

Cll Edinburgh local council – Freedom & Choice

What does it all mean?



Learning objectives

At the end of this session you will have an understanding of the impact of pension freedom on

The Regulator

The production solution providers

The financial adviser community.



Advice and guidance at retirement

Maggie Craig

Acting Head of Savings, Investments and Distribution

30 April 2015

Agenda

- Advice and guidance at retirement
- Pensions and advice
- Provider perspective
- Adviser responsibilities
- Pension transfers
- DB to DC transfers
- Pension scams
- Looking ahead

Advice and guidance at retirement

- Guidance can empower consumers
 - Confidence and shopping around
- Advice, in various forms, goes further
- Provider communications
- Tools and calculators
- Pension Wise
- Adviser role

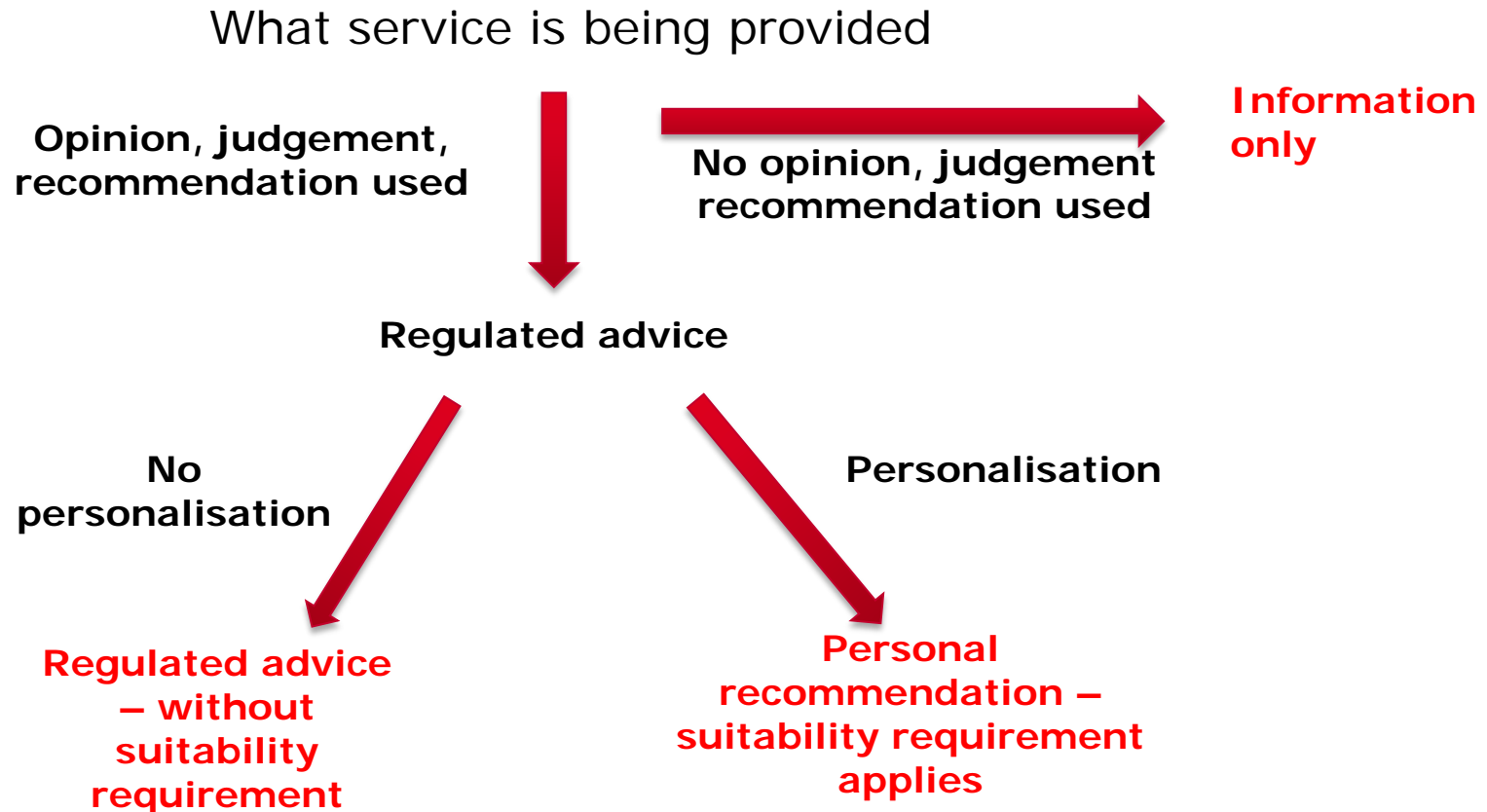
Pensions and advice

- Pension changes will increase demand for guidance and advice
- Complexity – not least in products – makes this a tricky area for consumers
- Advisers will have to make suitability judgements based on clients individual circumstances
- MiFID and our rules allow for a range of advice models
- Finalised Guidance on the boundary of advice:
 - Simplified advice
 - Non-advised services

Provider perspective

- Signpost to Pension Wise
- Existing retirement communications
- Retirement risk warnings
 - Reinforce Pension Wise and regulated advice
 - Personalised warnings

Adviser responsibilities



Pension transfers

- Considering responses to our consultation paper on:
 - Implementing an amendment to the RAO that will make advising on the conversion or transfer of safeguarded pension benefits a regulated activity; and
 - Requiring the Pension Transfer Specialist qualification for advice on all transfers from DB schemes to DC arrangements, regardless of when the transferred benefits are being crystallised.
- Consultation closed on 15 April 2015; Policy Statement in the summer

DB to DC transfers

- < £30,000 no rules requirement for advice
- Where rules require advice trustees need to check:
 - Advice has been taken
 - Not what that advice says
- Role of adviser

Pension scams

- Risk of scams increases with new freedoms
- FCA already alive to risk of pension liberation and associated investment scams
- ScamSmart - helps people spot the warning signs of investment scams
- Imitation of Pension Wise is a criminal offence

Looking ahead

- Reviewing our retirement rules.
- Plan to publish a consultation paper over the summer
- Broadly this will consult on:
 - Incorporating the ABI Code into rules
 - The retirement risk warnings
 - Rules for drawdown and UFPLS
 - Other technical changes



Questions?



Freedom & Choice

What does it all mean?



For financial advisers only – not for retail clients

Freedom and Choice... ..and certainty

Freedom and Choice



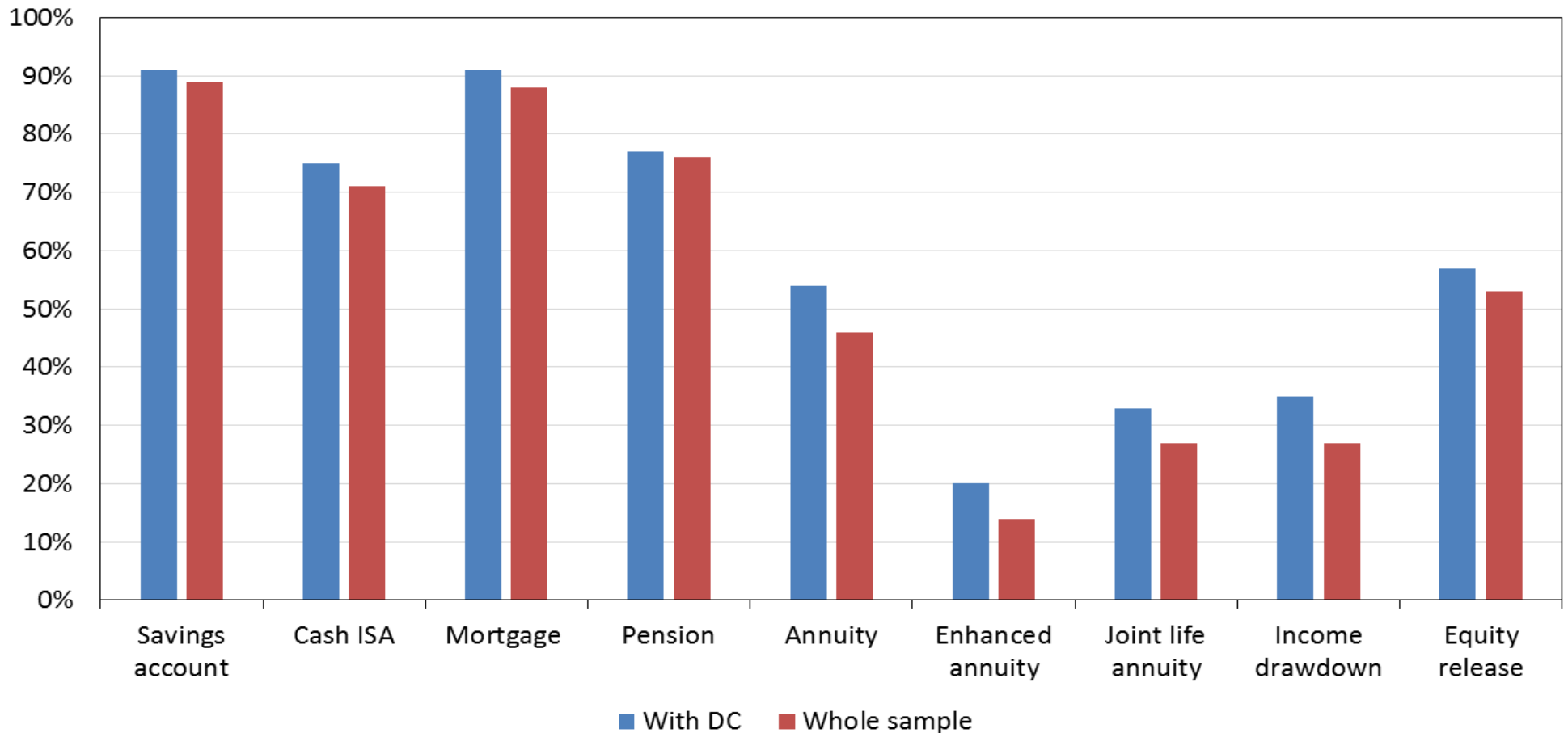
These reforms create more choices for individuals, and we want people to be equipped and ready to make informed decisions.

Some idea of objectives..

Option	%
Leave it invested and take an income from it	19%
Convert all of it into a regular retirement income guaranteed for the rest of your life	16%
Take all of it out and do with it as you please	7%
Take all of it out and invest in a way that gives you an income from it	5%
Convert some of it into a regular retirement income guaranteed for the rest of your life and invest the rest in a way that gives you an income from it	19%
Convert some of it into a regular retirement income guaranteed for the rest of your life and take the rest as cash to do as you please	13%
Don't know	22%

...but a gap in how to achieve them

Proportion who say they understand the product "quite or very well"

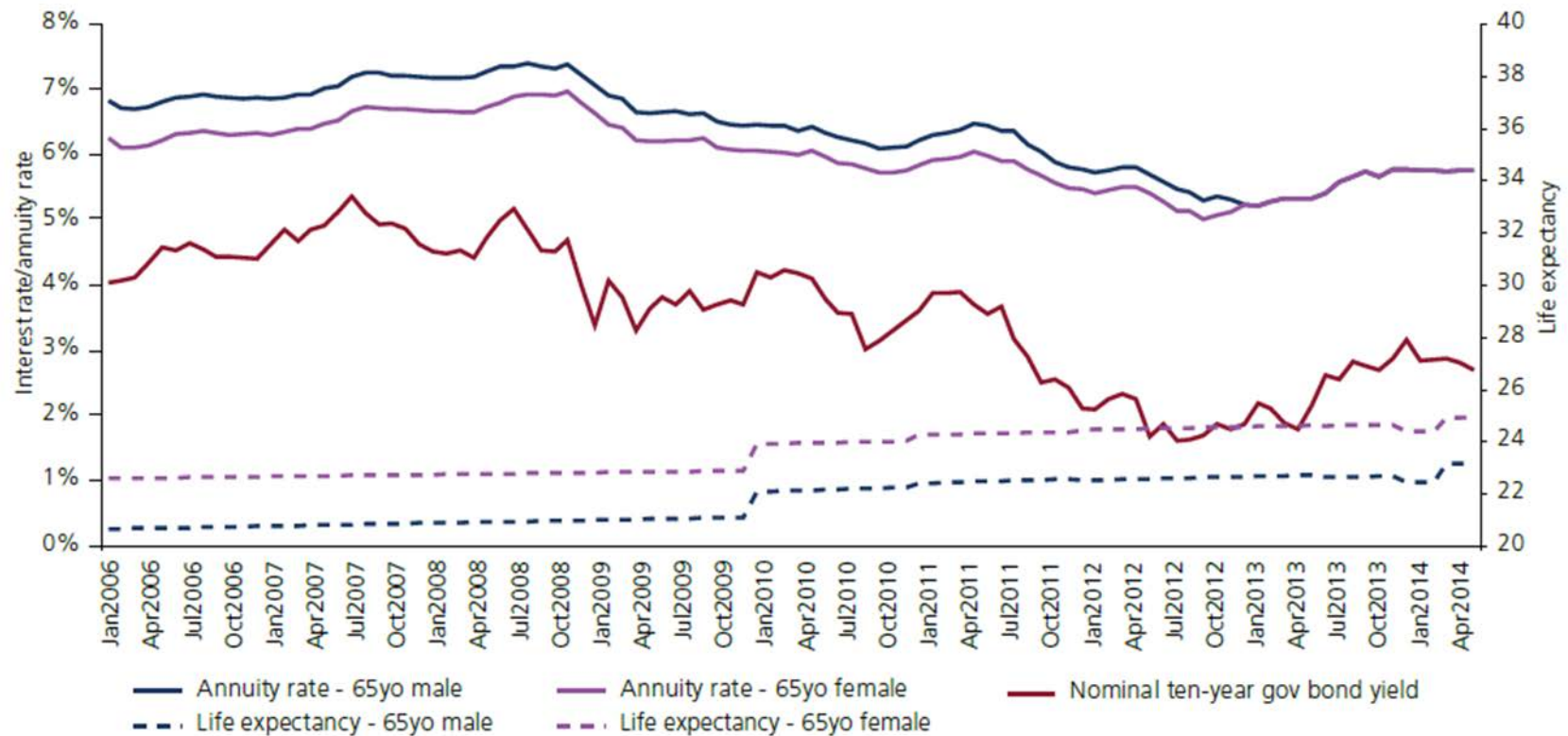


The Power of the Press?

“The use of the term ‘annuity’ reduces the number of consumers who choose the annuity, even though consumers appear to value the underlying characteristics of the annuity”

Getting your money's worth?

Figure 31 Annuity rates (for a 65 year-old male and female), Life expectancy (for a 65 year-old male and female), and Government bond yields (2006-2014)



Annuities – because your worth it!

$$\text{Money's Worth} = A_t \sum_{i=1}^T \frac{\pi_{t,t+i}}{(1 + R_{t,i})^i}$$

Whither UK Annuities? - Value

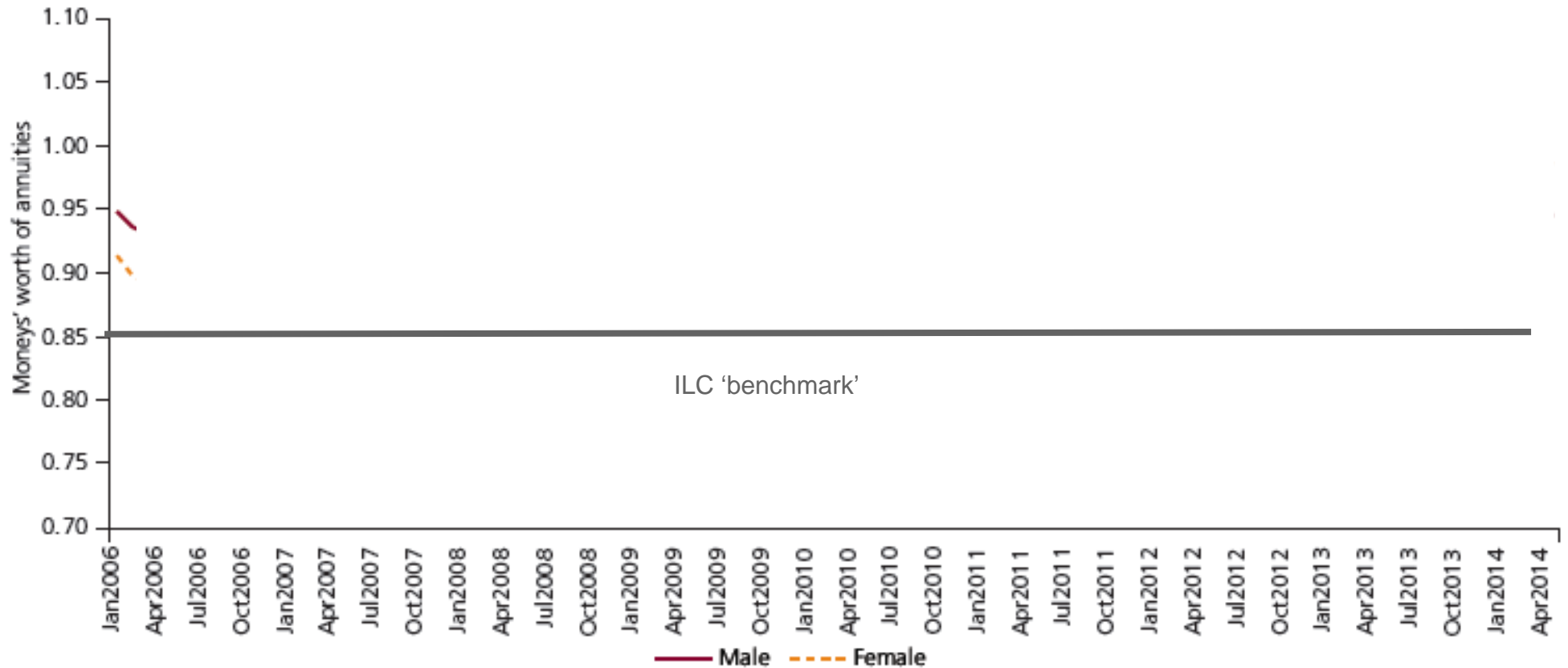
- Annuity payments to probable date of death calculated
- Discount applied, based on bonds
- Compared to the purchase price
- If they are equal, the ratio is 1
- Any difference can be viewed as the 'premium for longevity insurance'

Good value = above 0.85



Relative 'money's worth'

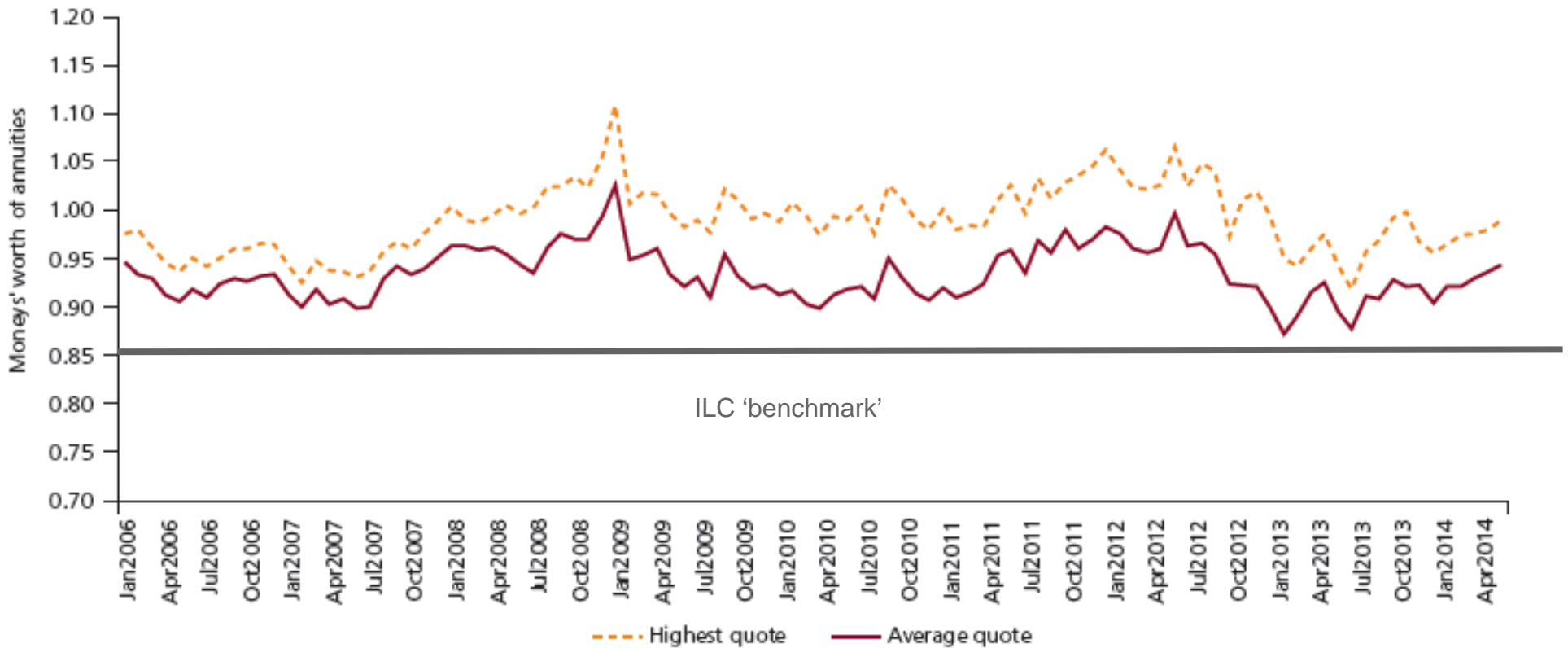
Figure 4: MW of annuities, 65-year-old annuitants buying with £50,000 pot²⁶



- FCA December 2014 and ILC benchmark July 2014

Relative 'money's worth'

Figure 9: MW of annuities: average versus best quote in the market (baseline profile)



- FCA December 2014 and ILC benchmark July 2014

Getting your money's worth?

Average return on premiums paid

94%

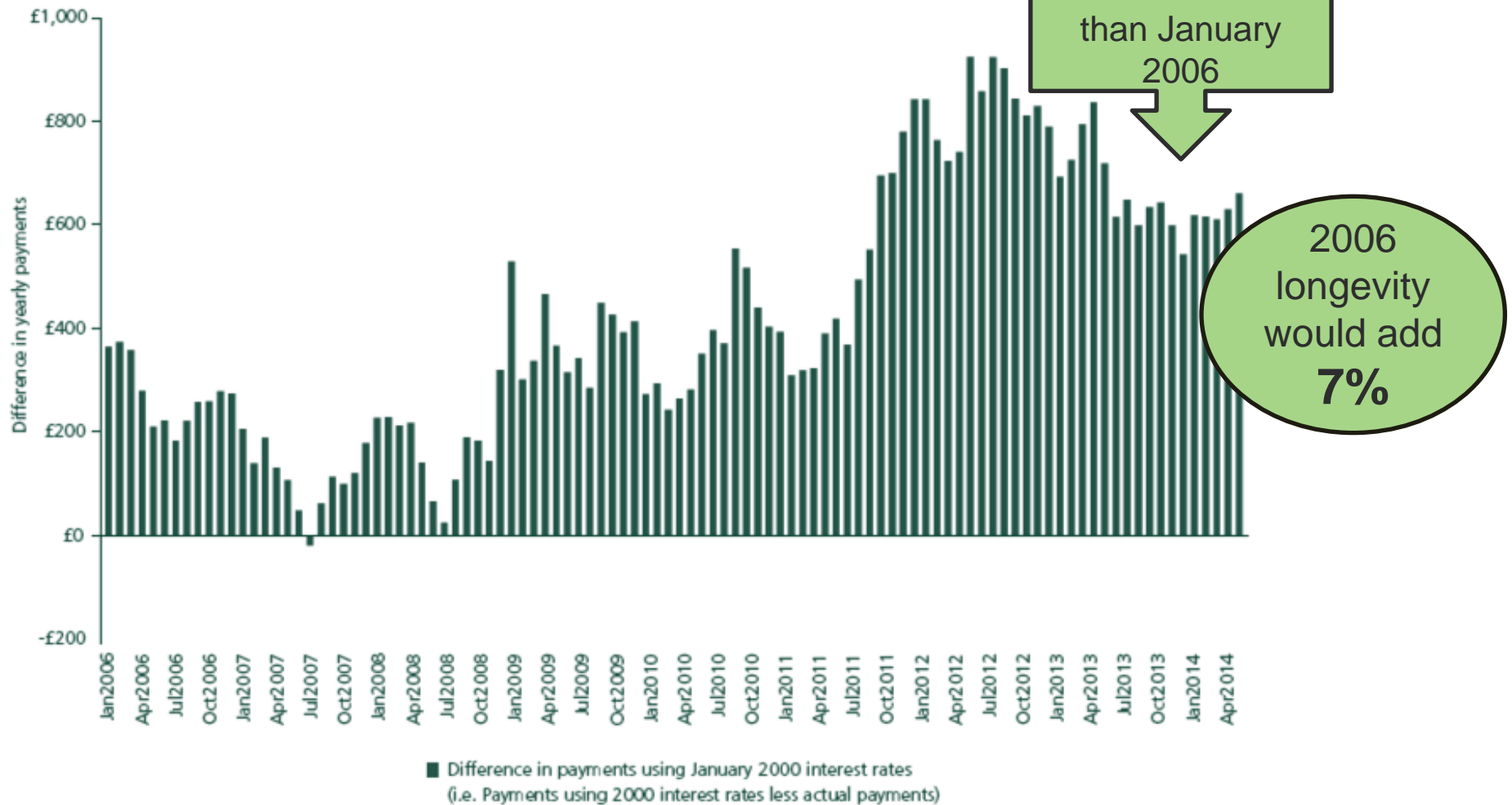
Average return where best rates used

99%

Source FCA: December 2014: The average MW over the period January 2006 to June 2014

Interest rates make a real difference

Figure 8: Monetary impact using January 2000 interest rates.



Value of Annuities

*“Our economic analysis... has shown that for people with average-sized pension pots and low risk appetite, the right annuity purchased on the open market offers **good value** for money relative to alternative drawdown strategies”*

Perceived value

Accumulation

- Vast majority DC
- Fund performance risk with individual
- Focus on ATR
- Focus on rate of return
- How much can I save?

Investment Frame

Decumulation

- Risk of fewer guarantees (DB)
- Fund performance risk with individual
- Longevity risk
- How much can I spend?

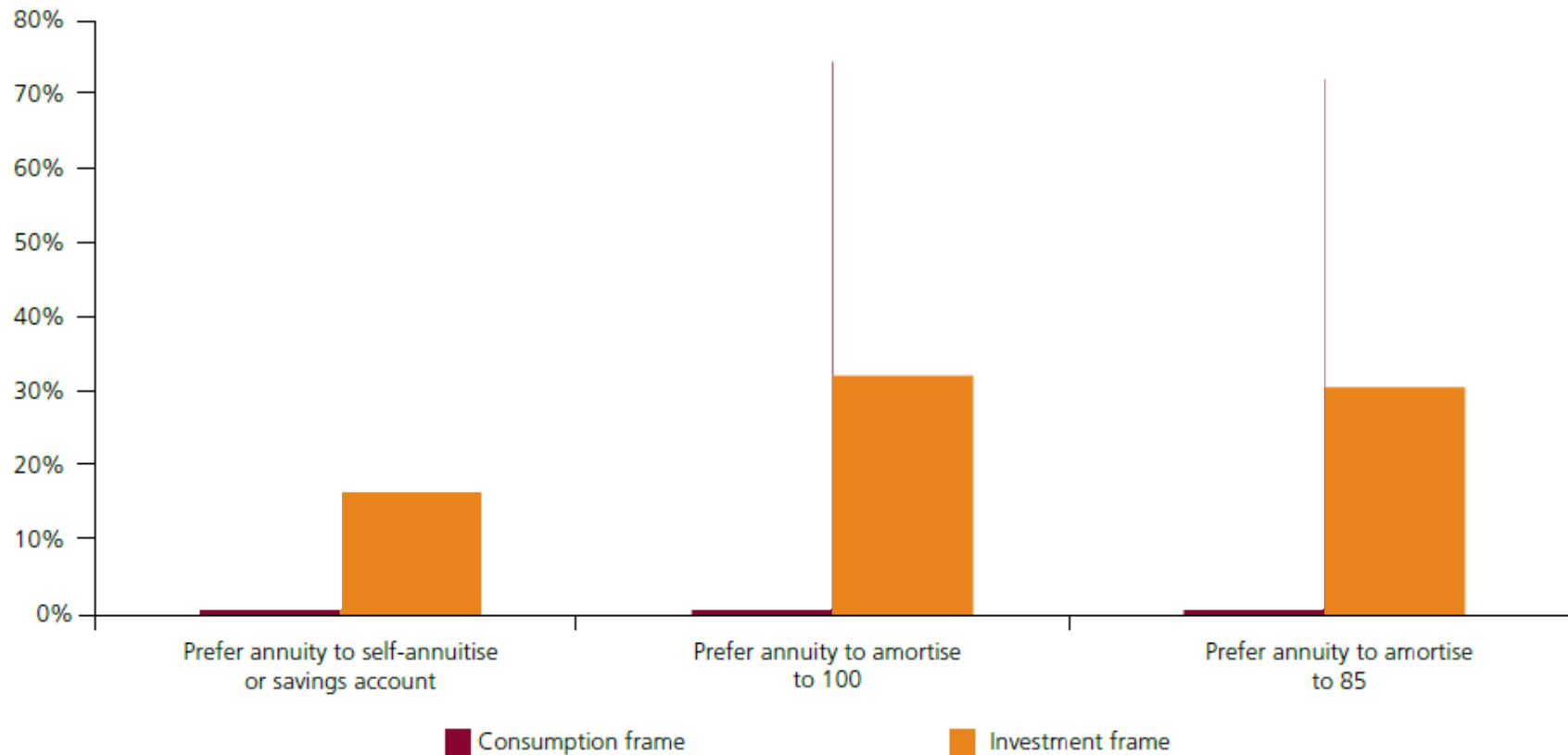
Consumption Frame

Conundrum:

Not living long enough to receive the proceeds of annuity
vs the pay out from an investment regardless.

Framing research - FCA

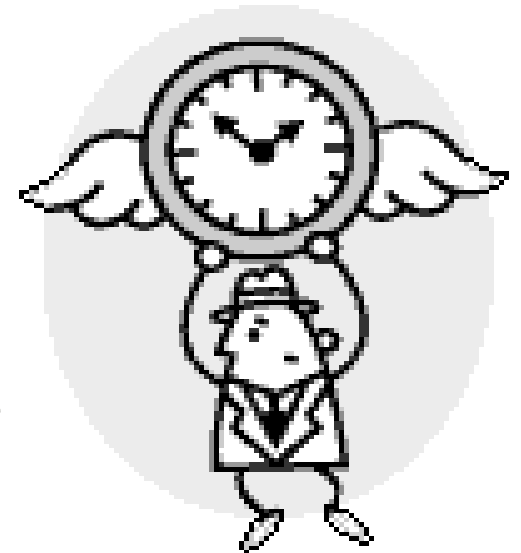
Figure 1: Proportion of consumers that prefer the annuity to alternative drawdown strategies



Life expectancy

- “Based on your **gender**, based on your age, perhaps asking one or two basic questions like whether you've smoked or not you can tell somebody that they might, on average, live for another 20 years or so” **S Webb**
- Men aged 65 today will on average live to 86.5*
BUT
- 22% of them will see their 95th birthday*
- **“If all men budgeted on the basis that they will be dead by 87, a lot of them would run out of money.”**

D Robbins, Towers Watson

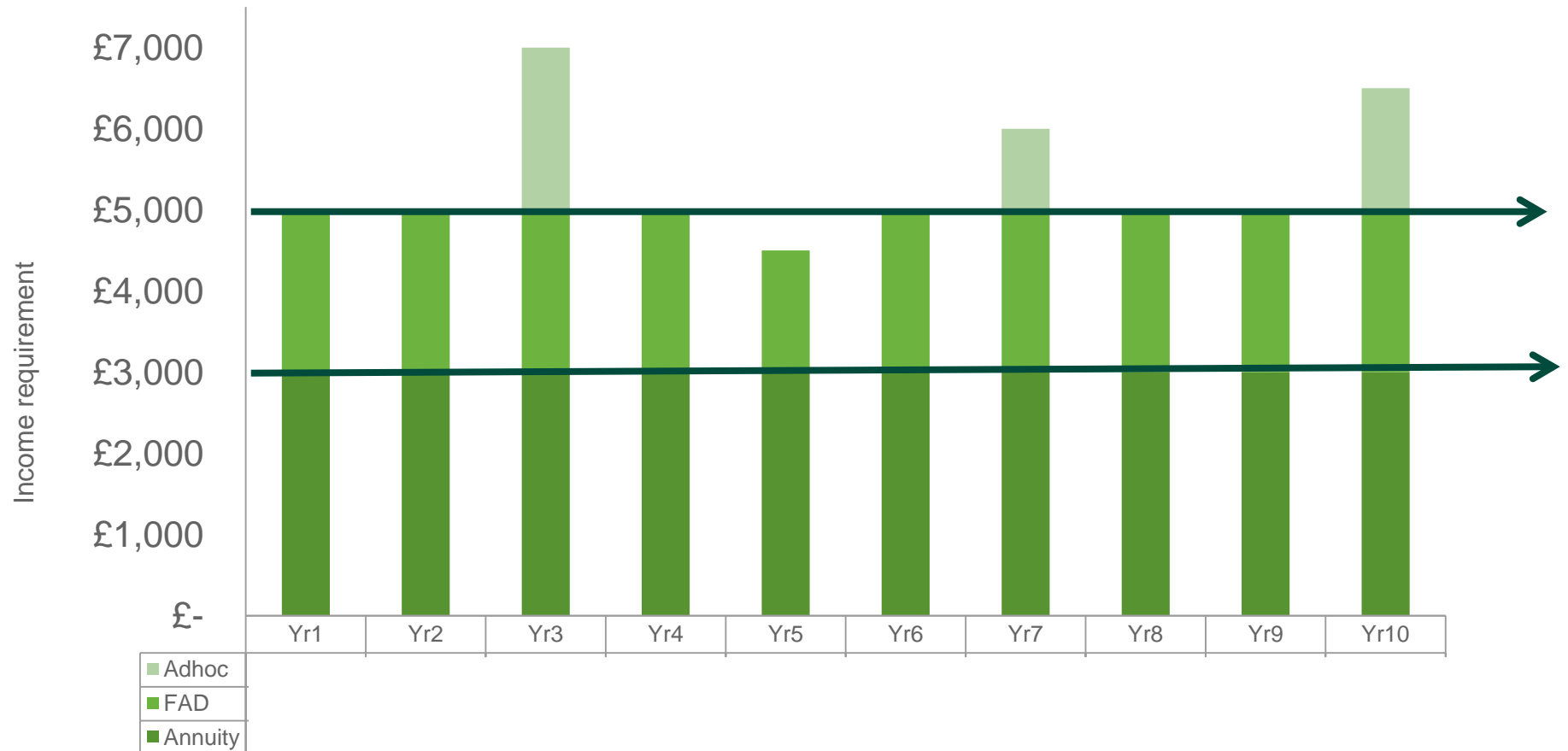


Partnership changes – April 2015

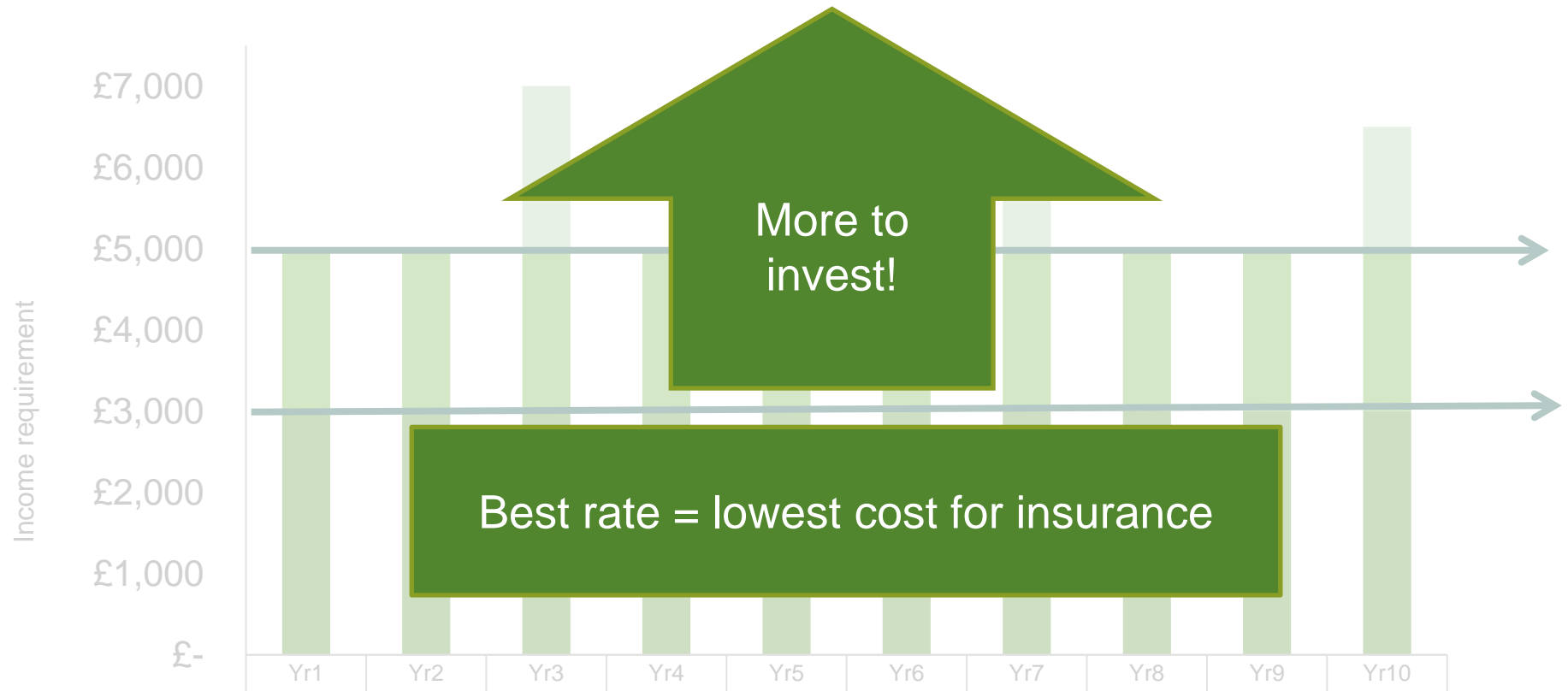
- ✓ Value Protection extended
- ✓ Guarantee period extended
- ✓ Nominees allowable
- ✓ Benefits-based pricing



Combining annuity and drawdown



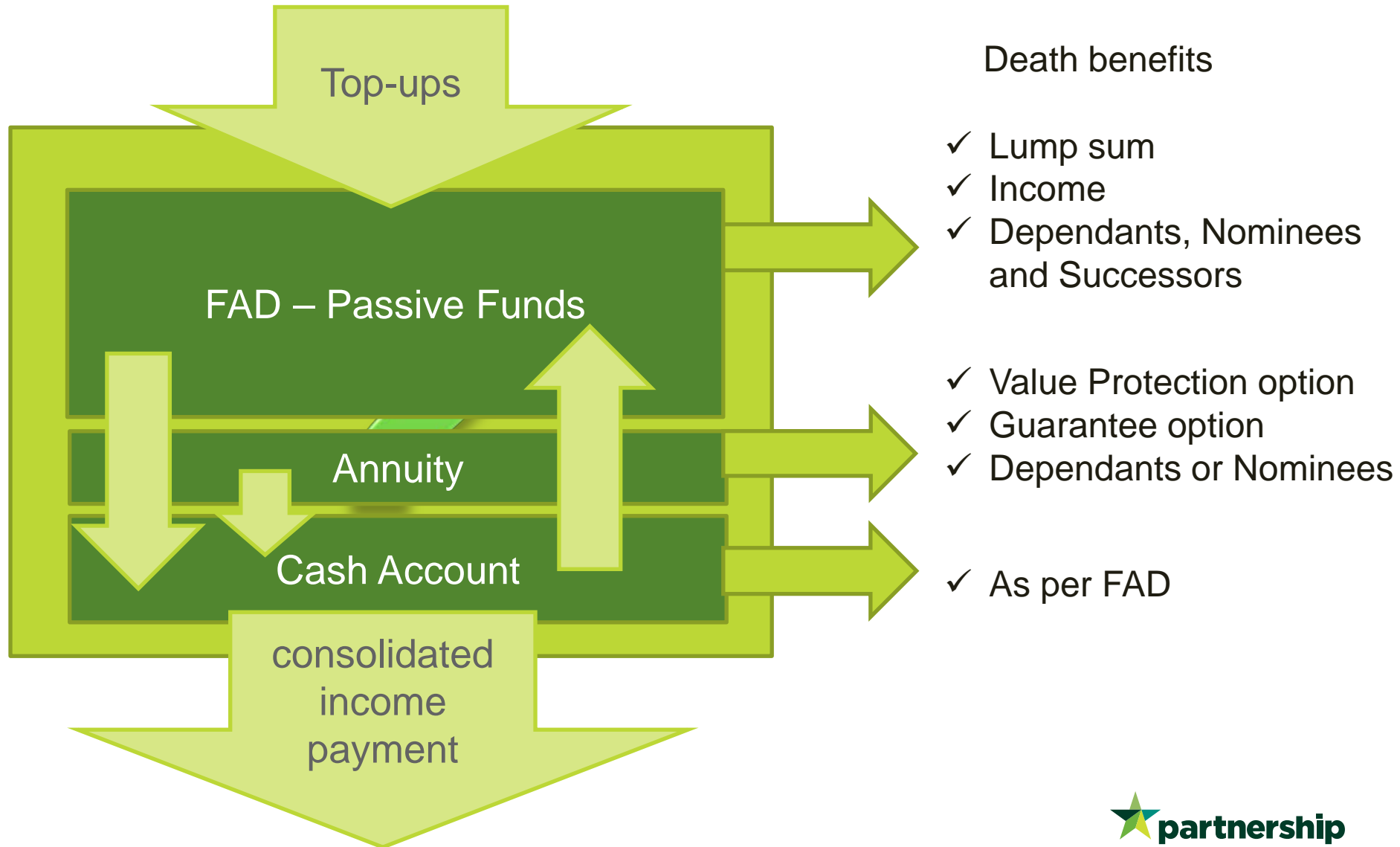
Combining annuity and drawdown



- Adhoc
- FAD
- Annuity

Use of underwriting:
for benefits-based quotes, enhanced annuities offer the
cheaper option

Proposition – what's in the wrapper?



Proposition

- Blending an annuity and Flexi-Access Drawdown
- Investment funds and cash account in FAD
- Passive low-cost funds
- Annuity held within Drawdown
- Consolidated income payments
- Potential for increasing income
- Income payments can be reduced via reinvestment
- Top-up facility
- Death benefits (annuity options and FAD)
- Ongoing adviser charge facility



Thank You

Partnership is a trading style of the Partnership group of Companies, which includes; Partnership Life Assurance Company Limited (registered in England and Wales No. 05465261), and Partnership Home Loans Limited (registered in England and Wales No. 05108846).

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Freedom & Choice

What does it all mean?





PENSION FREEDOM

For professional advisers only

Concerns:

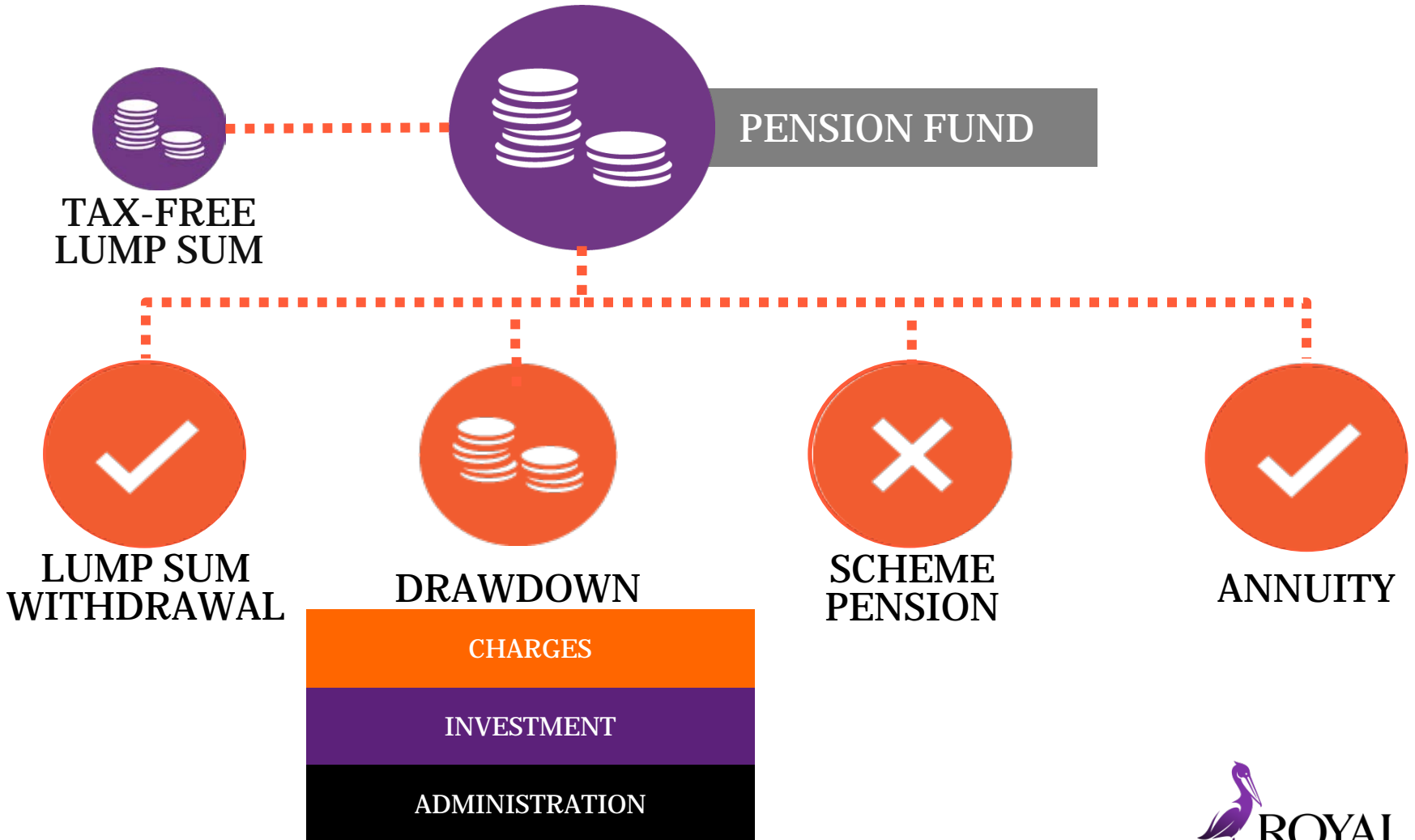
- **Lack of choice** for ... **smaller funds**
- **Complex products** with **hidden costs** and fees
- Products which require **ongoing servicing** ...



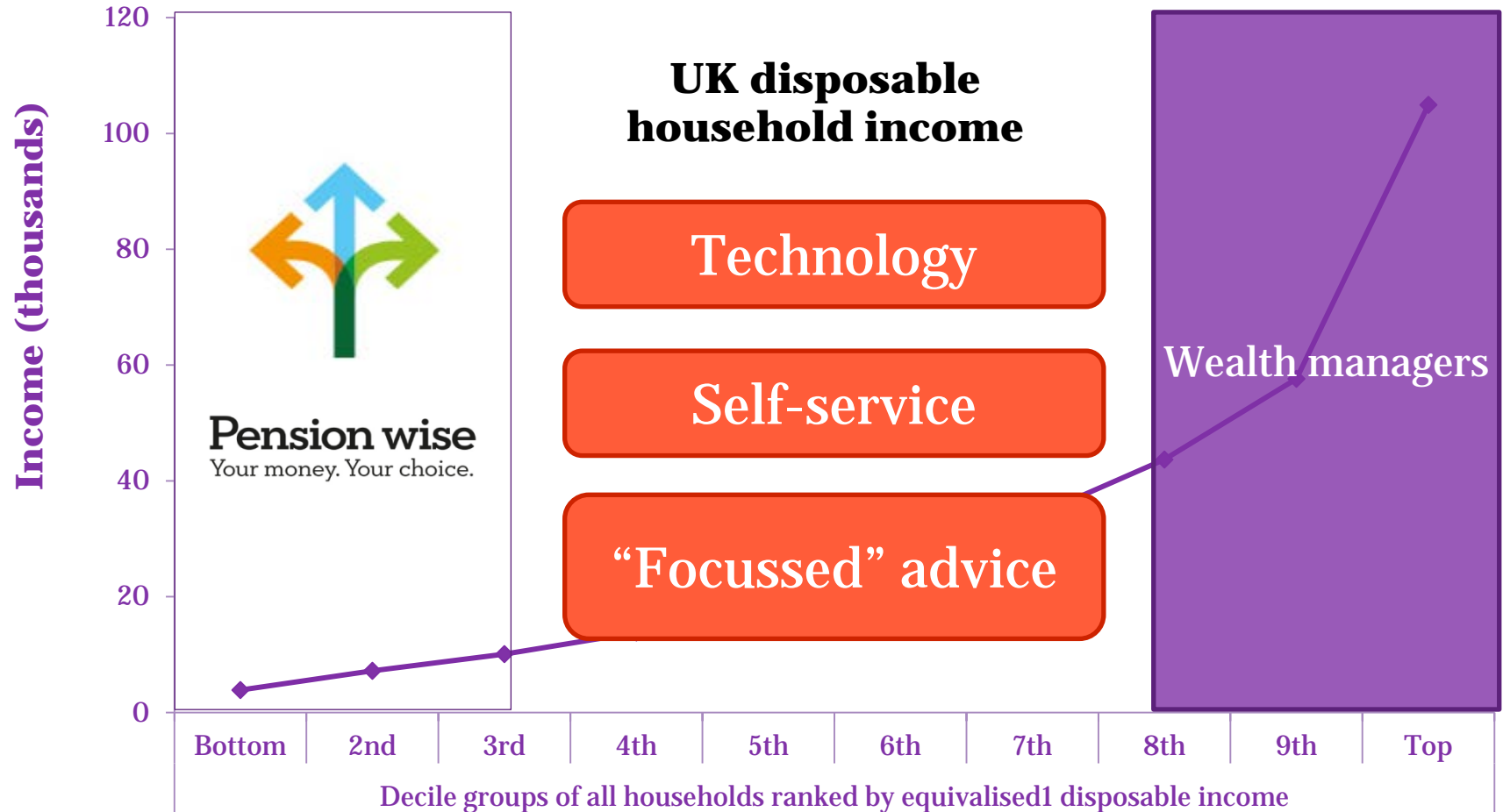
Pensions, retirement income products and distribution methods may deliver poor consumer outcomes

Source: FCA website

**SMALLER FUNDS
SIMPLE PRODUCTS**



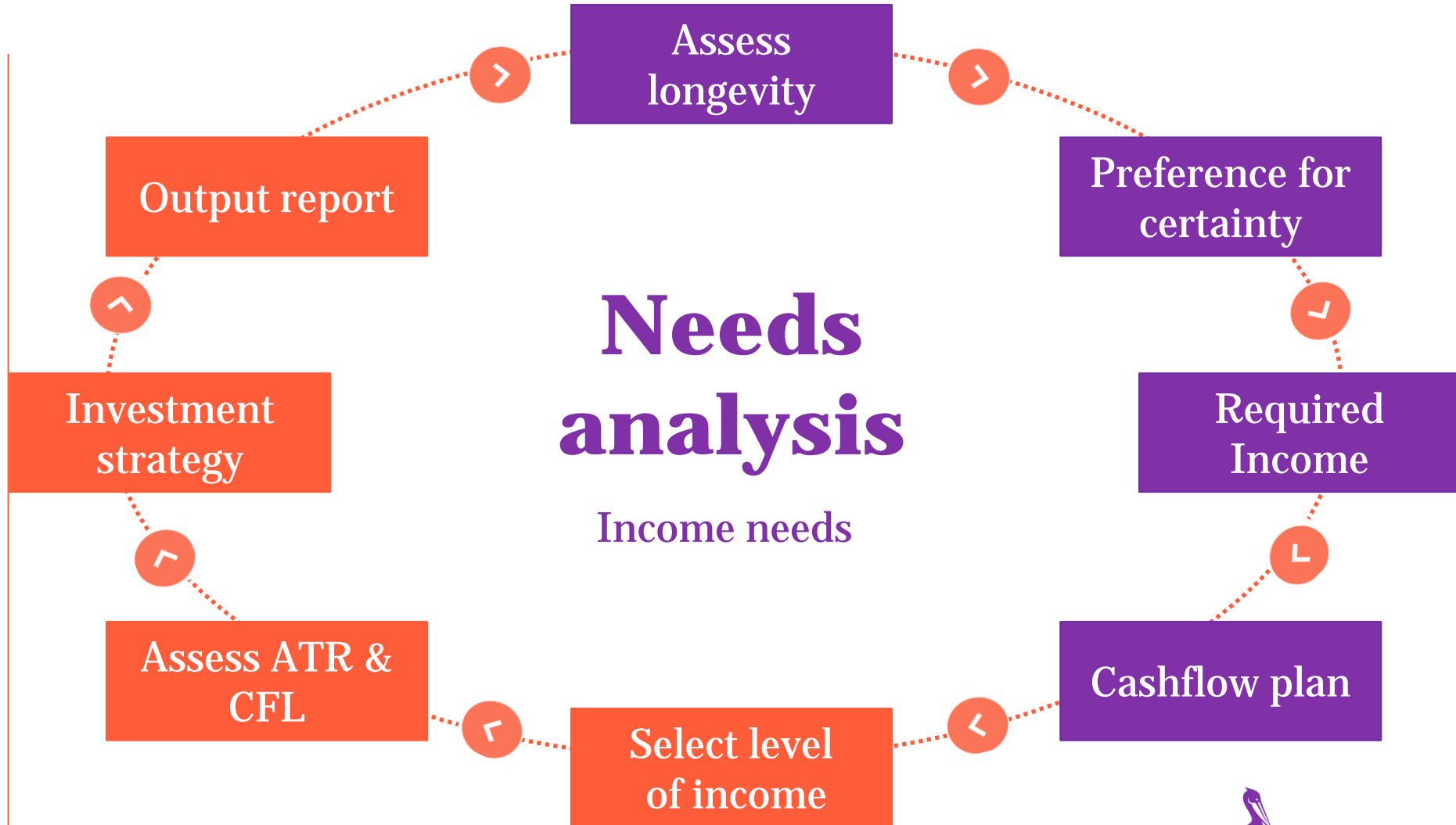
SMALLER FUNDS ADVICE GAP



Source: ONS Table 14 Household Income October 2012

For professional advisers only





SMALLER FUNDS PLANNING TOOLS



RETIREMENT INCOME AND INVESTMENT

RECOMMENDATION

In our recent meeting we discussed the options available for your retirement savings. As a result of our discussion, we agreed that a personal pension with an income drawdown facility is the most suitable type of pension plan for your needs.

This report is based on a detailed analysis of your immediate and future income needs and an assessment of your willingness and ability to take investment risk.

The purpose of this report is to:

- Confirm the income level you wish to take and my recommended investment approach.
- Help you understand the benefits and risks associated with this investment.

1 YOUR DETAILS

Name:	Ryan Medlock
Sex:	Male
Date of birth:	1 January 1951
Age:	64

2 YOUR RETIREMENT SAVINGS

We discussed the retirement savings you have available, and we agreed that you could invest £400,000 into an income drawdown plan. This plan allows you to withdraw a regular income while the remaining retirement savings are invested to provide potential investment growth.

You should be aware that investment returns are not guaranteed and as a result the impact on your retirement savings and the income provided is uncertain. The specific investment risks are:

- The capital value of your fund may be eroded by taking out too much income.
- The investment returns may be less than those shown in the illustrations.
- Annuity or scheme pension rates may be worse in the future.
- High levels of income may not be sustainable when maximum withdrawals are taken, or a short term annuity is purchased.

3 YOUR INCOME NEEDS

We discussed the income you would need from your income drawdown plan in order to provide an acceptable standard of living.

How much do you need for a basic standard of living?

We agreed that you would need to withdraw £4,900 a year from your income drawdown plan. This minimum income, combined with your other sources of income, would provide a basic standard of living in retirement.

How much do you need for a reasonable standard of living?

We agreed that you would like to withdraw £6,000 a year from your income drawdown plan. This target income, combined with your other sources of income, would provide you with a reasonable standard of living in retirement.

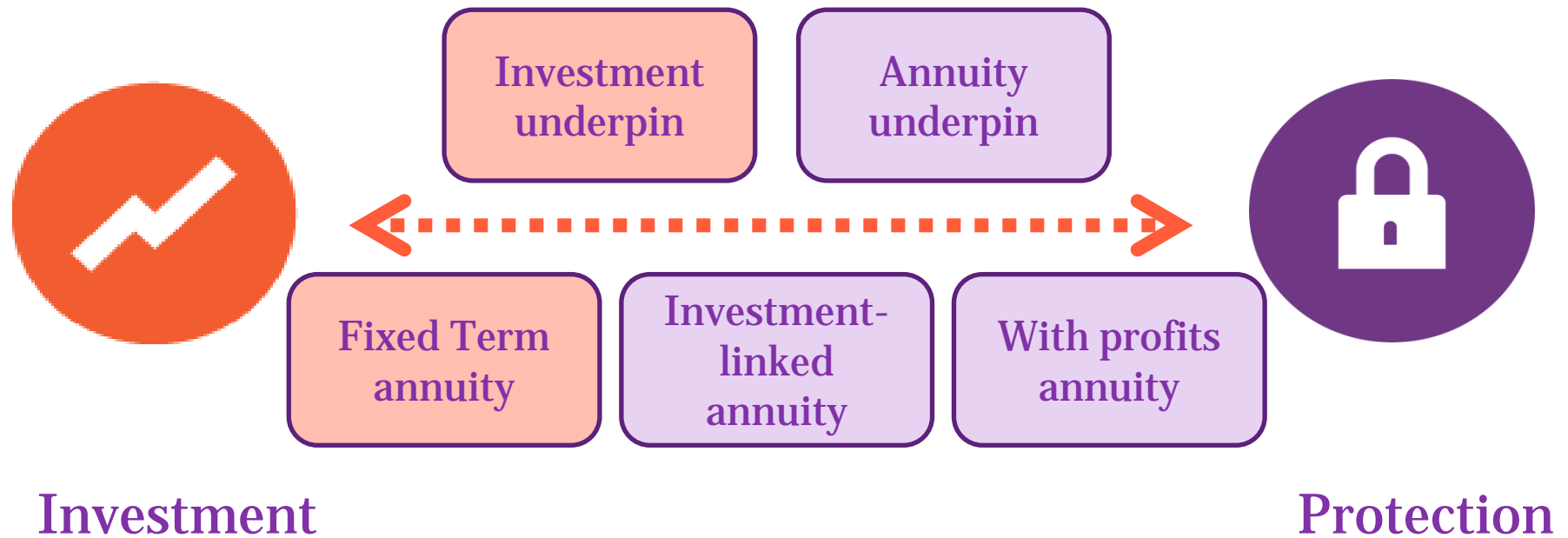
COMPLEX PRODUCTS NEED FOR GUARANTEES

- Guarantees impact on potential growth
- Need a careful balance...



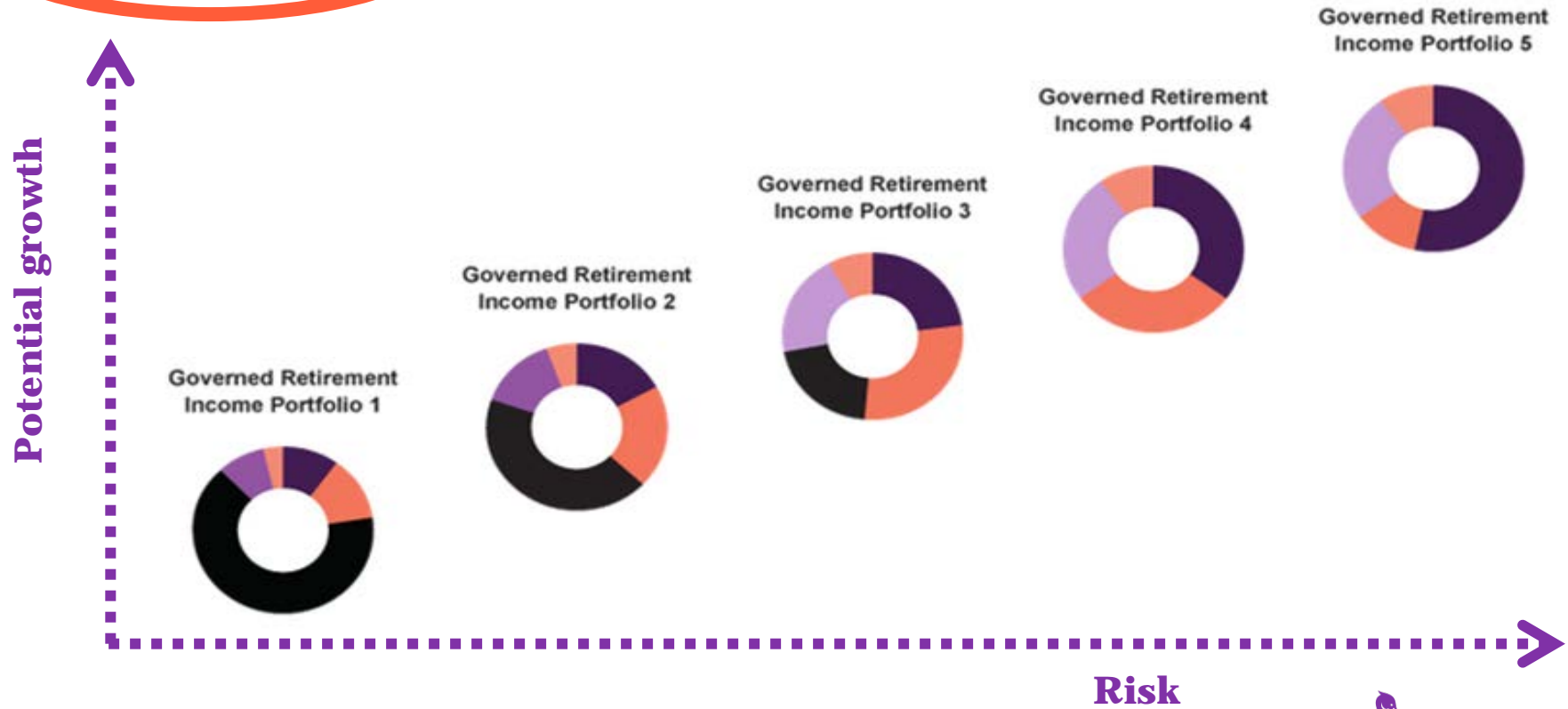
COMPLEX PRODUCTS NEED FOR GUARANTEES

- Existing options....



COMPLEX PRODUCTS NEED FOR BENCHMARKS

Risk managed funds:

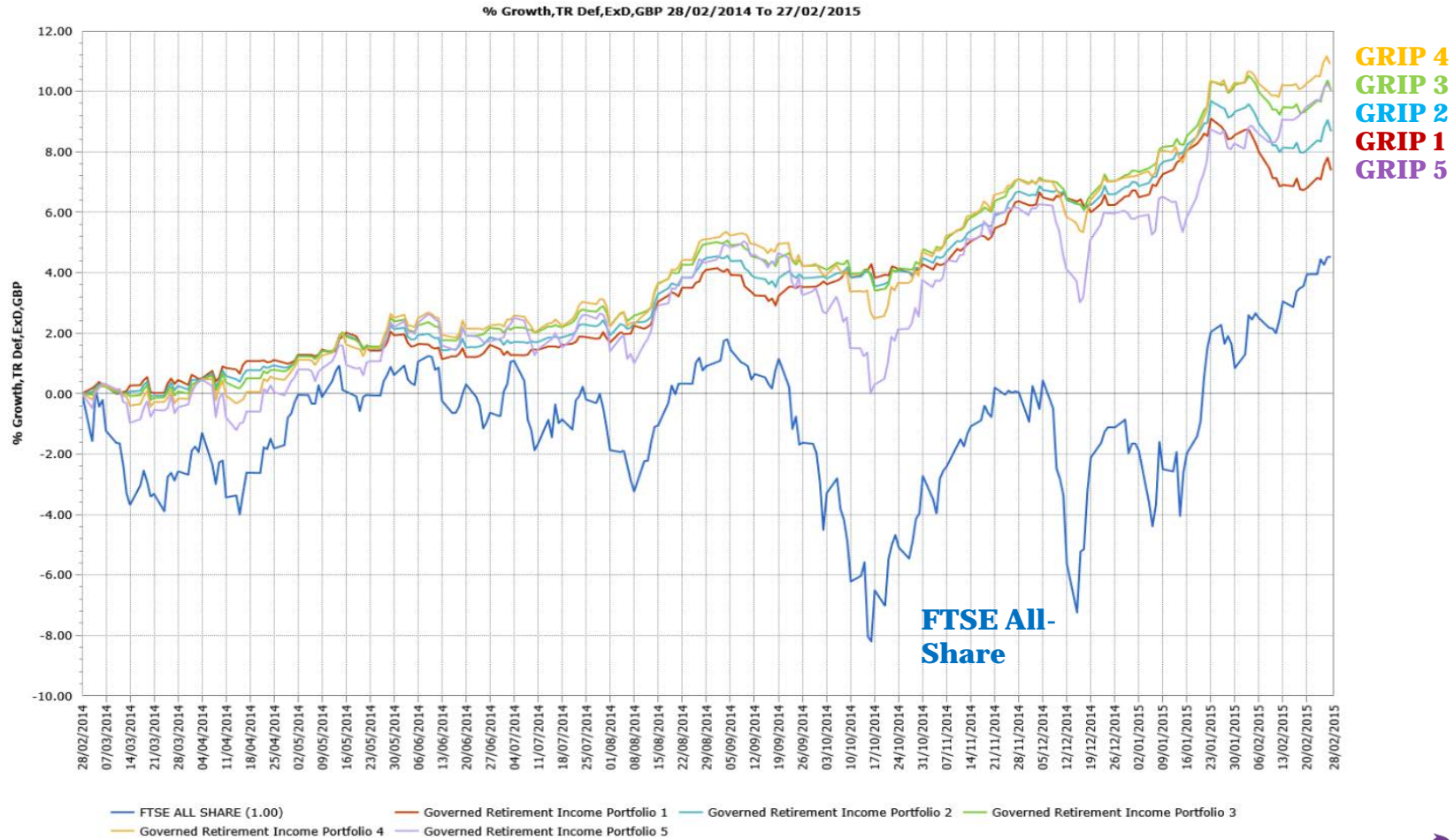


Source: Royal London

Benchmark asset allocations approved by Investment Advisory Committee June 2012.



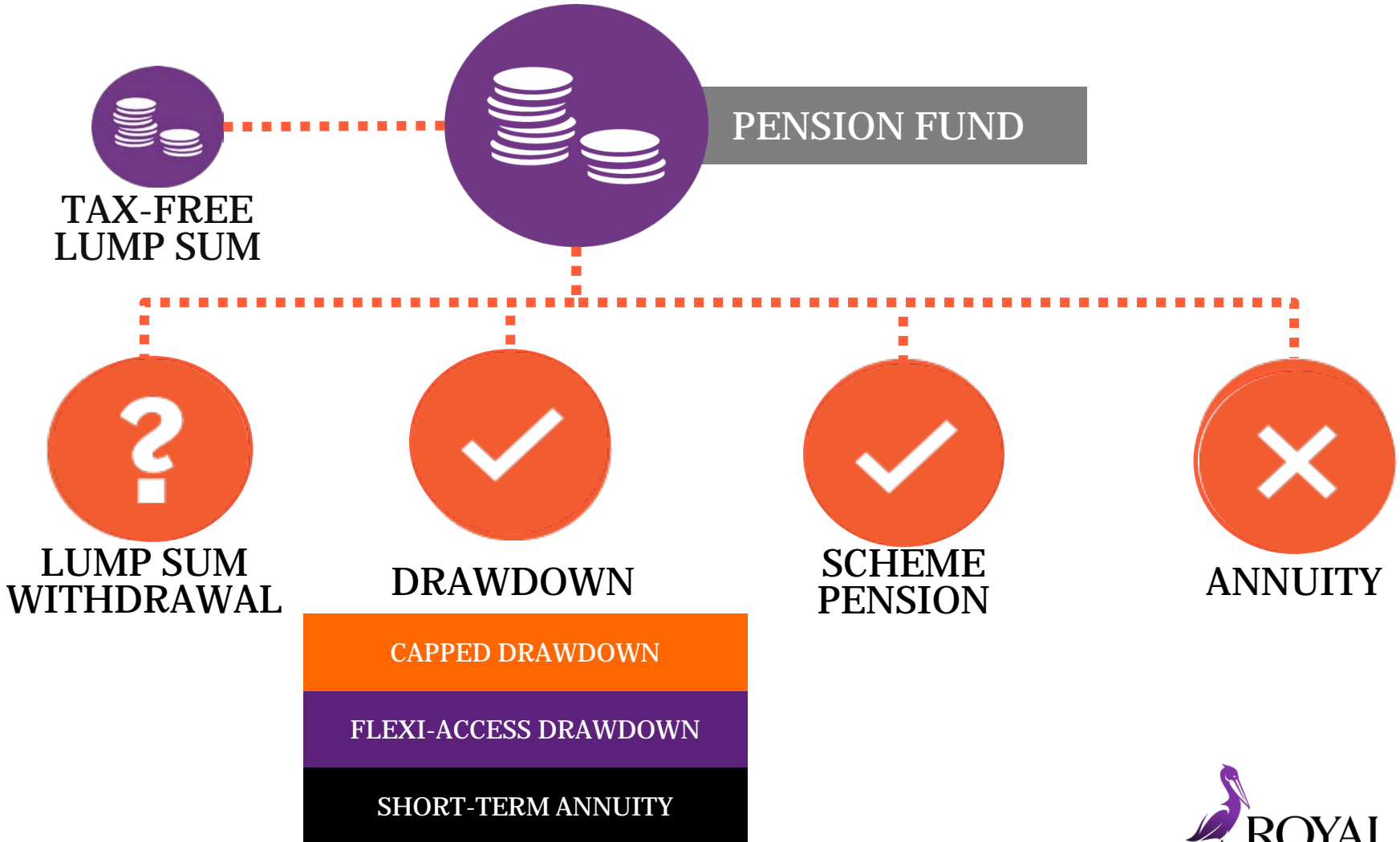
SIMPLE PRODUCTS ONGOING RISK MANAGEMENT



Source Lipper 28/02/2015 Past performance is not a guide to the future. Prices can go down as well as up. Investment returns may fluctuate and are not guaranteed so you could get back less than the amount paid in.



SIMPLE PRODUCTS NEED FOR ONGOING SERVICING



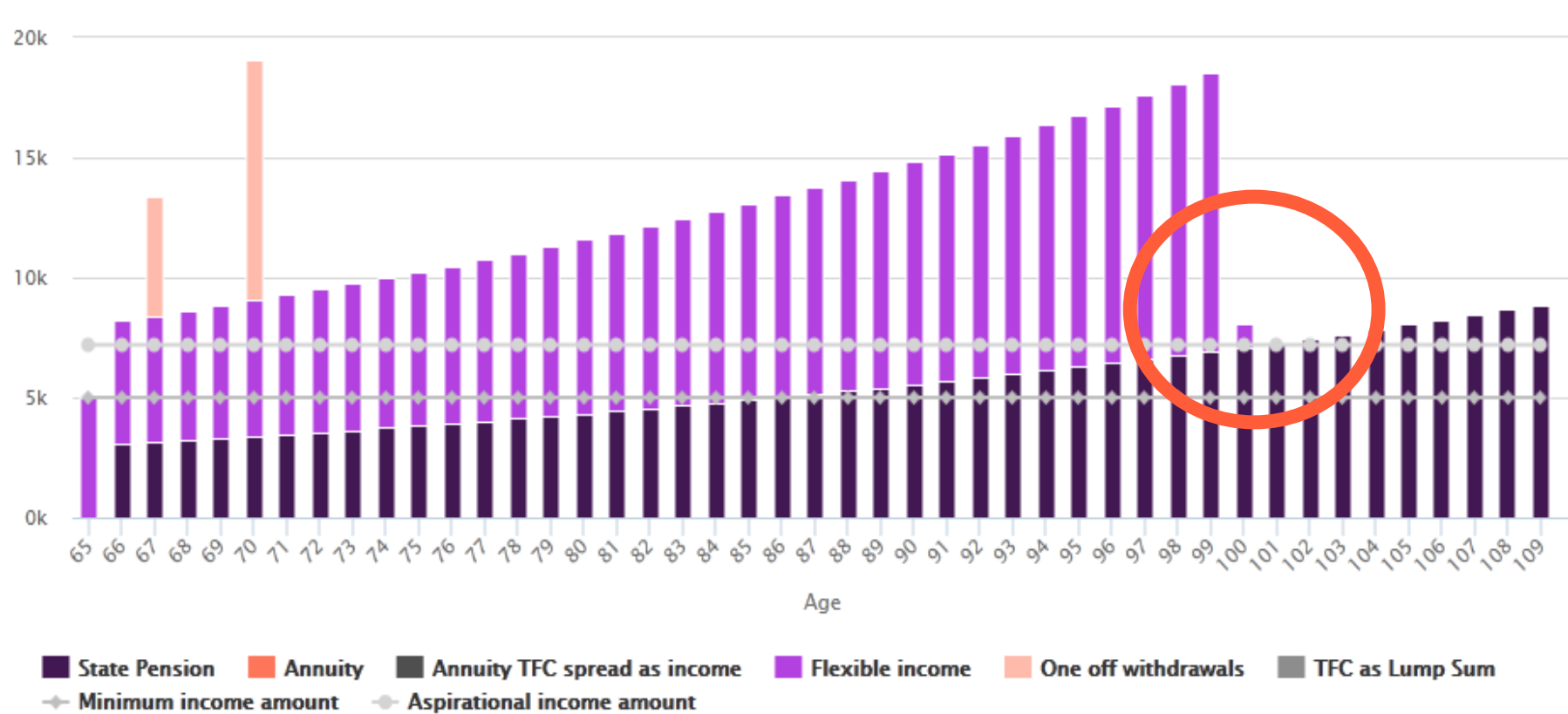
SIMPLE PRODUCTS SUSTAINABLE INCOME



We use a stochastic model to run 5000 scenarios to look at 5% tail risk (1 in 20 chance) of things going wrong.



SIMPLE PRODUCTS SUSTAINABLE INCOME



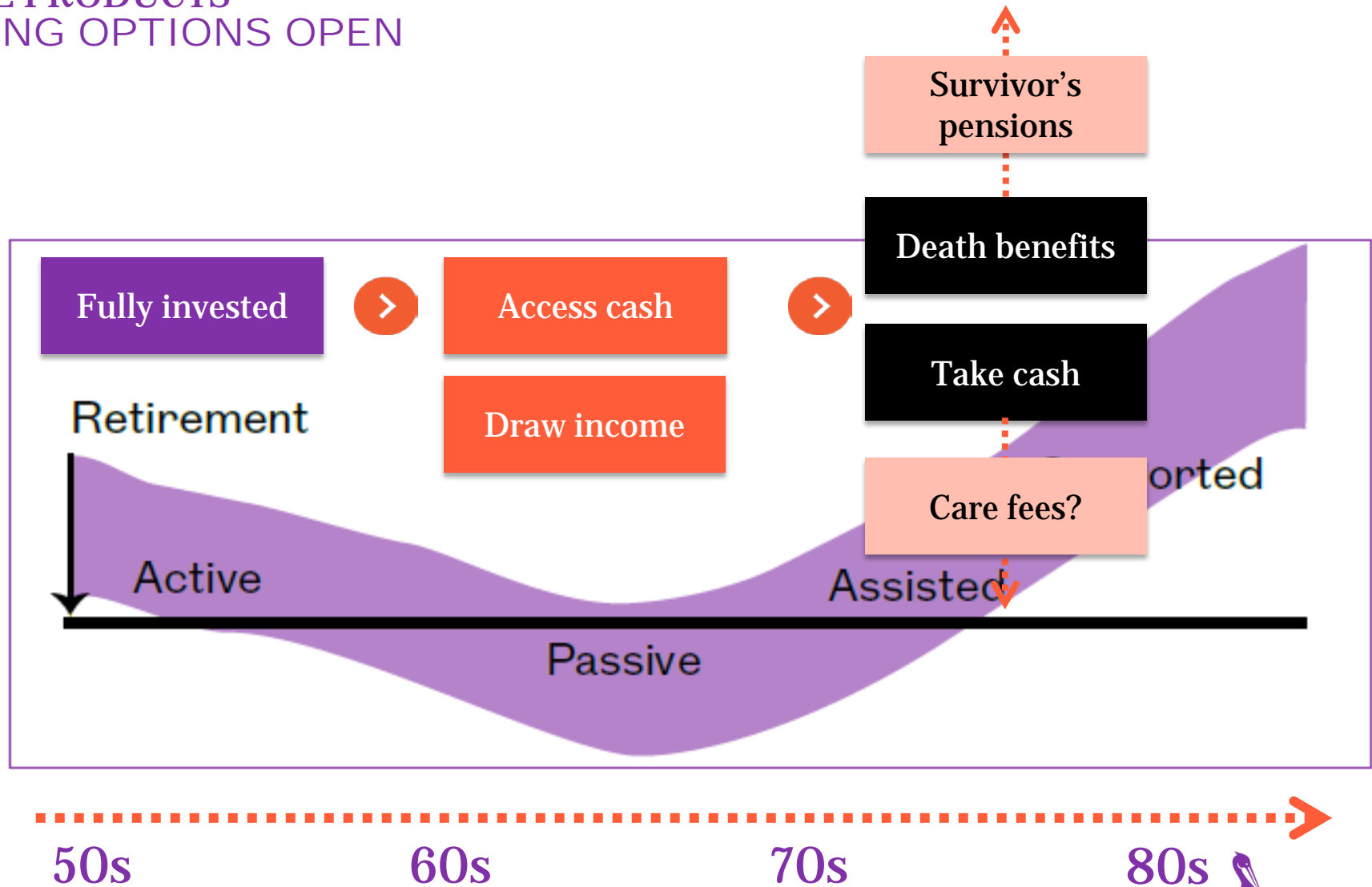
Example figures

Flexible Income Fund

Source: Royal London Retirement Income Planning tool



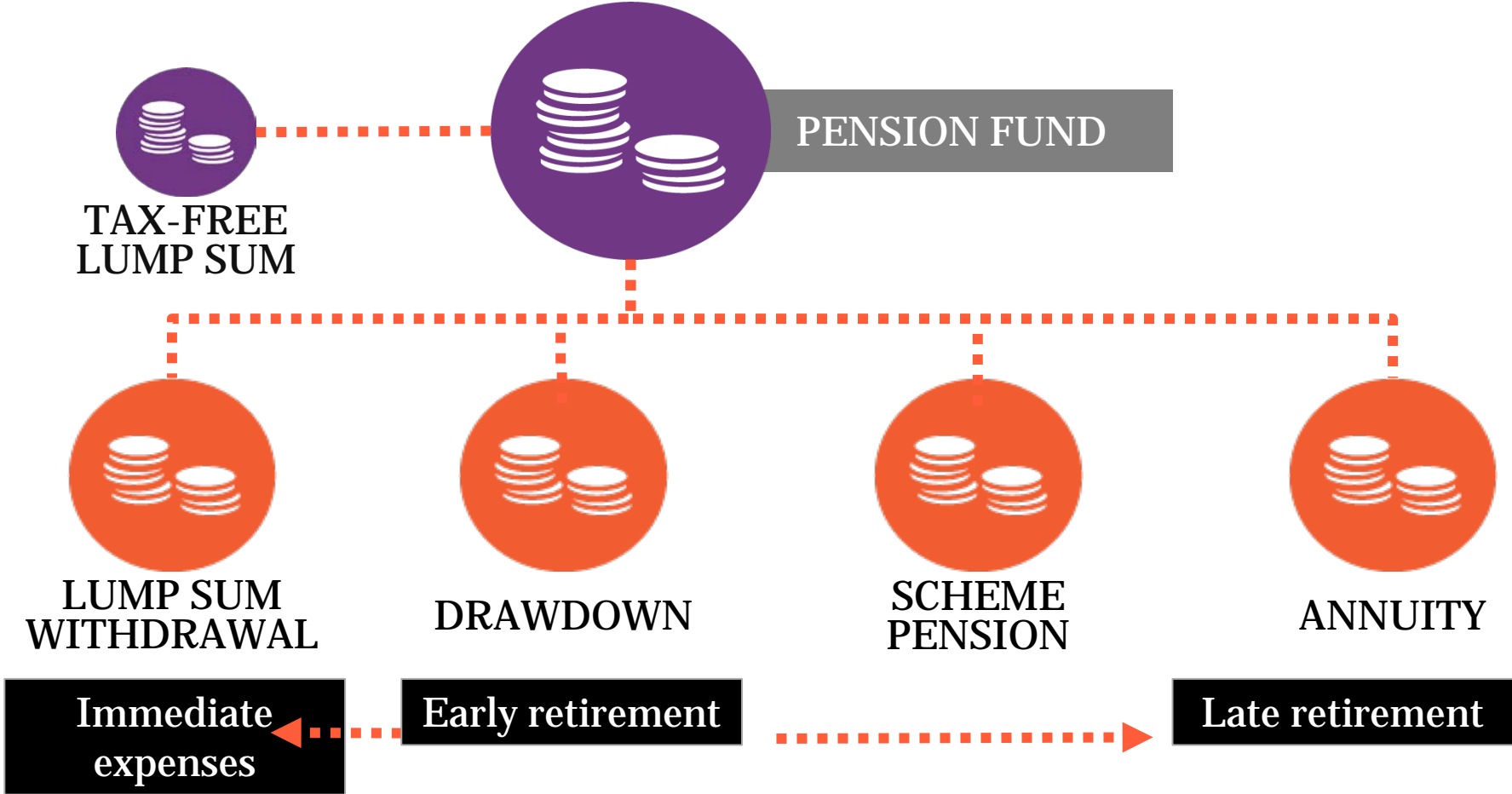
SIMPLE PRODUCTS KEEPING OPTIONS OPEN



Source: ONS & Defaqto Income Drawdown case study March 2013



**SIMPLE PRODUCTS
KEEPING OPTIONS OPEN**



Solution:

- **Low-cost insured products**
- **Simple transparent charges**
- **Managed investment funds**
- **Retirement planning tools**



Pensions, retirement income products and distribution methods may deliver poor consumer outcomes

Source: FCA website

EARLY RETIREMENT IMPORTANT INFORMATION

The information provided is based on our current understanding of the relevant legislation and regulation and may be subject to alteration as a result of changes in legislation and practice as well as the circumstances of the individual.

The figures shown in any case studies are examples only, and while they highlight some of the opportunities for planning, it should be recognised that they are not an exhaustive description of the opportunities or pitfalls.

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April 2015

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THANK
YOU

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Freedom & Choice

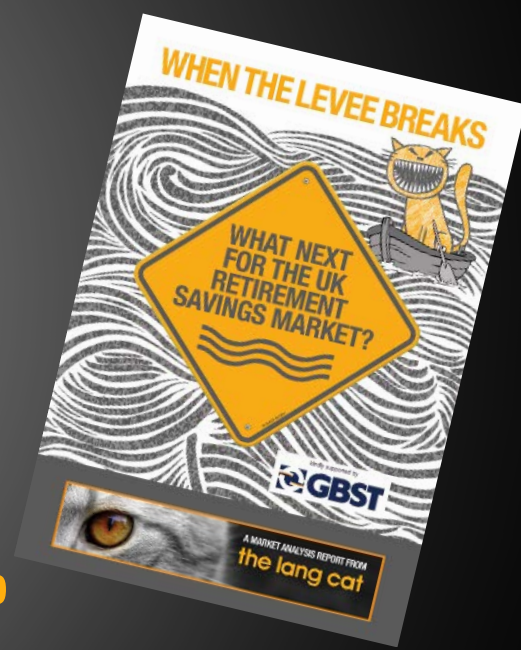
What does it all mean?



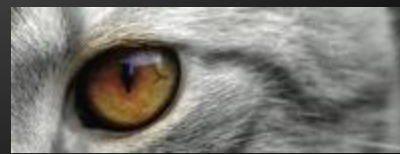


the lang cat

WHEN THE LEVEE BREAKS...



actually, it IS rocket science....



the lang cat



<http://langcatfinancial.co.uk/white-paper/when-the-levee-breaks/>

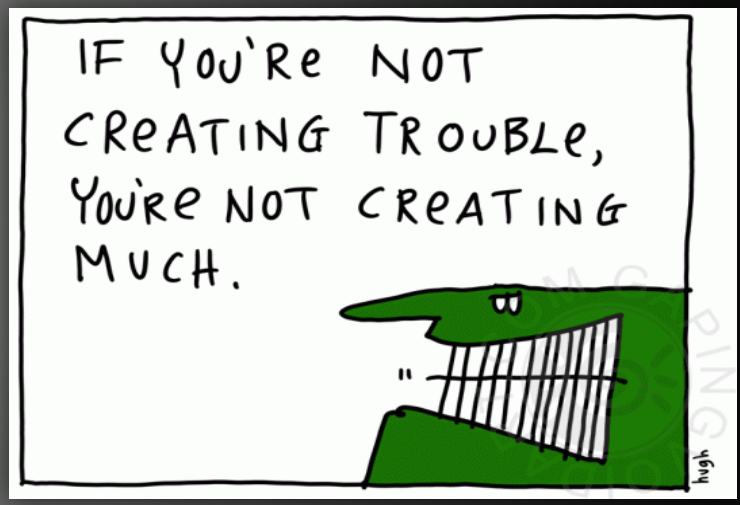




the lang cat

FOR MORE:

who: MARK POLSON
e: mark@langcatfinancial.com
t: (44) +131 202 5990
twitter: @theactualpolson



www.langcatfinancial.com

Freedom & Choice

What does it all mean?





The Insurance Society of Edinburgh **Pension Freedoms Event**

David Trenner, Technical Director



Delivering award winning solutions to professional advisers and clients

Pension Freedoms

- Flexi-Access Drawdown – just a Fad?
- FLUMPS – has its uses
- The new landscape for death benefits
- DB Pension Transfers
- One change that might not happen

Flexi-Access Drawdown – just a Fad?

- For most clients one word is paramount:
- Sustainability
- Why would anyone want to let their money expire
- Before they do?
- Since 1995 Drawdown has been about not running out of money
- What has changed?

Flexi-Access Drawdown – just a Fad?

- Clients who need lump sums
- E.g. for farm equipment
- Clients who want a ‘bridging pension’
- Clients whose pension will fund Long Term Care
- Part of IHT planning??

FLUMPS

- For schemes with no payroll facility
- That want to offer some flexibility
- To take cash, some of which is tax-free

The new landscape for death benefits

- For decades the message has been about ‘relevant benefits’
- Payable at retirement or on prior death
- The sole purpose test!
- Now benefits can be on death after retirement
- Passed to the next generation – exactly what the SFO/PSO/IRPSS did not want for all of those years!

Confirmation of death tax

- Drawdown – tax-free if death under 75
- Cash or income
- Annuity – tax-free if death under 75
- and after 4 December 2014
- Payment after 5 April 2015
- On death after 75
- Lump sums : 45% tax in 2015/16
- Marginal rate from 2016/17
- Marginal rate for income

Confirmation of death tax

- Annuities – broadly subject to same rules
- So we can have real value protected annuities
- Without HMRC taking 55% of the payment
- And annuities guaranteed for 20, 25, even 30 years
- “I won’t buy an annuity because they’ll keep my money if I die”
- Not any more they won’t!

DB Pension Transfers

- Pre 6 April 2015 I suspect that there were a lot of transfers being carried out without much analysis ...
- Post 6 April 2015 we have received a lot of enquiries for our advice service
- Some from overseas advisers
- As certificate can only come from a UK registered adviser

One change that might not happen

- Traded annuities
- Consultation issued
- Would be sold to 3rd party as investment
- Not to private individuals
- Not to holding insurer
- Not ... not ... not!



Delivering award winning solutions to professional advisers and clients



*David Trenner
Technical Director*

Intelligent Pensions Ltd
Cadell House
27 Waterloo Street
Glasgow G2 6BZ

Telephone: 0141 226 1710
Web: www.intelligentpensions.com

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Any Questions?





ANY
QUESTIONS?

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