



Institute
and Faculty
of Actuaries

‘Products in the competitive environment in the brave new world of retirement options’

Athole Smith



30 April 2015

‘No one will have to buy an annuity’





30 April 2015

Strictly Confidential

2

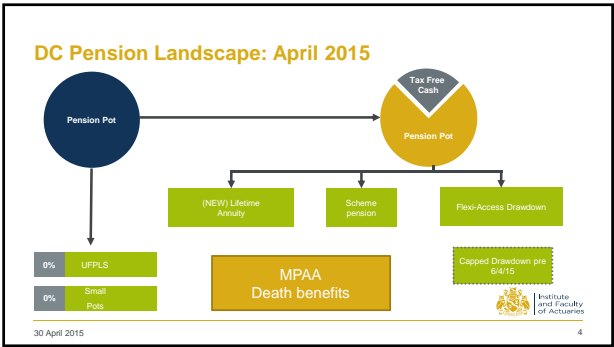
Pension Freedoms – what’s changed?

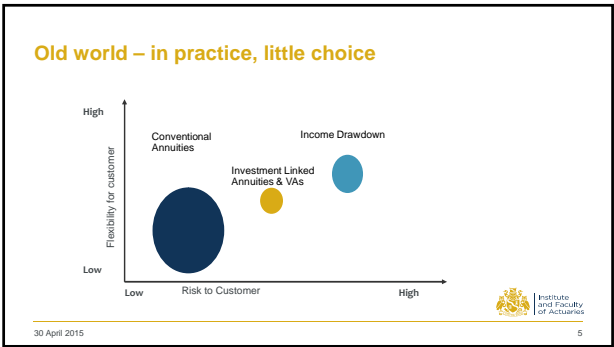
- Consumers can access their pension fund as and when they wish
- Pensions Wise
- Risk warnings
- Safeguarded Benefits

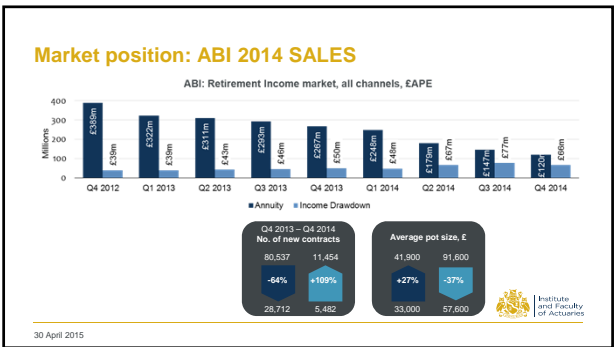


30 April 2015

3








Pension Freedoms – initial reaction

- Deferrals to April
- Call volumes doubled
- Requests for valuations or cash sums or cashing in annuity
- Cash is king – smaller funds, younger people
- Firm plans or simply holding in bank
- Safeguarded rights rules causing complaints
- Tax not understood




Institute and Faculty of Actuaries

30 April 2015

7

Pension Freedom




HM Revenue & Customs

Pension Flexibility 2015

“.....we expect around 130,000 a year to access their pension flexibly”

Impact on individuals and households



Institute and Faculty of Actuaries

30 April 2015

8



Institute and Faculty of Actuaries

Customer Insight

Adviser
Sponsorship
Thought leadership
Press
Community
Professional Meetings
Education
Working parties
Volunteering
Research
Shaping the future
Networking
Professional support
Enterprise and risk
Learned society
Opportunity
International profile
Journals
Support

30 April 2015

Consumer Insight

- 700,000 people will 'retire' each year in UK¹
- DC pensions understanding of those aged 55 to 70 is very low².
- 35% understand what income drawdown is;
 - 50% understand 'well' or 'quite well' what an annuity is (vs. 90% for a mortgage).
 - 20% understand what a marginal tax rate is;
 - 50% do not understand that withdrawing in small amounts over a number of years is the most tax-efficient way to withdraw

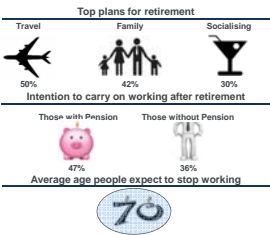
Note: 1. Source Office for National Statistics (ONS). 2. ILC-UK poll of 5,000 people aged 55 to 70 yet to draw their pension.



30 April 2015

10

Financial provision on its own doesn't define the retirement journey – there is a much wider lifestyle and social context



- Few have grand plans, an opportunity to focus on 'me'
- Need / desire to work in retirement
- Ultimately there is a need to stop working



30 April 2015

11

Budget accelerates key societal trends

Customers bear more and more risk, want to buy on their own terms but will probably have to bear five more years of austerity

Flexible retirement

Maximise behaviour – budget, switching, technology, price

Connected communities

Source: nVision Research, online respondents aged 16+, GB, 2013-14

30 April 2015



12

Consumer Insights

- Increasingly complex needs
- Distrust of providers
- Some basic awareness of budget
- Risk averse
- Low financial capability
- Shun complexity

"I believe you can now take out all of your money at once, run off and buy a Lamborghini"

"You've got more choice and maybe more confusion, but at least you have choice"



Institute and Faculty of Actuaries


30 April 2015

Strictly Confidential

13

Customers are different

1 – Risk for Returns	2 – Fixed Incomes	3 – Free to Spend	4 – Protectors
Confident they will be able to live comfortably in retirement	Prefer not to think about retirement finances as it worries them	Know where retirement income will come from	Think it is better to get a low return on investments and know their money is safe
Know where retirement income will come from	The idea of not knowing where their money is coming from scares them	Don't mind spending pension early, as can always turn to the state for help later	Only invest in products where there is certainty about returns
Willing to invest in riskier financial products for higher returns	Don't take more risks than people they know	Prefer to get advice from friends and family about finance	Having money to leave to loved ones when they die is important
Think if you don't take risks, you won't get rewards	Would not want to spend pension early and rely on the state later	Take more risks in general than others they know	Having money to give to children / grandchildren before they die is important
		Willing to invest in riskier financial products for higher returns	
		Having enough money to travel is important in retirement income	



Institute and Faculty of Actuaries

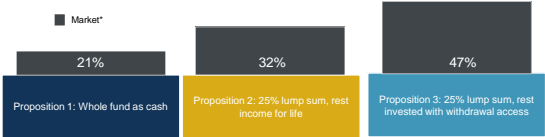
Note : Base: Non Customers (424)

30 April 2015

14

Proposition response


% Find proposition most appealing



Proposition	% Find proposition most appealing
Proposition 1: Whole fund as cash	21%
Proposition 2: 25% lump sum, rest income for life	32%
Proposition 3: 25% lump sum, rest invested with withdrawal access	47%

*Market – individuals aged 50-75 with a DC pension and not currently receiving an income from their pension.

A proposition such as #3 which can offer both flexibility and growth prospects taps into the features which people value.

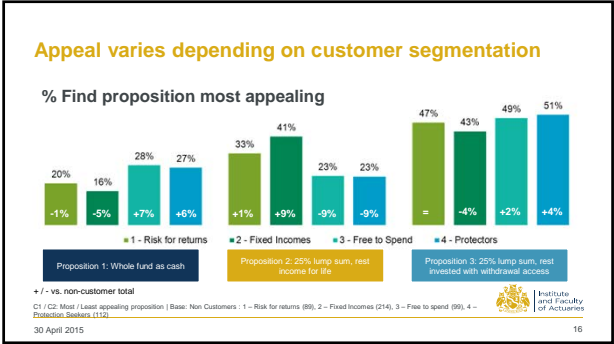


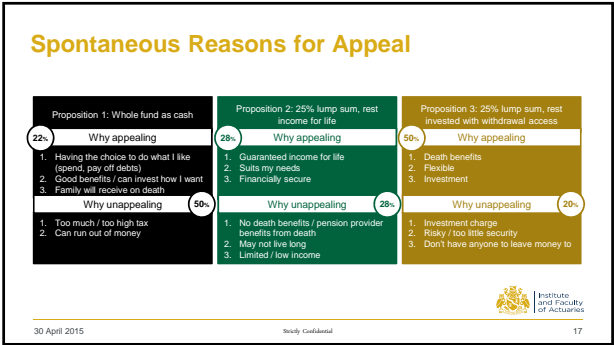
Institute and Faculty of Actuaries

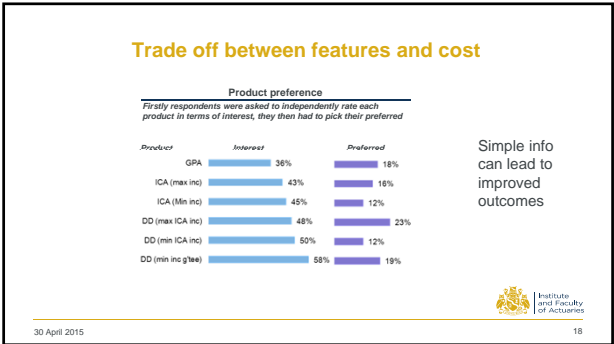
Source: Prudential, Q3 2014

30 April 2015

15









Institute
and Faculty
of Actuaries

Future products / propositions

30 April 2015

Enterprise
Sponsorship
Thought leadership
Press
Community
Professional Meetings
Education
Working parties
Volunteering
Research
Shaping the future
Networking
Professional support
Enterprise and risk
Learned society
Opportunity
International profile
Journals
Support

Market will evolve to an 'in retirement' market

Product changes

- Annuities
- Drawdown
- Longevity protection
- Small funds

Demographics

- Life expectancy
- Baby boomers
- Generation X

Consumer

- Risk transfer
- Changing needs
- Technology
- Support models
- Property

30 April 2015

Strictly Confidential

20

Zone of market innovation

Income flexibility	Take what I want when I want	I want some flexibility but I want a sustainable level	I want to know what I'm going to get
Growing my fund	Grow my savings	I want to keep getting the benefit of investment returns	I would prefer to guarantee my income
Investment choice	Investment freedom	I would like some choice about where to invest	None
Inheritance	I want my family to get whatever's left	I want to make sure my family get something back even if I die early	I don't need to leave anything
Let me change my mind	I want to change what I've got if my needs change		I don't need to make changes later on
Income for life	I'm not worried about outliving my income	I need a safeguard to give me some retirement insurance	I want an income for life
What will I do for an income for life?	Nothing	Give up control for some of my fund	Give up any control of fund in return for income

Flexible
Drawdown

Guaranteed
Pension
Annuity

ZONE OF MARKET INNOVATION

30 April 2015

Strictly Confidential

21

Product ideas

	GPA	Flex Draw-down	ALDA	FTA	Cash Out Plan	Draw- down + MIG	Inv. Ann'y
I want to take what I want, when I want	x	4	4/x	x	4	4	x
I want to keep growing my savings	x	4	4/x	4	x	4	4/x
I want Investment freedom	x	4	4/x	4	x	4	x
I want my family to get something if I die	4/x	4	4	4	x	4	4/x
I want to be able to change my mind later	x	4	4	4	x	4	4/x
I want a secure income for life, no matter how long	4	x	4	x	x	4	4

Conclusions

Customer engagement is not high but expectations are and it is further fuelled by more and more powerful and accessible technology

Product solutions help but are not enough

Greater flexibility fits with societal changes but there is a significant risk for customers

'There are known knowns. These are things we know that we know. There are known unknowns. That is to say, there are things that we know we don't know. But there are also unknown unknowns. There are things we don't know we don't know.'

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.
