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UK Sustainable Retirement Solutions

Defined Ambition Research Working Party



04 June 2014

(Revised) Aims of defined ambition

- Politically acceptable solution
- Maintain investment in the growth economy
- Reduce the potential burden on the State

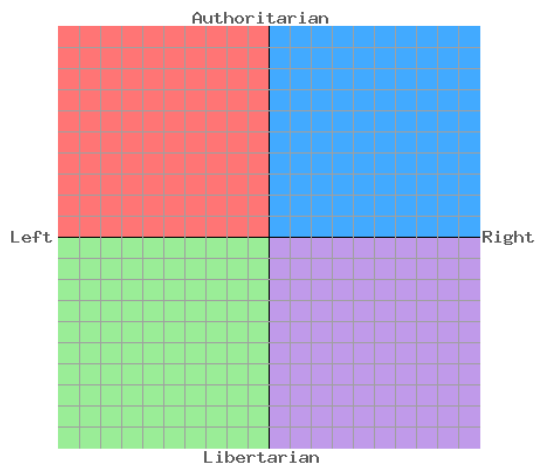


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Political compass



<http://www.politicalcompass.org>



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The political economy

- From the Keynesian State to Neo-liberal free markets
- Collectivism Vs Individualism
- Regulation; the panacea for the failure of the free-markets
- Capitalism for pensioners and socialism for bankers

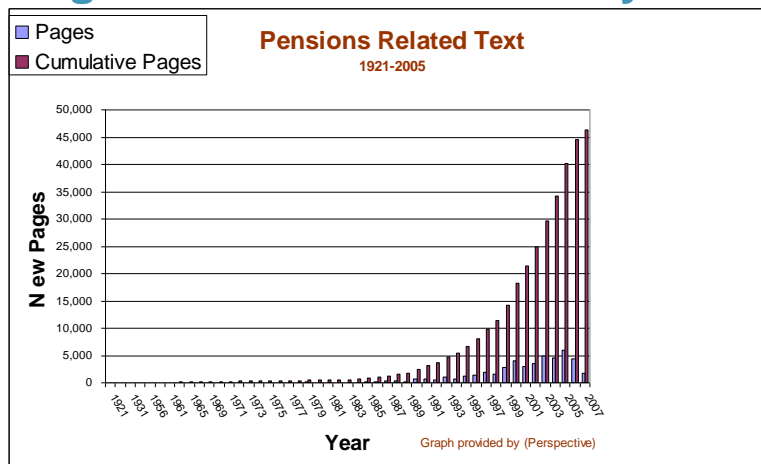


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Tinkering to achieve sustainability



Source: Perspective (with thanks to Robin Ellison, Pinsent Masons)



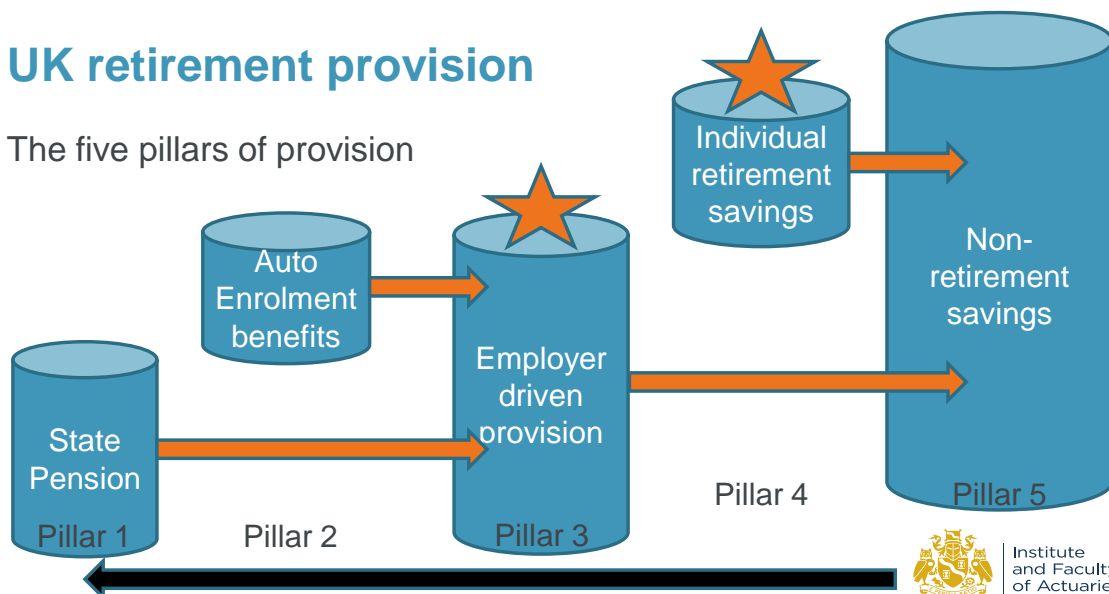
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UK retirement provision

The five pillars of provision

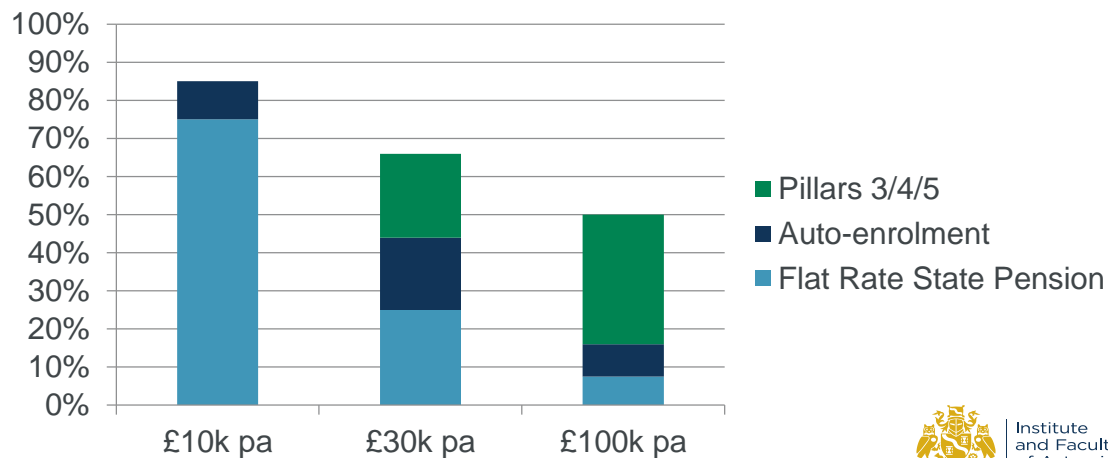


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UK retirement provision

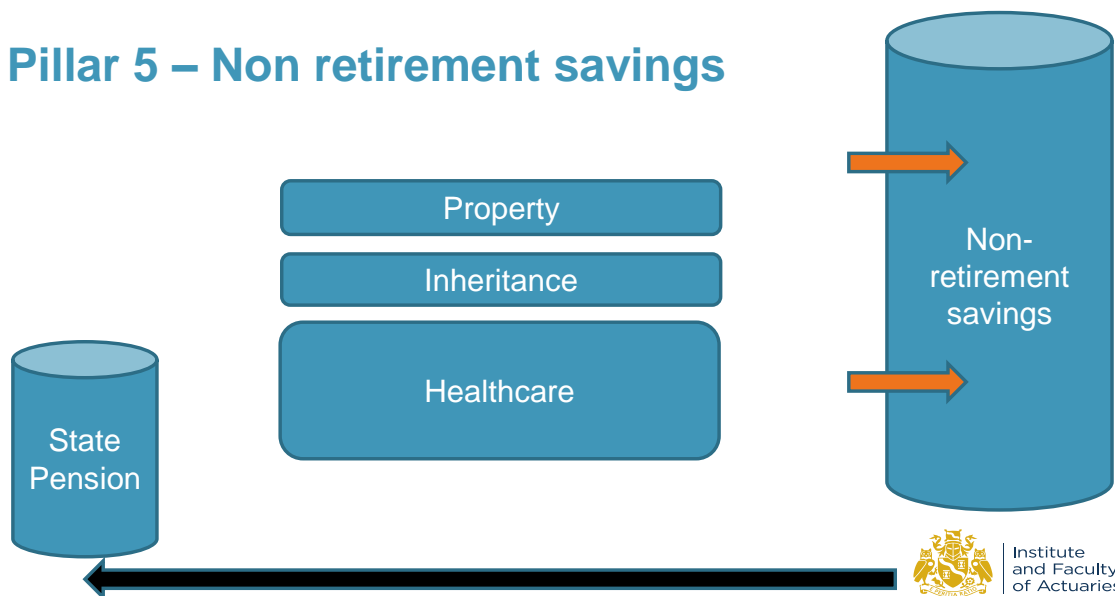


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Pillar 5 – Non retirement savings

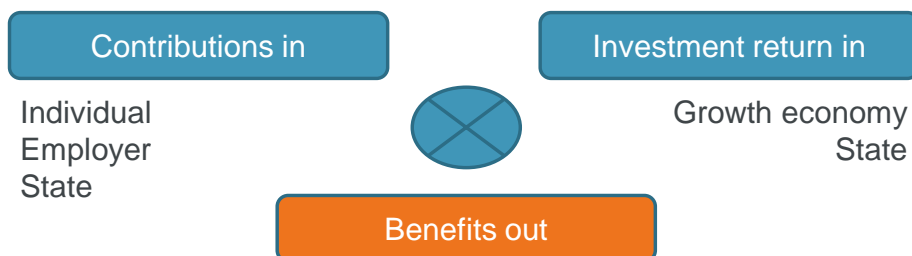


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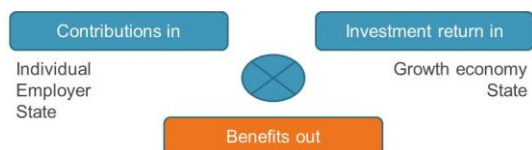
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Key features of retirement solutions

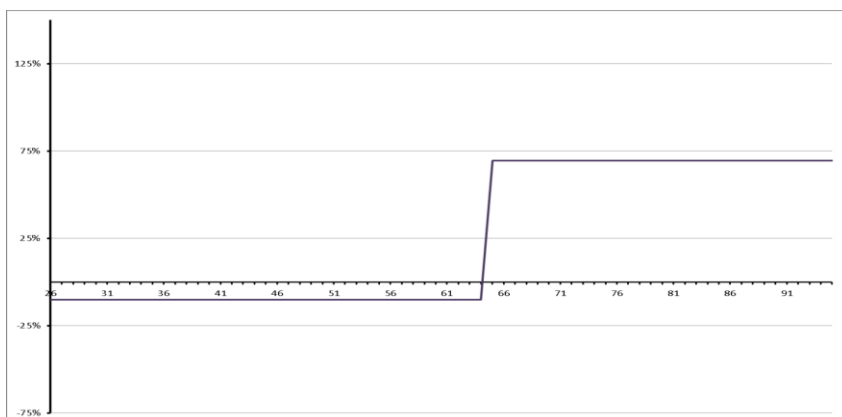


Criteria for sustainability?

- Social – the only neighbour without a swimming pool
- Society – standard of living in different geographies
- Risk pooling / smoothing



Net cashflows – complete market, ‘perfect’ world

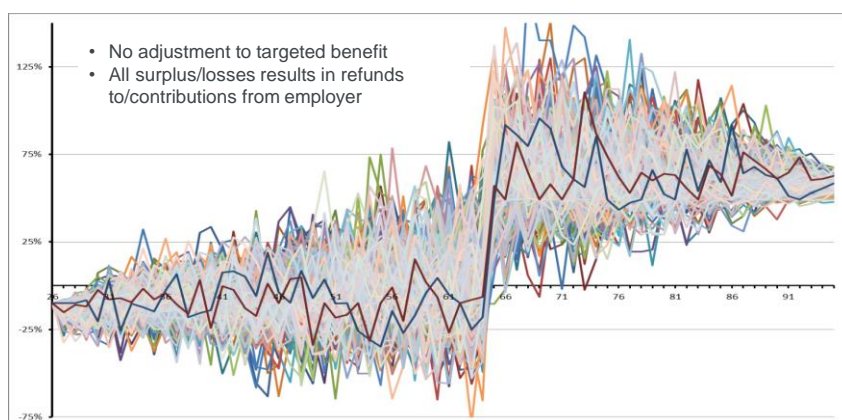


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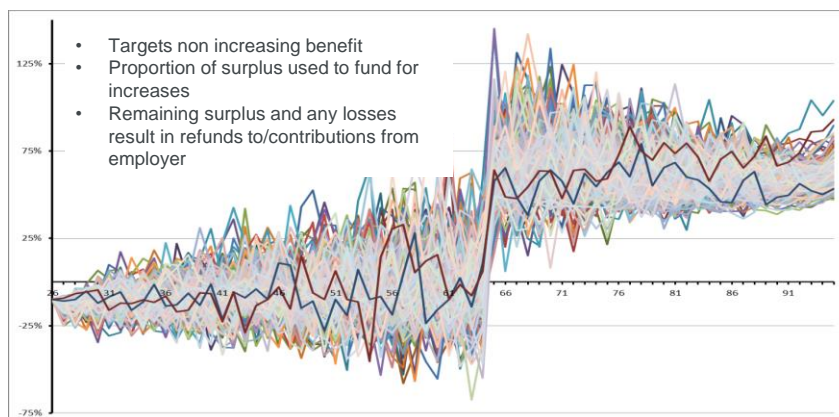
DB type vehicle



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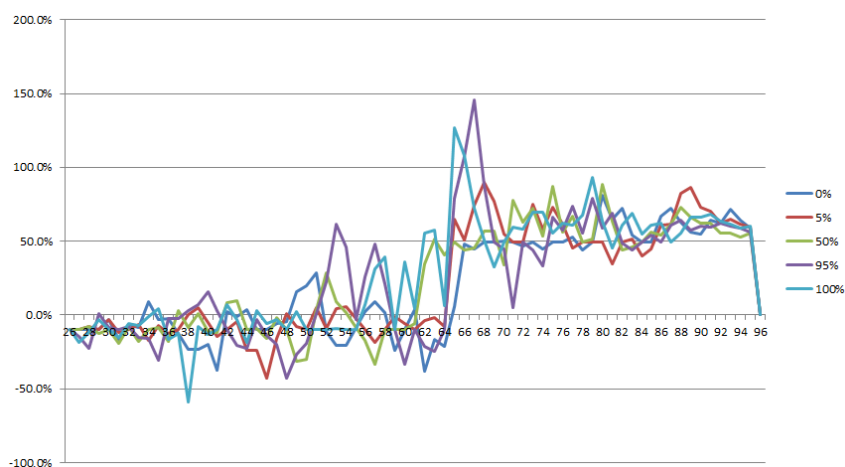
DB-lite type vehicle



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The ups and the downs

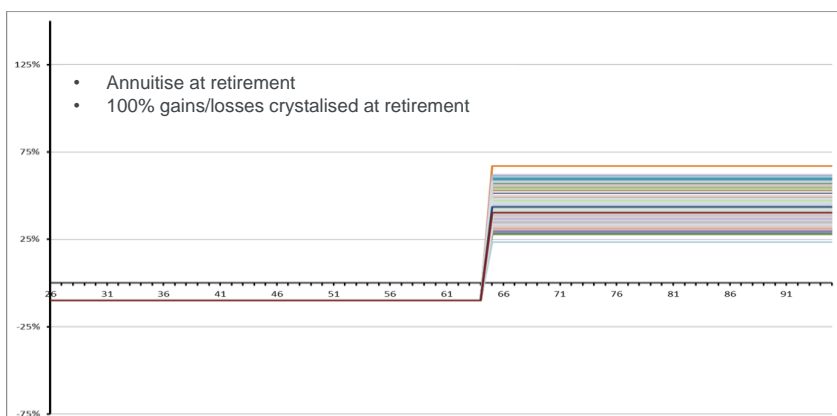


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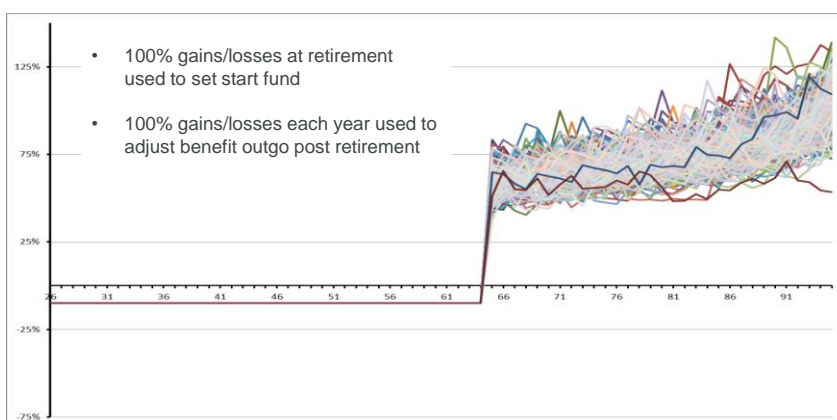
DC type vehicle – annuity purchase



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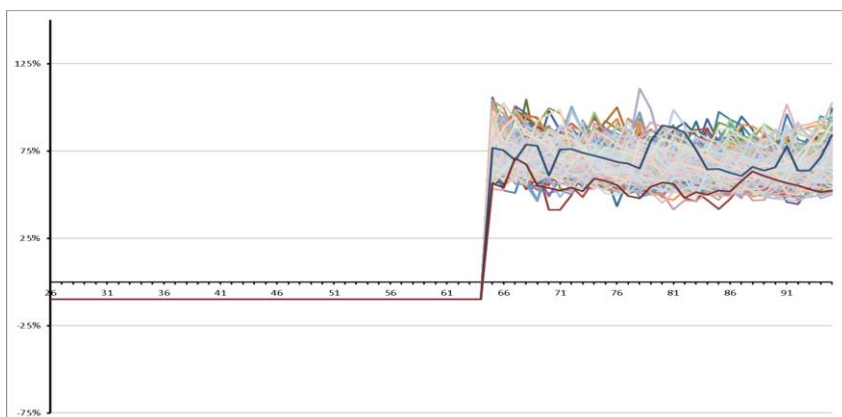
Prudent drawdown-type vehicle



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Realistic drawdown-type vehicle



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Sustainable retirement solutions (1)

Role of the Profession

- Social change critical
- Financial education also critical
- Engagement from employers preferable
- Risk sharing mechanisms within DC/DB
 - Responsibility of the provider
 - Role of collectivism



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Sustainable retirement solutions (2)

- Achieving macroeconomic goals (e.g. investment in growth)
- Reflect other economic needs at the time
- Sharing the wealth in a fair and proportionate way
- Free from political direction
- Monitor the State's ability to cross-subsidise and tax



Questions



Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.