



Institute
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UK Sustainable retirement solutions

Update from the IFoA Defined Ambition
research working party

07 April 2014

artise
onsorship
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

Motivation

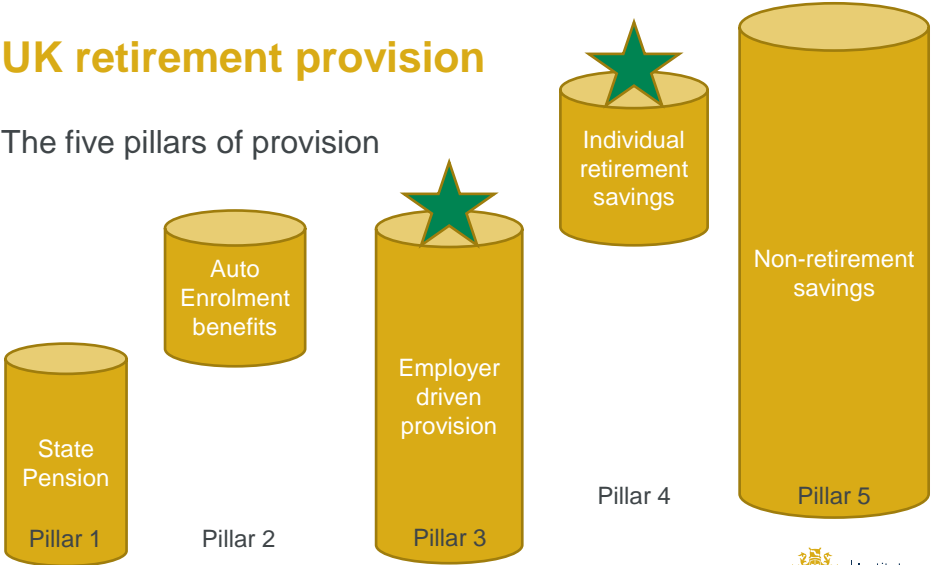
- Spin-off from macroeconomics discussions
- Retirement income a key area of public interest
- Significant shift in how UK retirement income is provided
- Some sectors of the population face significant risks
- Actuarial profession should address the problem



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UK retirement provision

The five pillars of provision



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	7½%	7½%	7½%

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



Pillar 2 – Auto enrolment benefits

Replacement ratio	Age 30	Age 45	Age 60
Income £10k pa	75% pillar 1 85% pillars 1+2	75% pillar 1 79% pillars 1+2	75% pillar 1 76% pillars 1+2
Income £30k pa	25% pillar 1 44% pillars 1+2	25% pillar 1 33% pillars 1+2	25% pillar 1 26% pillars 1+2
Income £100k pa	7.5% pillar 1 16% pillars 1+2	7.5% pillar 1 11% pillars 1+2	7.5% pillar 1 8% pillars 1+2

- Steady State (DC) auto enrolment contributions?
- Implications for future changes to auto enrolment rates
- Retirement at age 65?

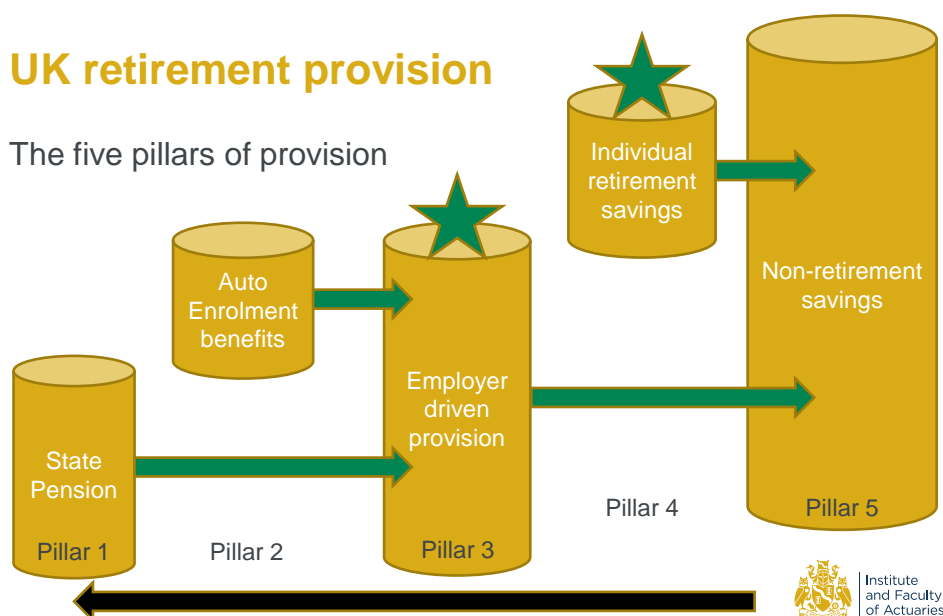


Pillar 5 – Non retirement savings

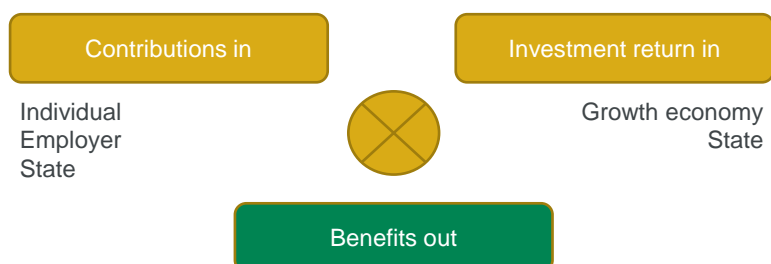
- Average property price: £175,000 (c £7,500 pa)
- Inheritance – healthcare
- Underestimating the cost of saving for retirement
- Ease of access – it often rains

UK retirement provision

The five pillars of provision

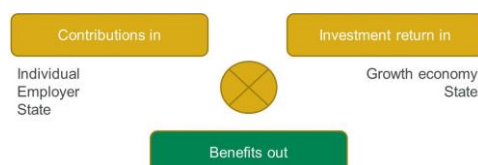


Key features of retirement solutions



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



Pillar 4 – Individual retirement savings

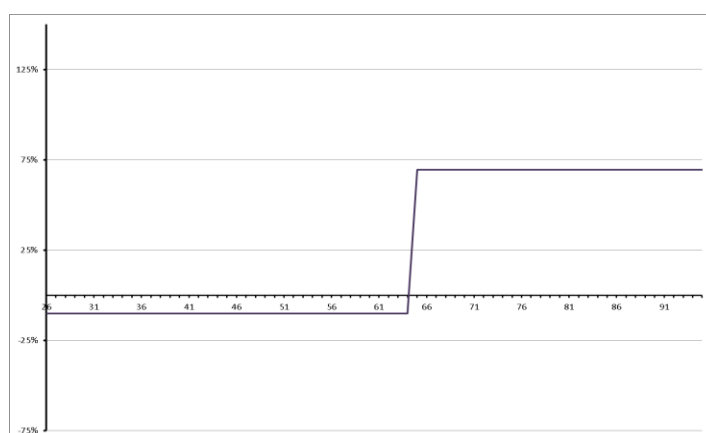
- US model of self reliance
- Financial education
- Certainty and security over commitments
- Incentive – including tax efficiency for high earners
- Allocation between retirement and non-retirement savings



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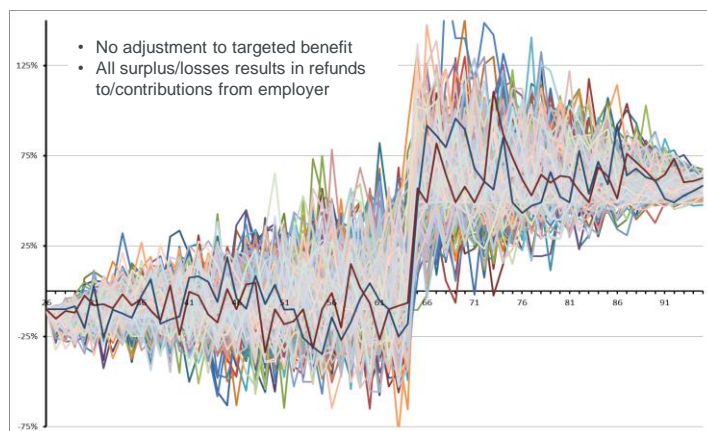
Net cashflows – complete market, ‘perfect’ world



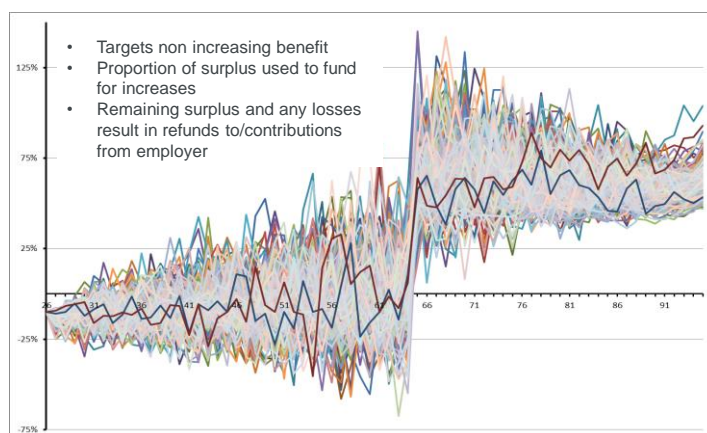
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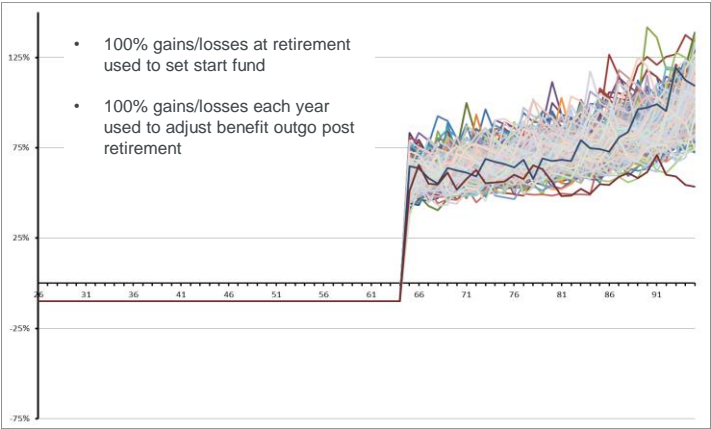
DB type vehicle



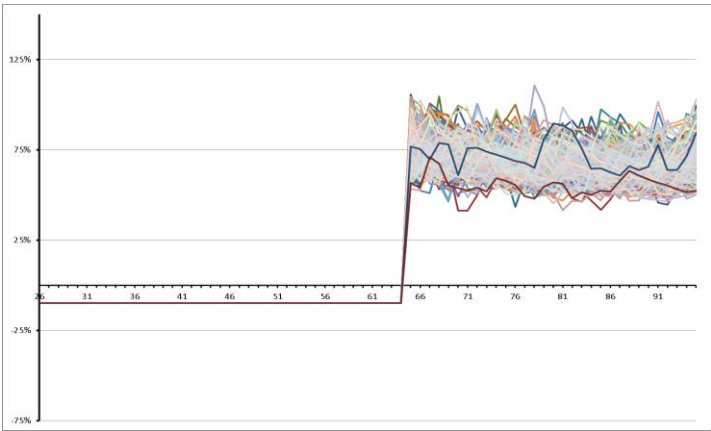
DB-lite type vehicle



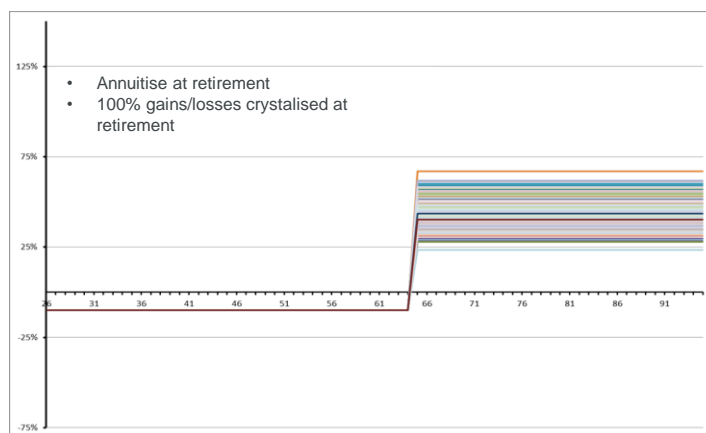
Prudent drawdown-type vehicle



Realistic drawdown-type vehicle



DC type vehicle – pre Budget!



Wider issues

- Past UK pitfalls
- International trends
- New retirement savings landscape
 - Enabling a market
 - Overcoming barriers (enabling regulations, employer appetite?)
 - Dust to settle on Budget 2014
(Where does '2013 DA' fit in the brave new liberalised world of pensions?)

Future of Defined Ambition (1)

- How the situation may evolve
 - How different vehicles distribute wealth
 - Political influence
 - Economy
- Who picks up the risk sharing – the State?
- What if the State gains?
- Engagement from employers

Future of Defined Ambition (2)

- Flexibility to change benefit structure important?!?
- Social change critical
- Financial education also critical
- Risk sharing mechanism separate from government
 - Non-governmental regulator?
- The role of actuaries in shaping the future of retirement savings?



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.