


Retirement Income Options – A Consumer Perspective

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Outline

- Consumer's position
- Traditional retirement income thinking
- Annuities
- Drawdown and other options
- The future



Consumer's position

- ❑ People generally living longer – great news!
- ❑ Most workers don't think about retirement income
- ❑ With DB schemes they didn't need to
- ❑ DC is different – personal responsibility
- ❑ Asymmetry of information – financial planning help
- ❑ Don't know what they don't know



Traditional thinking

- ❑ Retirement income = pensions
- ❑ Retirement income replaces earnings
- ❑ Pension age 60, 65 (or earlier!)
- ❑ Pension savings = guaranteed pension in DB
- ❑ Pension savings = annuities in DC
- ❑ Never engage with income options properly



What does the consumer need?

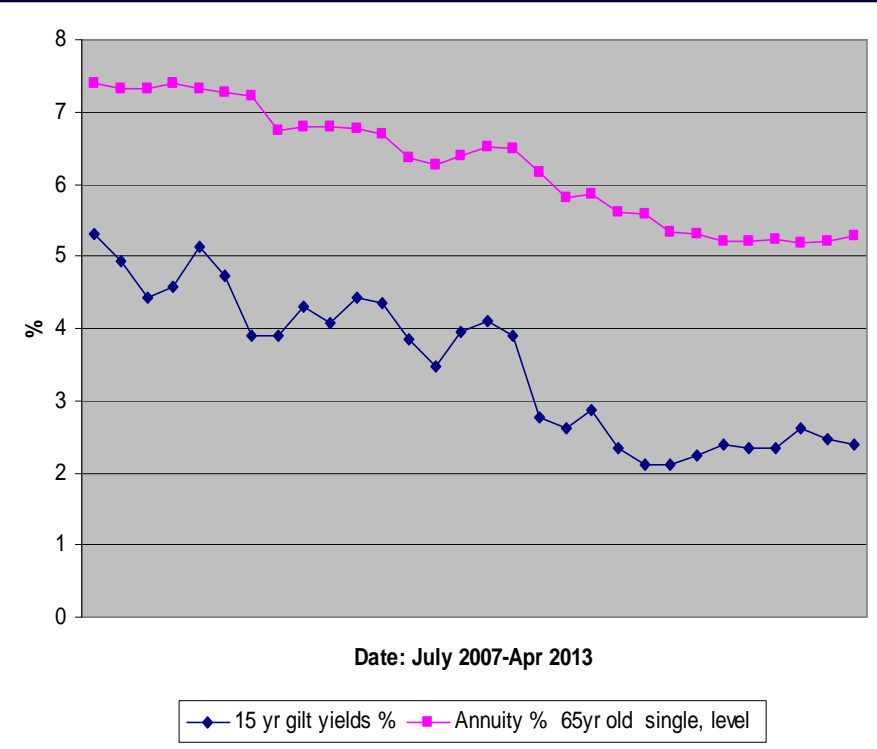
- ❑ Understand financial reality
- ❑ Help and advice
- ❑ Financial plans not just products
- ❑ Sufficient income for desired later life lifestyle
- ❑ Value for money – charges and flexibility
- ❑ Provision for later life care needs



Problems with annuities

- ❑ Inflexible, complicated, irreversible, price differentials
- ❑ Asymmetry of information – right type and rate
- ❑ Fees on non-advised sales
- ❑ Huge fall in pension income over the years – value?
- ❑ QE, life expectancy, unisex, risk margin, health, Solvency II

Annuity rates and gilt yields





Risks in retirement

- Risks in retirement that standard annuity won't help
 - Dying early
 - Becoming ill
 - Inflation
 - Rates rise
 - Markets rise
 - Paying for care
- At current rates, only risk really met by standard annuity is living longer than expected



Developments

- ❑ tPR principles for trustees
- ❑ ABI code
- ❑ PICA directory?
- ❑ RDR
- ❑ Direct sell offerings
- ❑ FCA annuities thematic review



Diversification

- ❑ Why put all eggs in one basket
- ❑ Annuitising not right for many 60-65 year-olds
- ❑ Need more flexibility
- ❑ Annuity rate 5% => don't get money back
 - 5 year guarantee – insurer keeps 75% of fund
 - 10 year guarantee – insurer keeps over half fund
- ❑ Money back guarantee?



Other options

- ❑ Tax free cash
- ❑ Phased annuitisation – not all at once
- ❑ Guaranteed annuities
- ❑ Income drawdown
- ❑ ISAs, shares or other savings
- ❑ Property/Equity release



Income drawdown

- ❑ Capped drawdown still linked to annuity rates
- ❑ GAD rate makes no allowance for health issues
- ❑ Charges
- ❑ Drawdown allows flexibility to earn returns
- ❑ Wait to see if health worsens
- ❑ Flexible drawdown attractive at top end



Sharp fall in drawdown income

Drawdown income	Male age 65 £100,000 fund
August 2009	£7,920
August 2012	£5,300
% change in max income	-33%
Increase in pension fund value to maintain Aug 2009 income	£49,434



Property/equity release

- ❑ Many people will have to use house value
- ❑ Need to understand best way to do this
- ❑ Is property overvalued?
- ❑ Downsizing
- ❑ Deferred payment plans



What about earnings...

- ❑ Rethinking retirement: a process not an event
- ❑ Use human capital not just financial
- ❑ Pensions supplement not just replace earnings
- ❑ No more Default Retirement Age: no fixed age
- ❑ New phase of life: part-time work – bonus years



The employer role

- Workplace education and advice
- Specific to age/lifestage
- Consumers must make their own decisions
- Employer can help, but not as before
- Understand financial reality – debt and savings
- There are many options to fit different needs



The future?

- ❑ State pension reform – clarify state income base
- ❑ Rest is up to individual
- ❑ Auto-enrolment not enough
- ❑ Make a plan to add to minimum state income
- ❑ Flexible savings and working longer if desired
- ❑ Later life income is not just pensions and annuities



Thank you for listening

□ Any questions?

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