

 Institute and Faculty of Actuaries

## The Budget – fears and reality of customer behaviour

Teresa Roux – Bdifferent  
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10 February 2016

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## Pension Freedoms – fears about customer behaviour

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Source: The Mirror

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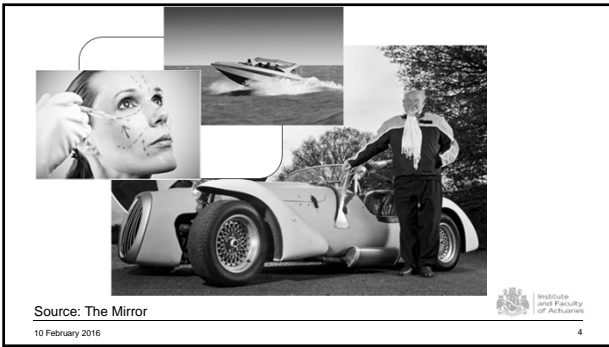
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### Looking for answers overseas

**International comparisons**

**International comparisons**

**Switzerland**

- No competition to annuities, and 75% of lives are annuities at retirement
- Member State of the European Union but not EU member
- Financial services regulated by the Swiss Financial Market Supervisory Authority (FINMA)
- Policy rules different, performance and are guaranteed and guaranteed
- Policy rules always include a death benefit
- Guaranteed annuity payments are not subject to inheritance tax
- No responsibility to make redemptive payments

**International comparisons**

**Australia**

- High regulatory guard rails protect annuity holders
- Policy rules are a blend of UK and US
- Regulated by the Australian Prudential Regulation Authority (APRA)
- Member of the International Actuarial Association (IAA)
- Very high annuity rates but low 50% of annuities are annuities (the rest are guaranteed annuities)
- Existence of age pension safety net and high standard of living have led to annuity market that always been small

**International comparisons**

**France**

- Company annuities existed in 1980s for those with private pensions, and many live at 50% annuities
- As regulated by a 20% tax on the annuity
- Approved Retirement Plan (ARP) which can be drawn down, annuities, or annuities (and can be sold to a third party)
- Most of those with a private annuity for an ARP cover an annuity
- In France, annuities (IC) are not subject to inheritance tax
- 80% of annuities sold in the UK are non-guaranteed annuities

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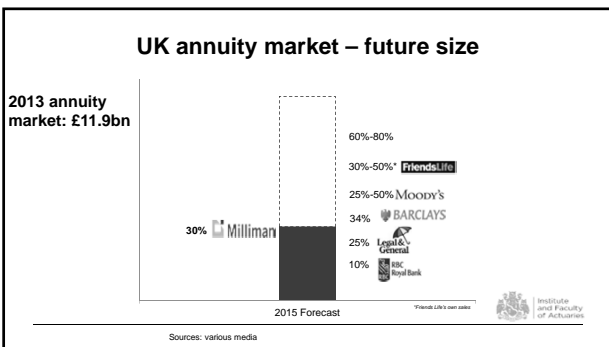
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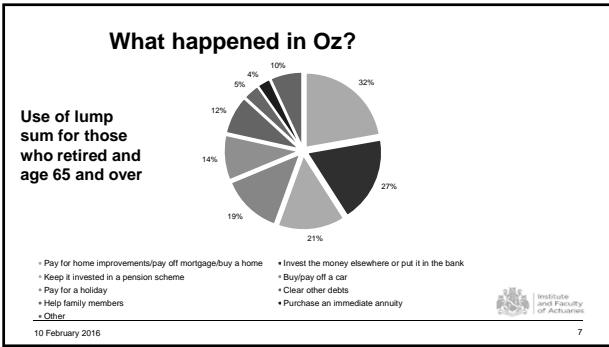
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### April 2014 - what did consumers want at retirement?

Source: Partnership quantitative research conducted by Opinion Matter in April 2014 on 2,006 people between the ages of 45 and 70

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- ### Was it all about the pot size?
- Attitude to risk
  - Size of total assets
  - Tax implications
  - Level of financial knowledge
  - Level of financial confidence
  - Attitude to inheritance/estate planning
  - Basic need for money
  - Income requirements
  - Whether or not a financial adviser is involved
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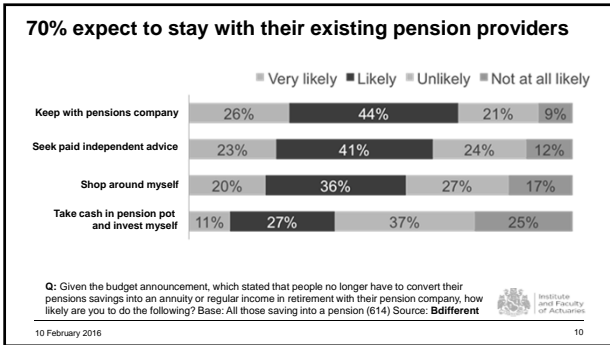
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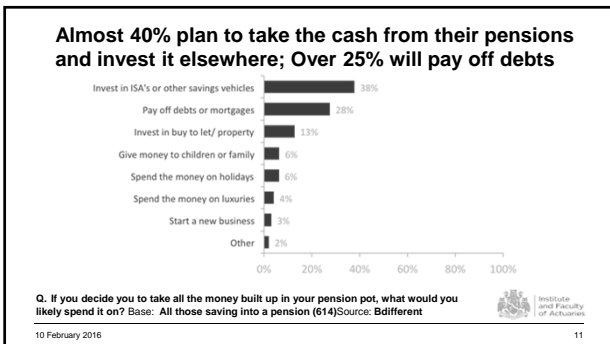
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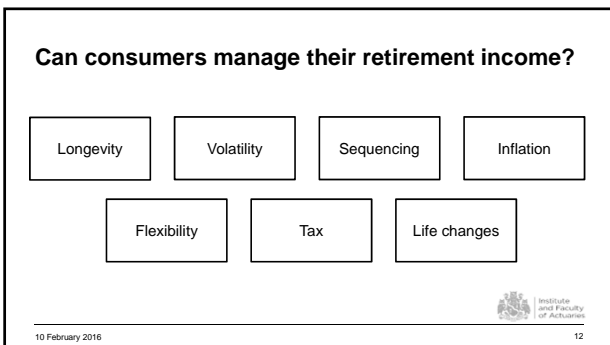
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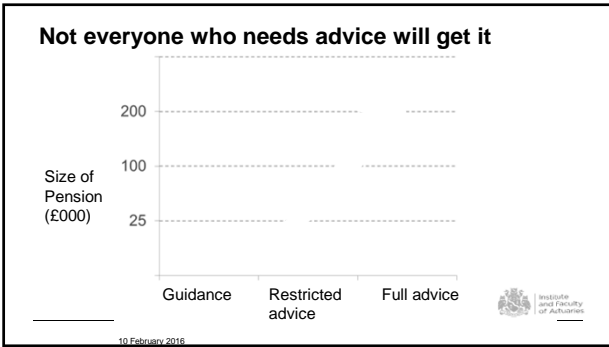
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### Pension Freedoms – fears about customer behaviour

- Most people would not take an annuity
- Those with the smallest pots would be more likely to cash it in and spend it
- That the least wealthy and least financially competent would struggle to choose a good route and would not be helped with any advice
- That people would run out of money during their retirement

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14

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### Pension Freedoms – reality of customer behaviour

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**Reality – 3 months post Freedoms (Apr-Jun2015)**

- 204,581 people accessed their pension savings, compared with fewer than 95,372 during the same period in 2013
- The most popular options have been UFPLS full encashment and income drawdown.
- 82% of the UFPLS full encashments were for pots under £30,000

Source: The FCA  
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16

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**£1.8 billion withdrawn in first two months**



- Over £1 billion in cash
- £800 million income drawdown payments

Source: The ABI  
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**Drawdown proves to be popular**

	2012 per month	April and May 2015
Annuities	£1.2 billion	£630 million
Drawdown	£100 million	£720 million

Source: The ABI  
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### The advice gap is alive and kicking

Underused Pension Wise staff are being redeployed to work for The Pensions Advisory Service's (TPAS) main services instead.

October 2015



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### Reality – easy access to their pots What consumers told us

The Government said I could take it all out, we are broke so I decided the amount I would get as pension wasn't worth leaving I took the whole lot out (£70K pot, aged 56)

I had 4 or 5 small pensions, after receiving packs from each company, I lost interest and took it all out (£50K pot, aged 65)

A work colleague said I could take out all the money, I needed it now so I went for it...it was all very easy (£30K pot, aged 55)

I did all the research around the tax and decided to 'take it on the chin' – if meant I could access all the money (£40K pot, aged 62)



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### Reality – those with advisers less likely to access all their pot

You haven't got a crystal ball and look into the future and assess how much time you have and how much money you need, but at least a financial adviser can help work it out with you

The important thing for me arriving at retirement was to work out how much I would need to pay all my bills and then discuss the variable costs. I needed financial advice to help me plan

I am not financially astute. I don't want any responsibility. I want someone who can advise me

I've spoken to an adviser, I could take the lot but I am not going to, I am going to drawdown, I won't go into an annuity now

George Osborne seemed to be telling everyone take out your money and spend it, I guess to boost the economy, it won't help in the long run



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### Reality – with choices comes responsibility

- The majority of pension customers admit to not having done much in the way of detailed planning financially for retirement
- Most have no idea of how much their pension pots are worth, having not really looked at their pension statements over the years, they have not thought about what percentage of their working income they will need to survive in retirement
- At the point of retirement the decisions that have to be made are daunting and with choices comes responsibility
- Only a few retirees feel confident in making their own investment decisions



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22

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### Reality – overall pension freedoms are seen as positive

- Those aged 55 plus with pensions, are aware of the options open to them
- Most welcome having the freedom to choose and feeling of being in control of their own finances, but some find the choices complicated and confusing
- The biggest area of confusion lies around tax – whilst they are familiar with 25% of their pot being tax free, most are not aware of what happens to the 75%
- The higher networth tend to have an adviser but the majority of the population rely on the information from their pension provider



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23

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### Reality – brings real decisions What consumers said they are worrying about

There are now a lot more options, we have been given control but I am trying to work out what to do with my pension and I feel very confused

If you are clever at working out what to do you can take your pension in small stages and avoid paying tax

It is great you don't have to take an annuity anymore, the rates are very poor but to an extent you have to gamble with your pension as you don't know how long you will live

Retirement is far too close and the choices out there are unreal



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### Reality: Real people are individuals who have different attitudes and behaviours



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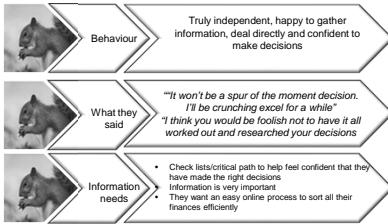
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### The squirrel



Source: Bdifferent syndicated at retirement research study



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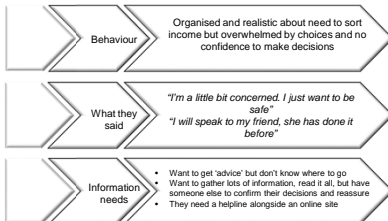
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### The mouse



Source: Bdifferent syndicated at retirement research study



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### The ostrich

Behaviour	Know they need to do something about their retirement income but are depressed about outcome so burying head in the sand
What they said	"I've put all my paperwork in my too difficult pile to read later" "I'm waiting until I'm close to retirement, things might change"
Information needs	<ul style="list-style-type: none"> <li>Follow-up phone calls from providers to prompt them to move along with the process</li> <li>Prefilled forms they sign</li> <li>Basic step by step process</li> <li>Tick box answers to choices given</li> </ul>

Source: Bdifferent syndicated at retirement research study




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### The pilot fish

Behaviour	Have a long term financial adviser who they are happy to follow their recommendations. Confident they are doing their best by leaving to the professionals
What they said	"From personal experience, they open your eyes to stuff you probably don't even know about. That's the difference" "I hand everything over to Debbie. Here you are Debbie, sort this out"
Information needs	<ul style="list-style-type: none"> <li>Copy adviser in on all the information</li> <li>Ensure the customer knows the adviser has the information</li> </ul>

Source: Bdifferent syndicated at retirement research study




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### The Budget – fears and reality of customer behaviour

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

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