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Life Conference 2022

23-25 November, ACC Liverpool

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Evolving how products meet consumer needs through retirement

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Agenda

1 Introduction to the Working Party

2 The DC retirement landscape

3 Potential solutions

4 Our modelling

5 Conclusion



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Introduction to the working party

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Working party objectives

- A selection of potential retirement products and/or investment techniques that could help improve the options available to consumers on retirement
- A framework for assessing how successful the different approaches are when measured against consumer needs and wants
- Modelling to analyse the success of each suggested approach against the outlined framework

**Paper 1
(March 2022)**

[Link](#)

**Paper 2
(H2 2023)**



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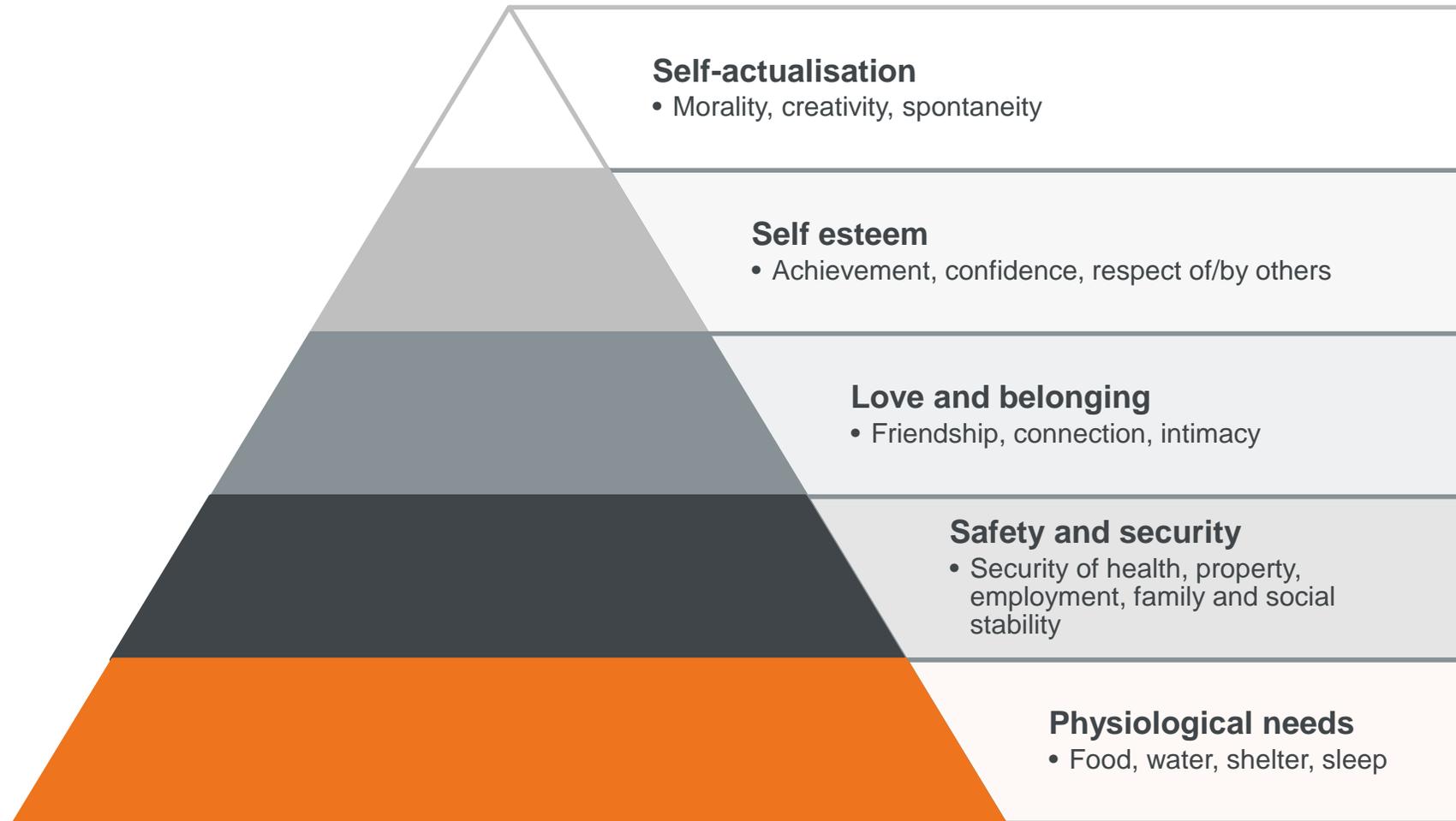
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The DC Retirement Landscape

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Consumer needs



Putting a number on retirement



RETIREMENT
LIVING
STANDARDS

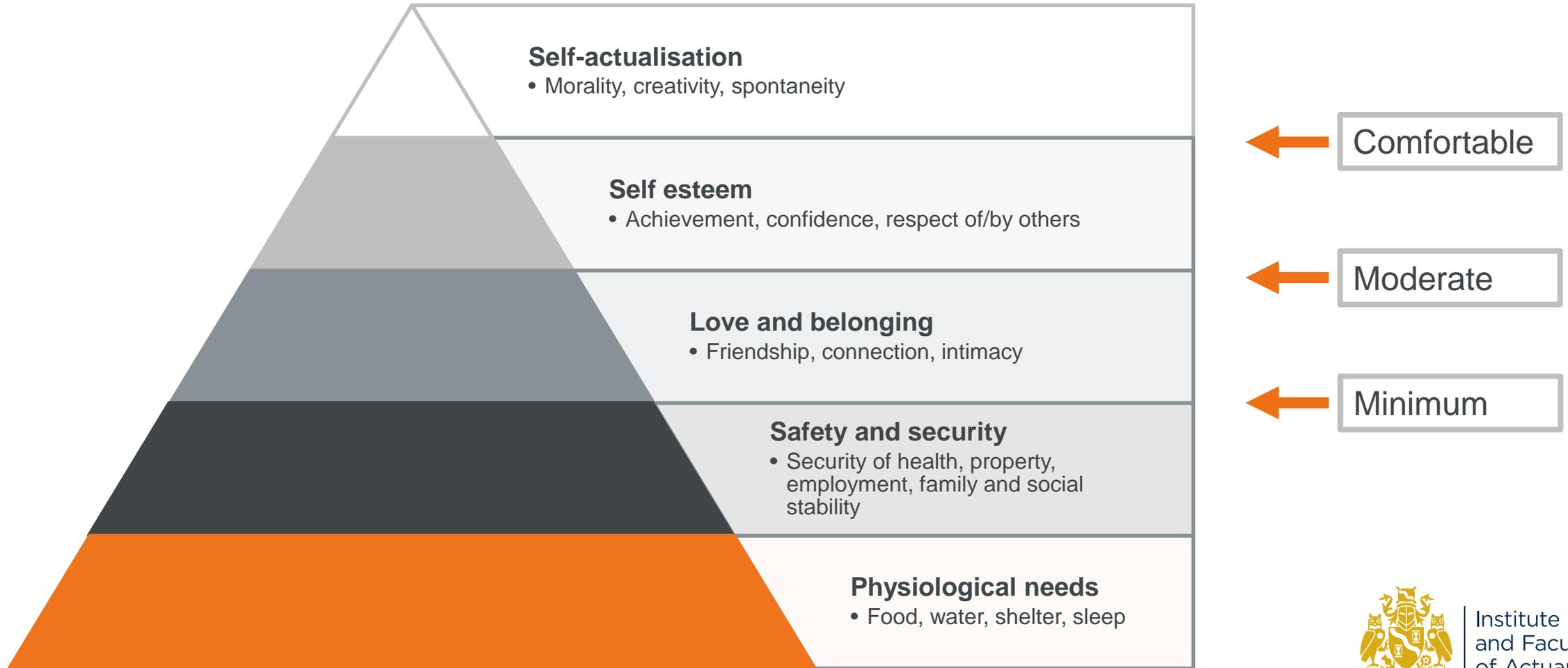
PENSIONS AND
LIFETIME SAVINGS
ASSOCIATION

Source: The PLSA/Loughborough University Retirement Living Standards
<https://www.retirementlivingstandards.org.uk/>

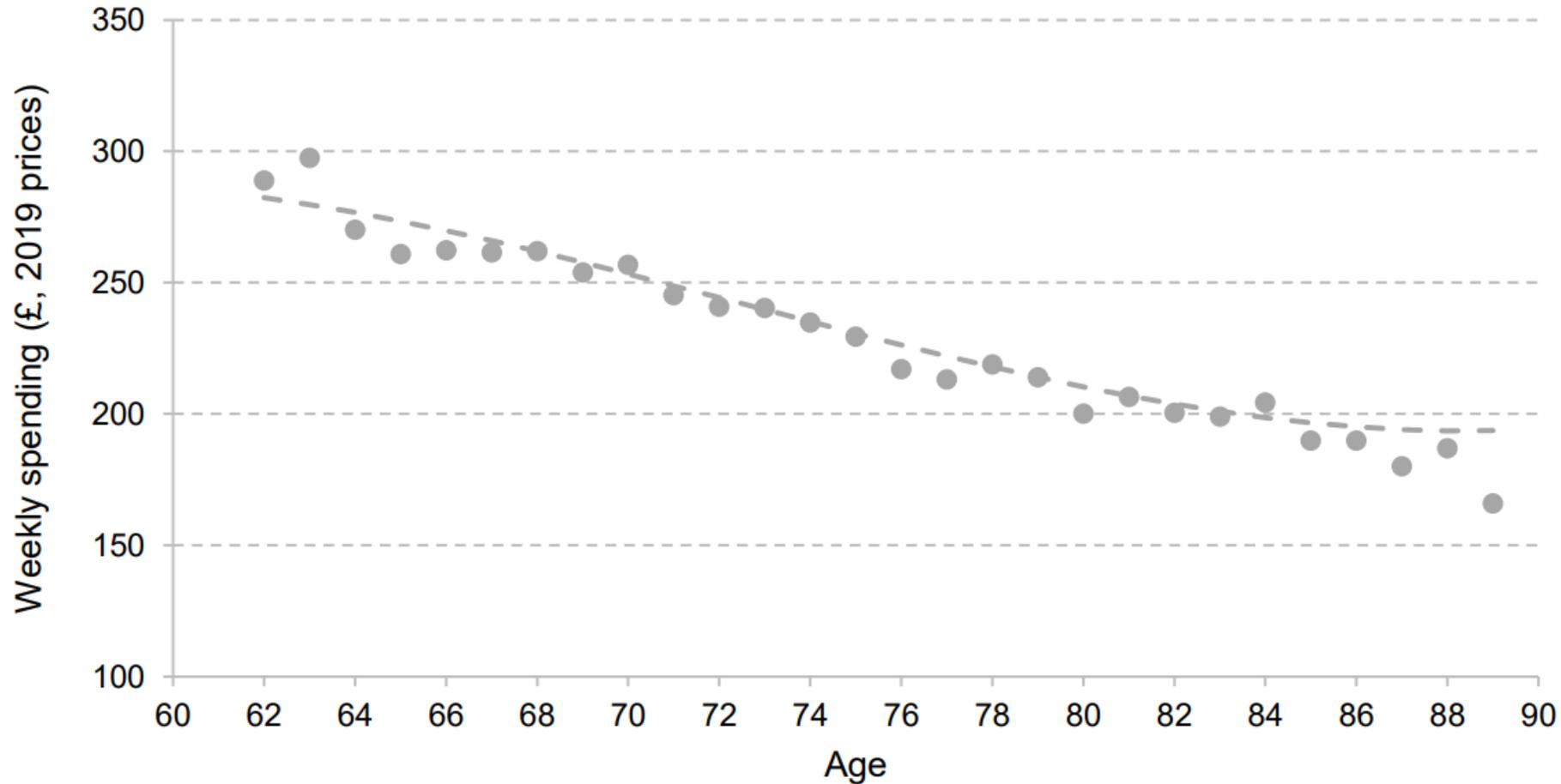


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Consumer needs



IFS research – spending in retirement



Mean and fitted cross-sectional age profile of total household expenditure

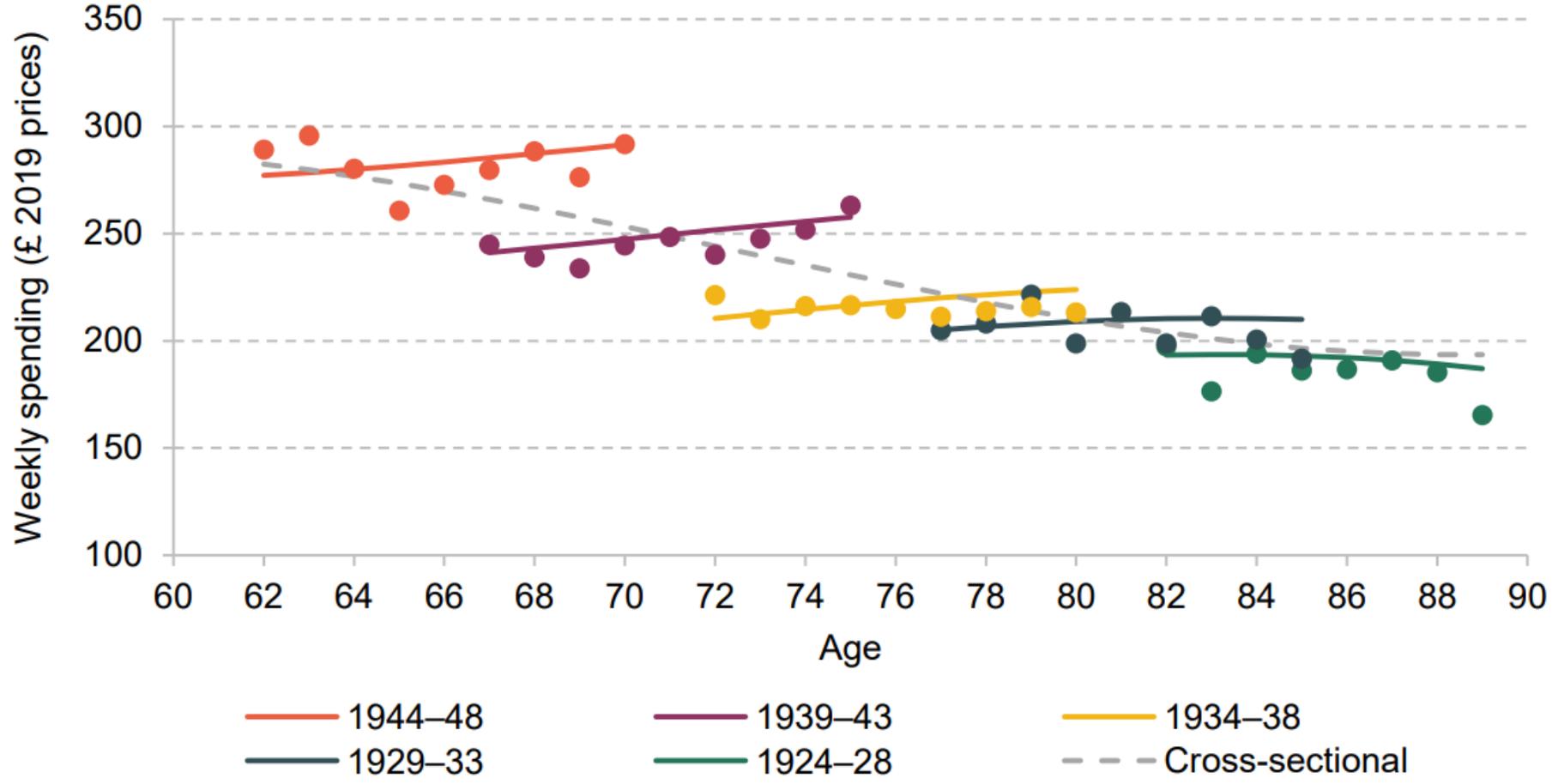
Source: IFS research [“How does spending change through retirement”](#)



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IFS research – spending in retirement



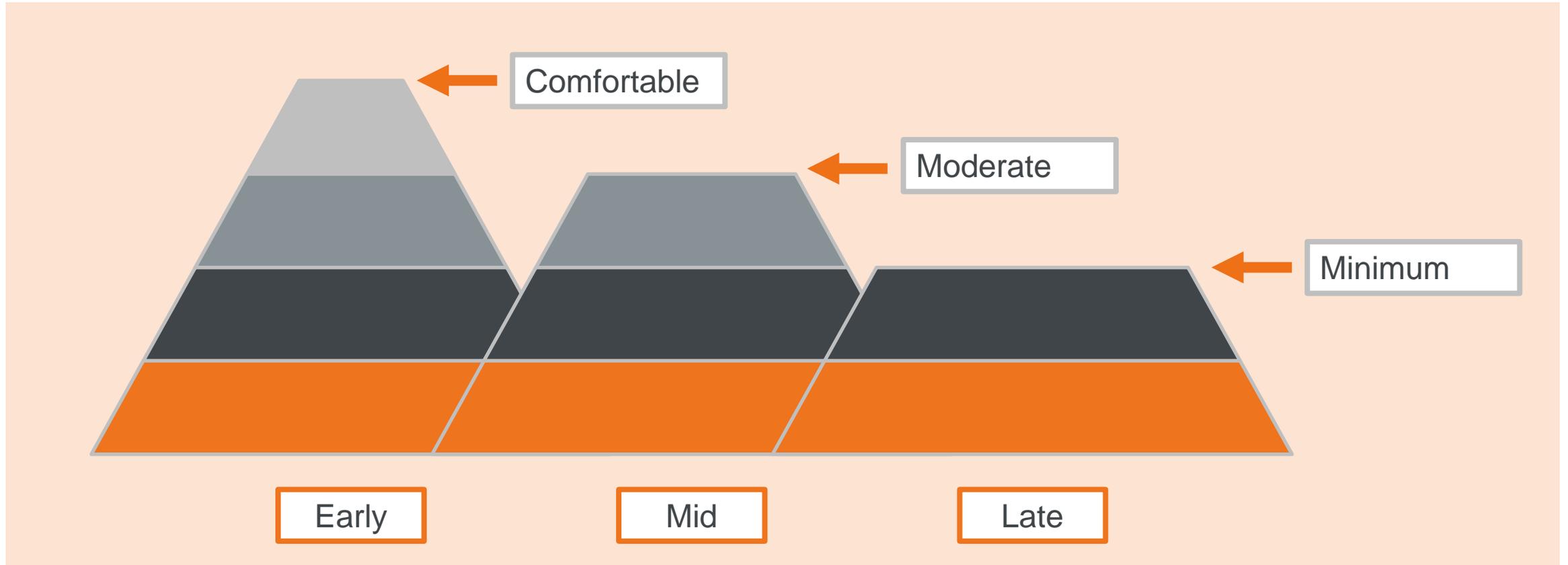
Mean and fitted age profiles of total household expenditure, by birth cohort

Source: IFS research [“How does spending change through retirement”](#)



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Potentially changing needs over time



PPI research – “Need archetypes”

“Future pensioners will have different savings portfolios, needs and characteristics than current pensioners”

“A lack of appetite for annuities means that hybrid products which offer both flexible withdrawals and guaranteed income may appeal more to consumers in future”

“Soft defaults which are tailored for different retirement need/desire archetypes could help people to better manage their retirement income”

“Current retirement choices are geared toward people committing to a retirement income strategy at the beginning of retirement; going forward, more flexibility will be needed as circumstances may change as people age”

Saving for e.g. bequests, funeral expenses

Providing financial support for relatives

Providing a secure income throughout retirement

Funding retirement to State Pension Age

A savings account to use for occasional income to supplement other sources

Meeting one-off costs, e.g. home improvements, holidays, paying off mortgage/credit card

Source: Pensions Policy Institute research [“How will future pensioners use guaranteed income products”](#)



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Potential solutions

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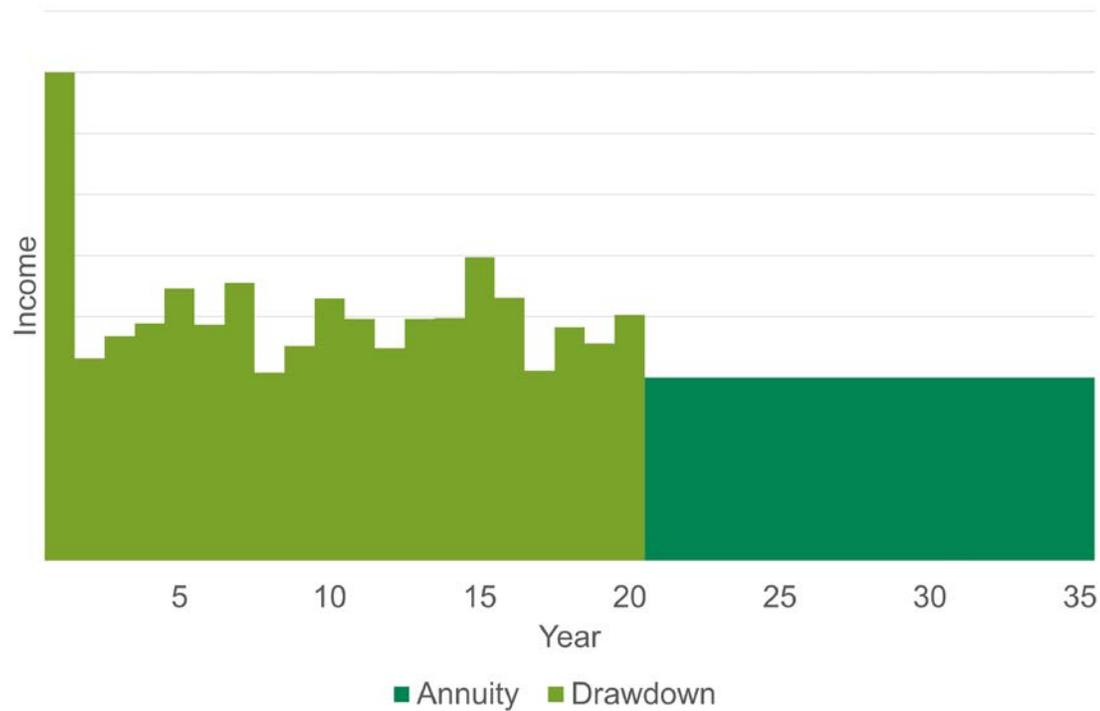


Potential products to consider further



Greater than the sum of the parts

Drawdown then annuity



Annuity with drawdown top up

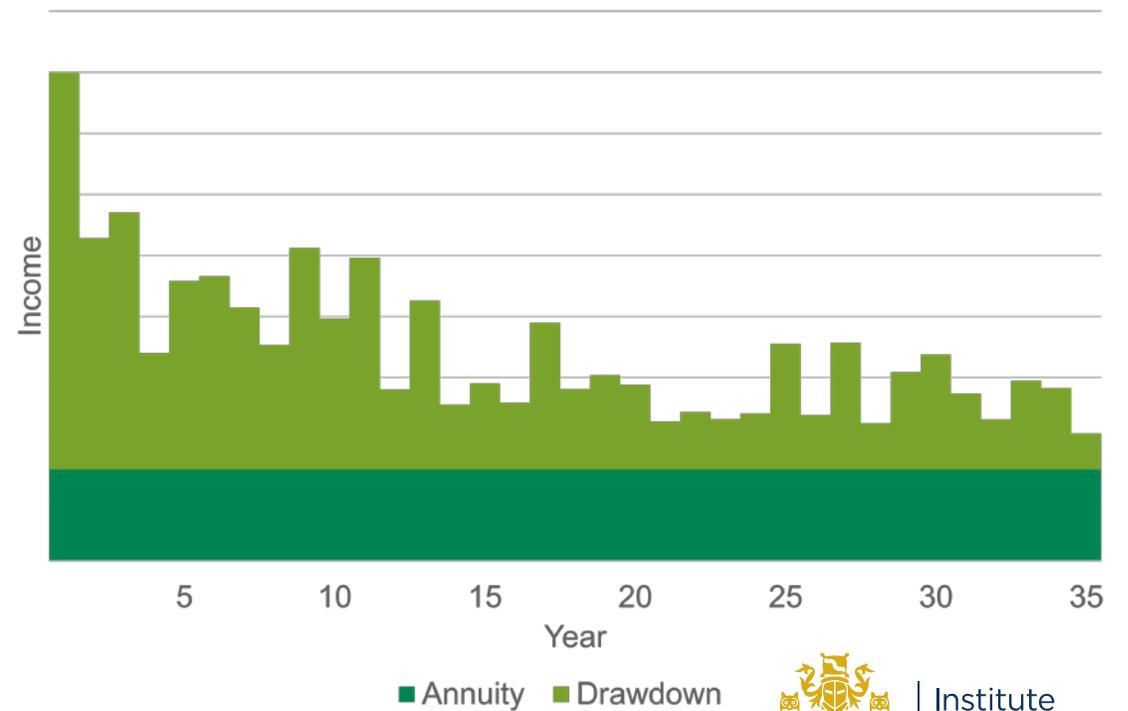
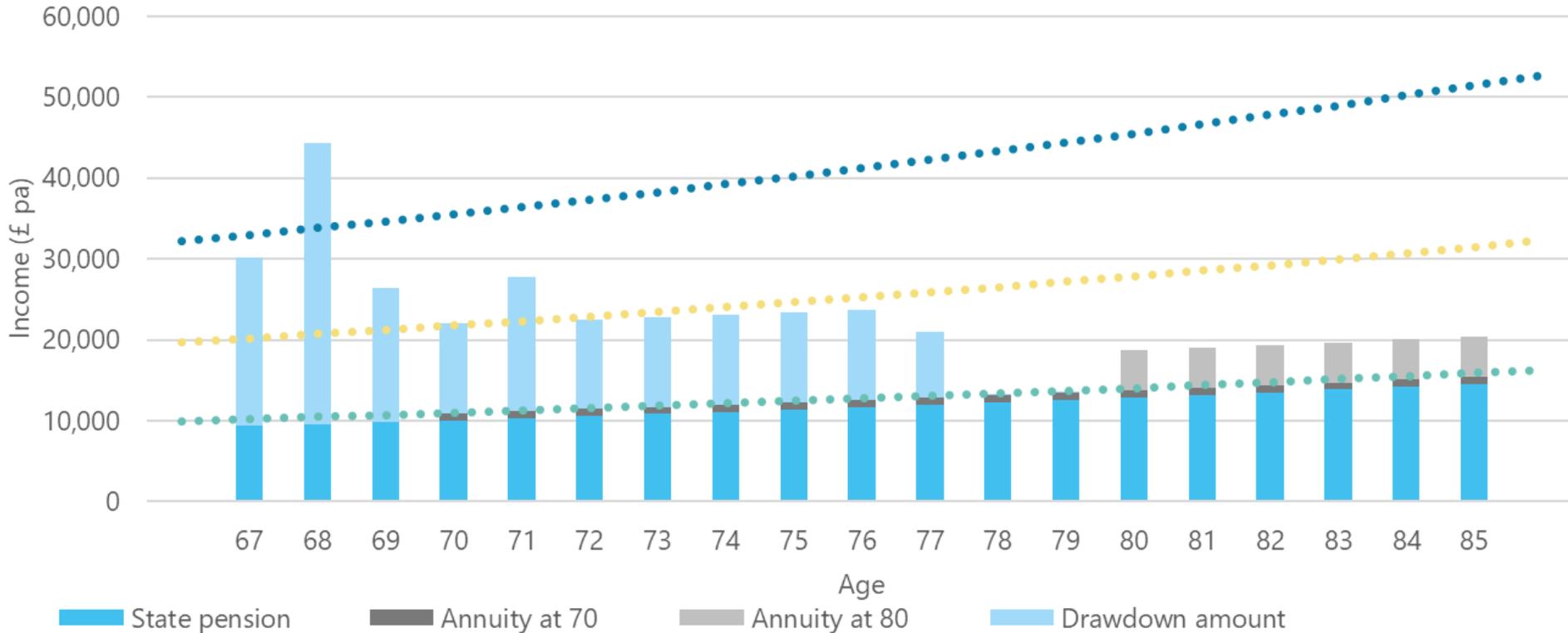


Illustration of a £200,000 retirement

Income profile

Source: Barnett Waddingham

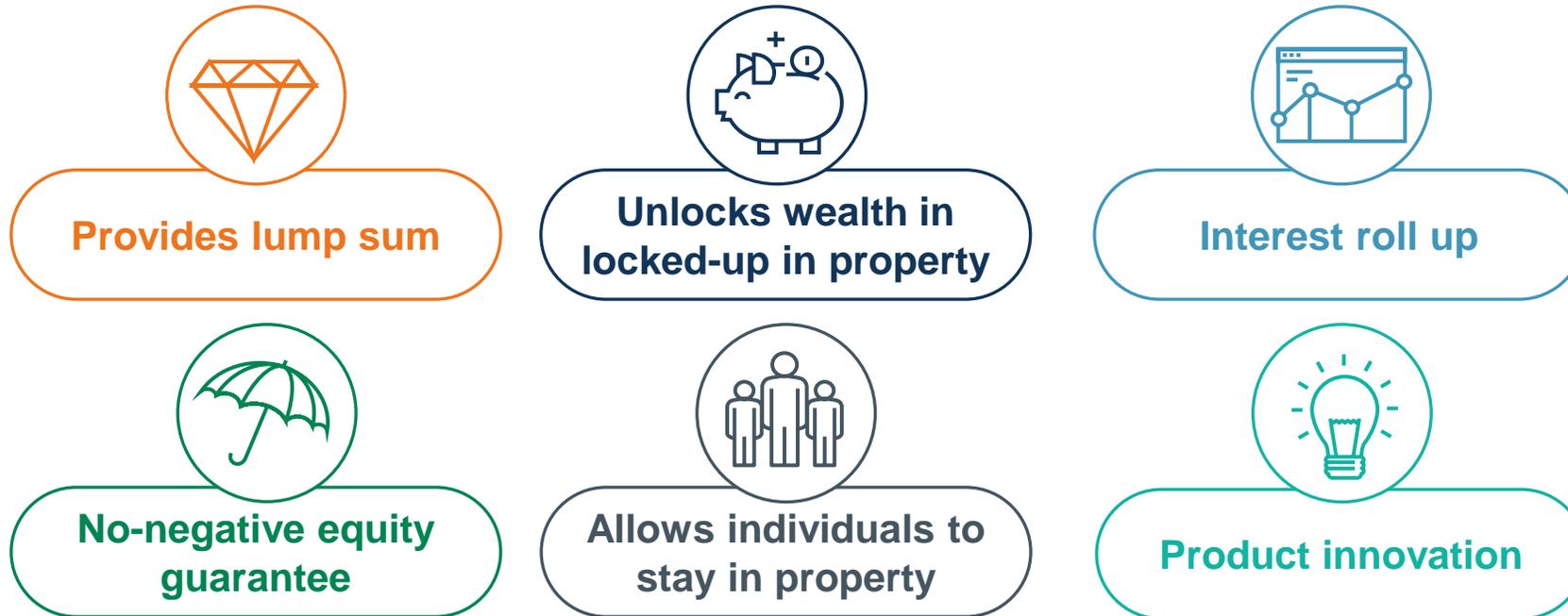


■ State pension
 ■ Annuity at 70
 ■ Annuity at 80
 ■ Drawdown amount
●●● Minimum
 ●●● Moderate
 ●●● Comfortable

levels of PLSA's Retirement Living Standards for a single person outside of London, assuming increases with inflation



Equity release mortgages

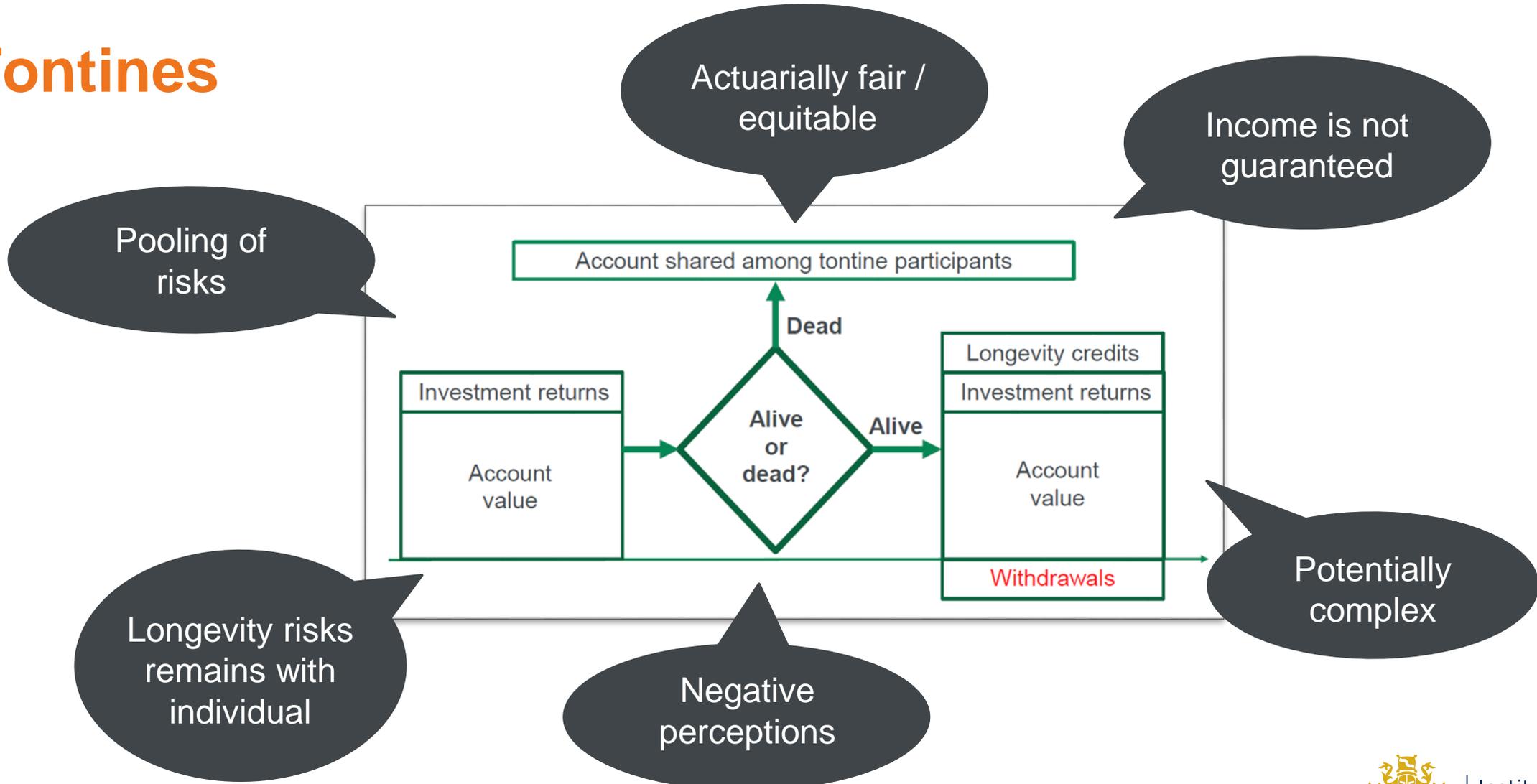


ERMs remains a popular product with £4.8bn lending made in 2021¹ – increasing from £3.9bn in 2020²



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Tontines



Source: Actuarial Research Centre presentation: "21st century retirement: Modern tontines"
<https://www.actuaries.org.uk/system/files/field/document/3%20Oct%202018%20webinar.pdf>



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Products available today

The Retirement Account

A flexible pension for your changing needs

A flexible personal pension plan that can be adapted to suit your changing needs. Whether you're working, close to retirement or already retired. The Retirement Account is simple, low-cost and lets you bring all your pension pots together under one simple plan. As you enter retirement, you can choose to take a guaranteed income, pension drawdown or a combination of both.

canada  life™



Also many solutions offered by IFAs

SECURE LIFETIME INCOME

Secure Lifetime Income is a new option for enhancing drawdown portfolios. Sitting innovatively within a client's chosen drawdown arrangement, Secure Lifetime Income provides an element of guaranteed income alongside their retirement income portfolio.

As part of a retirement income plan Secure Lifetime Income can improve client outcomes in a wide variety of circumstances.

JUST.



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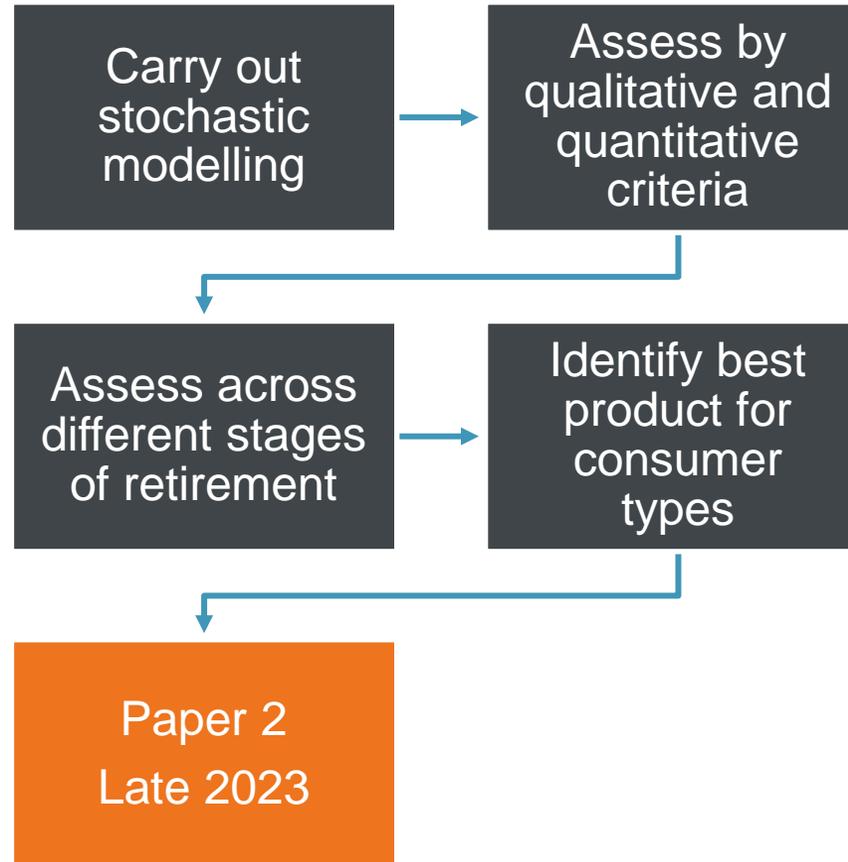
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Anticipated output

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Proposed approach



Key customer needs

- Management of longevity risk
 - Low probability of running out of funds
- Reliability of income
 - Sufficient income to live on from year to year
 - e.g. inflation protection, not too volatile
- Ability to maintain purchasing power
- Flexibility
 - Ability to change solution over time
- Possibility of leaving a bequest
- Perception of good value for money
- Simplicity
 - Simple for consumers to understand
- Low maintenance for the consumer
 - Requires minimal input from consumer on ongoing basis



Metrics for measuring success

Quantitative measures

Stochastic simulations for each combination of products and assess:

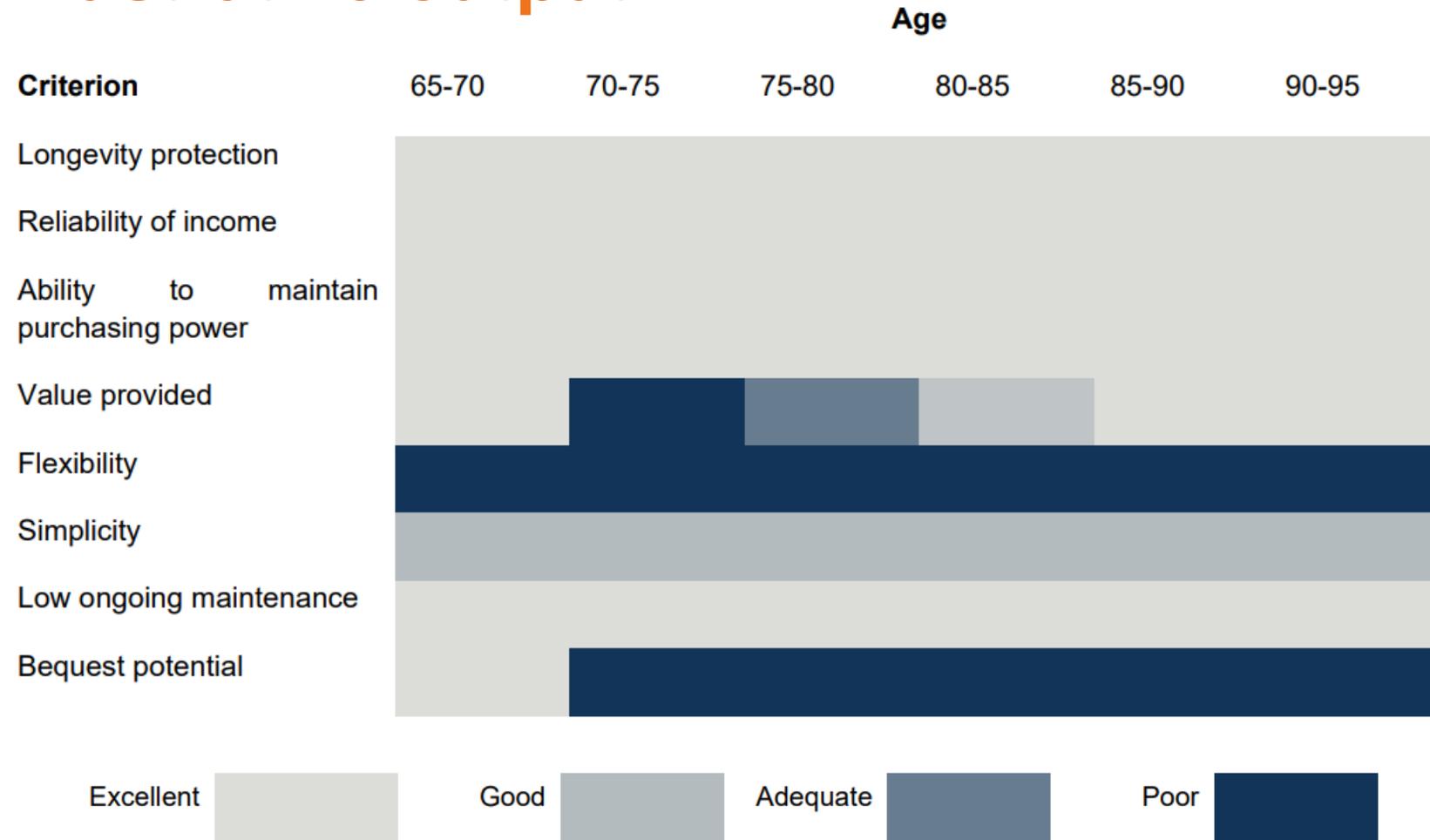
- Probability of nominal income $>x\%$ of initial income
- Probability of real income $>y\%$ of initial income
- Probability of total value $>z\%$ of starting fund value

Qualitative measures

- Level of simplicity / ease of understanding
- Any ongoing requirements
- Level of flexibility in early years
- Longevity protection after age 95



Illustrative output



- Inflation linked annuity
- 5 year guarantee period





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Our modelling

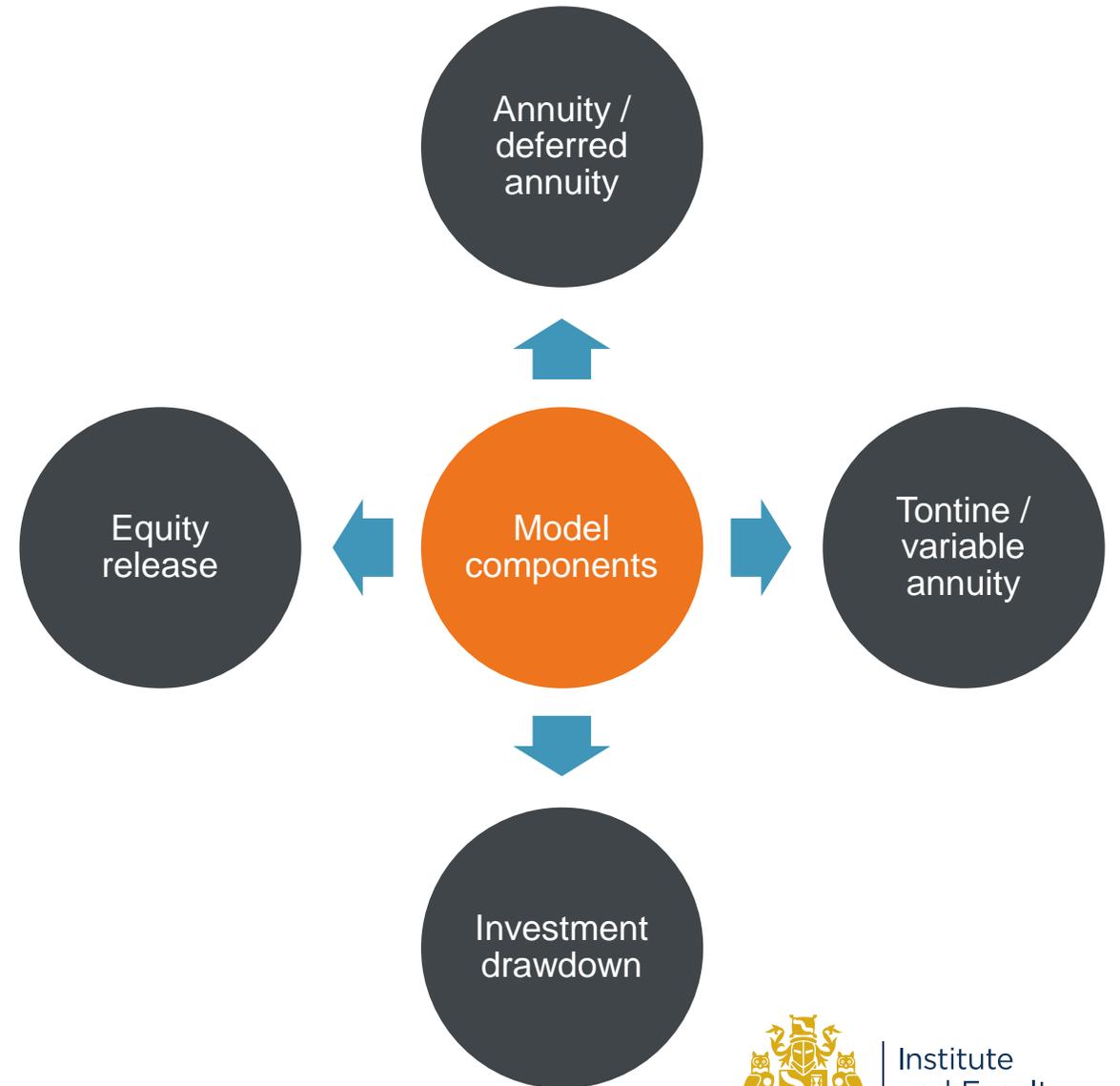
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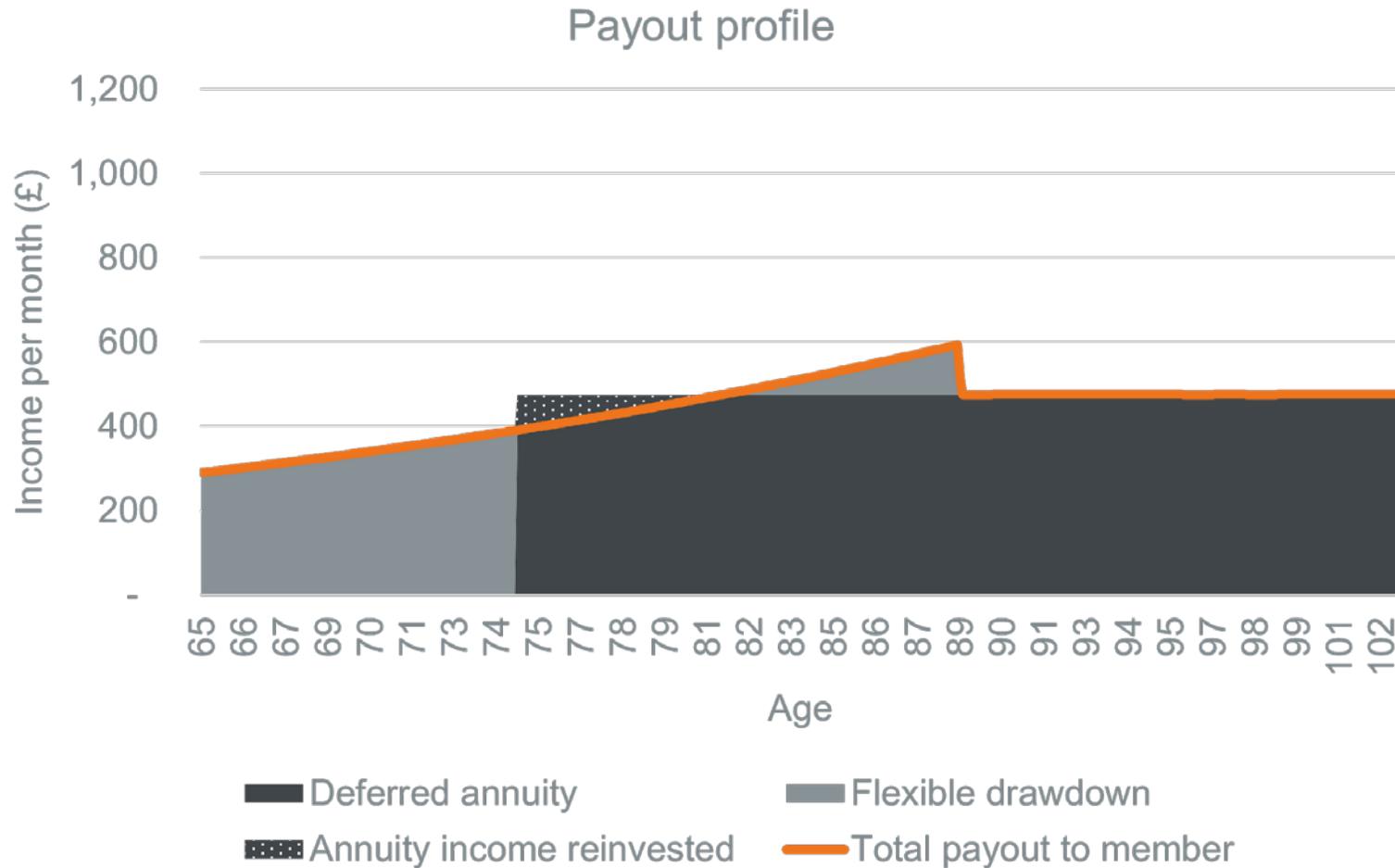
Structures included in model

Points to note:

- Tontine modelled as variable annuity with no minimum guarantee
- Can build variable annuity with guaranteed minimum by layering with traditional annuity
- Annuity incomes paid into drawdown fund and can be drawn or not drawn as suits
- Equity release is separate as otherwise would class as contribution to pension



Illustrative scenario - Profile 1



- £100,000 pension savings at 65
- 50% allocation to deferred annuity at 75 (no escalation)
- 50% allocation to flexible drawdown



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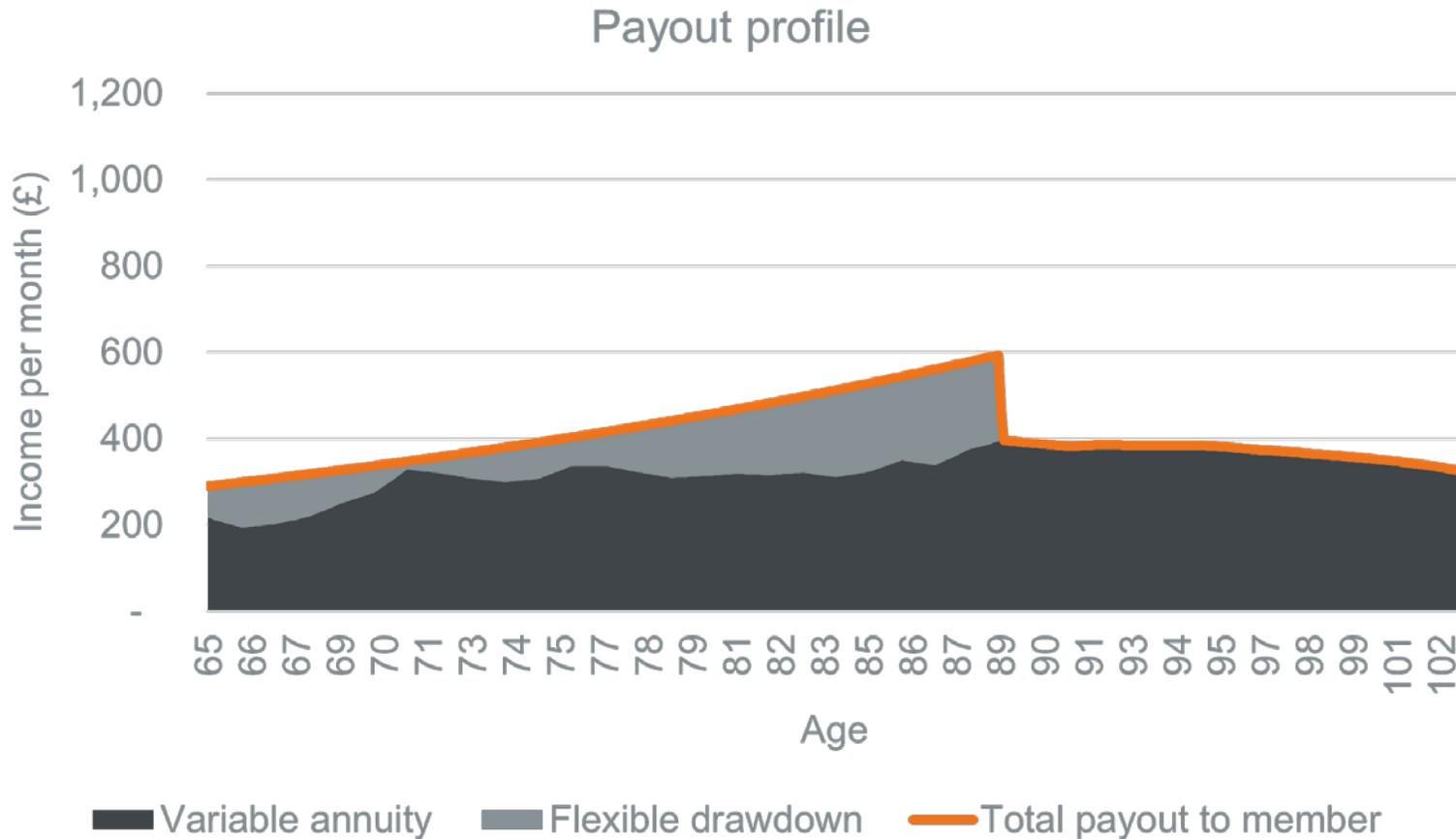
Illustrative scenario - Profile 1



- £100,000 pension savings at 65
- 50% allocation to deferred annuity at 75 (no escalation)
- 50% allocation to flexible drawdown



Illustrative scenario - Profile 2



- £100,000 pension savings at 65
- 50% allocation to **immediate variable annuity** (no minimum guarantee)
- 50% allocation to flexible drawdown



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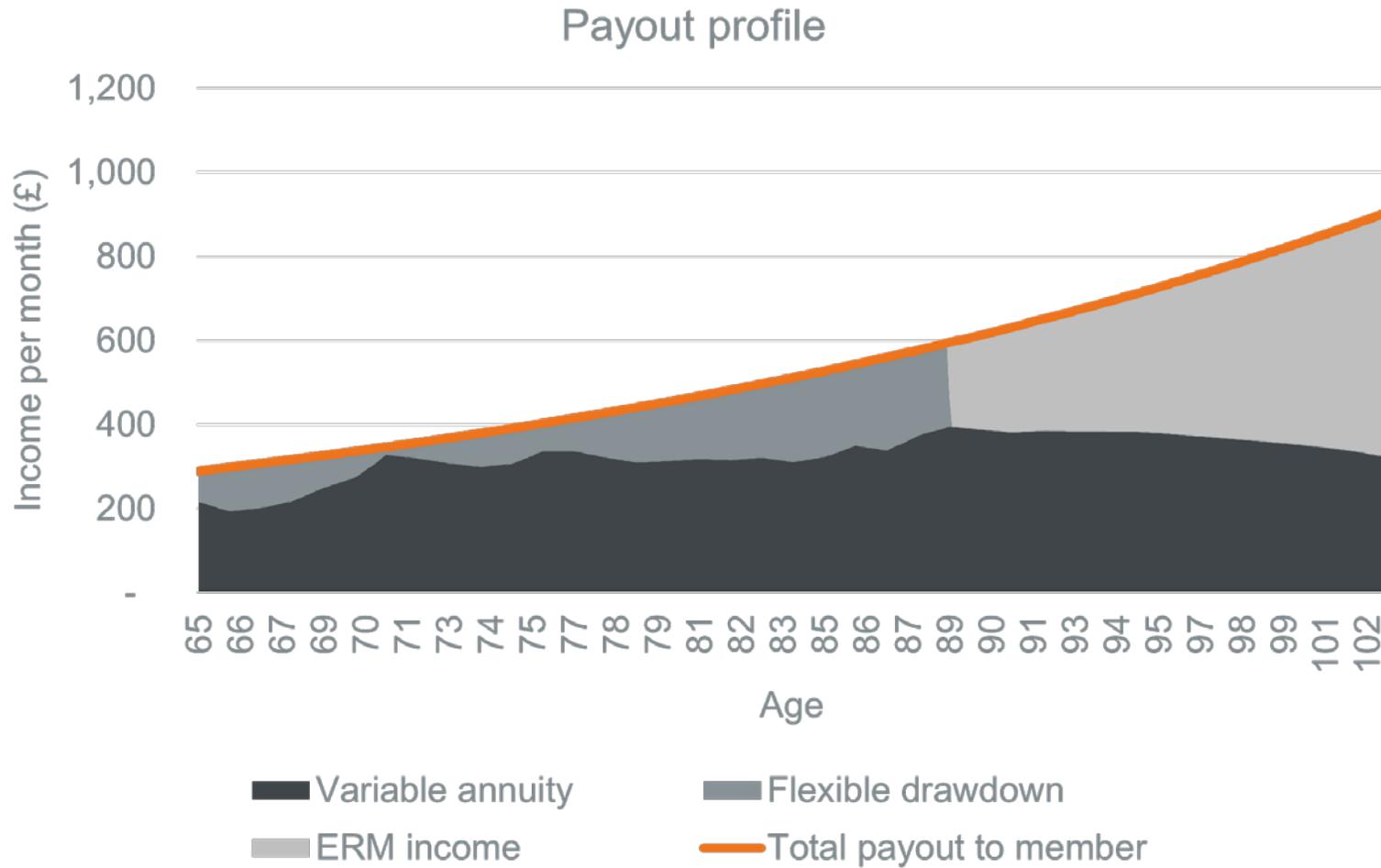
Illustrative scenario - Profile 2



- £100,000 pension savings at 65
- 50% allocation to **immediate variable annuity** (no minimum guarantee)
- 50% allocation to flexible drawdown



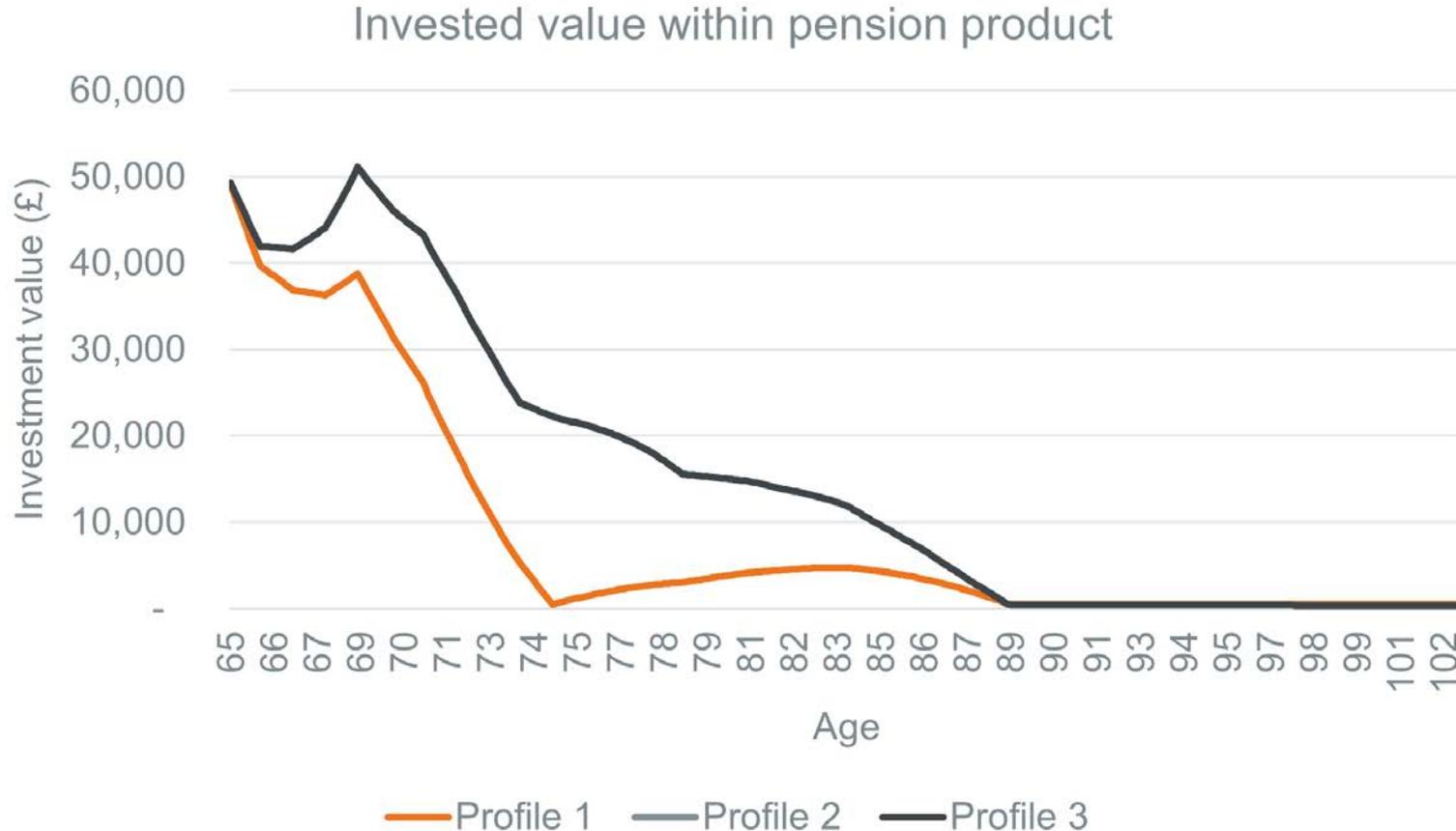
Illustrative scenario - Profile 3



- £100,000 pension savings at 65
- 50% allocation to immediate variable annuity (no minimum guarantee)
- 50% allocation to flexible drawdown
- **Equity release** called upon once drawdown exhausted (property value £265,000 at t=0)



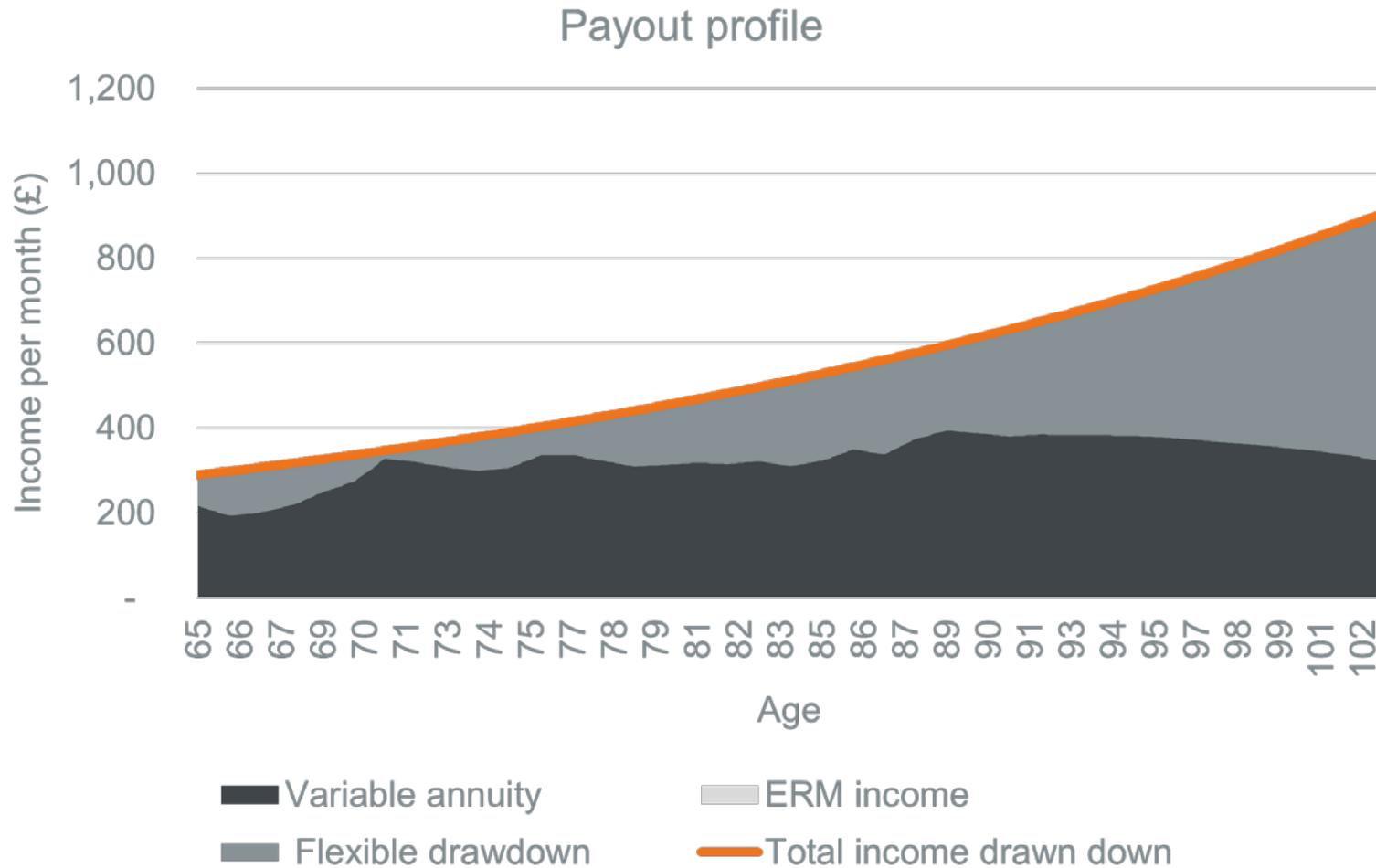
Illustrative scenario - Profile 3



- £100,000 pension savings at 65
- 50% allocation to immediate variable annuity (no minimum guarantee)
- 50% allocation to flexible drawdown
- **Equity release** called upon once drawdown exhausted (property value £265,000 at t=0)



Illustrative scenario - Profile 4

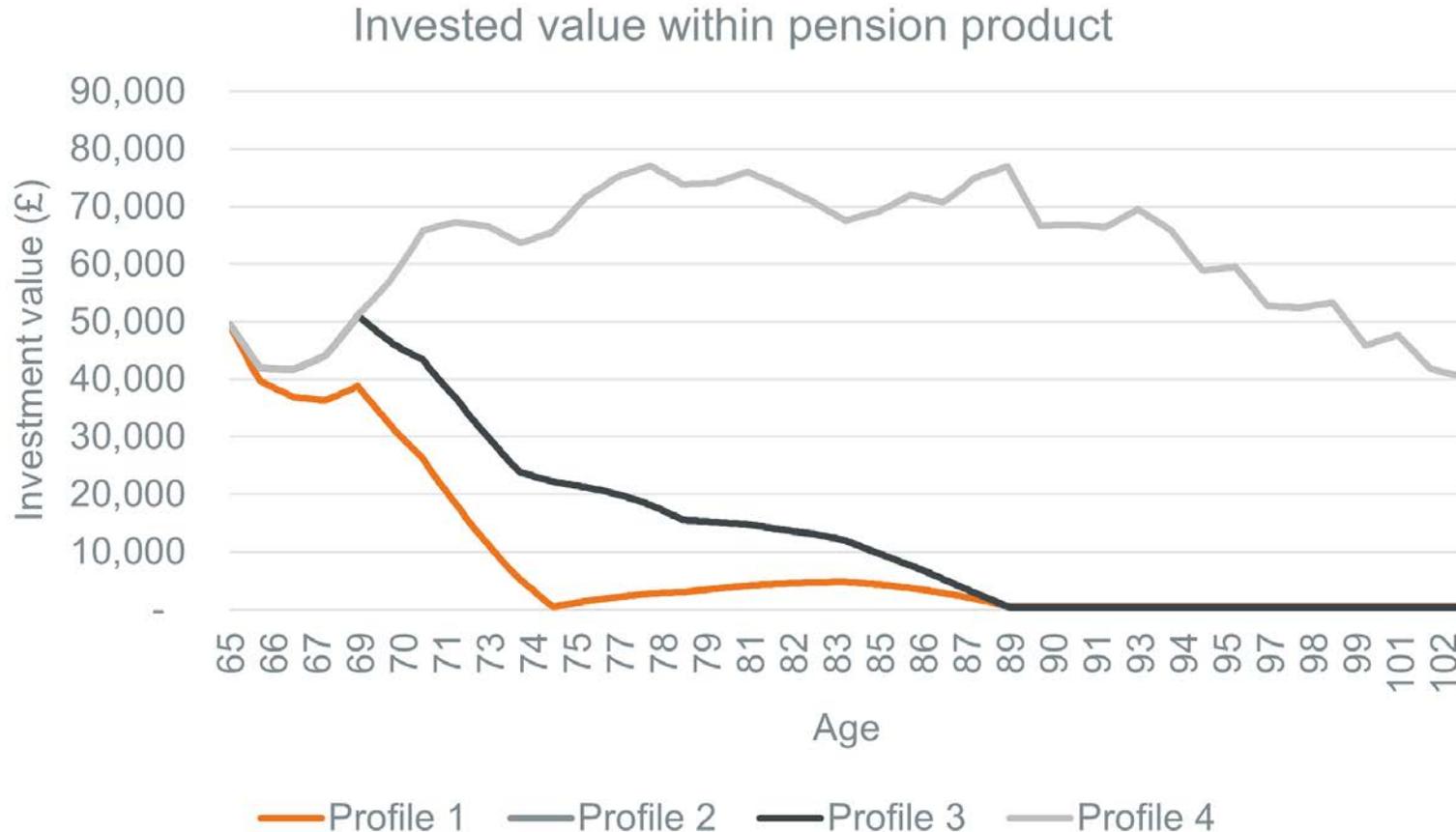


- £100,000 pension savings at 65
- 50% allocation to immediate variable annuity (no minimum guarantee)
- 50% allocation to flexible drawdown
- Equity release called upon once drawdown exhausted (property value £265,000 at t=0)
- No investment **de-risking**



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Illustrative scenario - Profile 4



- £100,000 pension savings at 65
- 50% allocation to immediate variable annuity (no minimum guarantee)
- 50% allocation to flexible drawdown
- Equity release called upon once drawdown exhausted (property value £265,000 at $t=0$)
- No investment **de-risking**





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Conclusion

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Conclusions

- 1 There is a need for products which can evolve through retirement as individual needs change
- 2 Different individuals have different needs, but it is possible to design for some common patterns
- 3 Getting this right will be of great benefit to both consumers and providers



Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



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Thank you

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