

# Decumulation – the new choices for 2008

# Today

1. Changing face of retirement
2. Annuities
3. New retirement options

# Changing face of retirement

## A journey not a destination

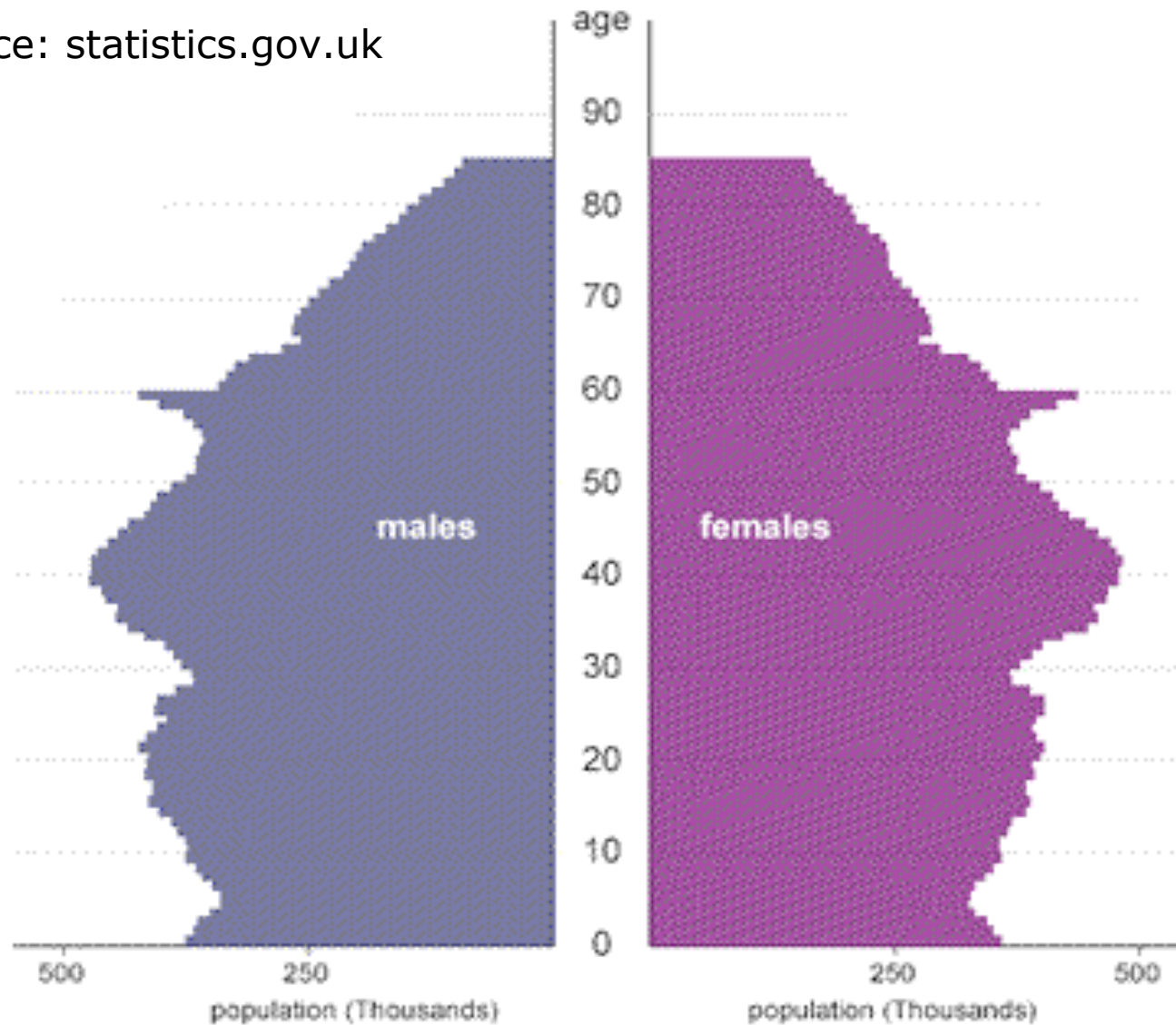
- Flexible retirement
  - Phased rather than a brick wall
- Working for longer
  - 85% of those not retired prepared to do paid work after SPA \*
  - Currently only 10% do
- Medical advances
  - Improved health
- People living for longer



\* Office of National Statistics – April 08

# Population by gender and age (mid-2006)

Source: [statistics.gov.uk](http://statistics.gov.uk)



# Living longer

## Number of centenarians in the UK

<b>1911</b>	<b>100</b>
<b>2006</b>	<b>9,000</b>
<b>2031</b>	<b>c 40,000</b>

Source: Office for National Statistics

# Changing face of retirement

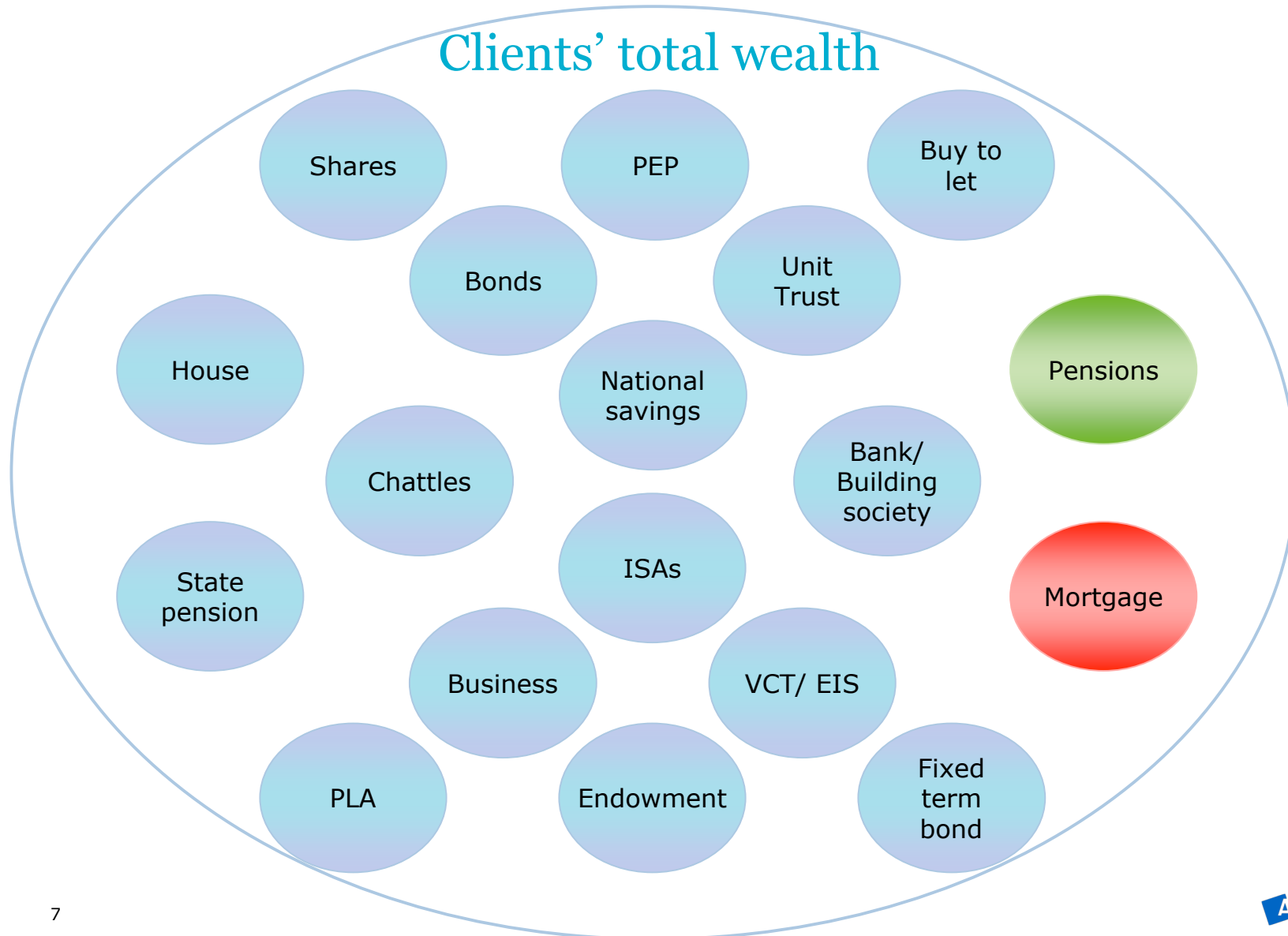
- Matching income solutions to income needs

- The 'jam-jars' of life

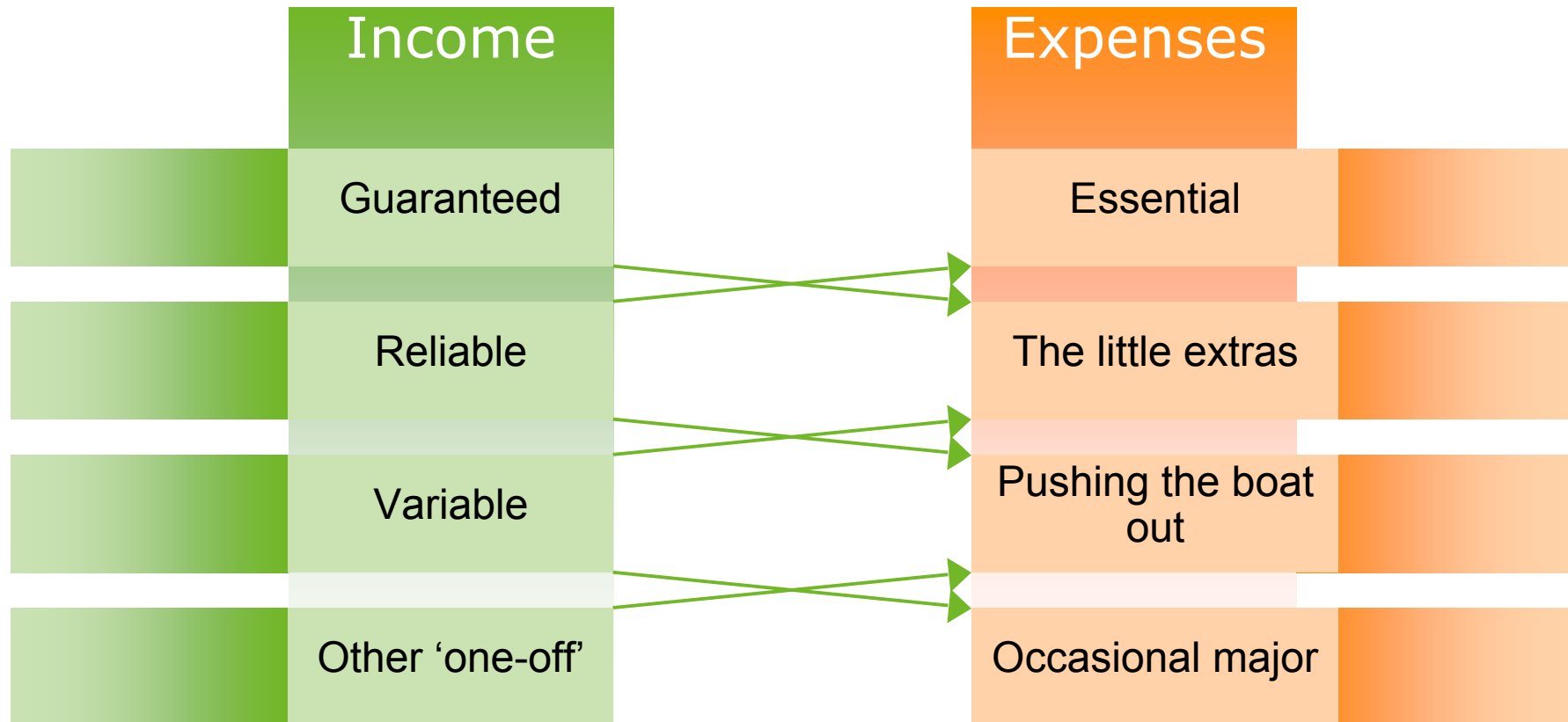


- All the funds of money

# Jam jar accounting



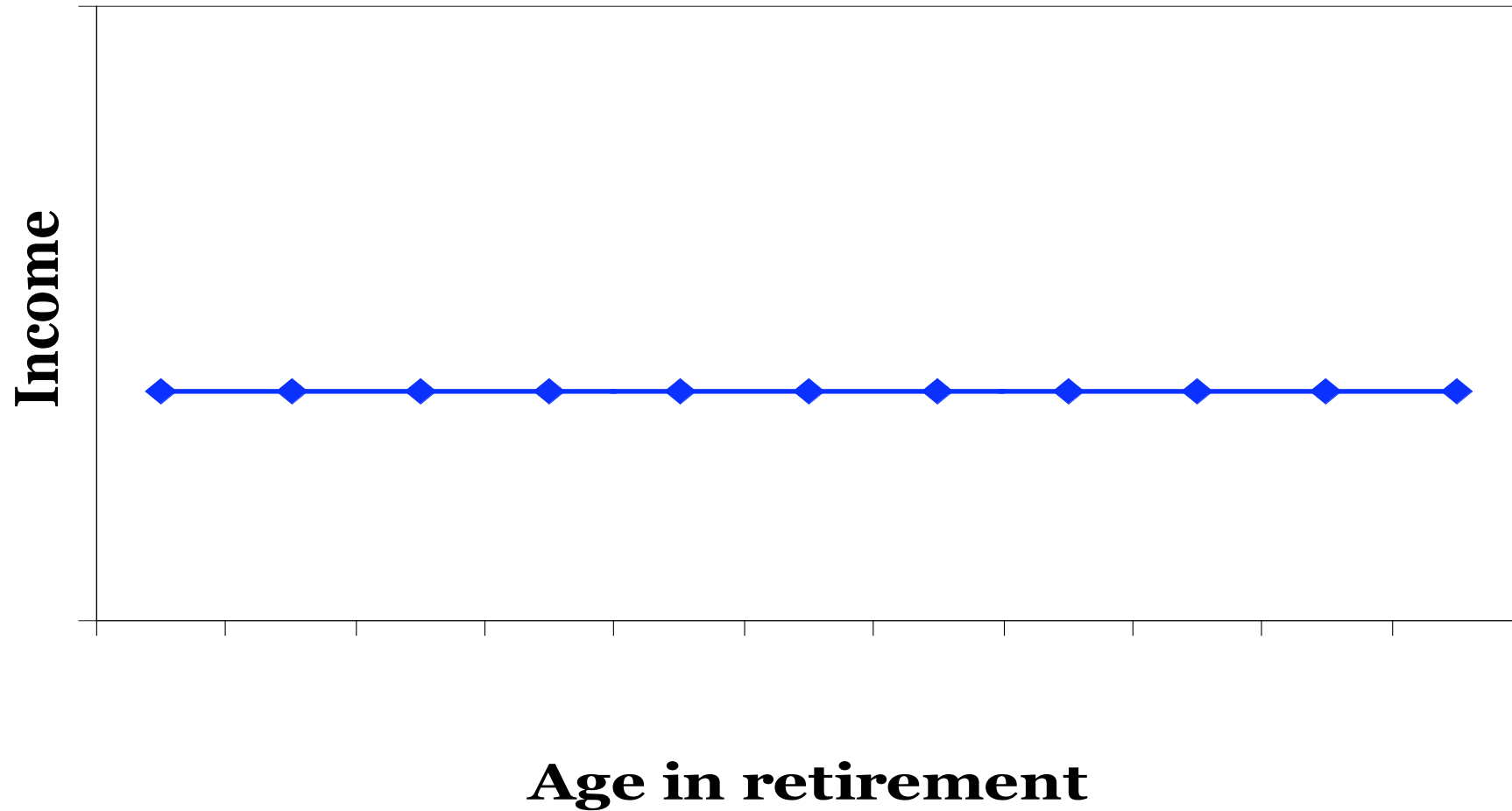
# Budgeting for retirement



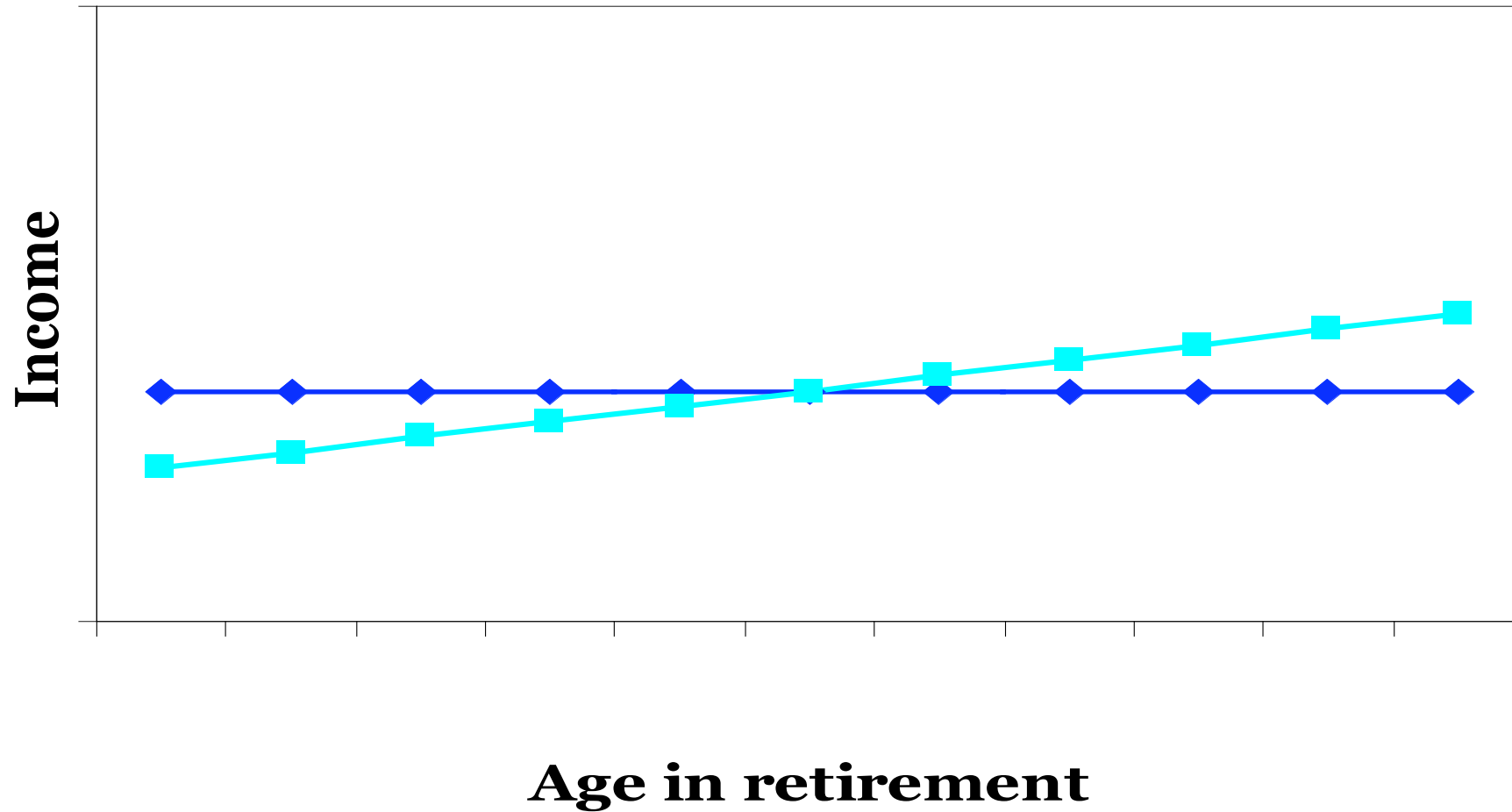
# The economic climate

- People will need more 'essential' income
  - Rise in fuel, food, energy and council tax
  - 7% inflation for pensioners
- Longer investment horizon
  - Market volatility
- Effect of downward pressure on interest rates?
  - Annuity rate rise for customers?
- Should people choose escalation?
- Defer retirement?
  - House prices? Pension funds?

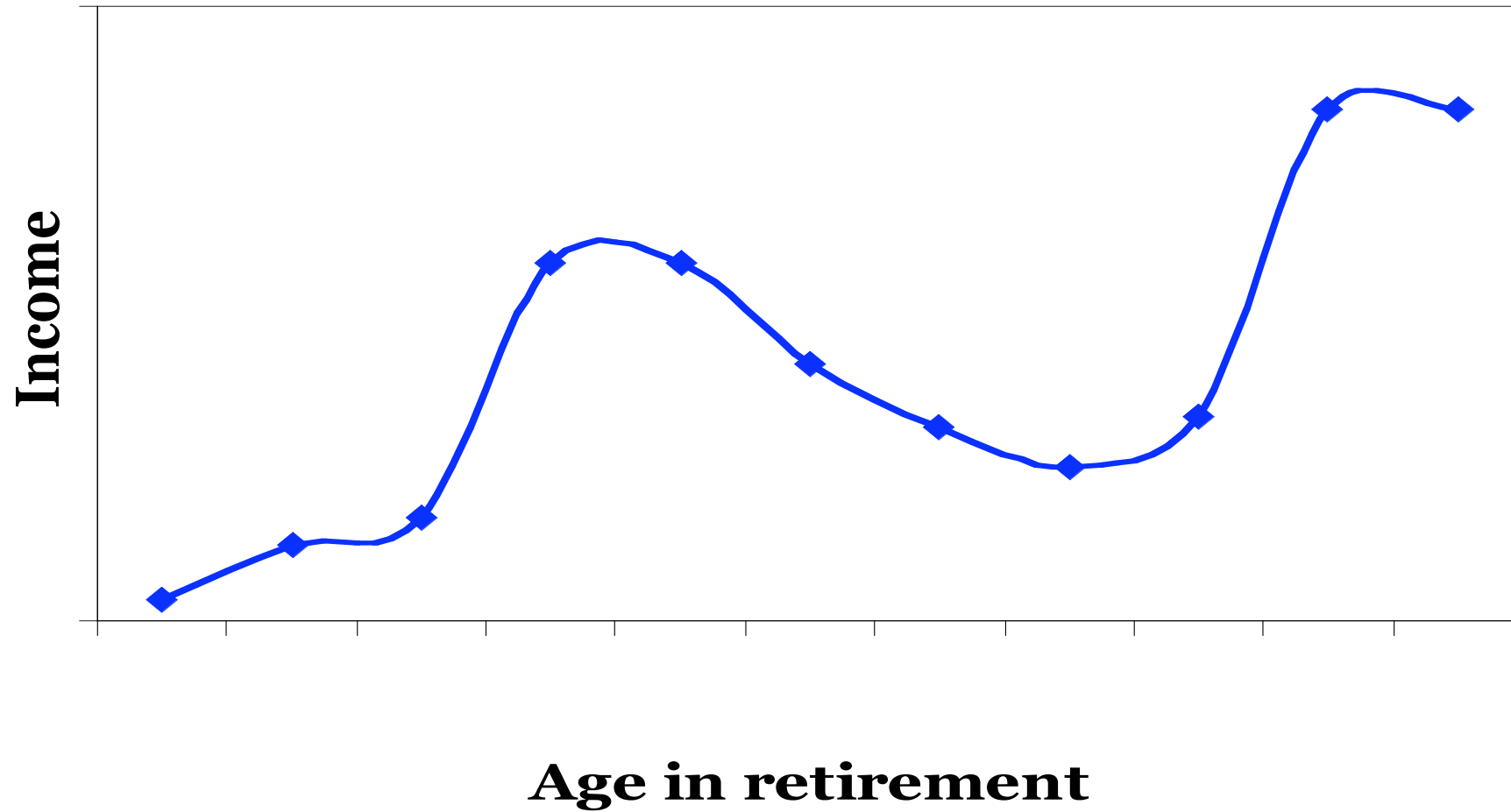
# Changing income needs



# Changing income needs



# Changing income needs



# Growing 'at retirement' market

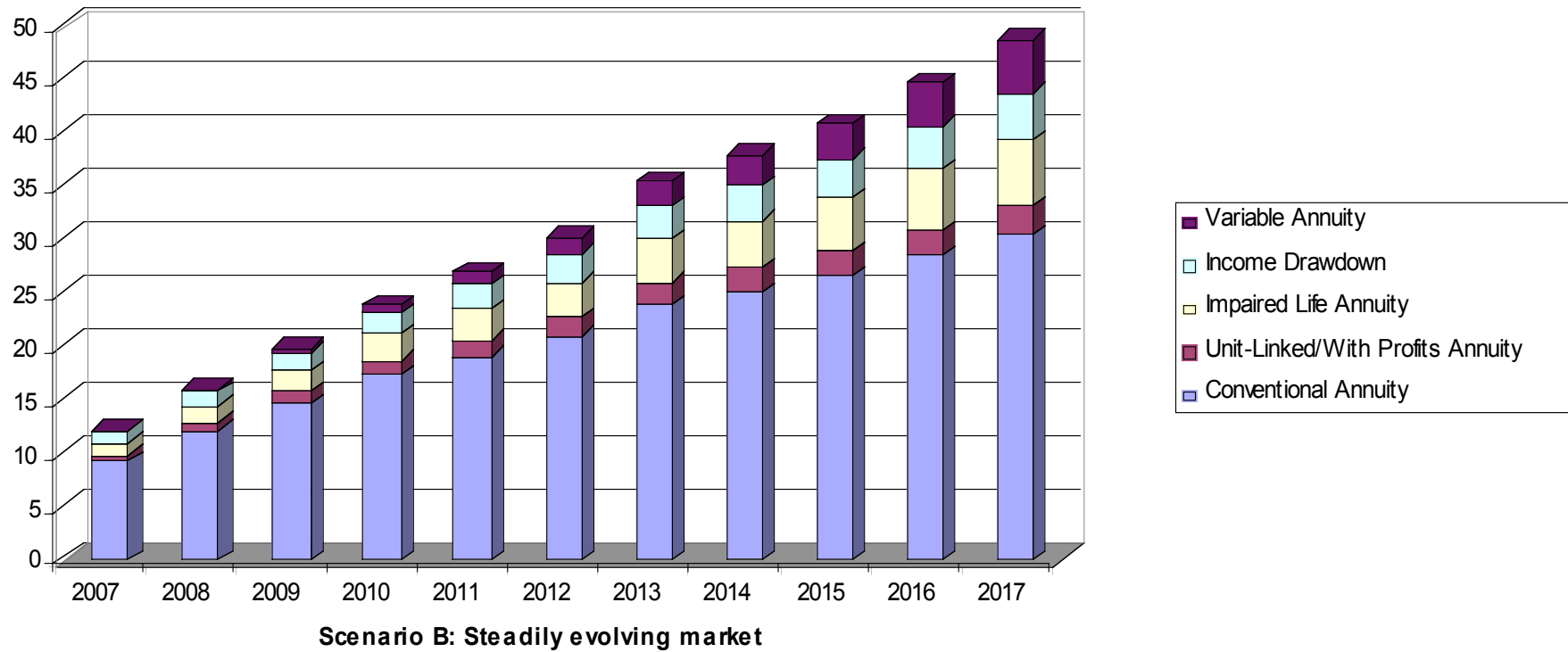
- Growing defined contribution market
  - PP, GPP, stakeholder, final salary, personal accounts
- Worth £13.6bn in 2007
- Predicted to increase to £30bn in 2012

**20% increase every year  
for the next five years**

Source: Watson Wyatt 2008

# Steadily evolving market

In-retirement - total new business funds (billions) by destination

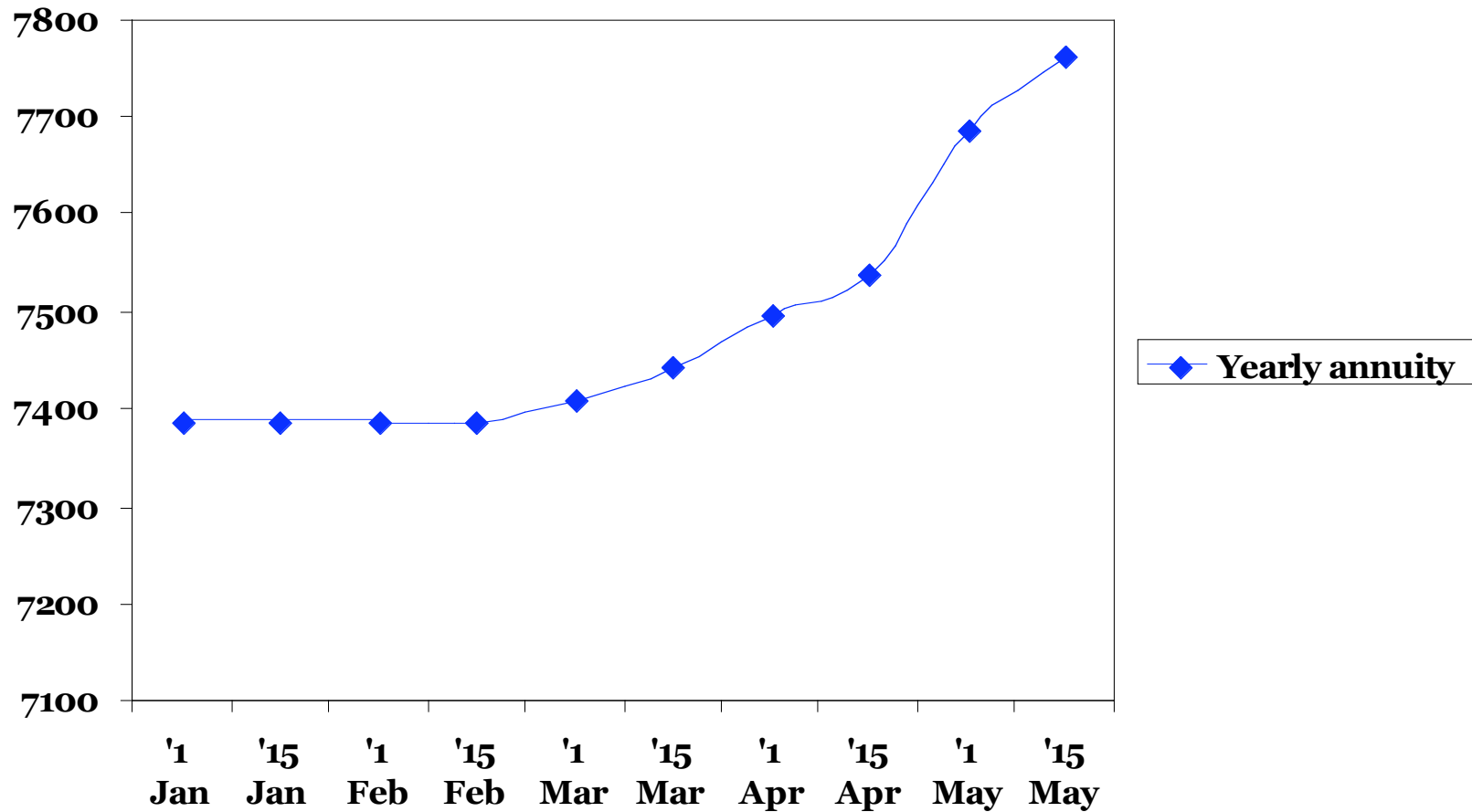


Source - watson wyatt In-retirement study March 2008

# Annuities

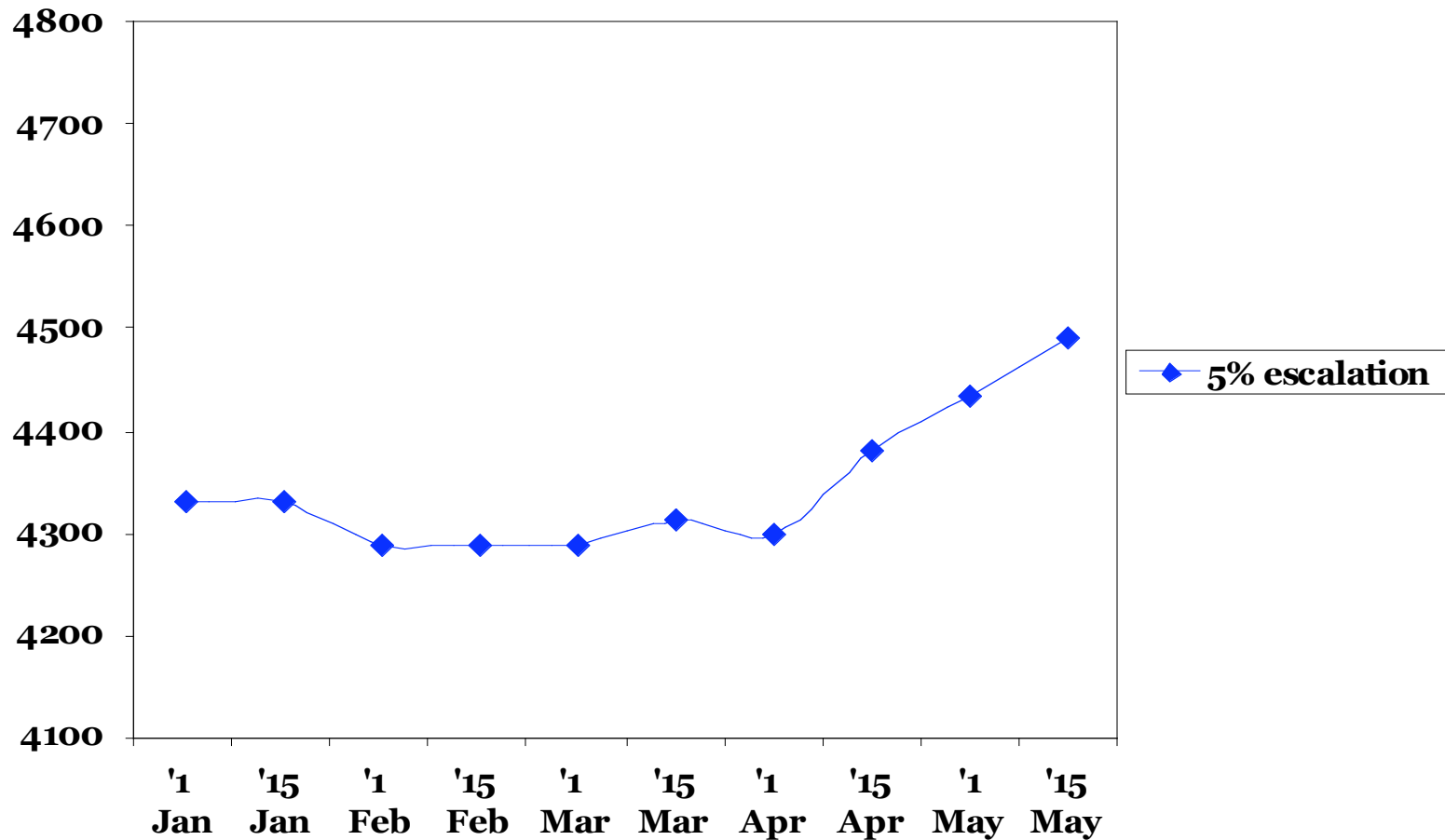
- Competitive market
- Enhanced annuities
  - 2007 sales > £1bn
  - 20% of all UK annuities
  - Effect on standard annuity rates?
- Compulsory income at age 75?
- Overhaul of tax rules?
  - Allow income to fall
  - Increase age 75 to 80
  - Remove age 75 cliff-edge on death benefits

# The cost of a level annuity - 2008



**Male, aged 65, £100,000 fund, no guarantee, top annuity provider**

# The cost of an increasing annuity - 2008



**Male, aged 65, £100,000 fund, no guarantee, top annuity provider**

# Open Market Option activity

- Original HMT review in 2007
- TPAS – May 2008
  - web-based tool
- The Pensions Regulator – May 2008
  - Good practice guide for trustees (occupational schemes)
- ABI review – May 2008:
  - Almost two thirds remain with existing provider
  - 85% of customers buy at least 95% of highest external rate

# Open Market Option activity

- FSA – thematic review expected July 2008
  - Turnaround and process; retirement communications
  - 40% of providers don't include OMO in literature
- HMT to report each year on basket of relevant indicators
- Industry, Govt & regulators need to work together to get best customer outcome
  - Need to make sure people select right annuity at right price
  - Need to make sure communications are right
  - Need to make sure right information is required
  - Need to make sure the processes work

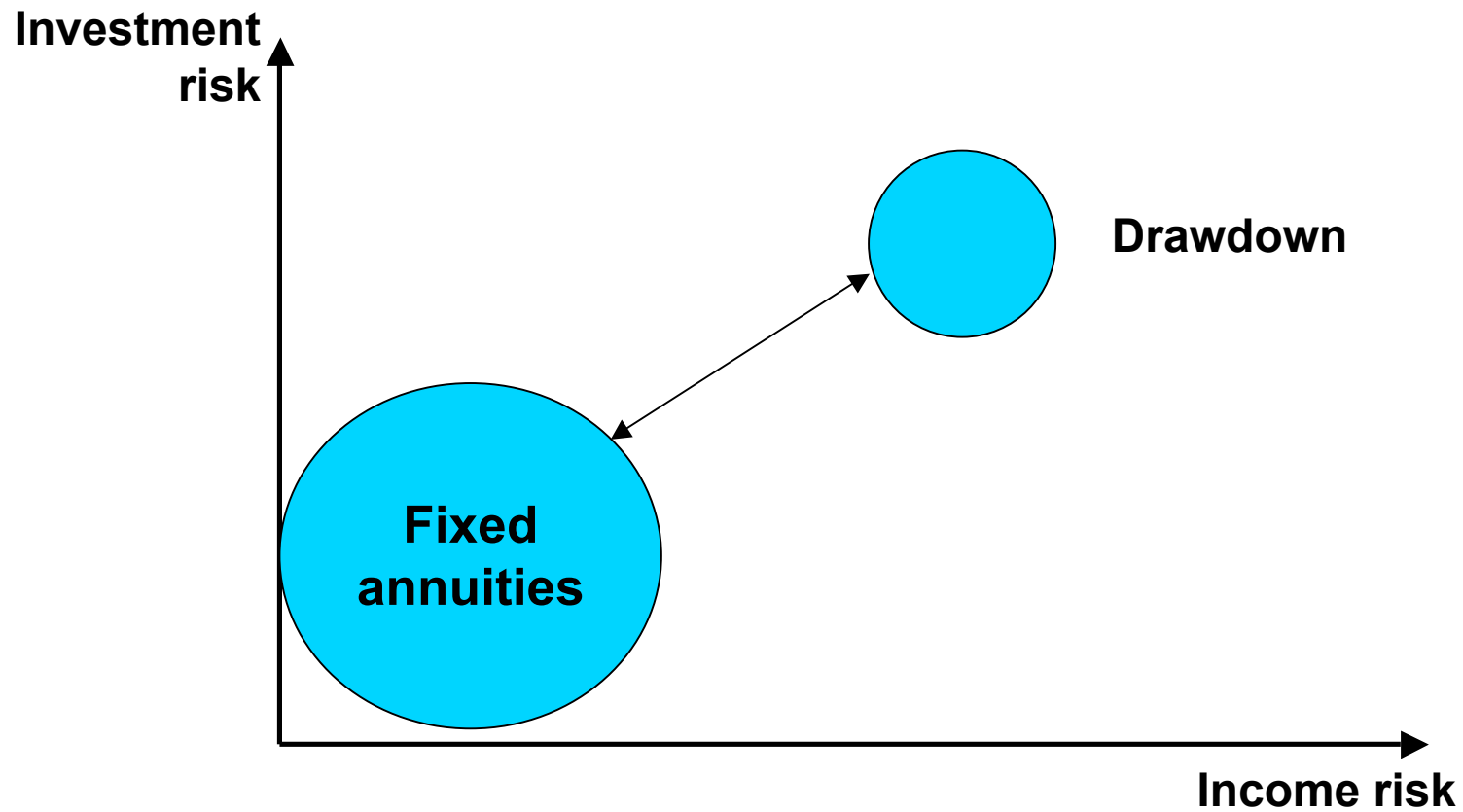
# Expectations and risks

- Live long enough to enjoy their retirement
- Inflation will remain relatively low
- Stockmarket will continue to rise
- They will stay healthy

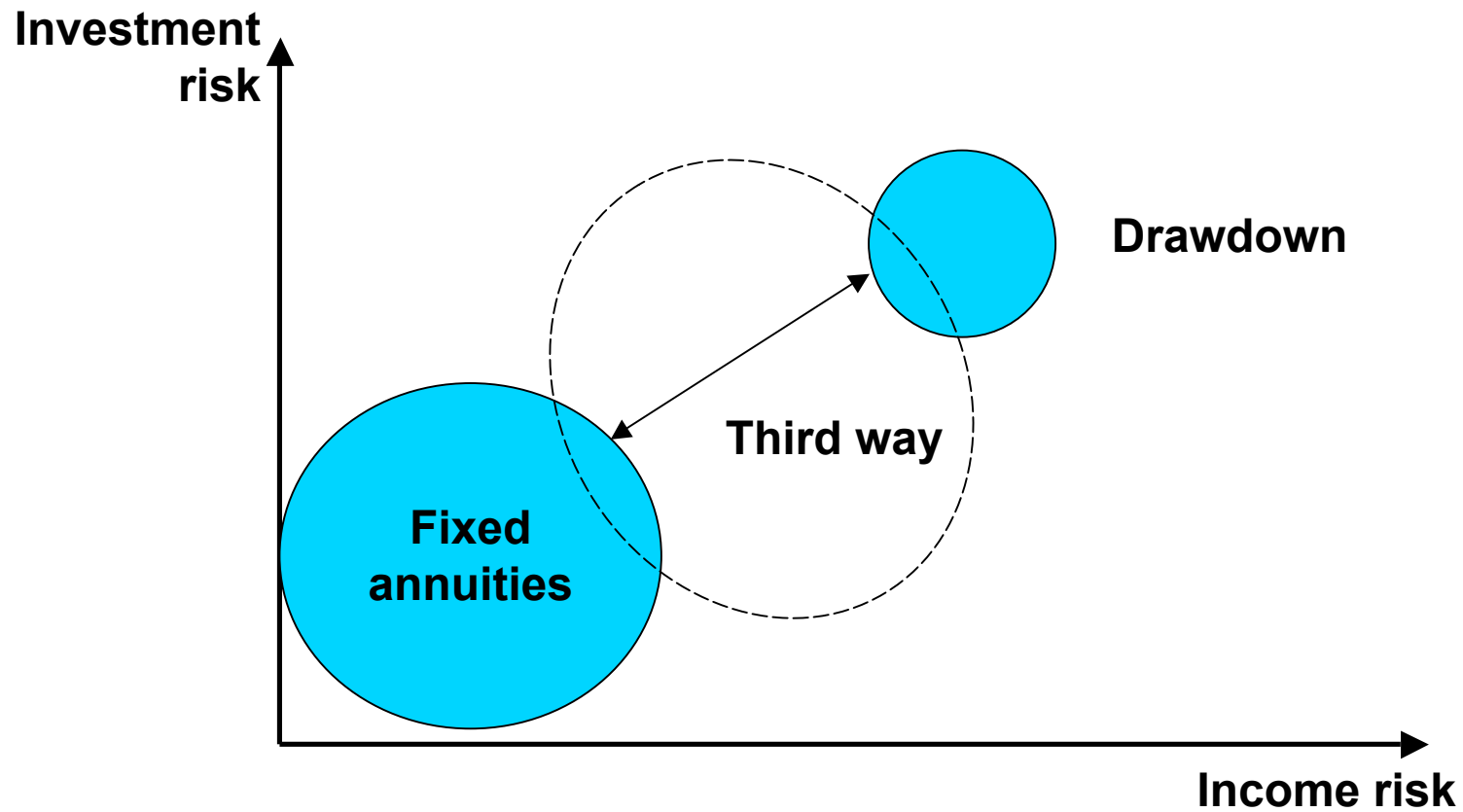
# Expectations and risks

- Live long enough to enjoy their retirement
- Die sooner than expected
- Inflation will remain relatively low
- Inflation higher than expected
- Stockmarket will continue to rise
- Stockmarket returns are poor
- They will stay healthy
- Health may deteriorate

# Yesterday's polarised choices



# Today's new choices



# Middle market solutions

- Guaranteed income
  - Longevity insurance without requiring annuitisation
- Flexibility
  - Investment control and lump sum death benefit (less 35% tax)
- Allows equity investment with lock-ins
- GMWB or variable annuities or third way market or living benefits!
- New products now hitting UK

# Important Information

This information is based on Scottish Equitable's plc understanding of current legislation which may change.

Scottish Equitable plc is authorised and regulated by the Financial Services Authority