

2023 INTERNATIONAL CONGRESS OF ACTUARIES



BRIDGE TO TOMORROW

28 MAY – 1 JUNE 2023 • SYDNEY



International Actuarial Association
Association Actuarielle Internationale

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A Plan to Save Democracy

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*This presentation has been prepared for the 2023 International Congress of Actuaries.
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STARTING POINT

Safe to assume;

- **Democracy delivers better outcomes;**
- **Free markets deliver better outcomes;**
- **Private sector delivers better outcomes.**

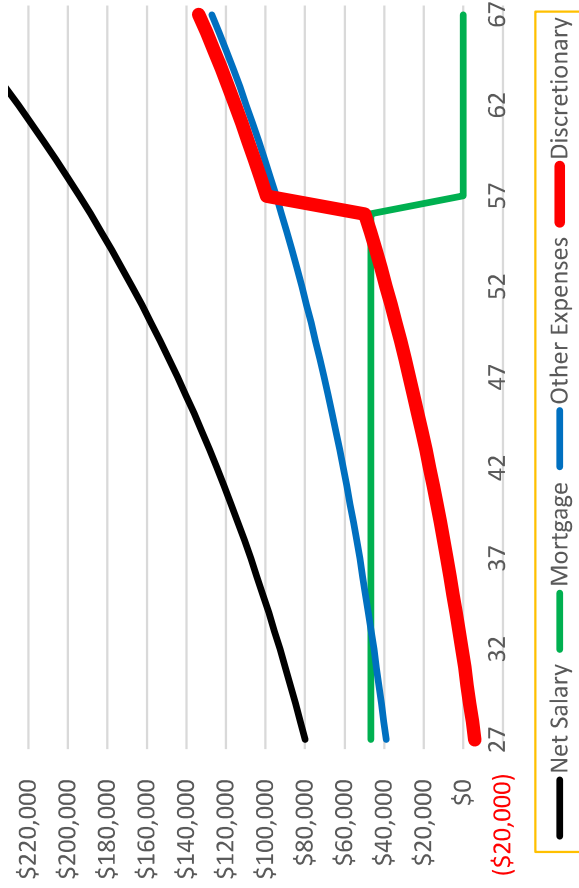
So we can assume that we are living in...

The best of all possible worlds



The Financial Services problem?

Discretionary Income
 30 Year Fixed Mortgage



Retirement Savings
Mortgages
Insurance
Wealth Management
Cash



FAIRNESS, VALUE ADD, EFFICIENCY

“Modern” to “Real” Monetary Theory

Move to more inflation linked assets and liabilities

How can Democracy avoid (generational) inequity

Move from spending to investing

How can Democracy add value

Provide basic products and services



Economics

Modern Monetary Theory

Says: Governments should spend to benefit society

Premise: The government is able to keep spending and should only be concerned about inflationary consequences.

Take away: Governments are very well placed to provide universal incomes and other socially beneficial services.

Issue: Almost all spending will create some inflationary pressure



Economics

Real Monetary Theory

Says: The government should **invest** to benefit society

Premise: The government is able to keep investing and should only be concerned about inflationary consequences.

Take away: Governments are well placed to **generate profits** from investing and providing basic (financial) services.

Issue: Some investing can create inflationary pressures



Wealth Creation Fund

Basic Mortgage Product,
Basic Retirement Savings Product,
Housing investment,
Infrastructure,
Energy,
Etc



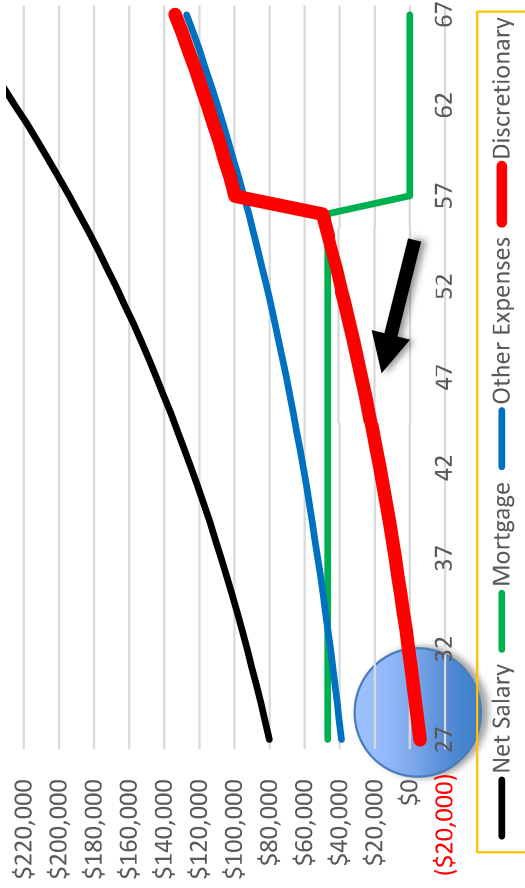
Australian Mortgage Market

- Government Guarantees Bank Deposits \$1trn+
- Government Provides Bank Liquidity \$1trn+
- Banks take 2% \$20bn



Basic Mortgage Product

Discretionary Income
30 Year Fixed Mortgage

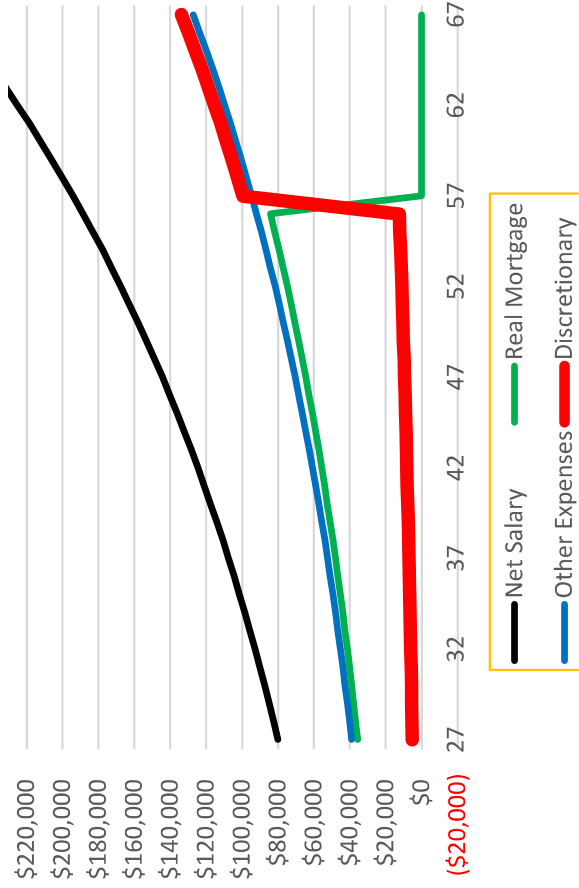


Retirement Savings
Mortgages
Insurance
Wealth Management
Liquidity Management



Real Mortgage Product

Discretionary Income
 30 Year Real Mortgage



Real Mortgages
Principal grows with inflation
Lower interest rate
Better match to earnings



Real Mortgage Product

- Initial repayments – reduced by 30%
- Payments would have risen 7% last year – not 50% or 75% when interest rates more than doubled.



AFFORDABLE HOUSING IDEAS

Fun facts

- Rent generally provides a good return on capital**
- Governments often subsidise residential investment**
- Governments have some control of the market (Dev., Imm., banks)**
- Governments cost of capital and debt is lower than individuals**
- Governments return on capital would be higher than individuals**



AFFORDABLE HOUSING IDEAS

Government supported housing	On \$400k
Governments sell leasehold (50%)	
Governments provide mortgage @ infl. + 2%	\$4,000
Governments take principal repayments	
Governments buy freehold, earn Infl. + 1%	\$2,000



RETIREMENT SAVINGS

Better risk/return outcomes

Improve mental health with Simple Product Design

Reduce Investment responsibility

Lower Advice needs and cost

Lower Management cost

Better Outcome Projections



1) ARGUMENT FOR REAL ASSETS?

Reflects reality (returns, wealth)

Fit for purpose (matching cash flows, protecting spending power)

Lower costs, Stability, Understood



2) REAL MONETARY THEORY

Sustainable Budgeting

Less inflationary pressure

Better social outcomes

Euclidean Economics to prove it?



3) VALUE OF BASIC PRODUCTS

Generate Government Income

Improve financial outcomes for most people

Reduce regulatory needs and burden



THE END

Questions

The best of all possible worlds?

Can government control business without distortion?

Can individuals (with advice) outperform over time?

What should be fixed?

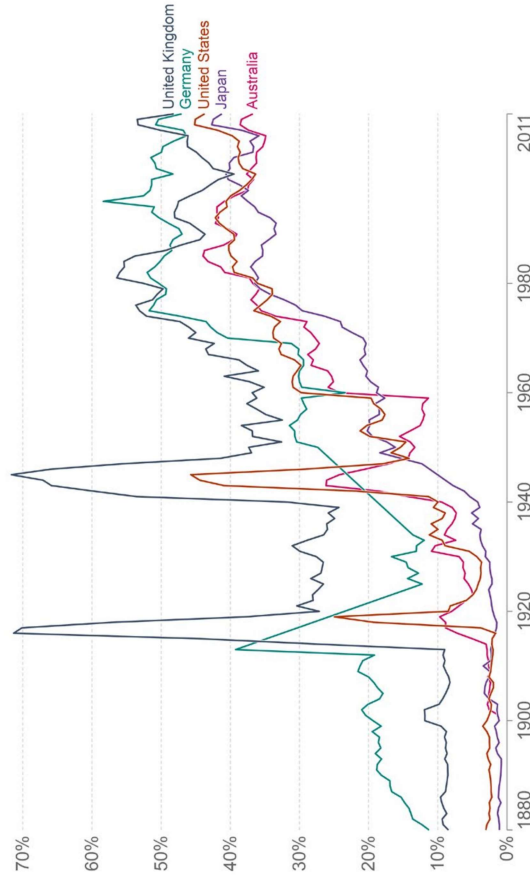


Find A Problem

- **Government Spending keeps Growing**
- **And People keep asking for more**
- **So Governments need to make more money**

Our World
in Data

Government spending, 1880 to 2011
Total government spending, including interest government expenditures, as share of national GDP



Source: IMF Fiscal Affairs Departmental Data, based on Mauro et al. (2015)

OurWorldinData.org/government-spending • CC BY

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MAKING MONEY

Government Money Making Choices

Higher taxes – not popular

Better services – popular



MAKING MONEY

Government Strengths as a Business

- **Trust**
- **Cheap Funding**
- **Liquidity**

Doesn't that scream Financial Services?

Need for basic, low cost, default products?



CURRENT ROLE IN FINANCIAL SERVICES

Establish rules

Regulate industry, employees, products

Provide Liquidity, Guarantee Deposits

Investigate bad behavior

Bailouts, Penalties, Compensation

Take full responsibility without profits?

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FOR ANOTHER DAY

- Savings;
- Swaps;
- Asset metamorphosis.