Aging Societies And Retirement: 
A Ticking Time Bomb

"Reinventing Retirement Asia: 
Enhancing the Opportunities of Aging”
AARP Conference, Tokyo, Japan


Gregory A. Boyko
President & CEO
Hartford Life Insurance K.K.
March 16, 2007
Aging Societies And Retirement:

Agenda

- Global demographic trends
- Declining workforces
- Strain on government and corporate pensions
- Public concern about retirement
- Shifting retirement burden to individuals
- Need for retirement education and credible financial advice
Aging Societies And Retirement:
The Hartford Has Honored Its Promises Since 1810

The Hartford Financial Services Group is an Insurance and Financial Services Industry Leader

- Honoring promises since 1810
- Over 30,000 employees worldwide, over 650 in Japan
- Strong insurer financial strength ratings
  - A.M. Best A+
  - Standard and Poor’s AA-
  - Fitch AA
  - Moody’s Aa3
- Leading provider of: mutual funds; annuities; life insurance and group benefits; automobile and homeowners products; business property-casualty insurance
- Growing international operations in Japan, United Kingdom and Brazil
- Hartford Life Insurance K.K. is the #1 provider of variable annuities in Japan
  - Over 450,000 policyholders in Japan
People in developed countries are living longer and populations are aging. This is putting a strain on public and corporate pension plans.

Aging Societies And Retirement: Declining Workforces Will Strain Pensions

- Aging populations make it difficult for pension systems to provide funds for a significantly older, non-working population.

**Worker-to-Retiree Ratios***

Source: Watson Wyatt Aging Vulnerability Index, 2003

* Ratio of Workers (aged 15-59) to Retirees (60 and over)
The majority of people are concerned about having enough money to maintain their standard of living in retirement, particularly in Japan.

Base: People aged 45 and older in Japan (1,040) the US (757), and the UK (756).
Aging Societies And Retirement: Important Retirement Income Sources

- Public pensions are still considered the most important source of retirement income....

Q: Please rank the top three of the following sources of retirement income, in terms of each one's importance to you. (% selecting "first", "second", or "third" most important)
Yet the majority of people in Japan, the U.S. and the U.K. lack confidence that public pension income will be sufficient.

Q: How confident are you that your government-sponsored pension plan will provide you with sufficient income to maintain your current standard of living? Base: Total Respondents
Aging Societies And Retirement: Rising Public Debt in Japan

- The rise of government debt levels to 176% of GDP has contributed to widespread concern about the public pension system.

**Public Debt as a Percentage of GDP**

- Japan: 176%
- Germany: 67%
- United States: 65%
- Switzerland: 51%
- United Kingdom: 42%
- China: 22%
- South Korea: 21%
- Australia: 14%

Source: CIA World Factbook estimates

**Rising Japanese Public Debt**

- 2006*: $6.9 Trillions
- 2005: $6.7 Trillions
- 2004: $6.2 Trillions
- 2003: $5.5 Trillions
- 2002: $5.3 Trillions
- 2001: $4.8 Trillions
- 2000: $4.3 Trillions

Source: Ministry of Finance, Government of Japan

* As of November 30, 2006
Aging Societies And Retirement: Responses in Japan - Higher Individual Burden

- The government and corporations have largely responded by reducing benefits, resulting in increased individual burden.

**Government**
- Retirement age raised to 65
- National health care co-payments raised to 30%
- Consumption tax raised to 5%
- Mandatory long-term care insurance launched

**Corporate**
- Shift to defined contribution plans
- Less reliance on defined benefit pensions
Aging Societies And Retirement: Shifting Balance to Individual Responsibility

- The burden for retirement income is shifting to individuals.
Aging Societies And Retirement: Solutions for Individuals are Varied

- Solutions increasingly depend on individual efforts.

- **Working in Retirement**
  - Delay retirement, work longer
  - Flexible work arrangements (telecommuting)

- **Individual Savings & Investment**
  - Investment trusts, variable & fixed annuities
  - Supplementary health insurance products
  - Retirement education & investment advice
Aging Societies And Retirement: Retail Investment Product Demand in Japan

- Strong demand for investment trusts with regular payments.
- Strong demand for variable annuities with guarantees.

Investment Trust Assets (US$ Billions*)

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Values</td>
<td>313</td>
<td>322</td>
<td>357</td>
<td>478</td>
<td>600</td>
</tr>
</tbody>
</table>

Variable Annuity Assets (US$ Billions*)

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Values</td>
<td>5.2</td>
<td>17.4</td>
<td>36.5</td>
<td>70.4</td>
<td>110.4</td>
</tr>
</tbody>
</table>

Sources: Investment Trust Association of Japan, data as of December 31 annually
Hoken Mainichi (Daily Insurance) Newspaper, data as of September 30 annually

*Converted from Yen at $1.00 = ¥115
Aging Societies And Retirement: Personal Financial Assets - Idle Cash in Japan

- Japanese have over $12 trillion in personal financial assets - 51% in cash and deposits.

Aging Societies And Retirement: Retirement Planning and Investing in Japan

- Japanese are less confident and more risk averse.

Confidence in Financial Planning

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>U.S.</th>
<th>U.K.</th>
</tr>
</thead>
<tbody>
<tr>
<td>74%</td>
<td>53%</td>
<td>30%</td>
<td>34%</td>
</tr>
<tr>
<td>21%</td>
<td>22%</td>
<td>24%</td>
<td></td>
</tr>
<tr>
<td>8%</td>
<td>10%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Tolerance for Risk

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>U.S.</th>
<th>U.K.</th>
</tr>
</thead>
<tbody>
<tr>
<td>72% Fairly Risk Averse/Accept Small Gain</td>
<td>54%</td>
<td>42%</td>
<td>48%</td>
</tr>
<tr>
<td>18% Completely Risk Averse/Accept Minimal Gain</td>
<td>11%</td>
<td>13%</td>
<td></td>
</tr>
</tbody>
</table>


Q: How confident are you in your knowledge and abilities with financial planning?
Q: Which of the following phrases best describes your approach towards risk and rewards when you choose investments?
Aging Societies And Retirement: Sources of Credible Financial Advice in Japan

- Japanese are far more unsure of where to turn for credible financial planning advice.

<table>
<thead>
<tr>
<th>Source</th>
<th>Japan</th>
<th>US</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>News Media</td>
<td>35%</td>
<td>33%</td>
<td>18%</td>
</tr>
<tr>
<td>Personal Contact</td>
<td>24%</td>
<td>26%</td>
<td>23%</td>
</tr>
<tr>
<td>Fin. Plnr. / Tax Acct.</td>
<td>40%</td>
<td>16%</td>
<td>15%</td>
</tr>
<tr>
<td>Bank Rep</td>
<td>46%</td>
<td>11%</td>
<td>18%</td>
</tr>
<tr>
<td>Securities Firm</td>
<td>15%</td>
<td>7%</td>
<td>7%</td>
</tr>
<tr>
<td>Ins. Agent</td>
<td>17%</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td>Don't Know Where to Turn</td>
<td>38%</td>
<td>19%</td>
<td>13%</td>
</tr>
</tbody>
</table>

Q: What or who do you rely on for credible financial planning advice?
Base: Total Respondents
Nearly 80% of Japan’s 13.1 trillion dollars* in personal financial assets are held by individuals aged 50 and over.

Japanese Financial Asset Distribution by Age Group

50-59 28%
60-69 35%
40-49 15%
30-39 6%
20-29 1%
70 and over 15%

Source: Bank of Japan, The Central Council for Financial Services Information, 2005

*Converted from Yen at $1.00 = ¥115
Variable annuities are a great product to meet Japanese retirement planning needs.

- Guarantees protect principal
- Option for guaranteed lifelong income
- Tax deferral and estate planning benefits
- Ability to switch funds
- Diversified funds allow stable growth
Aging Societies And Retirement: The Hartford’s Variable Annuity Growth in Japan

The Hartford's Variable Annuity Assets Under Management in Japan (US$ Billions)

- Mar. 2002: 0.5
- Sep. 2002: 1.0
- Mar. 2003: 2.3
- Sep. 2003: 4.8
- Mar. 2004: 8.1
- Sep. 2004: 11.1
- Sep. 2005: 21.9
- Sep. 2006: 28.3
- Dec. 2006: 29.7
Hartford Life Insurance promotes financial education through:

- Publications about annuities and investing
- Educating the media and other stakeholders
- Public opinion surveys about retirement
- Seminars for customers and the public
Increasing pressure on public and employer safety nets

Retirement responsibility shifting to individuals

Individuals concerned, but not sure what to do

Need for financial education and investment advice

The Hartford’s variable annuities are helping customers prepare for retirement