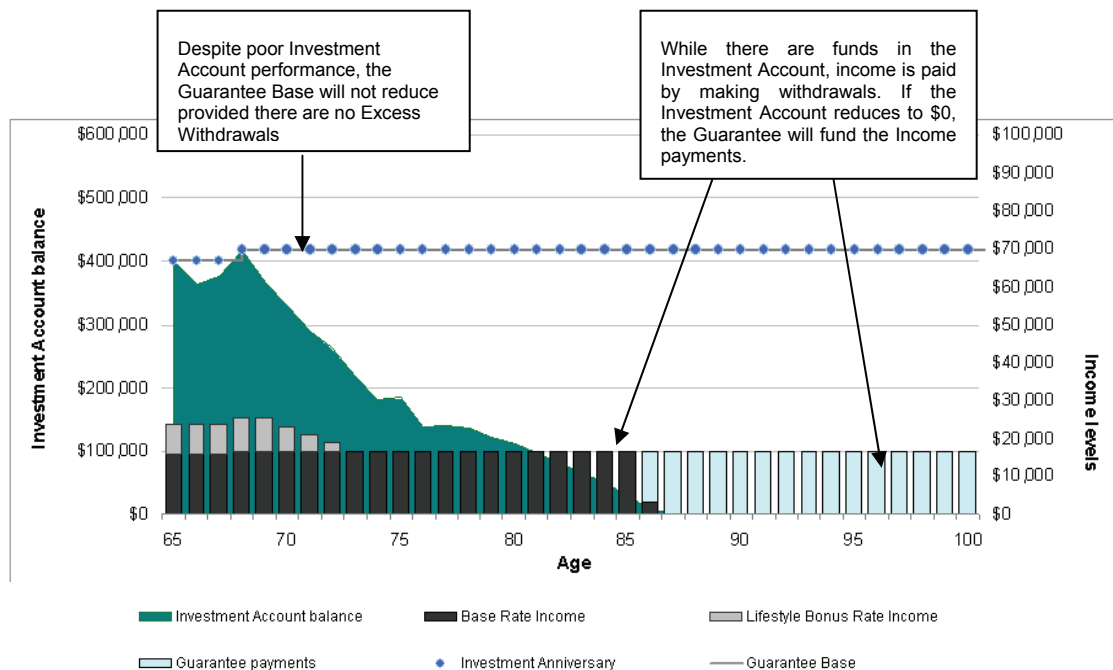
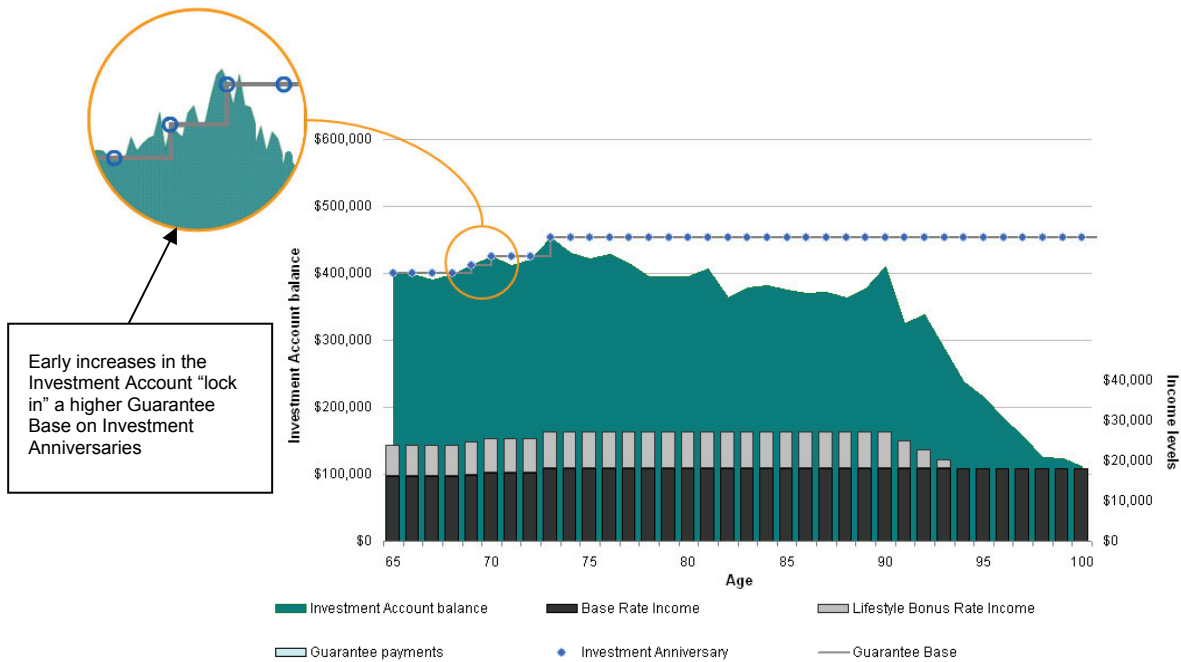
How Does the Policy Work?

Investors must be members of a superannuation fund with an account based pension. The member's Trustee invests a member's superannuation savings into the Policy for the member's benefit. The Investment Account is maintained by Macquarie Life and subsequently invested into the Investment Funds selected.

An investor's initial contribution (net of upfront fees) is known as the Guarantee Base. The Guarantee Base is recalculated on each anniversary of the commencement date. The Guarantee Base rises as the Investment Account balance increases to reflect increases in the Investment Funds but does not fall with falls in the Investment Funds. **There is no maximum Guarantee Base.**

The Guarantee Base is used to calculate the Guaranteed Lifetime Income (or monthly withdrawals), equal to the Guarantee Base x (Base Rate + current Lifestyle Bonus Rate) ÷ 12. This amount is the maximum monthly pension investors can withdraw without reducing the Guarantee Base and is paid for life regardless of whether an investor's Investment Account balance runs out or how the Investment Funds perform. Withdrawals in excess of the Guaranteed Lifetime Income reduce the Guarantee Base and subsequently the level of guaranteed income. Investors also have the flexibility to draw amounts less than the Guaranteed Lifetime Income, however should be aware there are statutory minimums which must be withdrawn as pension payments. Macquarie Life will allow withdrawal of certain amounts to help investors fulfil these minimum drawdown requirements without reducing the Guarantee Base or incurring Excess Withdrawal Fees. The product design provides investors the flexibility to draw a pension which suits their lifestyle.

The following diagrams illustrate how the Policy works during both strongly and poorly performing investment climates:



Source: Macquarie Lifetime Income Guarantee Policy PDS 8 March 2010.

Death Benefit

Following the death of an investor, Macquarie Life will pay a Death Benefit to the Trustee of the superannuation fund investor. The Death Benefit is equal to the greater of the realised value (if any) of the remaining assets in the Investment Account and one year's guaranteed income amount. If the Spouse Option or Estate Protection Option is chosen, an additional amount may be payable.

The Spouse Option

The Spouse Option means the Guaranteed Lifetime Income will be paid until the latter of the investor or spouse die. An investor's spouse must fit within the definition of spouse under superannuation legislation and be 60 years of age at the time of application. The Estate Protection Option will automatically be included at no additional cost.

An additional premium of 0.5% p.a. applies for the Spouse Option and must be taken out at the time of application.

Estate Protection Option

The Estate Protection Option helps protect the amount that passes to a deceased's estate and is calculated as:

Guarantee Base – Death Benefit – sum of all amounts withdrawn from Investment Account (excluding Excess Withdrawals and Investment Management Fee amounts).

An additional premium of 0.35% p.a. applies for the Estate Protection Option (unless the Spouse Option has been chosen, in which case it is included at no additional cost) and must be taken out at the time of application.

The Estate Protection Option automatically terminates (and investors cease being charged the additional premium if the sum of all amounts withdrawn from the Investment Account is more than the Guarantee Base (that is, where the potential Estate Protection Benefit has reduced to \$0).

Investment Funds

Investors are able to invest across various Funds according to their individual needs. An investor's Investment Account is issued units in these Funds and the unit price is calculated daily. The Funds are sub-funds of a Macquarie Life Statutory Fund No 1, the Fund from which Macquarie Life issues its unit linked business. The Funds are initially investments in the Macquarie True Index series of funds. The MIML managed True Index funds offer an investment which provides the same returns as the indices listed.

Investors can choose to invest in the **Lifestage Funds**, a low maintenance approach which automatically allocates the Investment Account across asset classes according to an investor's age.

Macquarie periodically rebalances the Investment Accounts after taking transaction costs into account.

If invested in the Lifestage Funds, investors may also allocate an additional portion of their Investment Account to the Cash Fund at any stage in order to decrease the overall allocation to riskier Growth Asset Investment Funds. The Funds and asset allocations are outlined below:

	60 – 74 years	75 – 89 years	90 + years	Index
Growth Asset Investment Funds				
Aust Equities Fund	45%	30%	15%	S&P/ASX 300 Accum Index
International Equities Fund	15%	10%	5%	MSCI World ex-Australia
Defensive Asset Investment Funds				
Fixed Interest Fund				UBS Composite Bond Index
	40%	60%	80%	
Cash Fund				UBS Bank Bill Index

Alternatively, investors are able to nominate an asset allocation and have a higher level of flexibility in the investment decision making. There are some allocation rules:

- the allocation to the Australian Equities Fund must not exceed 60%
- the allocation to the International Equities Fund must not exceed 20%
- the total allocation to Growth Asset Investment Funds must be less than 70%

The Growth Asset Investment Funds are volatility managed to protect the investment against periods of high equity volatility. This is based around the belief that volatility provides a good indicator of market direction. When the volatility of the Growth Asset Investment Funds reaches the target maximum volatility level of 18%, a portion of assets in the Growth Asset Investment Funds is allocated to cash. The goal is to use a systematic investment process to protect investors from high volatility when, historically, equity markets have been more likely to underperform. Importantly, the allocation to equities is increased as volatility falls. Volatility management will be implemented at Macquarie Life's discretion based on its assessment of market riskiness. Products attempting to "cap" volatility levels have become more common in the Australian market over the last 2 years. Importantly, this is not used to leverage an investor's returns i.e. exposure to the Investment Funds cannot exceed 100%. Lonsec considers this to be an attractive feature of the Policy and to be structured in the best interests of investors.

The Investment Funds and volatility management are managed by Macquarie. Lonsec regards Macquarie as a highly experienced investment manager and has previously rated several Macquarie managed funds across a wide range of sectors and many structured products incorporating risk management techniques outlined above.

Risks

An investment in the Macquarie Lifetime Income Guarantee Policy carries a number of standard investment risks associated with international and domestic investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in the Risks section of the PDS and should be read in full and understood by potential investors. Lonsec considers the following to be the major risks:

- **Macquarie Life Credit Risk** – Investors are exposed to the ability of Macquarie Life to make payments under the Policy which will depend largely on its continued financial strength and solvency over the term of the investment. In addition, the Investment Funds initially invest in Macquarie True Index Funds which Macquarie Life guarantees will receive the relevant index return via a swap. Failure by Macquarie Life to perform in these circumstances may impact the returns received from the Policy.
- **Counterparty Risk** – the PDS states that investors are also exposed to third party hedge providers that Macquarie Life may choose to transact with. Macquarie has risk management practices in place to manage this credit risk.
- **Investment Risk** – The Investment Account balance rises and falls with movements in the Investment Funds. There is no guarantee that the Investment Account balance will increase.
- **Legislation Risk** – Changes to superannuation and taxation legislation can be expected in the future. Changes to the Policy may be required in order to comply with the legislation.
- **Inflation Risk** – the Guaranteed Lifetime Income may not maintain its real value as it is not adjusted for the effects of inflation.
- **Volatility Management Risk** – There is no guarantee the volatility management used to manage the exposure to Growth Asset Investment Funds will prevent exposure being high when equity markets perform poorly, or conversely, prevent exposure being low when equity markets perform strongly.
- **Tracking Error Risk** – The Investment Funds will initially be invested into the MIML managed Macquarie True Index Funds, which provide investors with the relevant benchmark index returns with zero tracking error or management fee. In the event Macquarie True Index Funds are not used there is the possibility that additional costs may be incurred in replicating the relevant indices, creating the potential to adversely affect investment returns.

Taxation

The income drawn from an account based pension is tax exempt as are the investment earnings of account funds. Since this Policy is held within an account-based pension, income drawn from it should also be tax exempt.

These comments constitute ‘General Advice’ only and Lonsec advises potential investors to consult a taxation specialist before making a decision to invest based upon these taxation considerations. Investors should refer to the Taxation & Social Security section of the PDS for more information regarding the taxation of investors.

Contact Information

Further information can be found at:

www.macquarie.com.au/longevitysolutions

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Analyst: Stewart Gault

Release Authorised by: Michael Elsworth

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