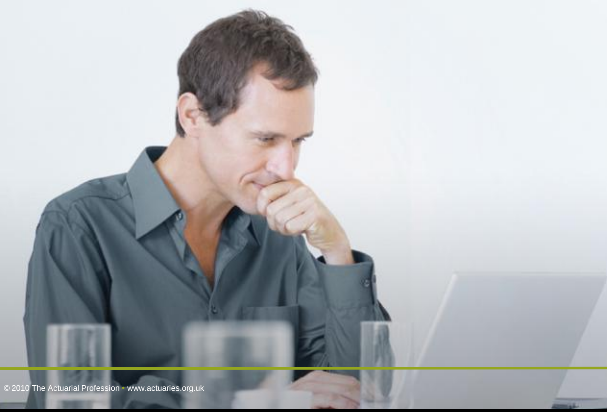
The Actuarial Profession
making financial sense of the future

How Better Consumer Information Can Help Prevent A Generation From Sleepwalking Into Retirement



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Two Professional Working Groups

- **Consumer Information**
  What do we need to change to consumer information to make it useful?

  Research paper published January 2012 & presented to AP 23 April 2012.

- **Sleepwalking Into Retirement**
  A problem we all know about but what can be done?

  Work in progress

Three Principles For Good Consumer Information

- Communicate in terms of consumer's goals
  - Financial goals framed in terms of consumption needs & wants
  - Outcomes & risks assessed relative to the goal
  - Significant asset & liability risk considered
- Delivery of information to facilitate consumer engagement
  - Segment consumers
  - Tier information to each engagement level
  - Format and Frame to facilitate decisions
  - Time information to when people need to make decisions
  - Consistency across the full range of consumer touch points
- Consumer information free of bias
  - Consider Model; Assumption & Presentation bias

Sleepwalking into Retirement

- We have a generation with high expectations for retirement
- Large saving gap relative to goals
- Few taking steps to close gap

Why not?

Can actuaries help?

Scoping study

- After a thorough review, we found that professionals in the industry are well aware of the problem
- So is the media
- But consumer behaviours aren't changing

Our (non)savings culture formed during
a different environment

How can actuaries help?

- Use our USPs
- Expertise / integrity
- Trust / independence

We can do the numbers
Build tools other organisations can use

Two main outcomes

- People change their behaviours

  or
- They work longer

It's their choice !

Not up to us to say what they should do

But we can hold up a mirror

Designing the 'mirror'

- "Based on what you are doing now, here is what will happen to you"
- Keep it simple
- Result is the retirement age rather than complex concepts

- Please note this is work in progress

8

The average rarely tells the whole story…..

9

Consumer segments (Experian)

Group	Name	One Line Description	Household %	Person %
A	Bright Futures	Young professionals building their careers whose incomes have good potential to rise	5.40	4.52
B	Single Endeavours	Young singles and sharers who are working to establish themselves while enjoying low commitments	8.04	7.52
C	Young Essentials	Young people in their 20s with low income renting affordable accommodation	3.76	2.86
D	Growing Rewards	High income families with growing children who are making excellent financial progress	5.93	6.31
E	Family Interest	Growing famillies with mid-range incomes and high expenses	4.74	5.10
F	Accumulated Wealth	Affluent families with the highest incomes, expensive homes and many assets	3.95	5.14
G	Consolidating Assets	Families in their middle years who have made a good foundation to their financial position	7.46	9.05
H	Balancing Budgets	Families in their middle years who have average incomes and need to balance expenses against resources	13.11	14.24
I	Stretched Finances	Middle aged families who are striving to manage their day to day finances on very limited incomes	7.41	7.42
J	Established Reserves	Pre-retirement households with good savings whose financial commitments are reducing	9.13	10.39
K	Seasoned Economy	Pre-retirement households who are experienced in making their money go further	5.83	5.77
L	Platinum Pensions	Elderly people with good pensions who are enjoying a comfortable retirement	4.79	4.33
M	Sunset Security	Retired people with the security of home ownership and a modest pension income	11.69	9.56
N	Traditional Thrift	Ageing people with low incomes and a reliance on state provision	8.77	7.78

Consumer segments (Experian)

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Modelling retirement ages

- How do we estimate each segment's likely retirement age?

Model inputs

For each household (e.g. representative of a segment):

- Age
- Salary net of tax
- Saving rates
- Current investments/pension balance
- Outgoings:
  - That end at retirement (contributions, repayment mortgage)
  - Ongoing living costs (aim is to cover this)

Experian Segments

Groups (household figures)	Percentage of UK households	Current age	State Pension Age	Gross salary	Salary after tax
A Bright Futures	5.40	32	68	£42,131	£31,181
B Single Endeavours	8.04	34	68	£28,113	£21,649
C Young Essentials	3.76	31	68	£14,428	£12,343
D Growing Rewards	5.93	38	67	£72,648	£48,914
E Family Interest	4.74	36	67	£49,357	£35,405
F Accumulated Wealth	3.95	50	66	£108,192	£67,892
G Consolidating Assets	7.46	46	66	£53,582	£37,856
H Balancing Budgets	13.11	44	66	£34,893	£26,259
I Stretched Finances	7.41	42	67	£13,752	£11,883
J Established Reserves	9.13	56	66	£40,224	£29,884
K Seasoned Economy	5.83	56	66	£24,957	£19,503

Example wealth data

Breakdown of aggregate wealth: by deciles and components, 2006/08

Great Britain £

	Property wealth (net)	Financial wealth (net)	Physical wealth	Pension wealth	Total wealth
1st	-7,700	-12,100	15,500	3,900	-500
2nd	1,100	-1,600	37,200	6,600	43,300
3rd	20,600	3,200	65,100	28,500	117,500
4th	108,400	13,500	70,000	61,700	253,600
5th	218,400	24,500	82,500	88,300	413,800
6th	316,900	39,300	94,200	141,700	592,100
7th	403,400	73,900	106,400	229,300	813,100
8th	489,900	116,500	123,000	391,900	1,121,300
9th	642,400	193,400	149,600	663,400	1,648,700
10th	1,283,800	544,700	222,900	1,903,600	3,954,900

Source: Wealth and Assets Survey, Office for National Statistics

Model assumptions

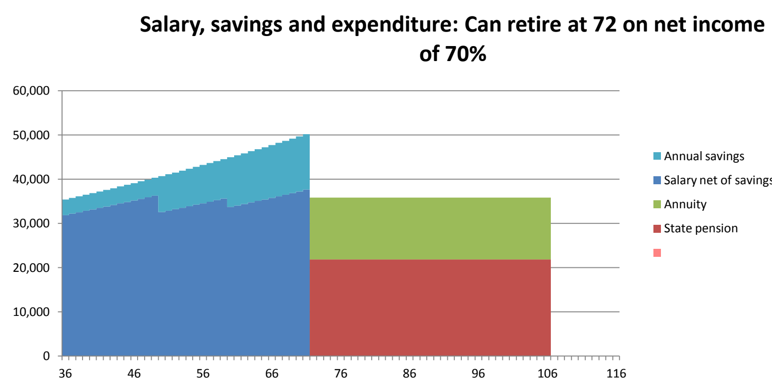
- 0% real returns net of fees, inflation & tax
- Market annuity rates for key ages
- Real salary growth 1%
- Current state pension, and deferment uplift

Key calculations

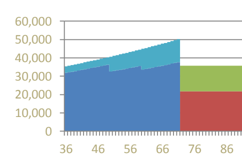
At each possible retirement age:
- Future value of investments/pensions
- Annuity that could buy
- State pension if deferred till then

Output:
- The age at which this income covers your costs

Example Results - “Family Interest” Segment



Example Results – whole nation (8% savings)



		Age at which each segment could:	
	Gross salary	Replace living costs	Meet 70% replacement ratio
A Bright Futures	£42,131	73	75
B Single Endeavours	£28,113	70	71
C Young Essentials	£14,428	69	68
D Growing Rewards	£72,648	77	81
E Family Interest	£49,357	72	76
F Accumulated Wealth	£108,192	72	82
G Consolidating Assets	£53,582	79	74
H Balancing Budgets	£34,893	73	70
I Stretched Finances	£13,752	68	68
J Established Reserves	£40,224	67	66
K Seasoned Economy	£24,957	68	66

The (work in progress) model…..

How to use the three principles?

Focus on a meaningful goal: Is retirement age suitable?

What different segments should be considered?
e.g. life stage, family, income & ambitions

Free of bias: Investment returns nil suitable?

Your feedback & discussion

Focussing on retirement age as ‘mirror’
Segments, inputs & data used
Model assumptions & sensitivities
Calculations & outputs
Early conclusions – reliance on state pension
Target audience

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THANK YOU

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