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# How can anyone afford to retire?

Nigel Manson

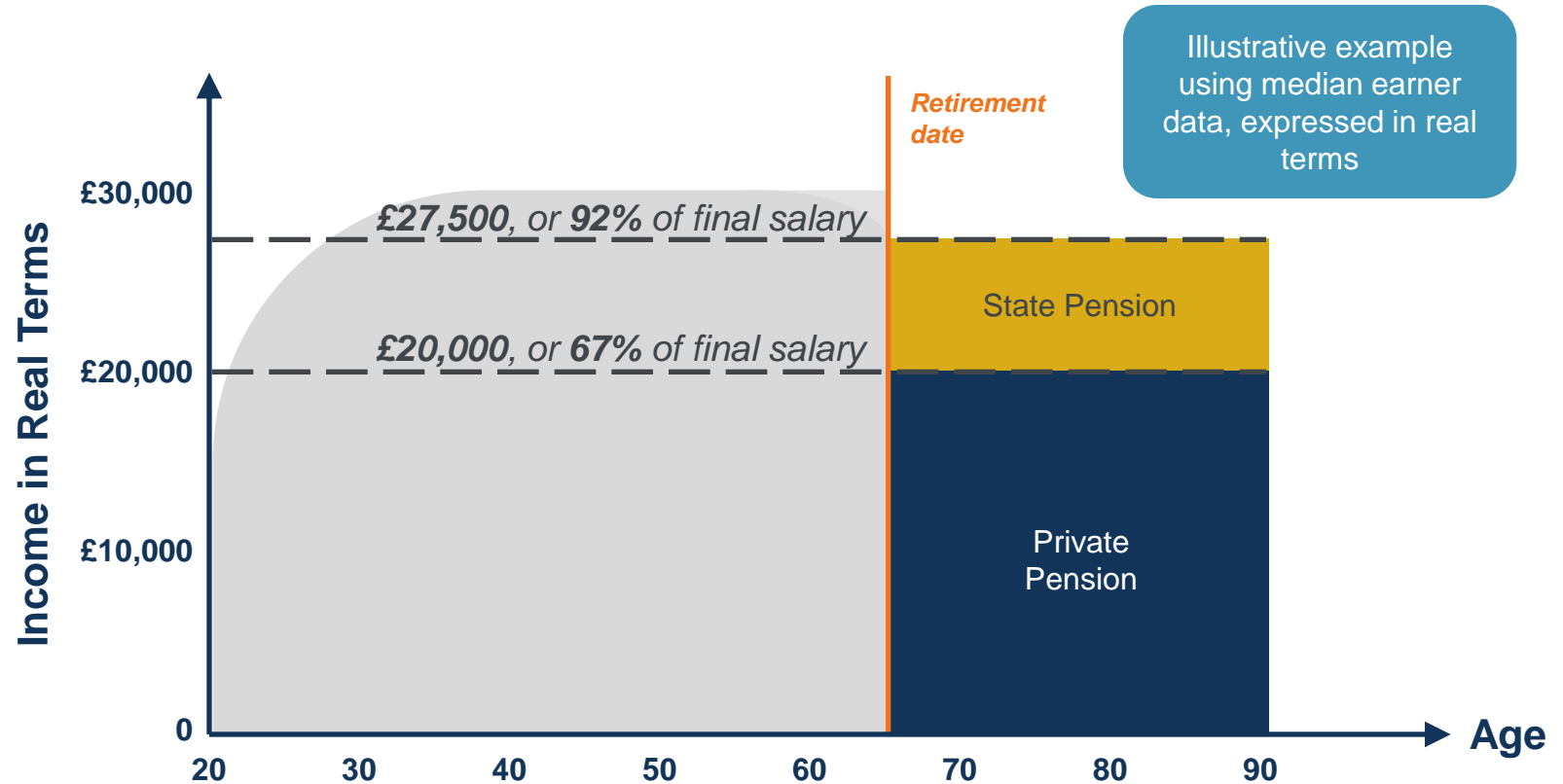
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Olivia Treharne

Fund Manager, Active Equities

Legal & General Investment Management

# The traditional approach

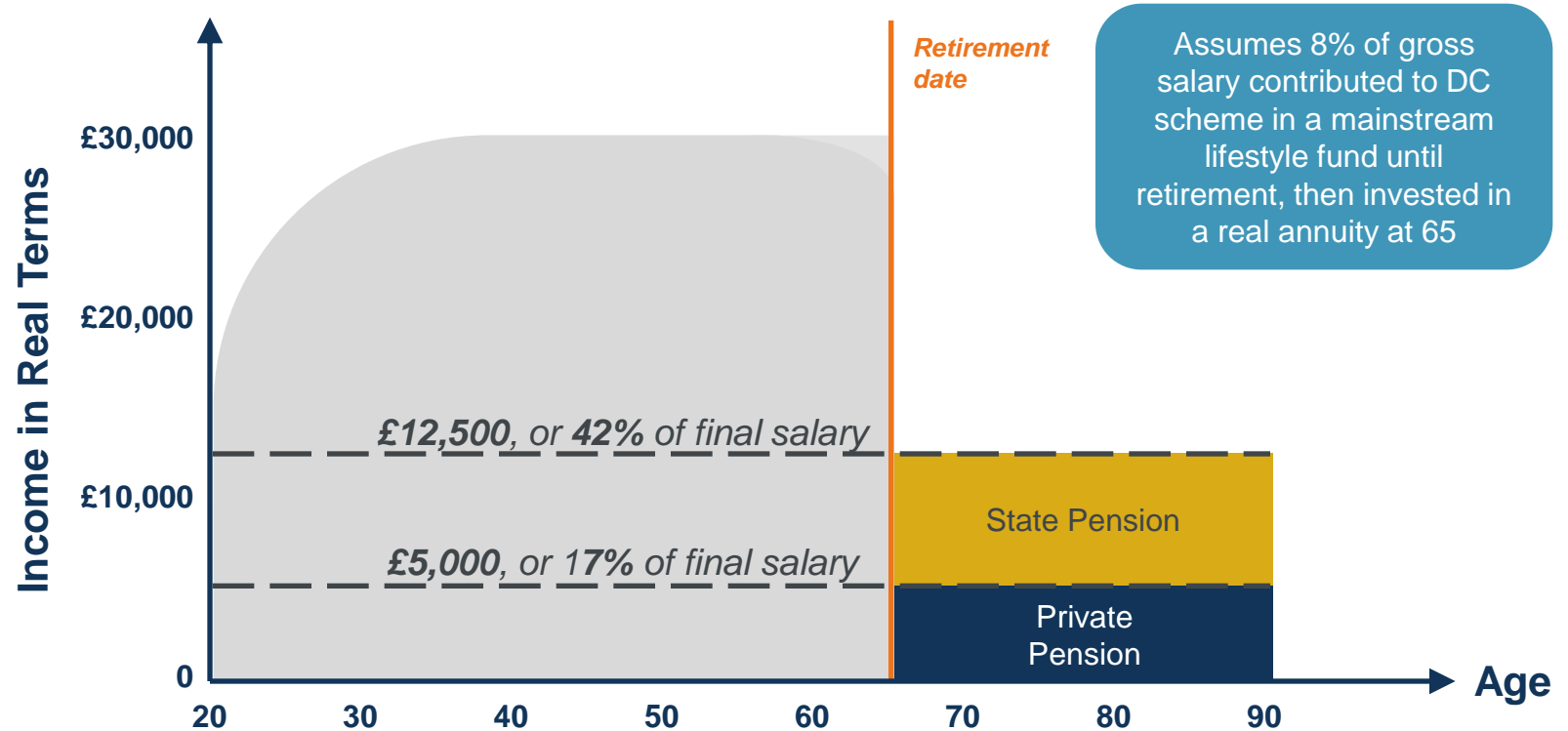


Source: Legal and General Investment Management illustrative example using ONS data



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# The reality



Source: Legal and General Investment Management illustrative example



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# Closing the gap?

SAVE MORE	SPEND LESS	WORK FOR LONGER	RELEASE HOME EQUITY	SHOULDER MORE RISK
<ul style="list-style-type: none"><li>▪ Company contributions</li><li>▪ Individual contributions</li></ul>	<ul style="list-style-type: none"><li>▪ In retirement</li></ul>	<ul style="list-style-type: none"><li>▪ Full time</li><li>▪ Part time</li></ul>	<ul style="list-style-type: none"><li>▪ Downsize home</li><li>▪ Or reverse mortgage</li></ul>	<ul style="list-style-type: none"><li>▪ Investment risk during<ul style="list-style-type: none"><li>– accumulation</li><li>– retirement</li></ul></li></ul>

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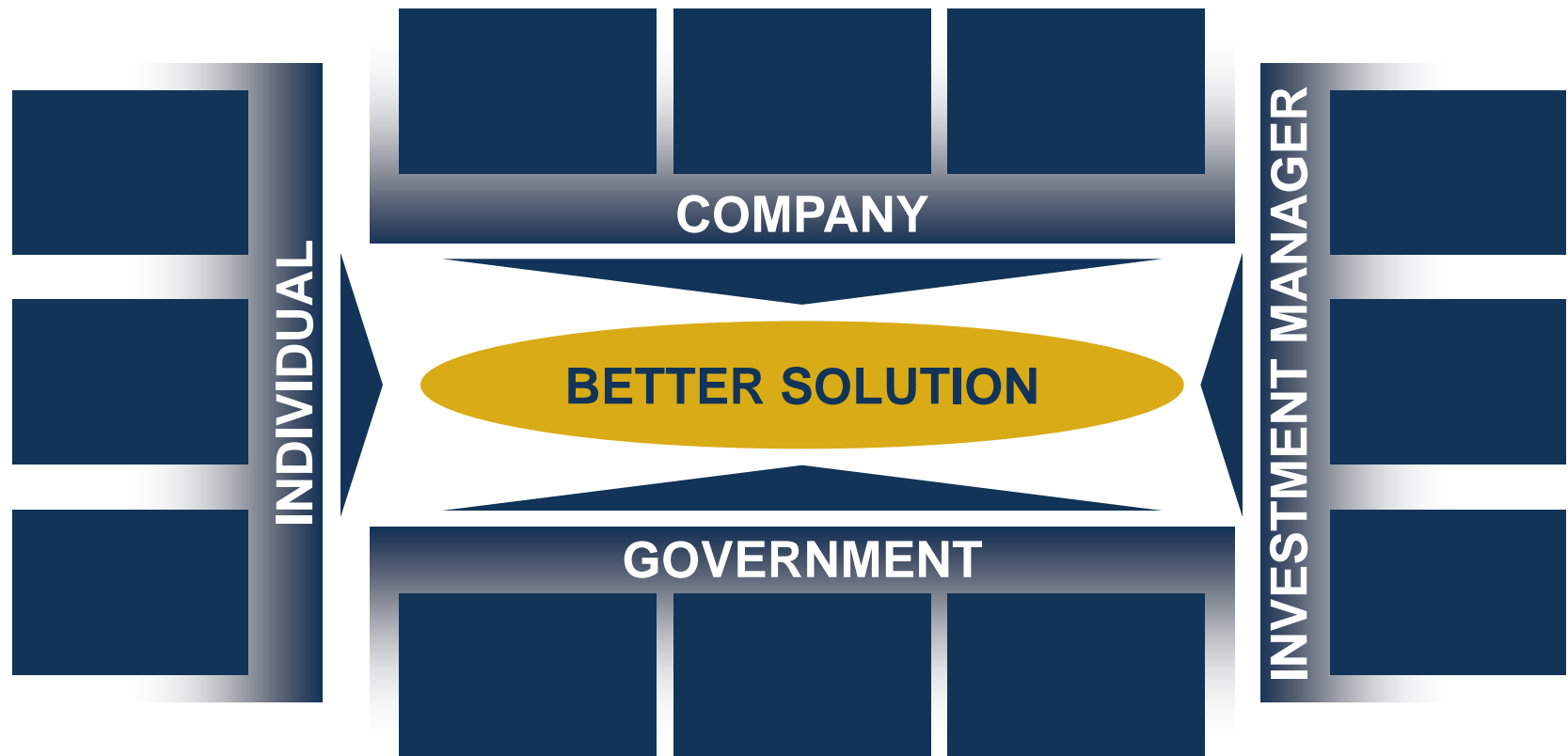
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<ul style="list-style-type: none"><li>▪ <math>\frac{2}{3}</math><sup>rd</sup>s of final salary in retirement requires saving 32% of gross during accumulation</li></ul>	<ul style="list-style-type: none"><li>▪ Hard to live off less than £1,000 per month without radical compromises to lifestyle</li></ul>	<ul style="list-style-type: none"><li>▪ Saving 8% of gross salary means working to 80 to achieve <math>\frac{2}{3}</math><sup>rd</sup>s of final salary in retirement</li></ul>	<ul style="list-style-type: none"><li>▪ Median house value in UK is £282k – releasing some equity helps, but still need somewhere to live</li></ul>	<ul style="list-style-type: none"><li>▪ Taking more investment risk will create more uncertainty and require flexibility</li></ul>

Source: Legal and General Investment Management



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# In reality, there are multiple stakeholders

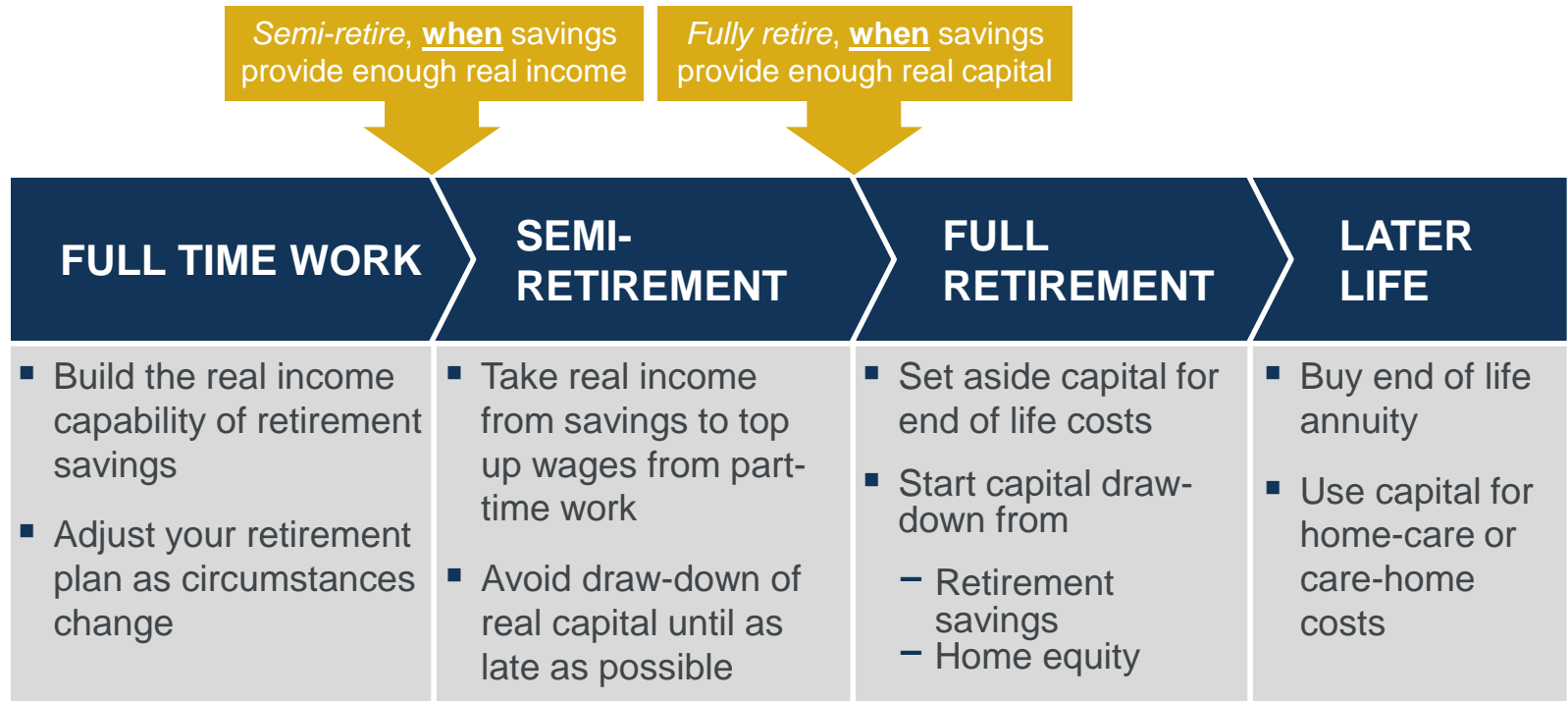


Source: *Legal and General Investment Management*



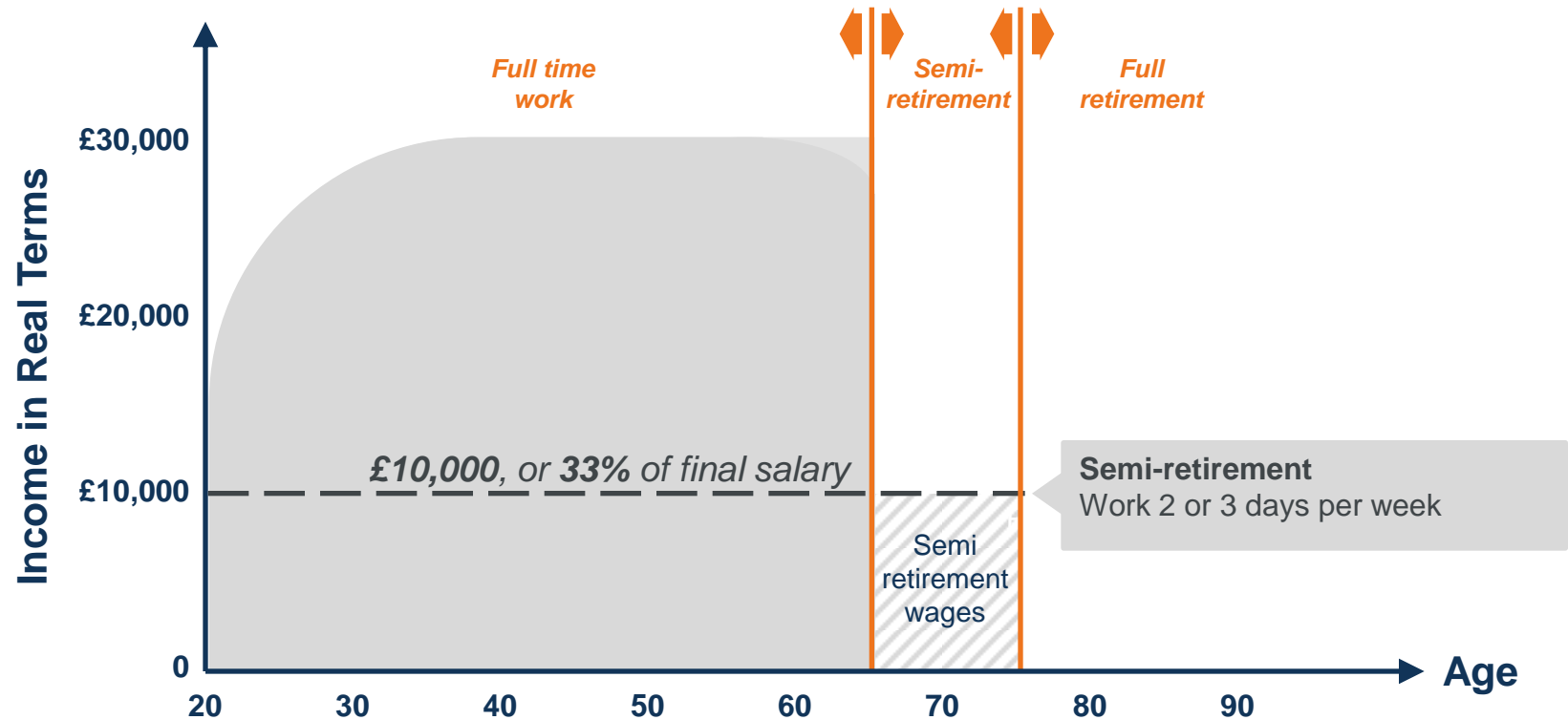
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# An alternative retirement plan





# An alternative retirement plan



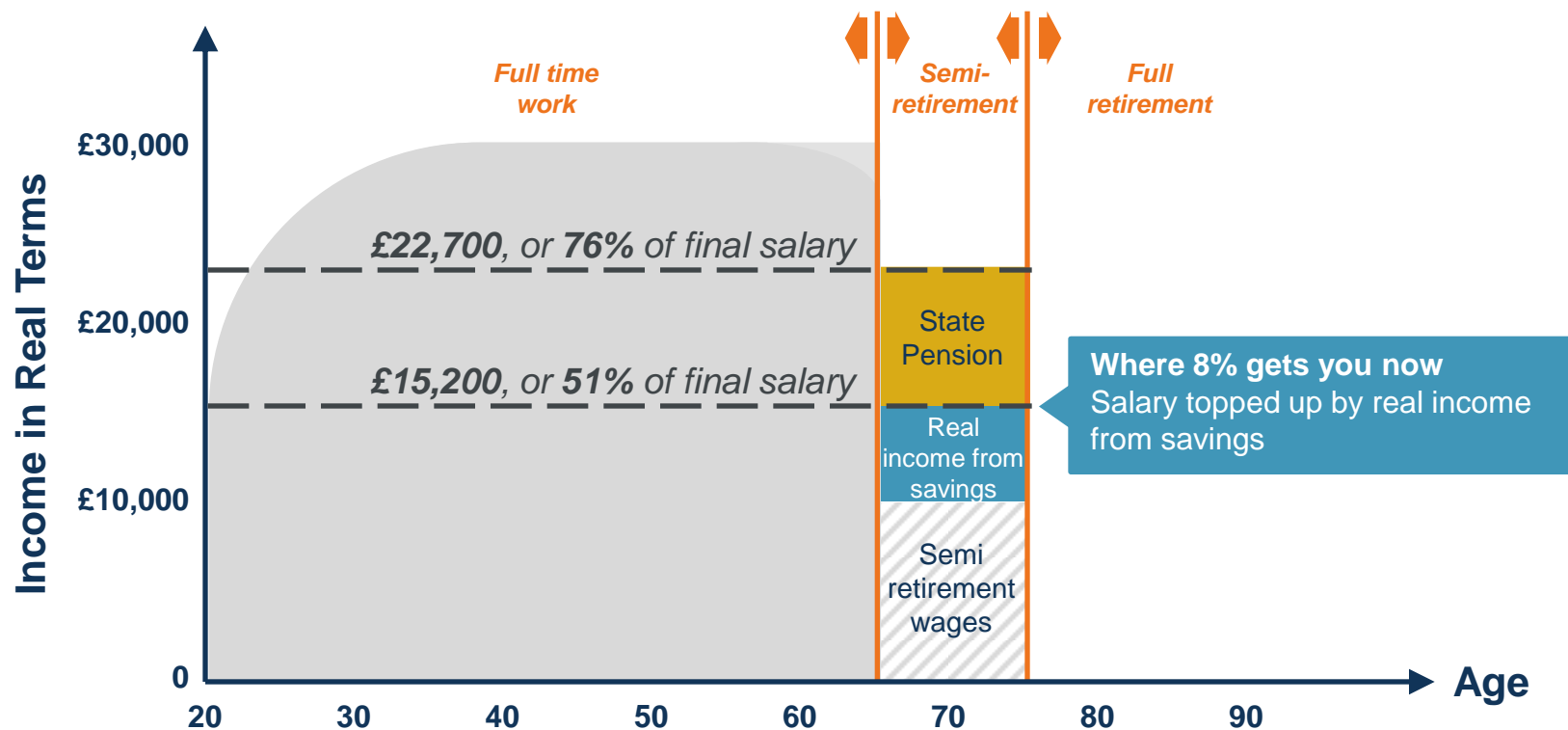
Source: Legal and General Investment Management



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# An alternative retirement plan

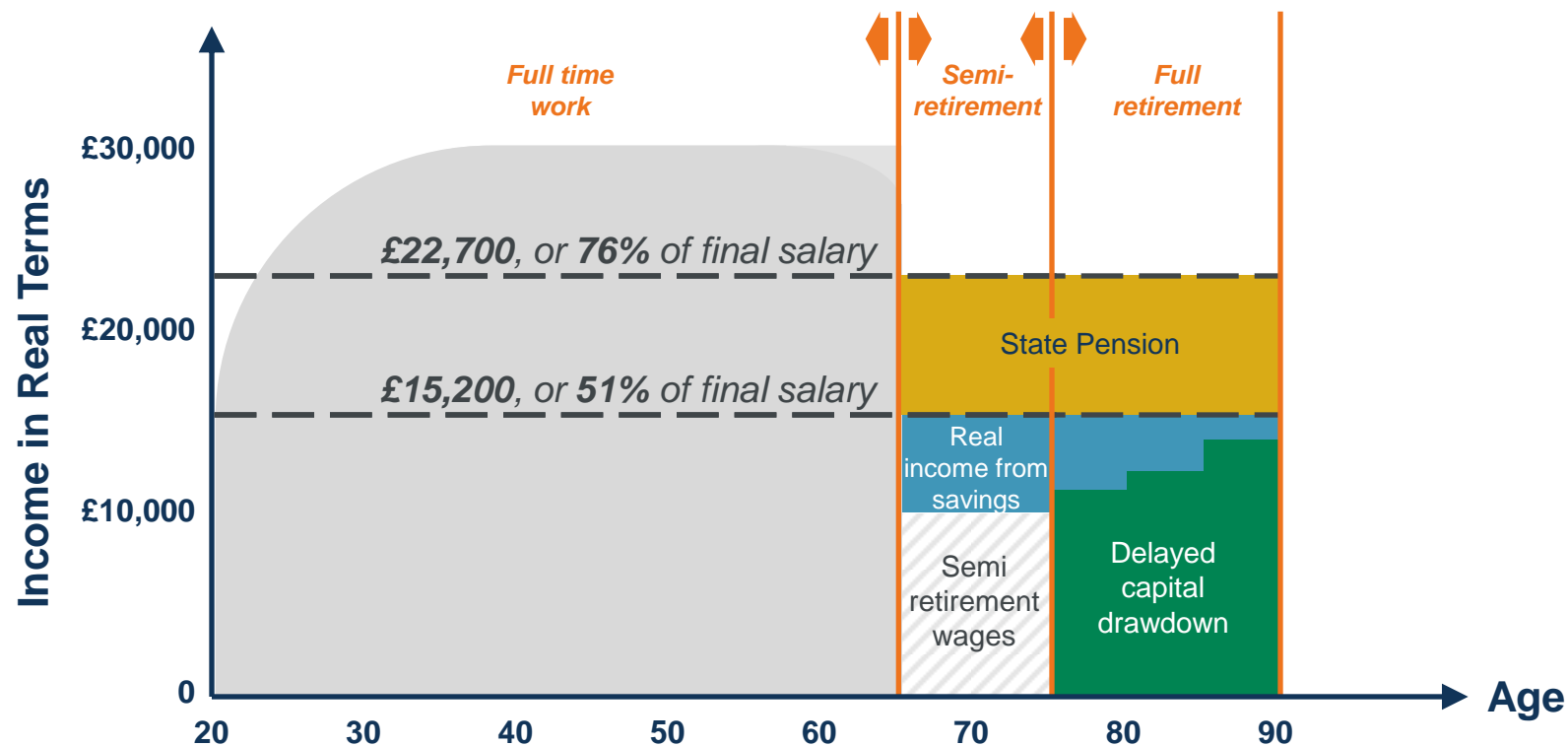


Source: Legal and General Investment Management



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# An alternative retirement plan

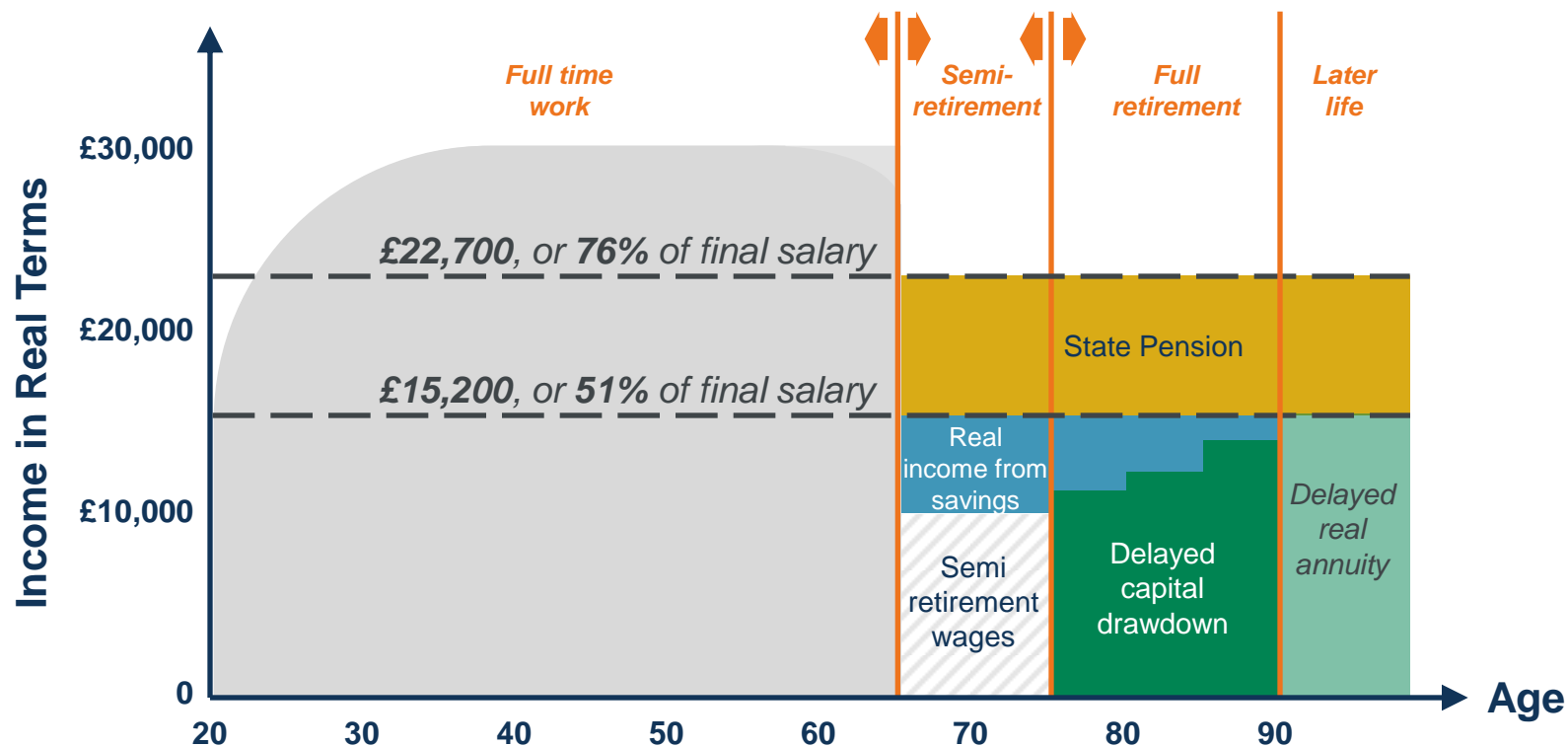


Source: Legal and General Investment Management



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# An alternative retirement plan



Source: Legal and General Investment Management



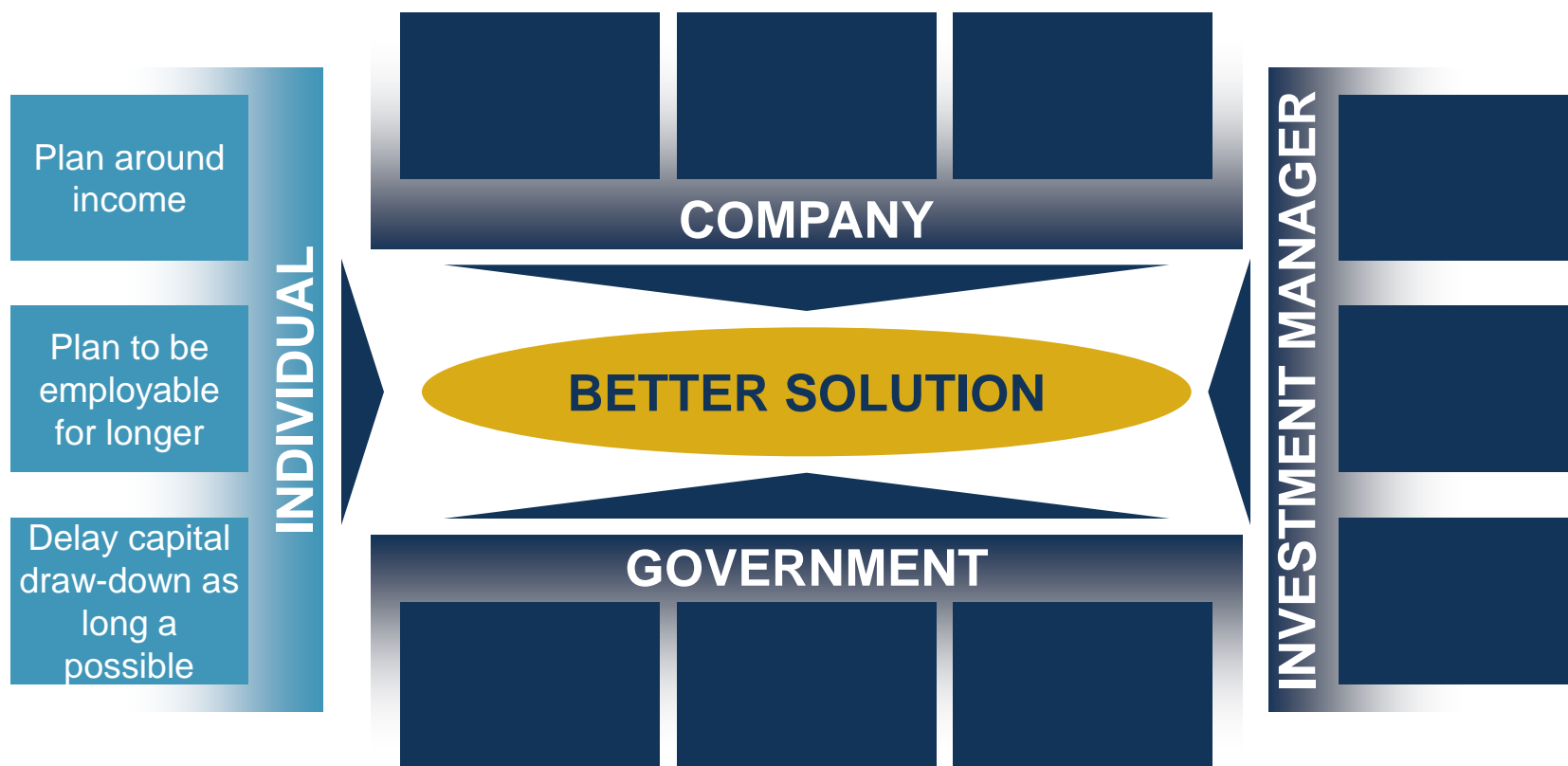
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# An alternative retirement plan

## THE ADVANTAGES OF TAKING SEMI-RETIREMENT

Maintain flexibility	Delay draw-down	Increase leisure	Maintain wellbeing
<ul style="list-style-type: none"><li>■ Keeps employment options open</li><li>■ Enables individuals to shoulder more investment risk</li></ul>	<ul style="list-style-type: none"><li>■ Preserves capital for later</li><li>■ Keeps savings in risk assets for longer</li><li>■ Delays annuitisation</li></ul>	<ul style="list-style-type: none"><li>■ Allows you to retire for 2 or 3 days per week before you can afford to retire full time</li></ul>	<ul style="list-style-type: none"><li>■ Potentially benefits<ul style="list-style-type: none"><li>– Social health</li><li>– Mental health</li><li>– Physical health</li></ul></li></ul>

# Implications for stakeholders



Source: Legal and General Investment Management



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# An alternative retirement plan

## WHAT DO YOU NEED FROM YOUR INVESTMENT MANAGER?

### CLARITY OF SUSTAINABLE INCOME

- To plan well, individuals need to understand the real, sustainable income their savings can generate
- We know people have little intuition about how capital values relate to future income potential

### REAL RETURNS WITH REASONABLE RISK\*

- Real income and real capital growth are relevant at all points in the journey
- Relative stability of income and capital helps with motivation and planning

### FLEXIBILITY TO AND THROUGH RETIREMENT

- Funds should be relevant pre-and post-retirement meaning retirement plans can be easily changed
- Investors should be able to switch between taking and accumulating income

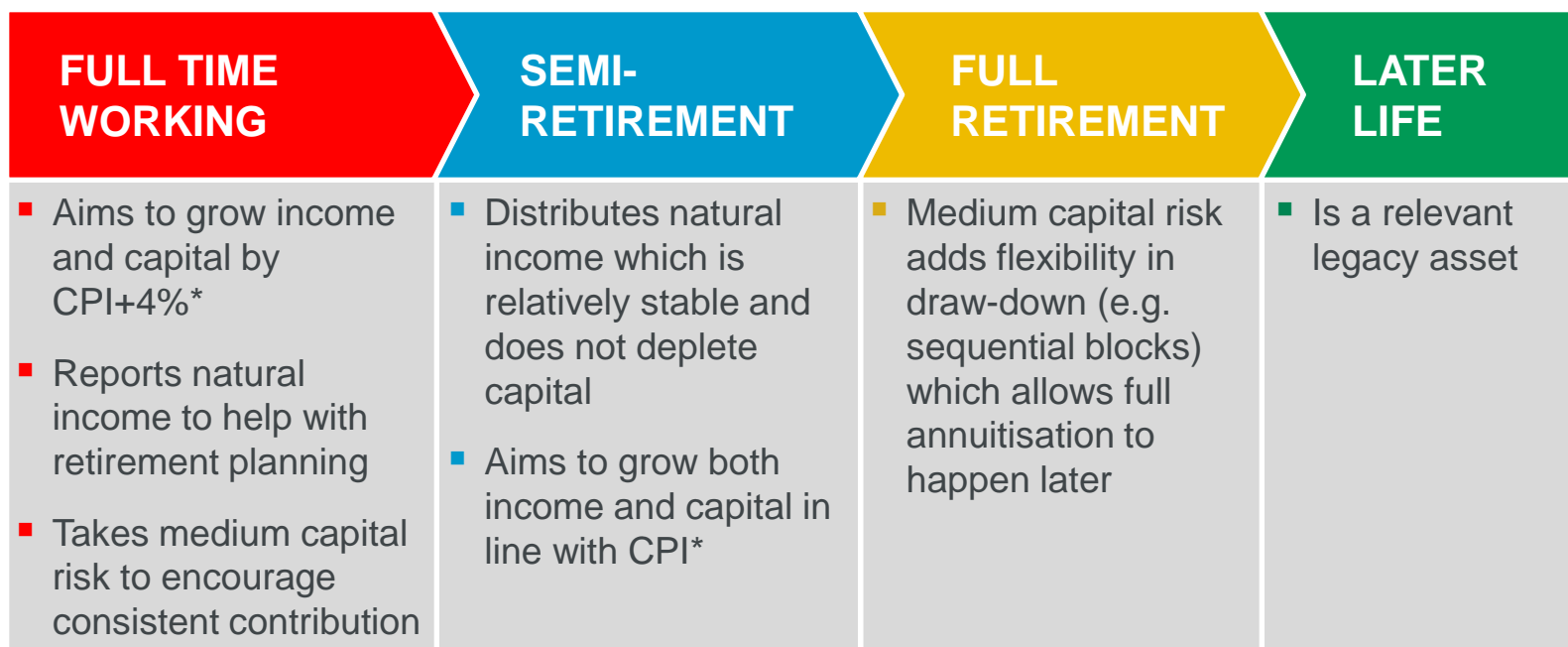
*\* Returns are not guaranteed*

*Source: Legal and General Investment Management*



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# Real Income Builder



\* Returns are not guaranteed

Source: Legal and General Investment Management



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# Real Income Builder - objectives



<sup>1</sup> The CPI + 4% target assumes that income is reinvested e.g. during accumulation. Income per unit is targeted to grow in line with inflation if income is distributed e.g. during semi-retirement. Income is "natural" income which can be distributed without degrading capital value.

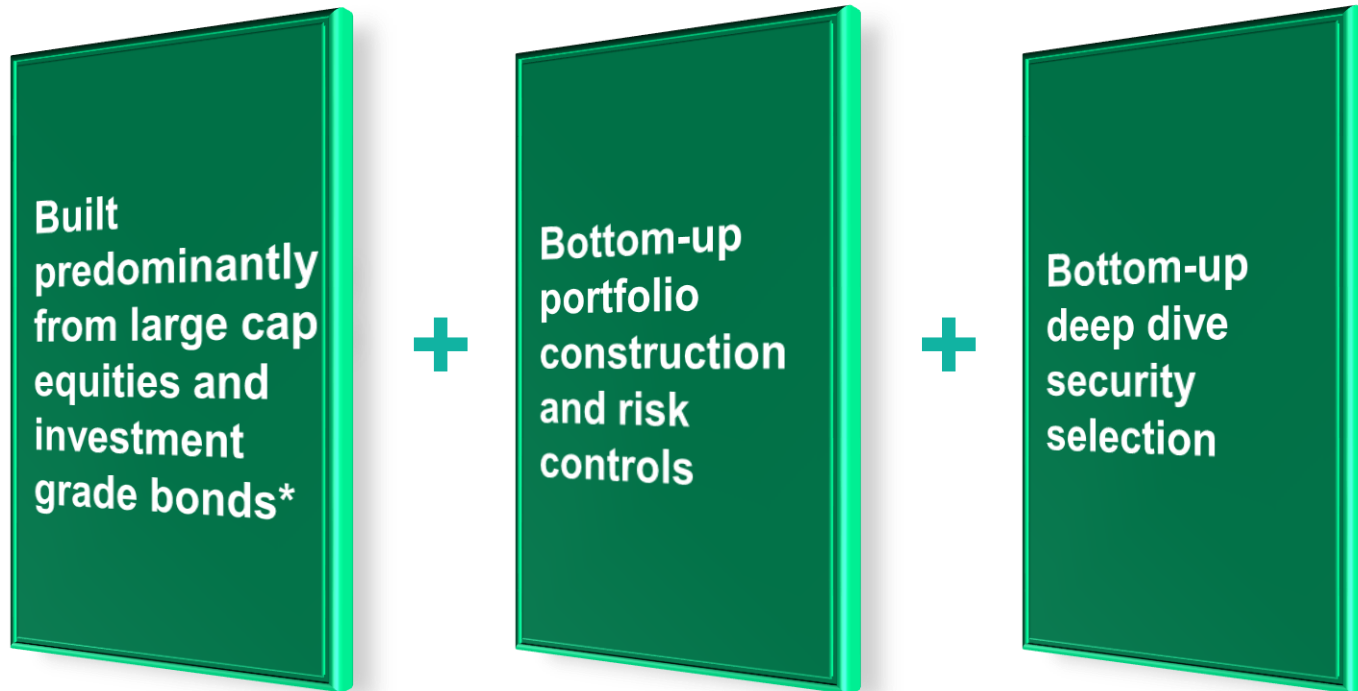
<sup>2</sup> Internal investment guideline

Source: Legal and General Investment Management





# Real Income Builder - construction



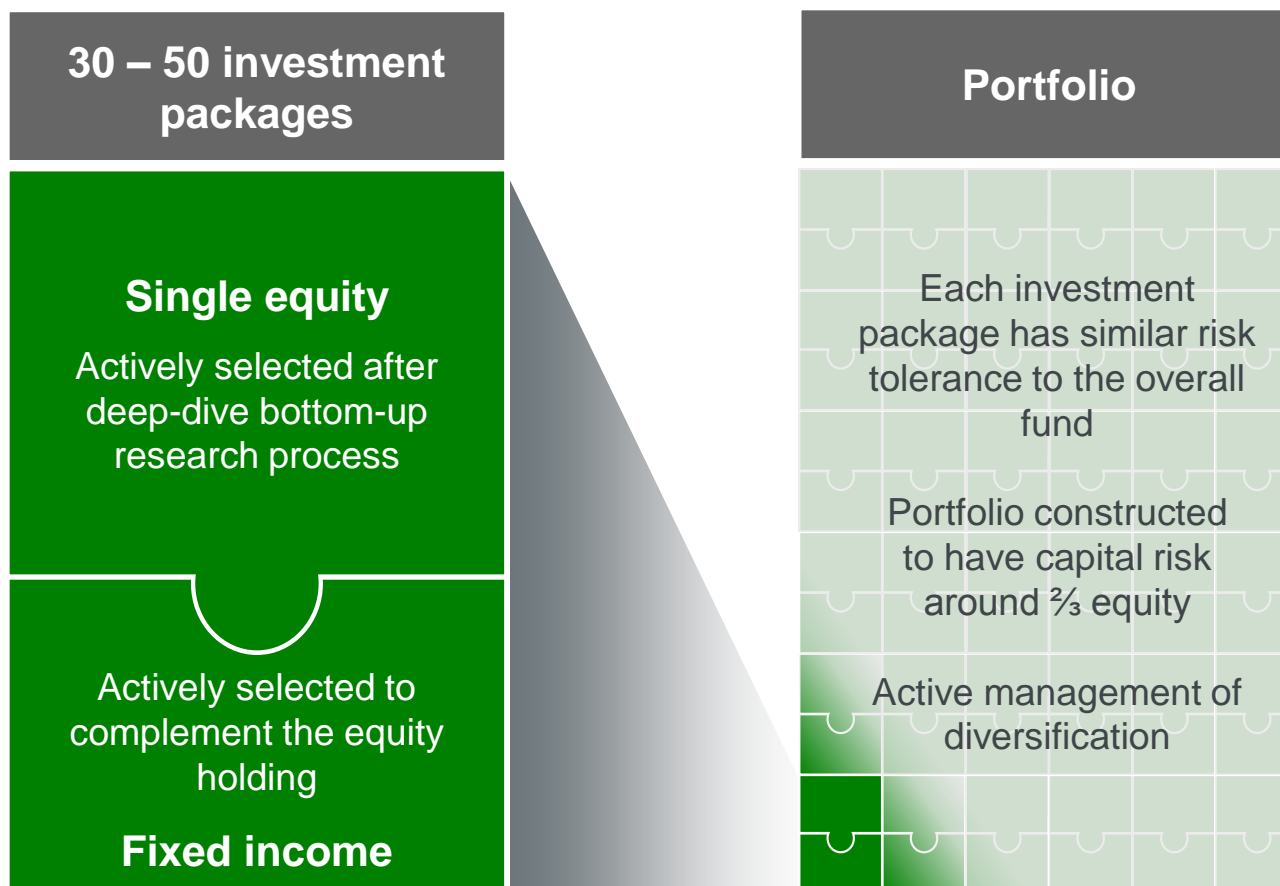
\* Index futures and options are used for Efficient Portfolio Management purposes only. The fund is not leveraged, and uses no  $\alpha$ -seeking derivatives

Source: Legal and General Investment Management

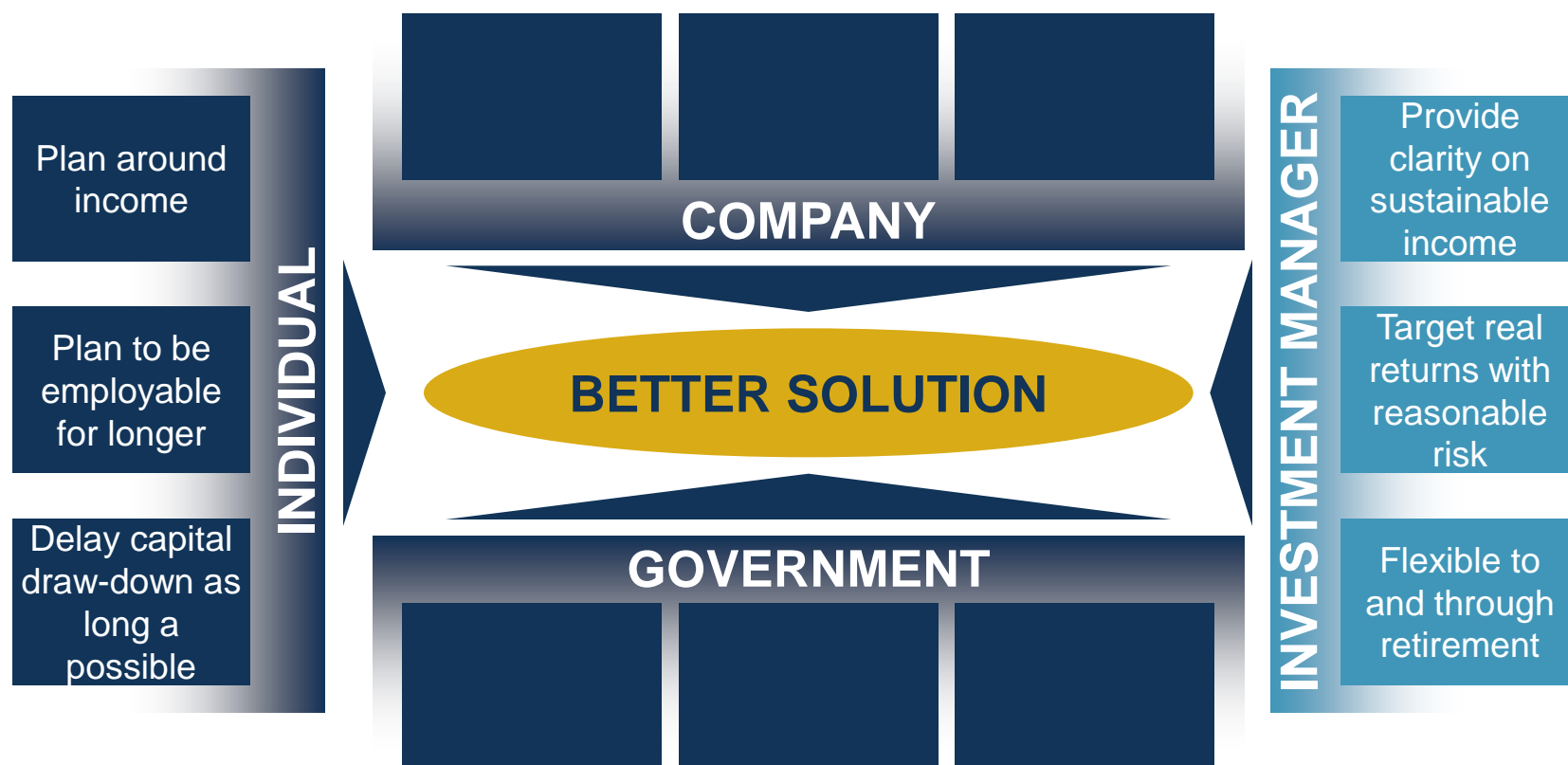


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# Construction starts with a targeted equity



# Implications for stakeholders



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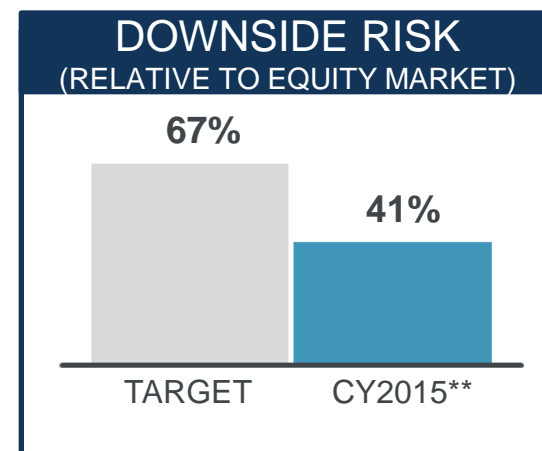
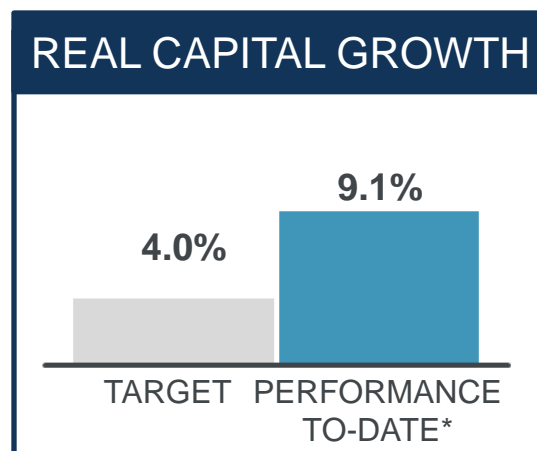
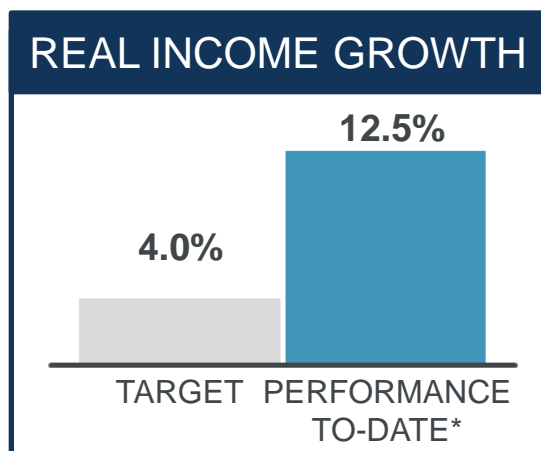


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# Implications for stakeholders



# Final thought: performance matters



1% additional investment performance per annum gets you 20% higher income in retirement *or* allows full retirement 5 years earlier

\* Performance to date defined as from 1/1/2015 to 31/7/2016. Note: These graphs shows income growth on a per unit basis and total returns assuming that income is reinvested. As the strategy was launched in January 2015, calendar 2014 income is from an internal model based on holdings at 1 January 2015. The index takes income from a rolling 12 month period and compares it to the model income from calendar year 2014 which is shown as 100. As an example, "Dec-2015" shows the income earned in the previous 12 months (1 January to 31 December 2015) divided by the income earned in 2014. From January 2016 the data is "actual over actual". Total returns shown gross of fees

\*\* Latest available period of performance data

Source: Legal and General Investment Management



# Questions

# Comments

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