DC Flexibilities & Choice

Momentum Conference 2015

December 2015

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Principal: DC & Savings Team

Woking
WHERE ARE WE GOING?
WHAT MIGHT SPENDING LOOK LIKE IN RETIREMENT?

SPENDING

HOlIDAYS
HELPING CHILDREN
PAY MORTGAGE / DEBTS

LESS ACTIVE
MORTAGE / DEBTS PAID

CARE NEEDS INCREASE
POTENTIAL RESIDENTIAL CARE

EARLY IN RETIREMENT
MID RETIREMENT
LATER IN LIFE
WHERE WILL THE MONEY COME FROM?

- Private Pension: 30%
- State Pension: 20%
- Lottery: 15%
- Inheritance: 10%
- Savings and investments: 10%
- Property: 15%

*“The Future of Retirement – Life after work?”, HSBC, 2013*
**What do members want at retirement?**

<table>
<thead>
<tr>
<th>Which of these worry you about retirement?</th>
</tr>
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<tbody>
<tr>
<td>Inflation</td>
</tr>
<tr>
<td>Having enough for the essentials</td>
</tr>
<tr>
<td>Cost of medical treatment</td>
</tr>
<tr>
<td>Outliving my retirement savings</td>
</tr>
<tr>
<td>Having enough for extras</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>How can your employer’s plan best support you?</th>
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<tbody>
<tr>
<td>Reduce fees for advice</td>
</tr>
<tr>
<td>Help me plan for retirement</td>
</tr>
<tr>
<td>Offer a financial planning service</td>
</tr>
<tr>
<td>Offer a simple financial advice</td>
</tr>
<tr>
<td>Offer a guaranteed income for the rest of my life</td>
</tr>
</tbody>
</table>

Q: Which of the following worry you with regards to your retirement? (Multiple responses permitted) Over 40 Australian population.
Q: How can your super fund best support you with your super/retirement? Among those who have not yet retired & with super.
ARE EMPLOYEES THINKING ONLY ABOUT SAVING FOR RETIREMENT?

WE ASKED EMPLOYEES WHAT THEY WORRIED ABOUT AND WHAT IMPACT IT HAS ON THEM

MERCER consumer SURVEY
Of 1510 consumers in UK & ROI in June 2015
TOP EMPLOYEE “NOISE”

KEY CONCERNS

MAINTAINING HEALTH 51%
SAVING FOR RETIREMENT 49%
PROVIDING FOR FAMILY 45%
PAYING BILLS 45%
JOB SATISFACTION 44%

IMPACT OF CONCERNS ON WORK PERFORMANCE

INCREASED STRESS 78%
REDUCED CONCENTRATION 61%
LOWER MOTIVATION 57%

% OF THOSE SURVEYED WHO ARE CONCERNED OR VERY CONCERNED ABOUT ONE OF THESE ISSUES 97%

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MEMBERS’ NEW CHOICES SINCE APRIL 2015

Cash

DC Pension Savings

Variable Income

Secured income
THE MEMBER JOURNEY NOW

RETIREMENT PHASE

OPTIONS

CASH WITHDRAWAL
(full or partial?)

PURCHASE AN INCOME STREAM
(ie. annuity)

DRAWDOWN
(full, partial or flexible?)

££ BALANCE

ACCUMULATION PHASE

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WHAT ARE MEMBERS DOING ALREADY?

How pension scheme members used their savings at retirement over the first 3 months since April 2015:

- £1.3 BILLION PAID IN CASH LUMP SUMS
- £1.3 BILLION INVESTED IN DRAWDOWN
- £990 MILLION INVESTED IN ANNUITIES

Source: ABI
THE DEATH OF ANNUITIES?

ANNUITIES SOLD BY ABI MEMBERS

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RETIREMENT IN THE FUTURE?

INCOME

Earnings

Variable income

CASH

State / DB Pension

Earnings

Variable income

State / DB Pension

Earnings

State / DB Pension

Secured income

Capital

Cash

DC Pension Pot

Variable Income

Secured income
WHAT ARE EMPLOYERS DOING?
WHERE WILL THE MONEY COME FROM?

* "The Future of Retirement – Life after work?", HSBC, 2013
ISAs - DID YOU KNOW?

3 IN 5 ISAs are ACTIVE

ACTIVE 13.8M  TOTAL 22.7M

LARGEST GROUP OF CONTRIBUTORS EARN £10K - £20K PA

72% EARN UNDER £30K

PARTICIPATION RATES

HIGHEST  SOUTH  WEST ENGLAND  51.7%

SOUTH  EAST ENGLAND  49.6%

LOWEST  LONDON  38.9%

NORTHERN IRELAND  31.9%

Source: HMRC ISA Statistics April 2015
WHAT WE’VE FOUND SO FAR

WHAT OUR PEOPLE NEED

CAN WORKPLACE SAVINGS HELP US HELP OUR PEOPLE?

Employees capped by LTA, wanting a tax efficient savings vehicle

Provide benefits attractive to wider generations

Differentiate from competitors
OUTCOMES AT RETIREMENT

For most members:

- Pension will provide their main source of income in retirement;
- A simple pattern: join, save, invest, retire;
- Good communication must help members obtain their desired retirement income;
- Investment decision-making must be made simple

For middle to higher income employees:

- It will be different:
  - Join pension,
  - Maximise employer contributions,
  - Leave pension,
  - Redirect employer contribution,
  - Maximise tax relief,
  - Consolidate,
  - Retire
## A NEW SAVINGS & BENEFITS PATTERN

<table>
<thead>
<tr>
<th>Join</th>
<th>Maximise employer savings allowance</th>
<th>Opt-out or suspend pension</th>
<th>Redirect employer savings allowance to other vehicles</th>
<th>Consolidate</th>
<th>Retire</th>
</tr>
</thead>
</table>

### Pension

### Pension

### Workplace Savings

### Pension & Workplace savings
SUPPORTING MEMBERS
KEEP IT SIMPLE!
## Communicate Well

**Target the Message – Keep It Simple!**

<table>
<thead>
<tr>
<th>Younger to middle aged members</th>
<th>5 to 10 years before retirement</th>
<th>At retirement</th>
<th>After retirement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Savings phase</strong></td>
<td><strong>Pre-retirement Phase</strong></td>
<td><strong>At retirement</strong></td>
<td><strong>Post retirement phase</strong></td>
</tr>
<tr>
<td>Save More!</td>
<td>Are you invested in the right place?</td>
<td>Here’s how you can use your savings</td>
<td>Your spending will change</td>
</tr>
</tbody>
</table>
MAKE INVESTING SIMPLE......THIS....

“What funds can I invest in?”

Your financial adviser will help you select the fund(s) most appropriate to your needs, depending on the level of risk you’re willing to take. The fund fact sheet and guide explains more about how each fund has different aims and levels of risk, available via our website, www.avva.co.uk/fundspension-funds.html.
Critical engagement phase

Savings phase
Strategy
(The Growth fund)

How can I take my savings?

Cash

Variable Income

Secured Income

How much should I save?
MAKE TOMORROW, TODAY