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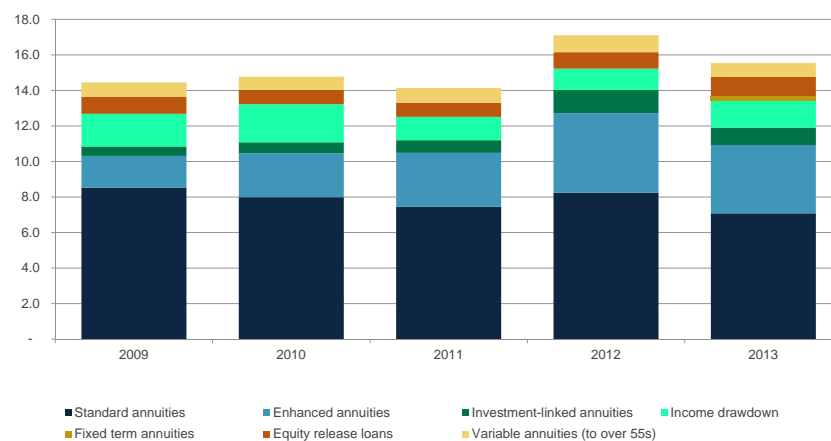
What a Budget! Implications for the At-Retirement Market

Bernie Hickman, Legal & General
Kamran Foroughi & Michael Armitage, Towers Watson

10 November 2014

Retirement market was already evolving

Chart shows premiums and equity release loans per annum (£bn)



Source: Towers Watson analysis of ERC and ABI data (includes ABI members only) and Towers Watson variable annuity and enhanced annuity surveys.

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Budget announcement introduced greater flexibility

- From April 2015
 - DC pots can be withdrawn from age 55 subject to marginal rate of income tax (after lump sum)
 - DC pension holders to receive free and impartial guidance on retirement options
 - Minimum age to access pension pot will increase to 57 in 2028 and rise with the state pension afterwards
- Government consultation on changes including
 - Guidance
 - Whether (funded) DB to DC transfers should continue
- Interim measures until April 2015 - Drawdown limits relaxed and easier to take small pots as lump sums

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Recent impacts on retirement market

Partnership new individual annuity sales in Q3 2014 down **73%** relative to Q3 2013

Q3 results, 16 October 2014

Standard Life UK annuity sales in Q3 2014 down **67%** relative to Q3 2013

*Q3 Interim Management Statement
29 October 2014*

Prudential income drawdown sales grew by **95%**

Prudential Group, Q2 results 2014

In response to the Budget reforms we rapidly launched a one year Fixed Term Annuity

Just Retirement, Q2 results 2014

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Subsequent key developments



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What about guidance?

Design



Deliver

The PENSIONS
Advisory Service

Engage



Education

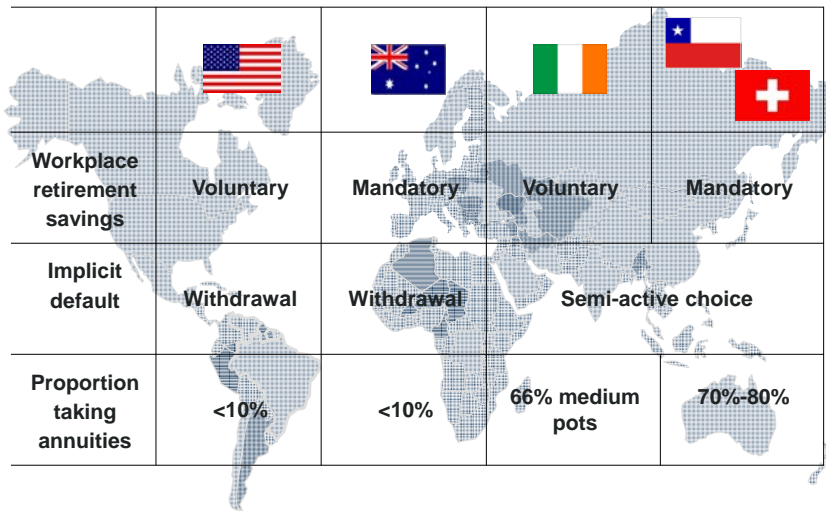
Guidance

Advice

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Selected overseas retirement markets



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What factors will affect the UK market?



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Pre-retirement decisions affect post-retirement outcomes

Base assumptions:

- Individual saves from 25 and retires at 65
- 5% contribution rates at all years
- Starting salary £20k, salary inflation 2%
- 3% pa investment return

Scenario	Pot size at retirement	Versus Base (%)
Base	£114k	
1. Start 10 years later	£82k	(28)%
2. As Base, increase contributions to 8% at 35	£163k	+42%
3. As 2, increase contributions to 11% at 45	£195k	+71%
4. As Base, investment returns up to 4%	£143k	+25%

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Auto-enrolment gets more people saving

85-90%
enrolled to date

7m in 5 yrs
new savers

Minimum contributions increasing



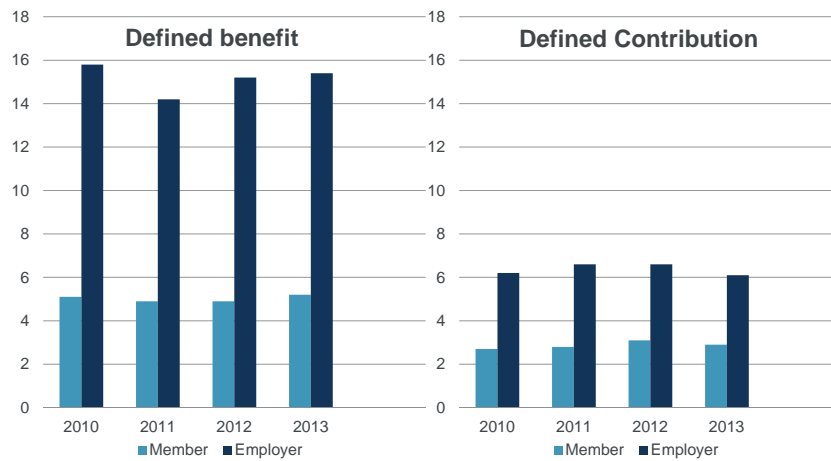
Sources: *Pensions Policy Institute automatic enrolment report (July 2014);*
DWP automatic enrolment opt out rates report (November 2014)

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Contribution rates to private sector pension schemes (%)

Source: 2013 Occupational Pension Scheme Survey, ONS



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Keeping customer engagement simple



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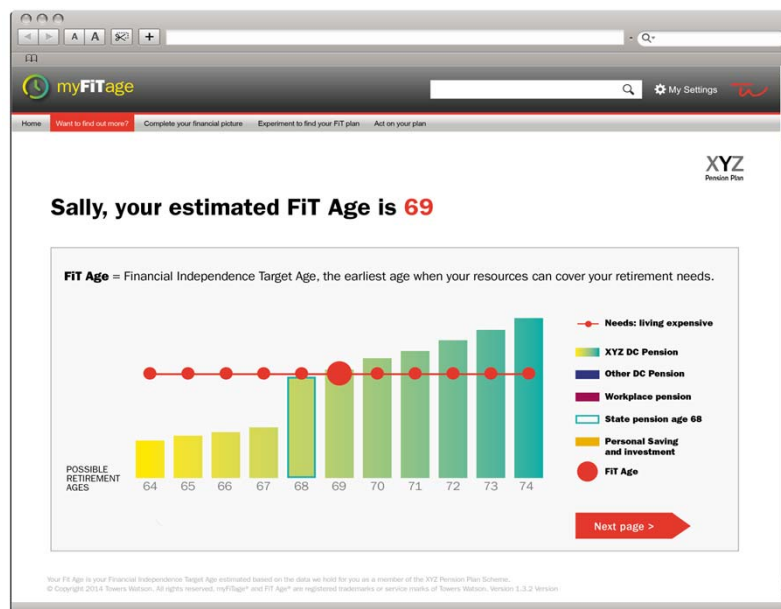
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Effective communication

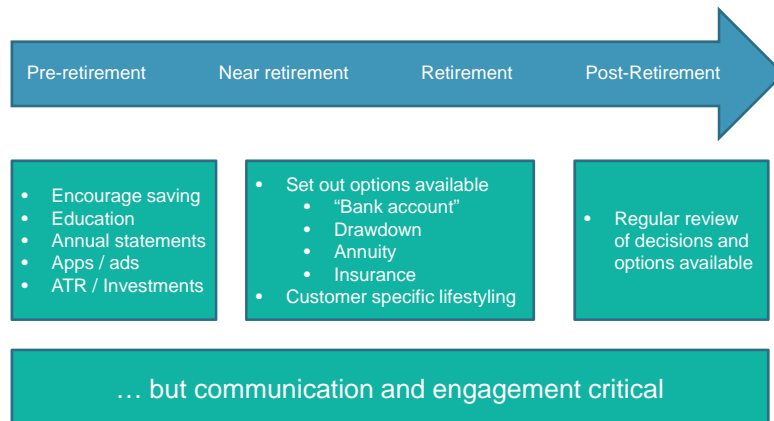
FiT Age = Financial Independence Target Age

the age at which an employee's total saving resources are expected to meet retirement needs.

An approach to addressing benefit adequacy issues



We have the building blocks for a successful future ...



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What a Budget!

Implications for the At Retirement Market.

WE KNOW EVERY DAY MATTERS AND WE NEVER FORGET OUR SOCIAL PURPOSE WHICH SEES OUR DEDICATED PROFESSIONALS COMMITTED TO BRINGING **FINANCIAL SECURITY TO OUR CUSTOMERS, FROM FIRST TO LAST TIME BUYERS, FROM THE WORLD'S LARGEST PENSION FUNDS TO THOSE ON A DEADLINE TO THE BREADLINE, WE DELIVER SOCIALLY USEFUL PRODUCTS AND PROVIDE VALUE TO OUR CUSTOMERS.**

EVERY DAY MATTERS.

Bernie Hickman
Managing Director,
Legal & General Individual Retirement

Legal & General

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RESPONDING TO REGULATORY SHOCKS.

“NO ONE WILL HAVE TO BUY AN ANNUITY”

George Osborne, 19th March 2014

“YOU CAN'T PASS ON TO THE NEXT GENERATION ANY OF YOUR PENSION POT WHEN YOU DIE, WITHOUT PAYING A PUNITIVE 55% OF IT IN TAX...! CHOOSE TO ABOLISH IT”

George Osborne, 29th September 2014

What should customers do now at retirement?

Which customers now need a lifetime income from their Pension savings?

What challenges and issues do these changes present for the industry?

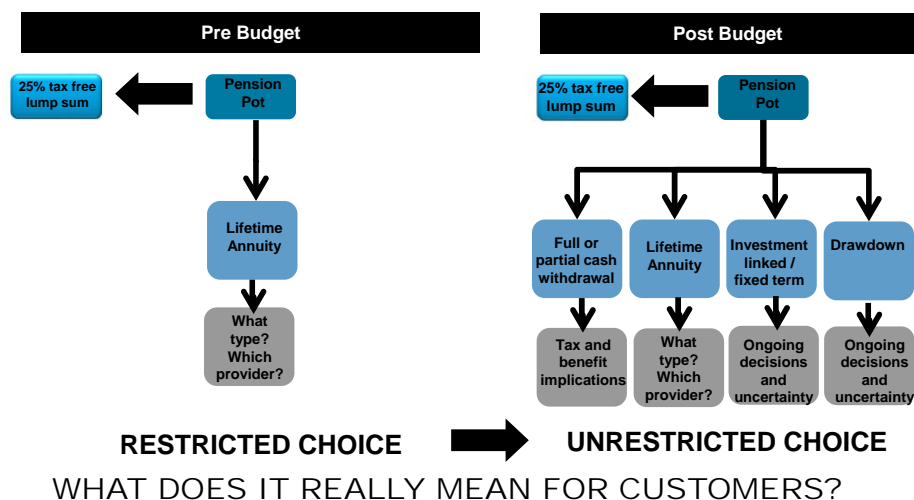
“Giving people the freedom to choose whether or not to buy an annuity is rather like being invited to jump out of an aircraft at 30,000 feet and being told that you now have the freedom to choose whether or not to use a parachute. Choosing not to annuitise is fundamentally no different from choosing not to wear a parachute.” Source (slightly paraphrased): The consequences of not having to buy an annuity, Dr David Blake, Professor of Pension Economics at Cass Business School

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CHOICE BRINGS COMPLEXITY.

We love the idea of choice but often hate choosing

Practical reality for mass market customers:



Note: Impact on state benefits is based on our understanding of current eligibility criteria – impact of future change is unclear

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**1. WANTS CASH,
LOW NET SAVINGS**

"I took all of my pension in cash over a few years and my benefits were protected"

John was a caretaker, earning below the national average wage. John had enrolled in his employers' pension schemes where he has pension savings of £16,000, but had no other savings. He lives alone in a rented 1 bed flat and receives housing benefit, council tax support and Pension credit. He has no family.

Retirement age 65	State pension £7,714
DC pension pot £16,000	Other income £0
Other savings £0	State benefits £9,840 p.a.

Options	Retirement Income	Tax liability	Impact on benefits	Net of tax value	
1. Lifetime Annuity The income from the annuity counts against his benefit entitlement.	£4,000 TFC and £840 p.a.	£0	£562 p.a.	£7,971	✗
2. Take all the Cash Only £10,600 is paid straight away as the emergency tax rate is used. Tax return needed to reclaim the extra tax.	£16,000	£1,943	£0	£14,057	✗
3. Partial Lump Sums Taken over 4 years to ensure no income tax paid	£4,000* for 4 yrs	£0	£0	£16,000*	✓

*plus tax free investment returns

Note: Impact on state benefits is based on our understanding of current eligibility criteria – impact of future change is unclear

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**2. WANTS REGULAR INCOME,
MODERATE NET SAVINGS**

"I used my pension to provide me with peace of mind and a regular income"

Amy was the manager of a privately owned nursery. She has built up a decent DC pot but has no other retirement income except the State pension. Her husband Steve is a kitchen fitter and has no pension savings. They own their house outright, have a modest amount in a cash ISA and have no appetite for investment risk

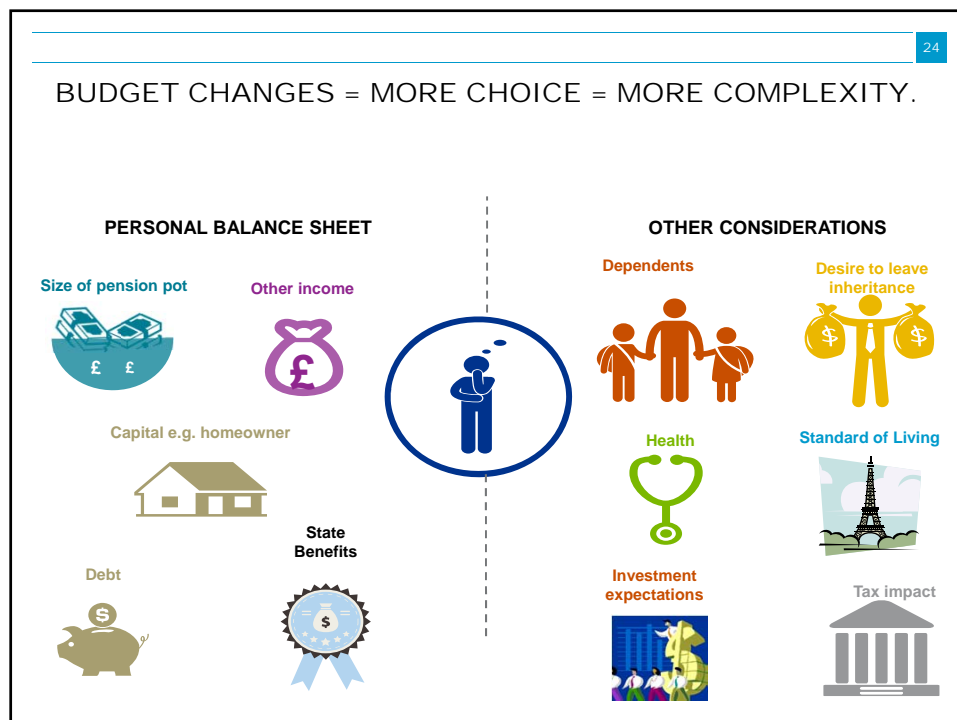
Retirement age 63	State pension £5,881
DC pension pot £80,000	Other income £0
Other savings £20,000	Property value £280,000

Options	Retirement Income	Tax liability	Net of tax value	
1. Lifetime Annuity To afford a more active retirement they will need to downsize and/or take out a lifetime mortgage. State support will be needed to fund care.	£20,000 TFC and £3,053 p.a.	£0	£80,000 (over 20 years)	✗
2. Flexi-Access Drawdown Withdrawals kept below personal allowance level. She will need to continually make decisions on how much to take out, funds to invest etc. She is exposed to investment risk. Charges will reduce investment returns.	£20,000 TFC and £60,000*	£0	£80,000*	✗
*(plus investment returns less charges)				
3. Guaranteed Income for 20 years Simple. No income after 83. State will need to fund all care costs plus other eligible means tested benefits.	£20,000 TFC £4,600 p.a. (for 20 years)	£96	£111,904 (over 20 years)	✓

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3. MODERATE NET SAVINGS AND GOOD INCOME		<i>" I took cash from my pension to boost my savings and pay for several holidays"</i>	
<p>Simon has worked for a bank for the majority of his career. He has no family to support. His DB and State pensions provide him with enough to live on, and he wants to use his DC pot for holidays and other luxuries, but without straying into the 40% tax band.</p>		Retirement age 65 DC pension pot £30,000 Other savings -£5,000 (mortgage)	State pension £5,881 Other income £19,000 p.a. Property value £180,000
Options	Retirement Income	Tax liability	Net of tax value
1. Lifetime Annuity 	£7,500 TFC and £1,293 p.a.	- £259 p.a.	= £25,493
2. Flexi-Access Drawdown Withdrawals kept below personal allowance level. Ongoing decisions and investment risk. Charges will reduce investment returns.	£7,500 TFC and £22,500*	- £4,500*	= £25,500*
*plus/minus investment return less charges			
3. Guaranteed Income for 5 years Simple and tax efficient. No investment return upside or downside.	£7,500 TFC and £4,800 for 5 years	- £960 p.a. for 5 years	= £26,700 over 5 years

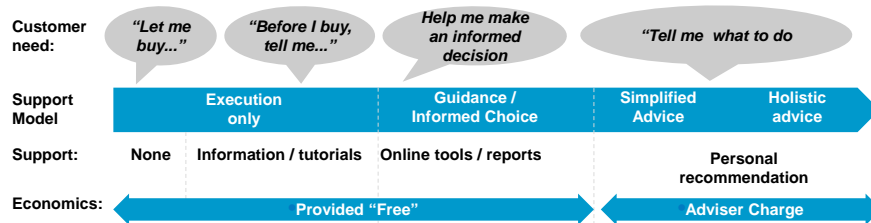
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4. HIGH NET SAVINGS, IHT WORRIES		<i>" I used my pension fund to reduce the potential inheritance tax bill if I passed away"</i>	
<p>Rachel has her own business. Her husband died 6 months ago. She is keen that her 2 sons inherit as much as possible on her death, but is worried about inheritance tax. The mortgage was paid off when her husband died so has no debt. She is risk adverse.</p>		Retirement age 63 DC pension pot £430,000 Other savings £240,000	State pension £5,881 Other income £0 Property value £650,000
Options	Retirement Income	Tax liability	Net of tax total
1. Lifetime inflation linked Annuity with 30 year guaranteed payout 	£107,500 TFC and £9,369 p.a. (plus inflation)	- £1,050 p.a.	= Depends on inflation
2. Flexi-Access Drawdown Uses other savings and releases housing equity leaving funds untouched. Good IHT mitigation but exposed to investment risk.	State pension, TFC plus other savings	- minimal	= Depends on investment performance
3. Guaranteed Lump Sum in 10 years No inheritance tax in the event of death before age 75. She could use her savings to fund living expenses for the next 10 years.	State pension, TFC plus other savings	- minimal	= £562,500

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5. Guaranteed Annuity option HIGH NET SAVINGS		<i>" My pension product gave me a pension annuity far higher than I can get on the open market"</i>		
Anne has her own business and is single. She has no close relatives so wants to provide herself a financially comfortable retirement. She is risk adverse and keen to secure a guaranteed income to meet her living needs.		Retirement age 63 DC pension pot £430,000 Other savings £500,000	State pension £5,881 Other income £0 Property value £500,000	
Options	Retirement Income	Tax liability	Net of tax total	
1. Lifetime Annuity using GAO	£107,500 TFC and £22,500 p.a.	- £3,500 p.a.	= £677,500 over estimated 30 years	✓
2. Flexi-Access Drawdown	All sources	- Depends on drawdown rate	= Depends on investment returns	✗
3. Guaranteed Lump Sum in 10 years	State pension plus other savings	- minimal	= £582,500	✗



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CUSTOMER ENGAGEMENT CHALLENGE.



MARKET INNOVATION
e.g. mix of phone & web

FCA EXPECTATIONS
GC 14/3 recognises need to stimulate innovation to address mass market need for advice

CUSTOMER NEED FOR ADVICE IS CLEAR
MASS MARKET SOLUTION IS NOT CLEAR

NO REGULATORY DISTINCTION BETWEEN SIMPLIFIED ADVICE AND HOLISTIC ADVICE

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NEW AT-RETIREMENT MARKET.

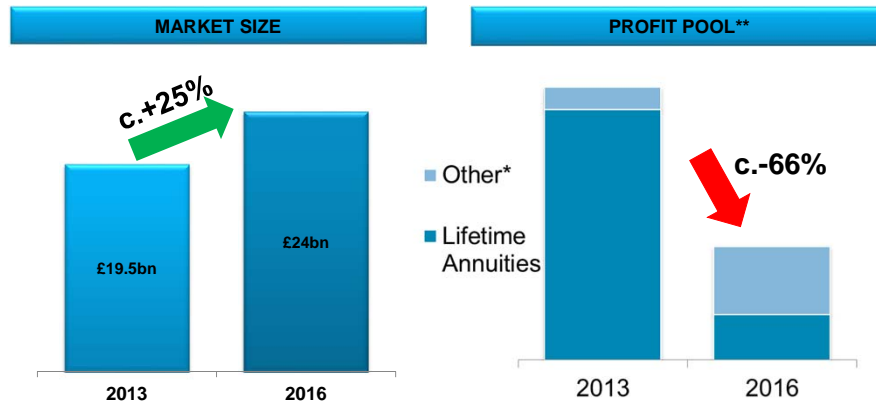
Customer pot size	2013 Market premium (£bn)	2013 Market Count (000's)	2015 Estimates		
			Cash/Savings	Lifetime Annuities	Drawdown/New Product
<10k	0.5	101	0.4	0.1	0.0
10k – 30k	2.2	122	1.4	0.4	0.4
30k – 80k	4.2	92	2.1	0.8	1.3
>80k	5.0	38	1.0	1.5	2.5
Total	11.9	353	4.9	2.8	4.2
		Existing Drawdown			1.6

Source: LGR Date: March 2014

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BEYOND APRIL 2015.

THE INDIVIDUAL RETIREMENT MARKET WILL CONTINUE TO GROW -
THE PROFIT POOL WILL SUBSTANTIALLY REDUCE.

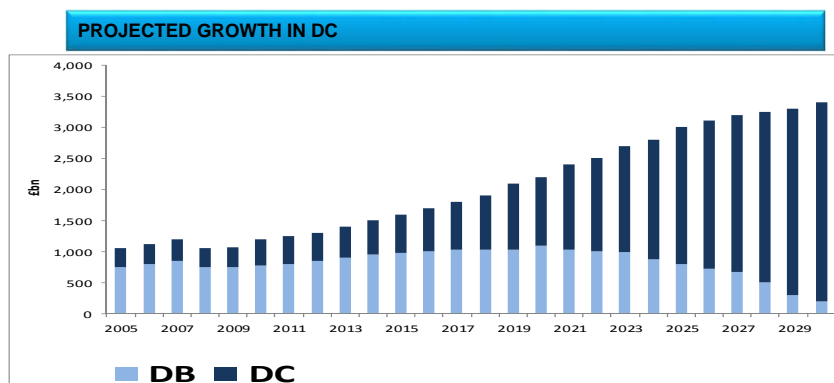


*Other includes Drawdown, Cash, Equity Release (Lifetime Mortgages) and Alternative products.

**L&G Estimates.

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MEETING CUSTOMER NEEDS IN RETIREMENT.



Success criteria for retirement product providers

- Effective customer engagement before, at and in retirement
- Route to good value advice
- Range of product solutions addressing customer needs
- Good at adapting to change



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Questions



Comments

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