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# What are customers' needs post Budget reforms?

## Can we communicate the value of annuities to the consumer?

Douglas Anderson, Hymans Robertson

29 January 2015

### Pre Budget hypotheses

**Annuities are no longer default:**  
Demand for flexible retirement options to meet the needs of retirees



**How little can I work?**  
Attitudes to continued work are already changing



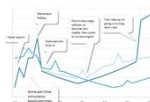
**Shape matters:**  
Average income needs in retirement aren't flat. U-shaped on average



**People can't picture themselves in old age:**  
life expectancy is consistently under-estimated



**The flaw of averages:**  
Individual income needs aren't u-shaped. Uncertain and highly personal income needs in retirement



**Inheritance beyond death becomes a lower priority:**  
protection against running out of money sought



**Housing wealth is under-utilised**  
opportunity for equity release to play larger role in retirement planning



**Annuities still have a place**  
Individuals likely to be healthier, or wait for breakdown in health



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## April 2015

### With freedom comes confusion



Should I take my tax-free lump sum now?

Where can I go for help?



Can I use the pension flexibilities to enable me to work part-time?



Is an annuity or drawdown better for me?



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## Perception vs reality – life expectancy

Retire at age 65 in good health.  
What age do you think you will live to?



**87.5**  
Club Vita  
estimation  
**82.1**  
Perception



**90.2**  
Club Vita  
estimation  
**82.4**  
Perception

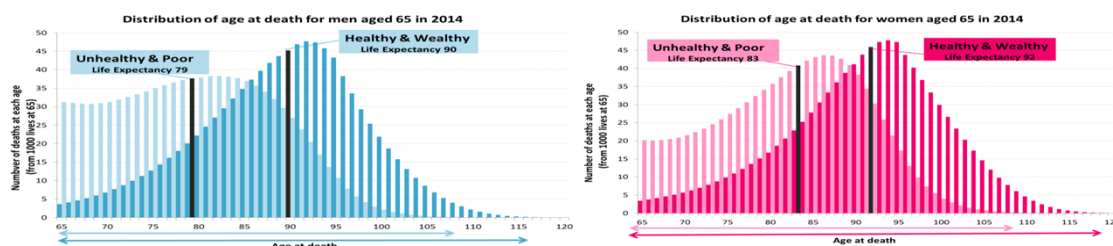
Source: Hymans Robertson & Club Vita research (Reality Cheque)



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## Another flaw of averages

Premature deaths have reduced, but still a wide range  
 Life expectancy figures hide the idiosyncratic risk  
 Different shapes in different socio-economic groups (links to postcode areas)



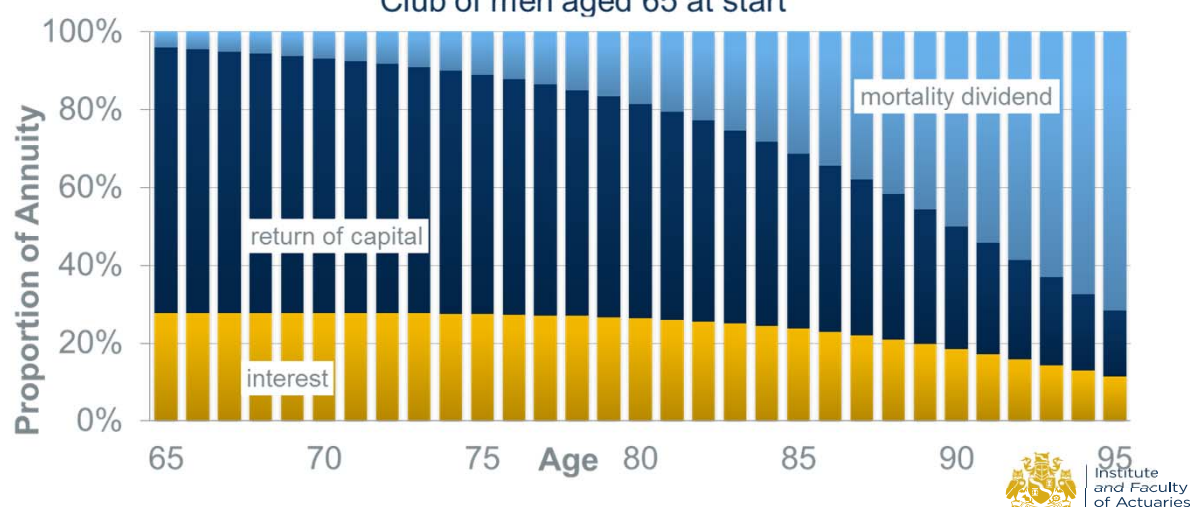
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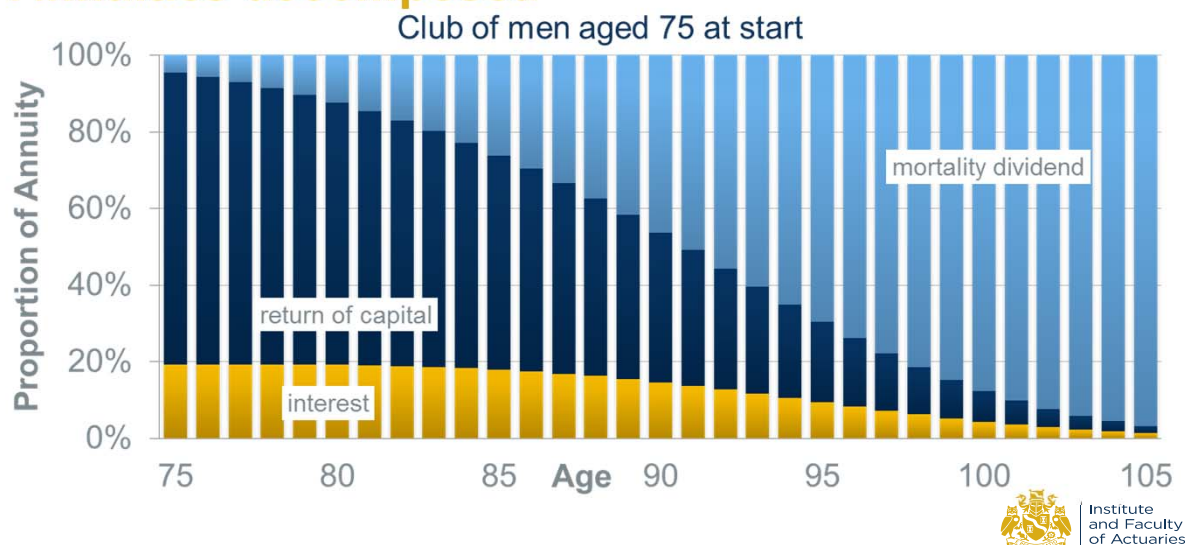
## Annuities decomposed

Club of men aged 65 at start



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## Annuities decomposed



## April 2015 changes

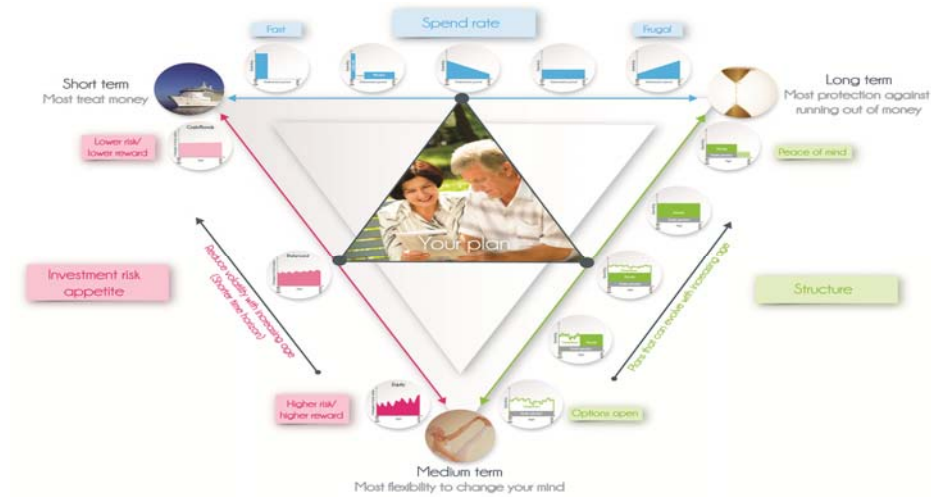
### Main rule changes

- Default annuitisation removed
- Drawdown liberalised
  - No minimum withdrawals
  - No maximum withdrawals
- No inheritance tax on pensions on death before age 75
- Plus, advisers now have to charge transparently

### Consequences

- Freedom to draw money, reflecting other incomes
  - DB pensions
  - Partner's pensions
  - State pension
  - Income from work
- Ability to draw larger lump sum, subject to tax
- Unwilling to pay for advice
- Temptation & confusion

## Visualising the trade-offs



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## How long do my savings need to last?



### Spend wise - how long will my savings last?

#### How much can I get, guaranteed to last my life?

Your savings could buy you a pension for life of around £5,100 each year before tax. This is guaranteed to be paid for your whole life, however long that is. After income tax this would be approximately £4,080.

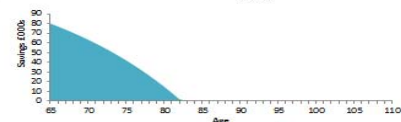


#### What if I spend faster?

You can choose to take an income from your savings, but it will not be guaranteed to last your life. If you select an income level (before tax), the Big Clock will calculate how long your fund will last.

Secure income for longer: £7,023. Higher income for shorter.

You selected an annual income of £7,023 each year. We estimate that this would last you until age 83.



#### What are your chances of living longer than this?

High 72%

Out of 100 people like you alive today, 72 will still be alive when your pot runs out of money.



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## 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.



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