



UK Sustainable retirement solutions

Update from the IFoA Defined Ambition research working party

Motivation

- Retirement income a key area of public interest
- Significant shift in how UK retirement income is provided
- Some sectors of the population face significant risks
- Actuarial profession should address the problem

arise
mentorship
Thought leadership
Thought progress
Community
Sessional Meetings
Education
Working parties
Volunteering
Research
Shaping the future
Networking
Professional support
Enterprise and risk
Learned society
Opportunity
International profile
Journals
Support-



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Agenda

UK retirement provision
Key features of retirement solutions
Lessons learned
Recommendations for Defined Ambition



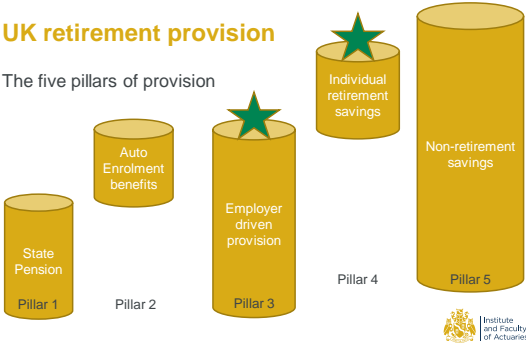
Agenda

➡ UK retirement provision
Key features of retirement solutions
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UK retirement provision

The five pillars of provision



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Individual groupings

- Cross subsidies an inherent feature of retirement provision
- Risk pooling/sharing key aspect of actuarial science
- Risk sharing evident even within DC

	Age 30	Age 45	Age 60
Income £10k pa			
Income £30k pa			
Income £100k pa			

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Pillar 1 – Flat Rate State Pension (£7,488pa)

Replacement ratio	Age 30	Age 45	Age 60
Income £10k pa	75%	75%	75%
Income £30k pa	25%	25%	25%
Income £100k pa	7¼%	7½%	7½%

- Political risk decreases with age (change in policy)
- Political risk decreases with lower incomes (means testing)

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Pillar 2 – Auto enrolment benefits

Replacement ratio	Age 30	Age 45	Age 60
Income £10k pa	x% pillar 1 y% pillars 1+2	x% pillar 1 y% pillars 1+2	x% pillar 1 y% pillars 1+2
Income £30k pa	x% pillar 1 y% pillars 1+2	x% pillar 1 y% pillars 1+2	x% pillar 1 y% pillars 1+2
Income £100k pa	x% pillar 1 y% pillars 1+2	x% pillar 1 y% pillars 1+2	x% pillar 1 y% pillars 1+2

- Steady State (DC) auto enrolment contributions assumed
- Implications for future changes to auto enrolment rates

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Pillar 5 – Non retirement savings

- Average house price: £175,000 (c £7,500 pa)
- Inheritance – healthcare
- Underestimating the cost of saving for retirement
- Ease of access – it often rains
- Average savings levels

	Age 25-32	Age 33-44	Age 45-54
Average	\$37,000	\$157,000	\$219,000
Median	\$12,000	\$61,000	\$101,000

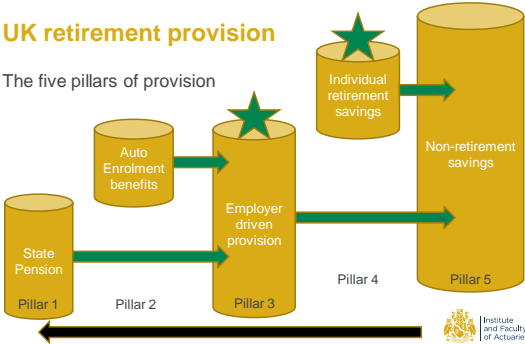


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UK retirement provision

The five pillars of provision



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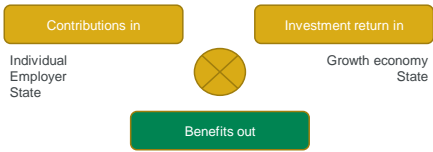
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Agenda

UK retirement provision
➔ Key features of retirement solutions
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Key features of retirement solutions

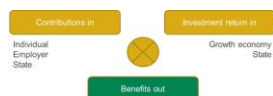


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Key features of retirement solutions

- Risk pooling / smoothing
- DB generational / DC semi-generational
- Improvements for one group are at expense of another
- Social – the only neighbour without a swimming pool
- Society – standard of living in different geographies



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Pillar 4 – Individual retirement savings

- US model of self reliance
- Financial education
- Certainty and security over commitments
- Incentive – including tax efficiency for high earners
- Allocation between retirement and non-retirement savings



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Refinements to the model – different types of member

- Outputs by member- draw out differences
 - Income
 - Stage of lifecycle
- Make more appealing to employers
- Rule out certain schemes – in some cases insurance the only option?
- Funding decisions – in particular the decumulation period
- Investment decisions



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Defined Benefit

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DB lite

- Insert graph



Cash balance

- Insert graph



Collective DC

- Insert graph



Defined Contribution

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Lessons learned ...

- Past UK pitfalls
- International trends
- New retirement savings landscape
 - Enabling a market
 - Overcoming barriers (DWP?)

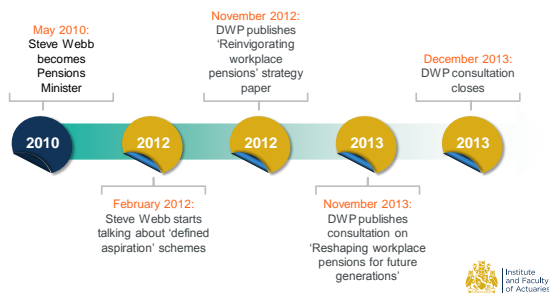
Past UK pitfalls

- To be completed ...

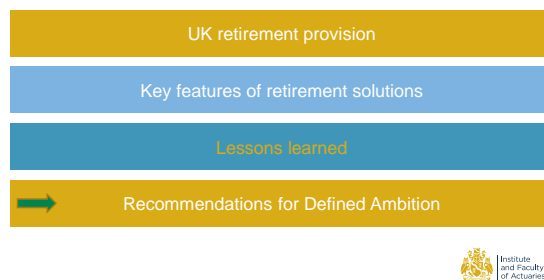
International trends

- To be completed ...

New retirement savings landscape



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Recommendations for Defined Ambition

- How the situation may evolve
 - How different vehicles distribute wealth
 - Economy
 - Lessons on release valves
- Ability to flex benefits / release valves

Recommendations for Defined Ambition

- To be completed ...
- Flexibility to change risk sharing structure
- Certainty for individuals for individual (pillar 4) element
- Risk sharing mechanism separate from government
- Non-governmental regulator
- Who picks up the risk sharing – the State?
- What if the State gains?

**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.

