



Modelling innovative pre and post retirement products - Draft Terms of Reference (Updated Jan 2020)

Background

Problem statement 1: *“Product set is limited”*. Much has been written about the current move away from annuitisation and into drawdown products. Government initiatives such as “Defined Ambition” have generated interesting customer insight but no change in behaviours. There is clear appetite from the consumer for something on the continuum between drawdown and annuities but the current product set is somewhat limited.

Problem statement 2: *“Lifestyling doesn’t work anymore”*. Future products to support customers through retirement (let’s call this “decumulation” for now) will be drawn largely from Defined Contribution pensions pots which are managed by sponsoring employers or life insurers as well as personal pensions. At present, the defined contribution plans are set up to “lifestyle” employees c. ten years from retirement. This setup is still designed to support the “full” retirement of employees aged c. 65 and purchase of an annuity. In the new market, employees might be expected to partially retire and continue working in part well beyond age 65. As such, product sets need to reflect the desire to continue working and utilise products other than annuities.

Problem statement 3: *“Much of current wealth is in housing”*. Many retirees expecting to enter decumulation phase in the next 10-20 years will be cash / savings poor and asset rich. Without their housing wealth, they may face a poorer retirement than their current means would suggest. Any future products should consider the use of an equity release style release of wealth as an option for the retirees.

Problem statement 4: *“Life insurers are not relevant without guarantees”*. Life insurers are at risk of being outmanoeuvred by the asset management industry if products are offered which offer no guarantee. After all, investment expertise will remain in greater volume in the asset management industry. If the product set is restricted to drawdowns and annuities, the volume of premiums written in the life insurance industry will diminish over time.

Mission statement

“the goal is to support the life insurance, pensions and retirement industry with relevant research to support new product/solution innovation by bringing together research on investments, products and consumers with the ultimate goal to increase consumer choice and value for money”.

Purpose

The purpose of the working party is to:

- Compile and review current literature in the pensions, investments and life insurance arenas to ensure access to up to date information.
- Identify potential retirement solutions that merit further exploration/modelling and highlighting potential challenges for providing these solutions.
- Identify potential framework for measuring the success of the selected retirement solutions.
- Perform modelling on the selected retirement solutions to assess the likelihood of achieving the desired outcomes.

- Provoke thought leadership and innovation within the industry through presentations and forums to gain wider input.

Approach

A working party is proposed to be formed under the sponsorship of the Life Research Committee (LRC) to take this work forwards, although it is cross practice in operation and volunteers from other practice areas.

It is recommended that there is a Finance and Investment (F&I) Board representative to work with this Working Party in addition.

Composition of working party

We recommend a working party of ten members of the actuarial profession and investment market to perform this research. We recommend that members cover a range of product pricing, retirement, investment and modelling experience.

Specific goals and areas to be investigated

- A summary of existing research material performed by the actuarial profession, government, consultants and other bodies considering accumulation (near retirement) and decumulation (post retirement) products.
- Modelling work considering a blend of products – e.g. annuities (probably deferred, to protect against the risk of living beyond age 85), drawdown and equity release-style products, for those with an average pension pot (e.g. <£250k) and average property (e.g. c. £200k) as well as State pension.
 - The modelling work should consider the impact on the policyholder as well as the insurance company where possible.
 - The modelling work should also identify any significant tax drags or savings where possible.
- This working party is expecting to draw together research already performed by the profession in both product / consumer (e.g. Defined Ambition, Helping Customers secure and adequate and sustainable retirement income) and investments (e.g. Investor decision making in the freedom of choice retirement market, Private Credit / Illiquid Assets) to consider how insurers could use investment expertise and product pricing expertise to expand the current product offering.
 - The working party is also expected to liaise with regulators, HMT and government where possible.
- The working party will research current products offered by asset managers (e.g. retirement bonds) and insurers, both current and withdrawn (e.g. Aegon's "five for life", current drawdown and annuity products)

Research methods

The working party will perform a literature review to avoid reinventing prior thought. The expectation is that the body of the work will focus on developing some interesting modelling studies and presenting the analysis of the modelling. The work is expected to be largely UK focused but could draw on experience in the Australian market, amongst others.

Output

Informal material will be developed to provoke thought and generate input over the course of the working party. The ultimate aim will be to develop two sessional papers:

1. First paper setting out the retirement solutions that merit further exploration/modelling following the literature review and potential framework for measuring the success of these solutions.
2. Second paper summarising the results of the modelling work performed.

Recommendations

The working party is not expected to make any formal recommendations other than a call to arms for the insurance industry!

Potential timetable

Working party to be created - April 2018

First meeting and finalisation of scope – May 2018

Literature review and summary – June 2018

Initial analysis and provocative output – for presentation at Life Conference – November 2019

First sessional paper – May 2020

Modelling work (to be run concurrently) – to conclude June 2020

Second sessional paper – December 2020

Funding

No expectation of external funding although it is possible that consumer research may be required in future and / or detailed modelling work beyond the scope of volunteer members.