



Institute
and Faculty
of Actuaries

Retirement Outcomes Review

IFoA response to the Financial Conduct Authority

30 October

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries is the chartered professional body for actuaries in the United Kingdom. A rigorous examination system is supported by a programme of continuous professional development and a professional code of conduct supports high standards, reflecting the significant role of the Profession in society.

Actuaries' training is founded on mathematical and statistical techniques used in insurance, pension fund management and investment and then builds the management skills associated with the application of these techniques. The training includes the derivation and application of 'mortality tables' used to assess probabilities of death or survival. It also includes the financial mathematics of interest and risk associated with different investment vehicles – from simple deposits through to complex stock market derivatives.

Actuaries provide commercial, financial and prudential advice on the management of a business' assets and liabilities, especially where long term management and planning are critical to the success of any business venture. A majority of actuaries work for insurance companies or pension funds – either as their direct employees or in firms which undertake work on a consultancy basis – but they also advise individuals and offer comment on social and public interest issues. Members of the profession have a statutory role in the supervision of pension funds and life insurance companies as well as a statutory role to provide actuarial opinions for managing agents at Lloyd's.



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30 October 2015

Dear Retirement Outcomes Team

IFoA response to the Retirement Outcomes Review

1. The Institute and Faculty of Actuaries (IFoA) welcomes the FCA's decision to conduct the Retirement Outcomes Review. We fully support the decision to undertake further research into consumer decision-making, as we suggest it is not evident that the current framework's focus on optimising outcomes, necessarily, provides adequate protection for consumers against bad outcomes.
2. Increasing and improving product information may not change policyholder behaviour, nor does it necessarily lead to more consumers actively looking for the best outcome at retirement. We are supportive of using tools to improve customer knowledge of their retirement income needs and the product options available to them. We acknowledge that consumer inertia remains a significant challenge and so we are committed, through the research of our member-led working parties, to participating in the FCA's drive to develop appropriate retirement income tools in the public interest.
3. The IFoA considers managing longevity risk a critical factor in helping people obtain good outcomes under the new freedom and choice agenda. It is important that consumers do not run out of income in the later stages of retirement due to an underestimation of how long they could live. We recommend that the FCA's current rules and guidance on how longevity risk is communicated to consumers should be strengthened. Information for consumers should give greater prominence to longevity risk and the potential consequences for an individual should they underestimate how long they might live.
4. Members of the IFoA work in DC pension schemes and life insurance companies with experience of both pre- and post-retirement products. They have a practical understanding of a customer's journey as they transition from the accumulation stage into decumulation and of the decisions consumers will have to make throughout their retirement.
5. We have a number of member-led research parties that are conducting research into possible market responses to the freedom and choice agenda. We have set-out an overview of two of our working parties in the following paragraphs that we hope will be of interest to the FCA. We would welcome the opportunity to meet with the FCA to discuss these in greater detail as the FCA progresses this review.

Rationale in Retirement Behaviour Working Party

6. This Working Party has built an interactive tool that is intended to be made publically available once finalised. The tool can be used to directly compare annuities and drawdown or blended products with one another based on an individual's specific circumstances. The aim is to support decision-making in the new pensions environment, where individuals are likely to need to consider an array of different types of pension products to meet their retirement income needs.
7. This Working Party plans to help people compare products by considering what outcome they want from their pension savings, for example, comparing regular lump sums with guaranteed income for life. The tool will allow users to select a scenario that most closely reflects their circumstances and desired outcome and play a 'game' to illustrate a series of inputs. These inputs include for example, initial pot size, life expectancy, size of lump sums and the potential cost of guarantees.
8. This will allow individuals to directly compare what these theoretical decisions might mean for their retirement income across product sets ahead of any decision being made. We hope this will help people avoid acting upon negative behavioural biases, including underestimating how long they are likely to live.

Turning Savings into Retirement Working Party

9. This Working Party's output will illustrate how much income an individual might expect to receive during the different phases of retirement, dependent on their initial pot size and their retirement income decisions. The focus will be non-advised individuals with pots less than £200k and will consider three risk types: cautious, balanced and adventurous. We will consider an array of product types including cash, annuity and simplified drawdown.
10. This Working Party is in the early stages of developing its output, but we anticipate that the output will help to develop understanding of:
 - a. the potential market demand and supply for products that offer an element of guarantee;
 - b. what this means for mitigating longevity risk in the DC environment; and
 - c. the consequences for current and future levels of savings and auto-enrolment contribution rate.

Should you wish to discuss the work of either of these working parties please contact Rebecca Deegan, Policy Analyst on rebecca.deegan@actuaries.org.uk or 02076322125.

Yours sincerely



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