



Institute
and Faculty
of Actuaries

F7: Solving the Pensions Conundrum

Association of Consulting Actuaries (ACA)

Scott Eason and Tracey McManus, Barnett Waddingham

Chintan Gandhi, Aon Hewitt

24 November 2017



Institute
and Faculty
of Actuaries

Agenda

- Why should you listen to the ACA?
- Current challenges in Pensions
- What can insurers do
- Q&A

24 November 2017

Why should you listen to the ACA?



- ACA Members are all individual qualified actuaries working as consultants
- Our Members advise thousands of UK pension schemes and companies about the pension and other benefits provided to employees
- Actively research and analyse evolving trends or changes in commercial or legislative policy
- Use our expertise and knowledge to influence decisions by Government, regulators and other relevant stakeholders

Technical skills, experience & influence



24 November 2017

3

Defined Benefit Scheme

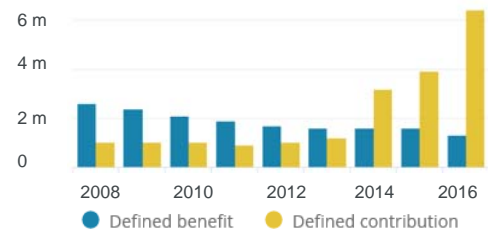
- Increasing DB scheme deficits – aggregate > £500BN
- Pension Freedoms
- Growth in member options
- Green Paper on ‘Security and Sustainability of DB schemes’
- Government / tPR powers set to increase?
- Decline of DB, move to DC

Average (IAS19) funding levels of FTSE 100



Source: Barnett Waddingham, Accounting for Pension Costs by FTSE 100 companies, December 2016

Active membership of private sector occupational pension schemes



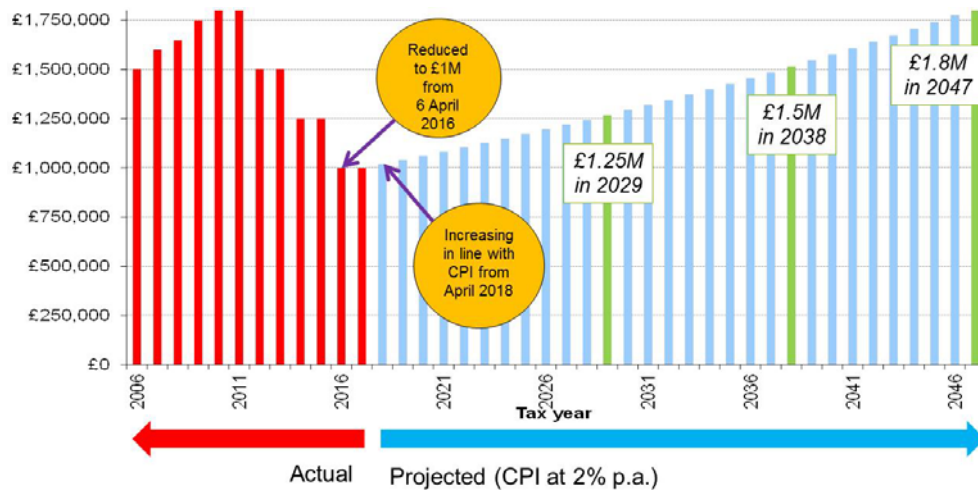
Source: ONS, Occupational Pension Schemes Survey, UK 2016



24 November 2017

4

Pension Taxation – Lifetime Allowance



Need a
stable tax
and
savings
system

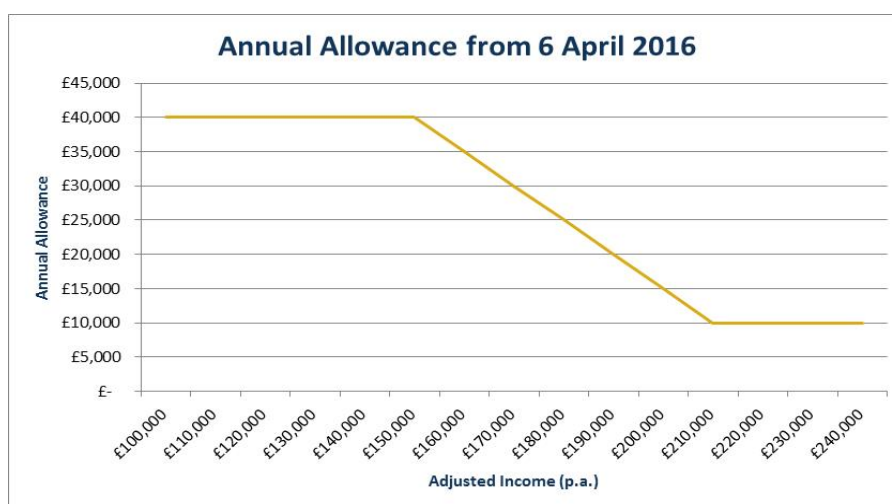


Institute
and Faculty
of Actuaries

24 November 2017

5

Pension Taxation – Annual Allowance



Need
simplicity



Institute
and Faculty
of Actuaries

24 November 2017

6

Intergenerational Fairness

Fig 1: % of private sector employees who are active members of a DB pension scheme by age, for people born in different decades

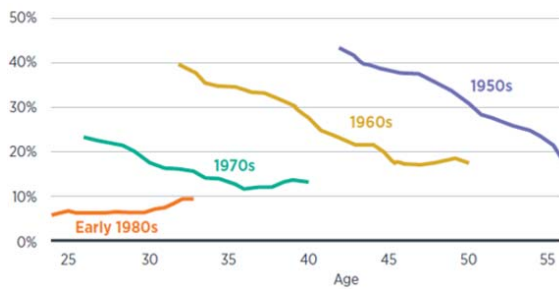
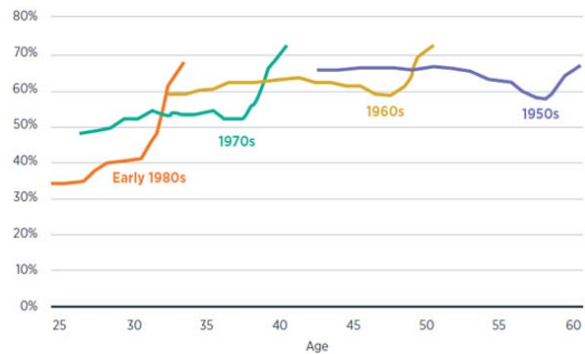


Fig 2: Workplace pension participation rate of employees by age, for people born in different decades



Source: 'The economic circumstances of different generations: the latest picture' <https://ifs.org.uk/publications/8583>



Institute
and Faculty
of Actuaries

24 November 2017

7

Intergenerational Fairness

- Little incentive for younger generation to save
 - Auto-enrolment contributions inadequate?
- Wage stagnation vs. house price growth
- Outcomes in DC vs. DB
- ISAs vs. LISAs vs. Pensions vs. Savings
- Flexibility – need to go further

Need to incentivise long-term saving by younger generation



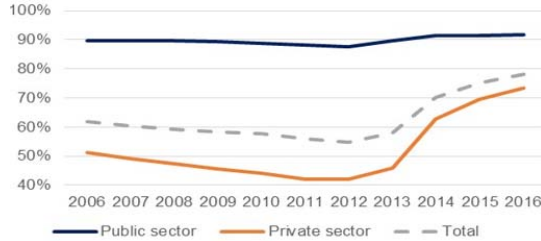
Institute
and Faculty
of Actuaries

24 November 2017

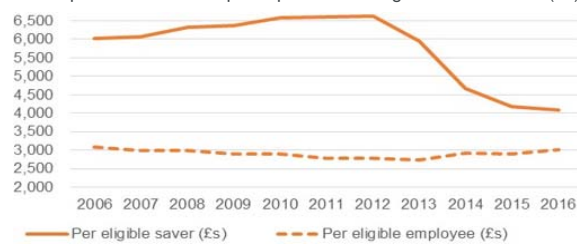
8

Auto-enrolment

% of UK eligible employees participating in workplace pensions



Trends in private sector workplace pension saving – Amount saved (£s)



Need to build on success

- Most employers now staged (extends to all employers by Feb 2018)
- Increase coverage/membership
- Increase contribution levels (current minimum level 8% of qualifying earnings from Oct 2019)

Source: DWP estimates derived from the ONS ASHE, 2006-16



Institute
and Faculty
of Actuaries

24 November 2017

9

Auto-enrolment

Saving ratio



Source: ONS,
Monthly
Economic
Commentary
March 2017

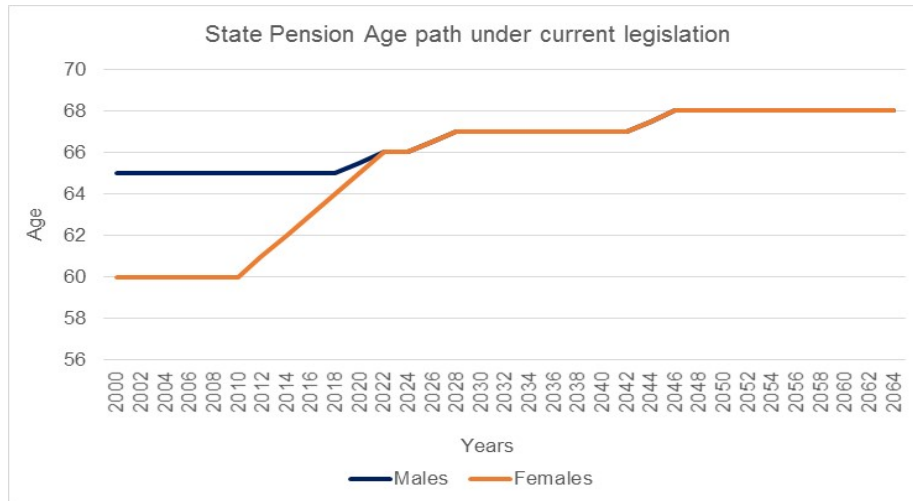


Institute
and Faculty
of Actuaries

29 November 2017

10

State Pension Age

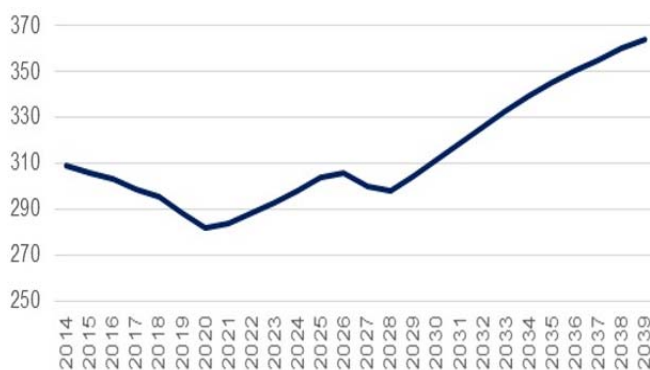


Institute
and Faculty
of Actuaries

29 November 2017

11

State Pensions



Projected state pensioners in England (per 1,000 working population)
Source: ONS population projections 2015

Need a fair and sustainable system

- People are living for longer
- Intergenerational issues
- Full state pension: £159.55 pw (£8,296.60 pa)
- Current "triple lock"
- Reward working population



Institute
and Faculty
of Actuaries

24 November 2017

12

Social Care



One in four people admit they have no idea how they would cover the elderly care costs for themselves or a relative

42%

42% of people have £2,000 or less in life savings to fall back on, meaning they would only cover the costs of care for a maximum of two and a half weeks

85% are saving nothing towards the potential cost of their own care

49% plan to take relatives' financial help for care in later life

92% are not saving anything to help their parents, grandparents or other relatives

24% claim they would need or expect to rely entirely on state support

Need an integrated long-term solution

- Elderly care crisis - £7B annual deficit
- Strain on NHS and local authority resources
- Recent initiatives - residential / at home care
- Comprehensive savings policy for later life suiting the older as well as the younger population

Source: The Centre For The Modern Family – The Cost of Care research 2017 - a nationally representative opinion survey of 2,001 UK adults carried out in 2017.



Institute and Faculty of Actuaries

24 November 2017

13

To summarise....

- Big DB deficits: Need new flexibilities and reforms
- Auto-enrolment: Need to build on as current saving levels not enough
- UK Tax system: Too complex
- State pensions: Need to balance against the desire to reward those in the working population and for policy to be sustainable
- Intergenerational fairness issues: Need to incentivise younger people to save
- Developing social care crisis: A comprehensive longer-term solution is needed

Current position inadequate over long-term.
Need policies / products to encourage higher private savings.



Institute and Faculty of Actuaries

29 November 2017

14

What can insurers do to solve these problems?



Currently no ACA view as limited Insurance presence

Areas that Scott would love to discuss further...

- Providing lower cost accumulation saving products (maybe through workplace savings to challenge mastertrusts in terms of mass savings)
- Providing better care products (government policy to build around)
- Offering LISAs as a retirement product for wealthy under 40s
- Innovating on hybrid in retirement products offering income guarantees and stronger investment returns
- Provide an element of smoothing to investment returns so accumulation products can stay in risky assets for longer (any element of significant guarantee is likely to be too expensive in current investment conditions)

Scott's personal view...



Average W-P fund return in 2016 = 12.5%

Average UK equity returns in WP funds beat the FTSE All-Share by 1.5%pa over 2013-5

...plus smoothing (and guarantees)

With-Profits is a great investment vehicle

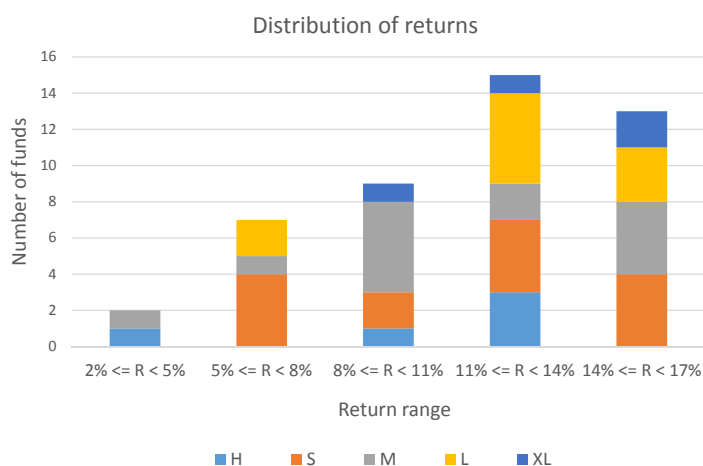
Source: Barnett Waddingham With-Profits Investment Surveys 2015-6



24 November 2017

17

But a personal bug-bear....



7 Top Tips to improve with-profits returns

- 1) Know your ABCs
- 2) Consider wider mandates
- 3) Set clear performance targets
- 4) Align your managers with your ABCs
- 5) Understand decision processes
- 6) Get the MI you want
- 7) Know the provider market



24 November 2017

18

What can the ACA do?

- Provide a voice for those proposing changes that enhance social well-being
- Allow like-minded individuals to work together and debate issues
- Inform government and other stakeholders (including journalists)

Looking for volunteers to form a life insurance committee of the ACA

Please contact me at scott.eason@Barnett-Waddingham.co.uk if interested



Institute
and Faculty
of Actuaries

24 November 2017

19

Questions

Comments

The views expressed in this [publication/presentation] are those of invited contributors and not necessarily those of the IFoA. The IFoA do not endorse any of the views stated, nor any claims or representations made in this [publication/presentation] and accept no responsibility or liability to any person for loss or damage suffered as a consequence of their placing reliance upon any view, claim or representation made in this [publication/presentation].

The information and expressions of opinion contained in this publication are not intended to be a comprehensive study, nor to provide actuarial advice or advice of any nature and should not be treated as a substitute for specific advice concerning individual situations. On no account may any part of this [publication/presentation] be reproduced without the written permission of the IFoA [or authors, in the case of non-IFoA research].



Institute
and Faculty
of Actuaries

24 November 2017

20