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Achieving better member outcomes

October 2015

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The retirement conundrum

- As a result of Freedom and Choice in Pensions individuals saving for and approaching retirement need more help than ever.
- They particularly need help understanding how much they might need in retirement – not as a pot of money but as an income.
- But its not just a case of treating everyone the same.

"When you retire (or part-retire), what level of monthly income do you think you'll need?"

Earnings	Income Replacement Ratio	***DWP Basis -*** "Estimates of the number of people facing inadequate retirement incomes" - July 2012
< £10,000 pa	90%	80%
£10,000 - £25,000 pa	72%	70%
£25,000 - £50,000 pa	56%	67%-60%
£50,000 - £100,000 pa	48%	50%
> £100,000 pa	42%	*Top category is £50K +*

Source: *Capita Employee Benefits – Employee Insight Research 2014*

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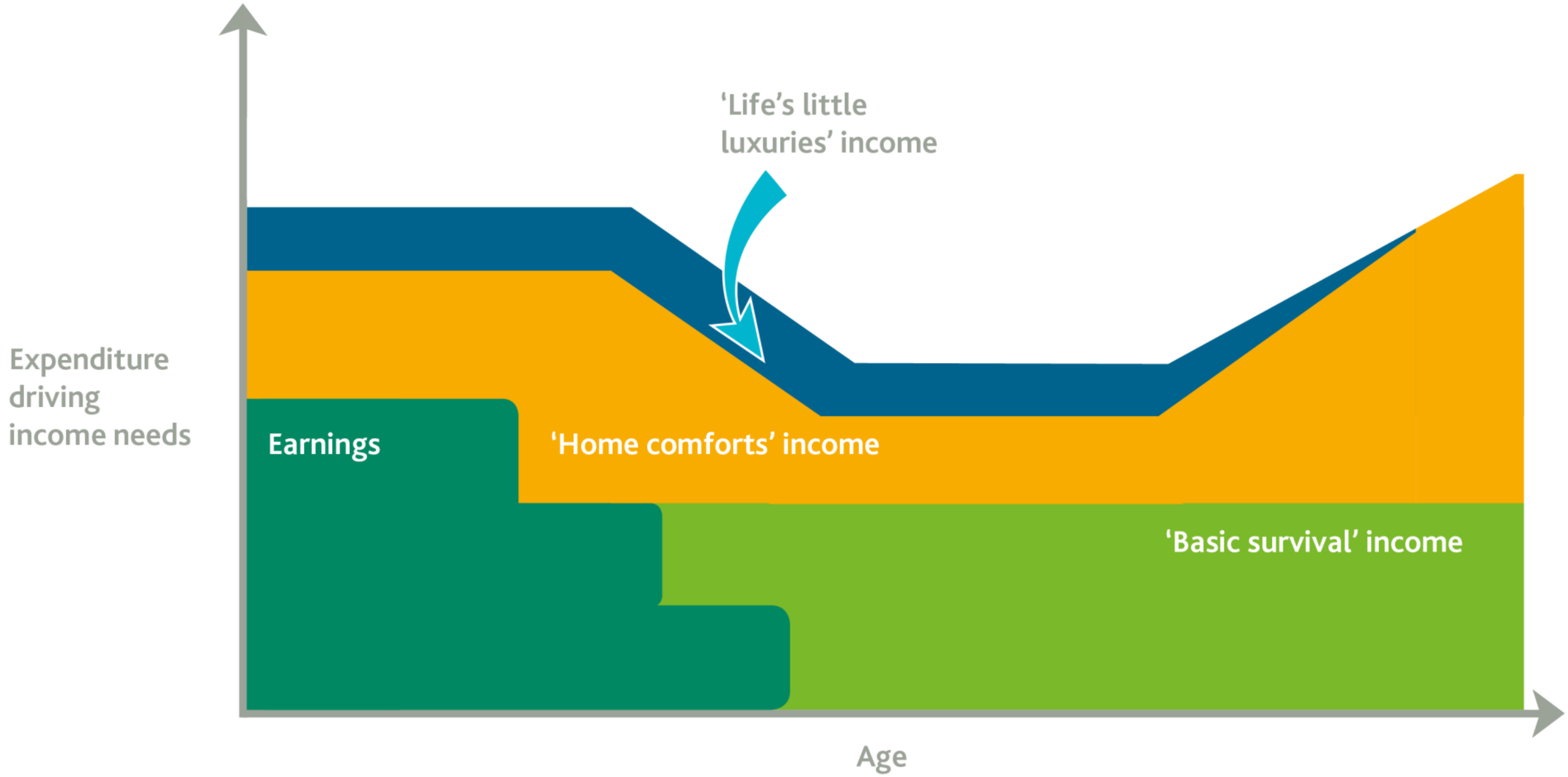
But what does that income path look like?



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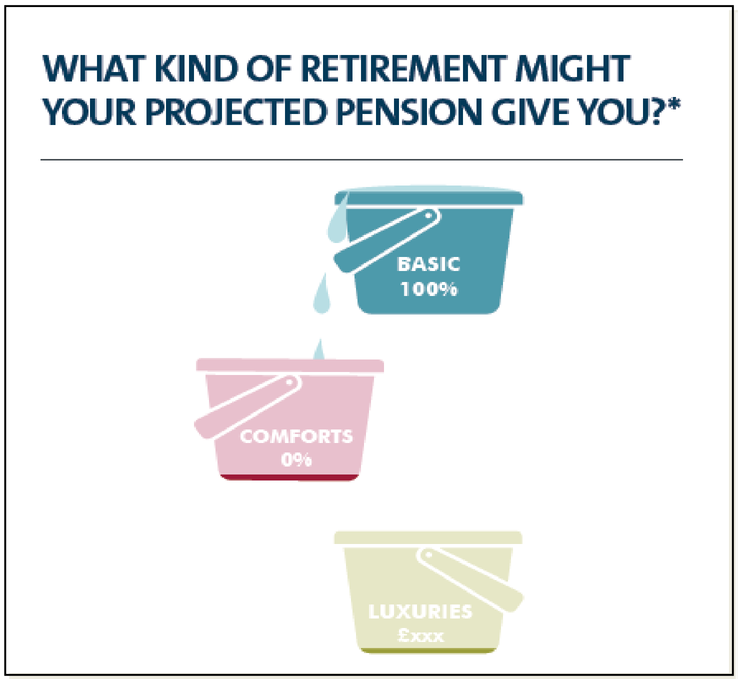
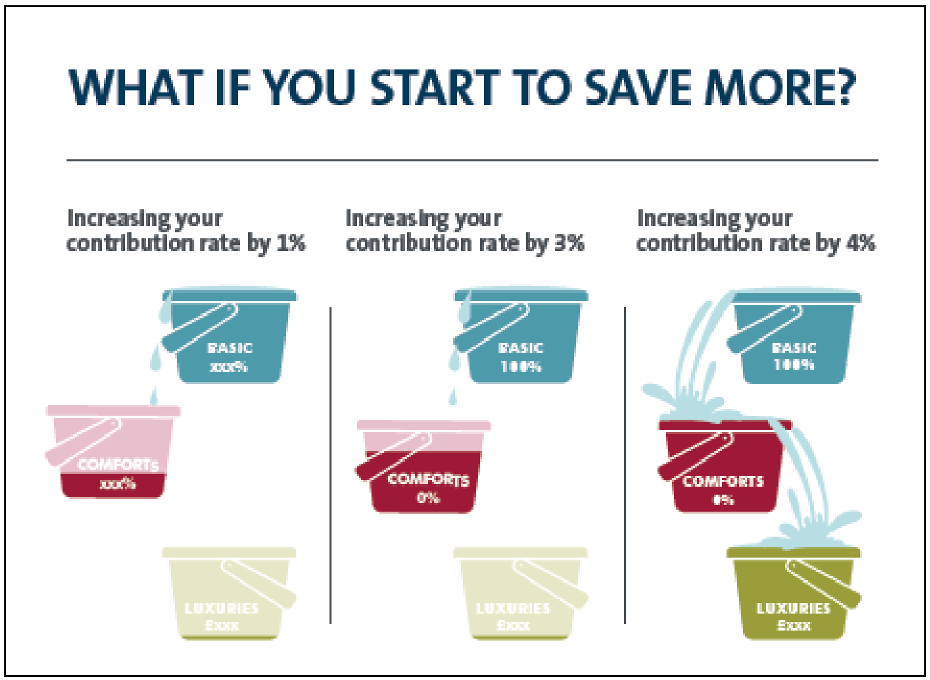
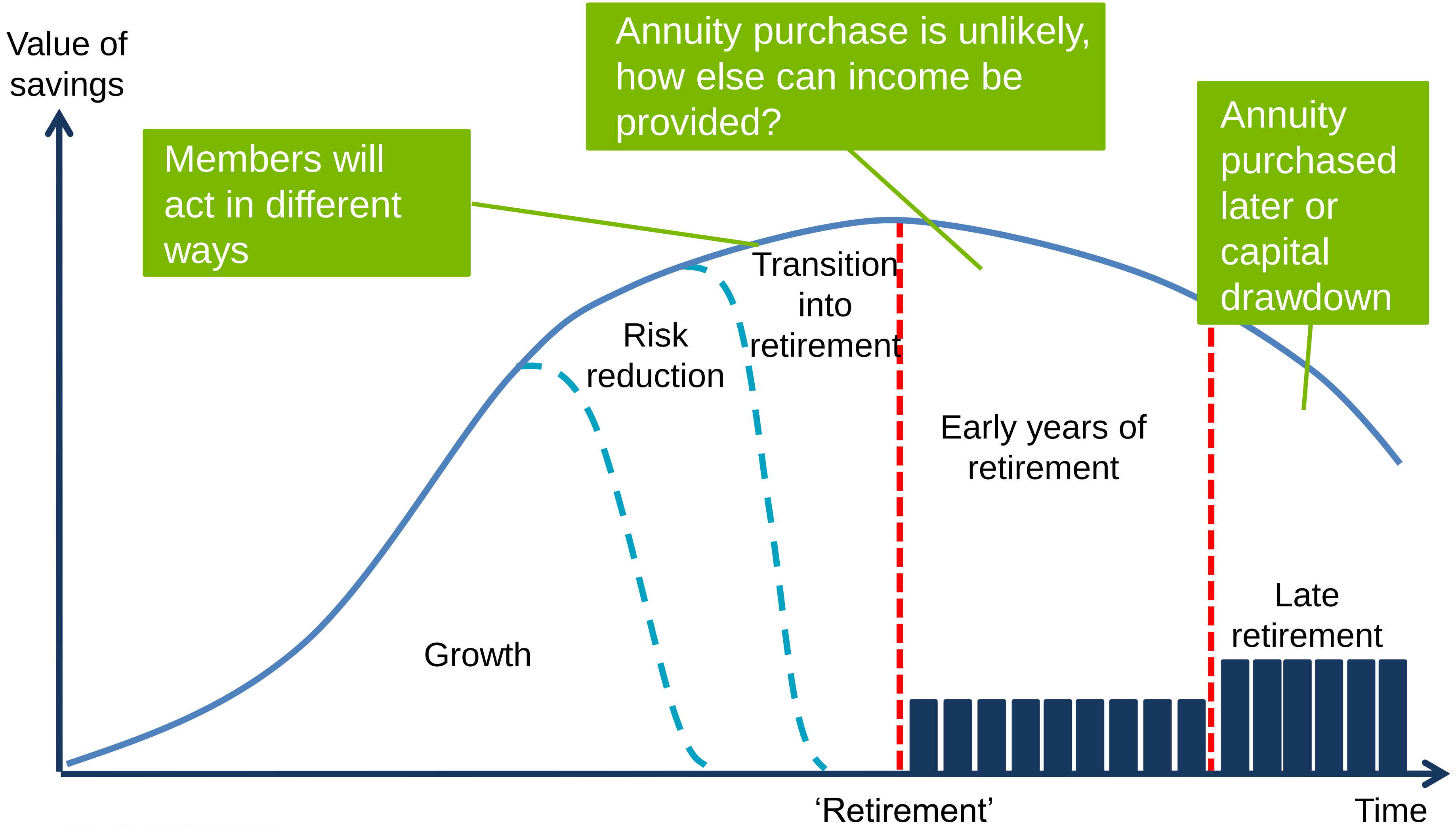
The levers that we have

- Save more – but consume less now!
- Work longer – this is becoming more of a reality
- Take more investment risk to achieve higher returns – but be prepared for the consequences if risk is realised.



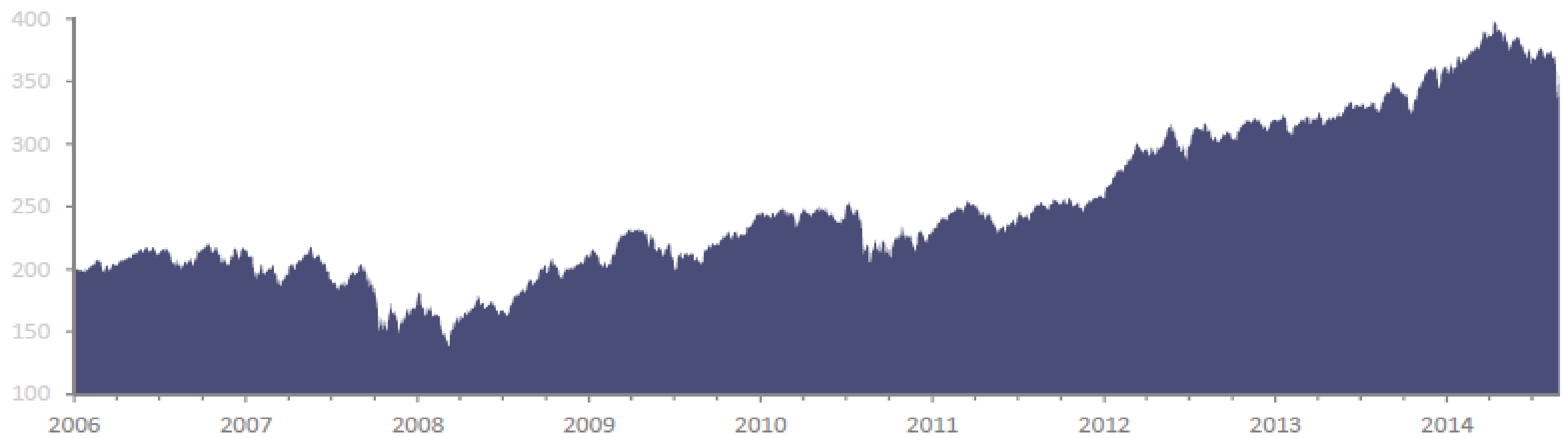


So what might a strategy look like?

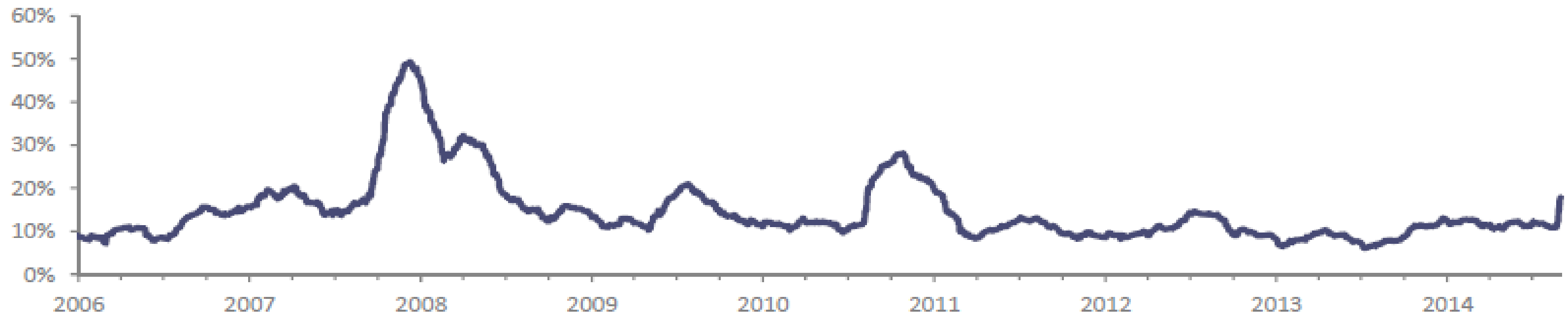


Relationship between volatility and return

FTSE All World Developed GBP Index Level



FTSE All World Developed GBP Rolling 60 Day Volatility



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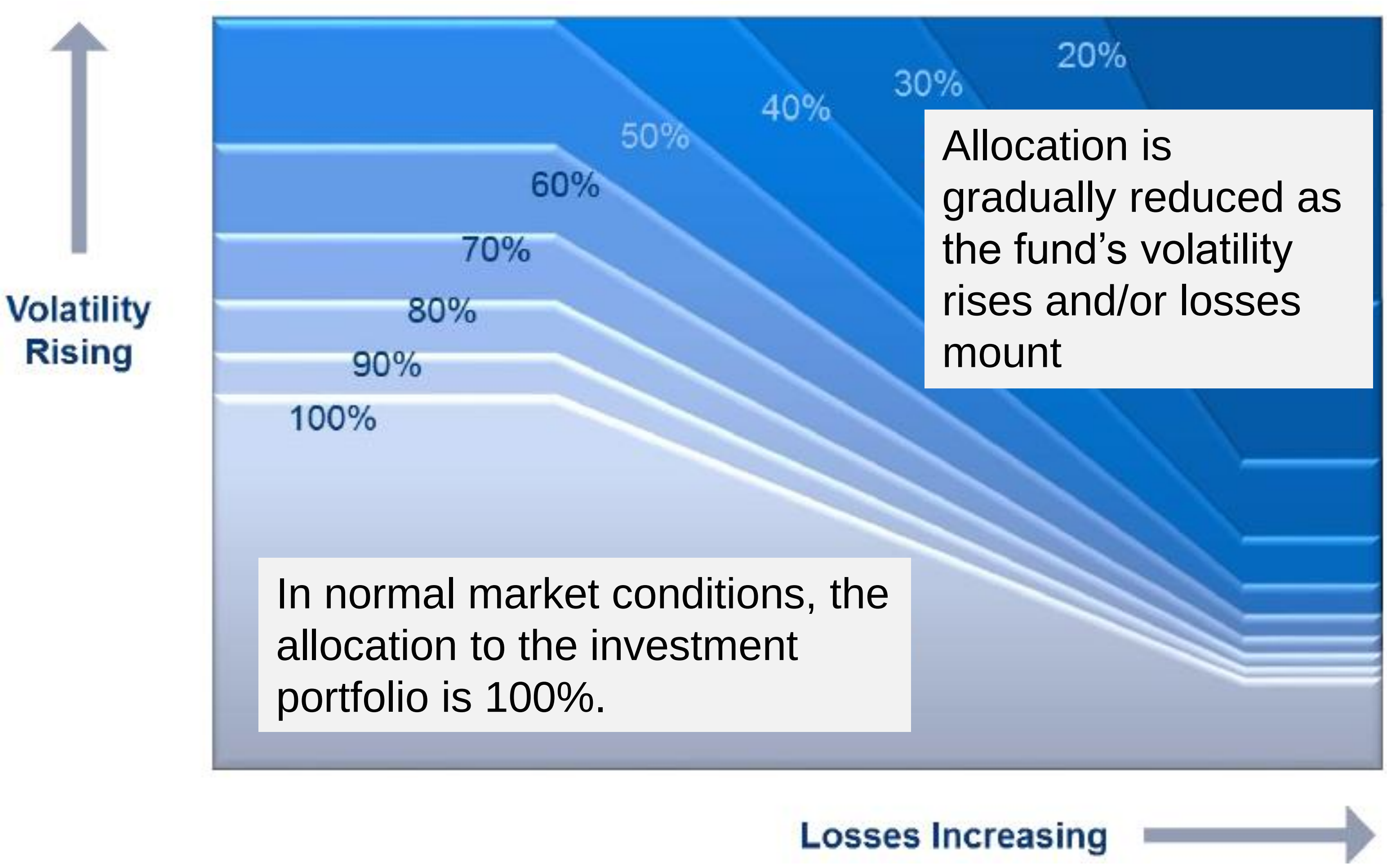
Source: *SSgA/Bloomberg as at 31 August 2015. Past performance is not a guarantee of future results.*

Target volatility triggers



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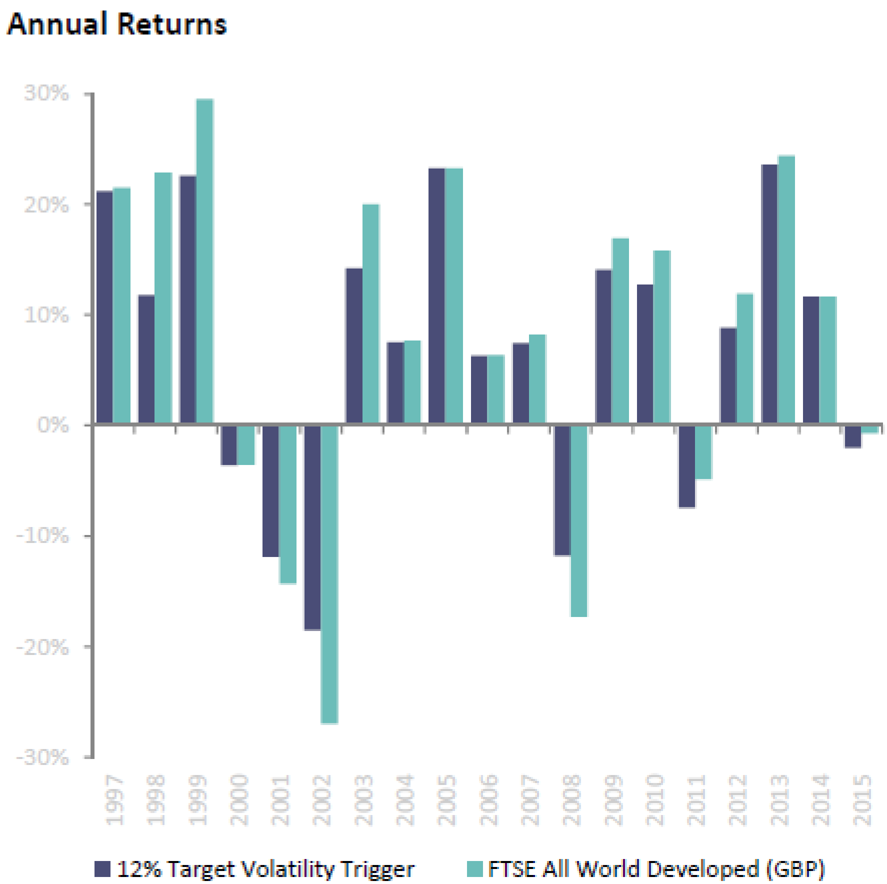
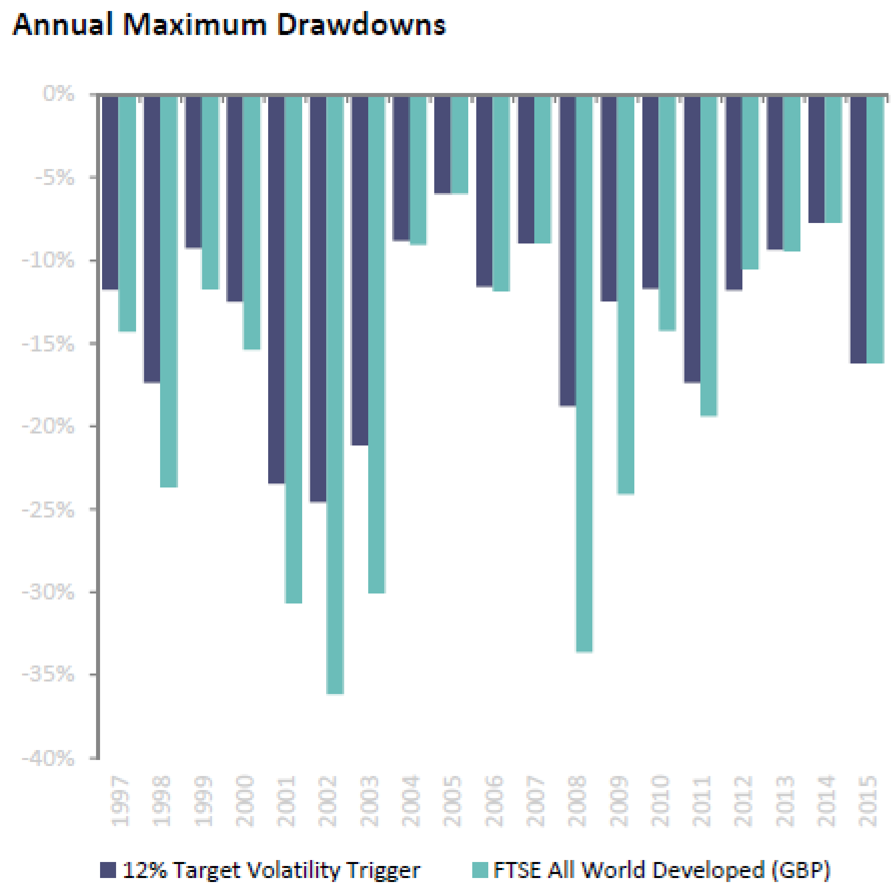
The effects of targeting volatility





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Source: SSGA. Research for SSGA's Target Volatility Triggers (TVT) Strategy was conducted for the time period from December 1996 through August 2015 based on the availability of daily data. The TVT data displayed is a hypothetical example of Simulated Performance for illustrative purposes only and is not indicative of the past or future performance of any SSGA product. Actual performance results could differ substantially, and there is the potential for loss as well as profit. The performance may not take into account material economic and market factors that would impact the adviser’s actual decision-making

Managing cashflows for drawdown

- Members are increasingly requiring strategies which will support their desire for utilising drawdown.
- Key requirements:
  - Reliable long-term asset returns
  - Scalable solution which works for a variety of different needs
  - Long-term investment so should be cost sensitive
- Cashflow management
  - Strategy required to manage cashflows within the investments to match drawdowns
  - Avoid liquidating growth portfolio

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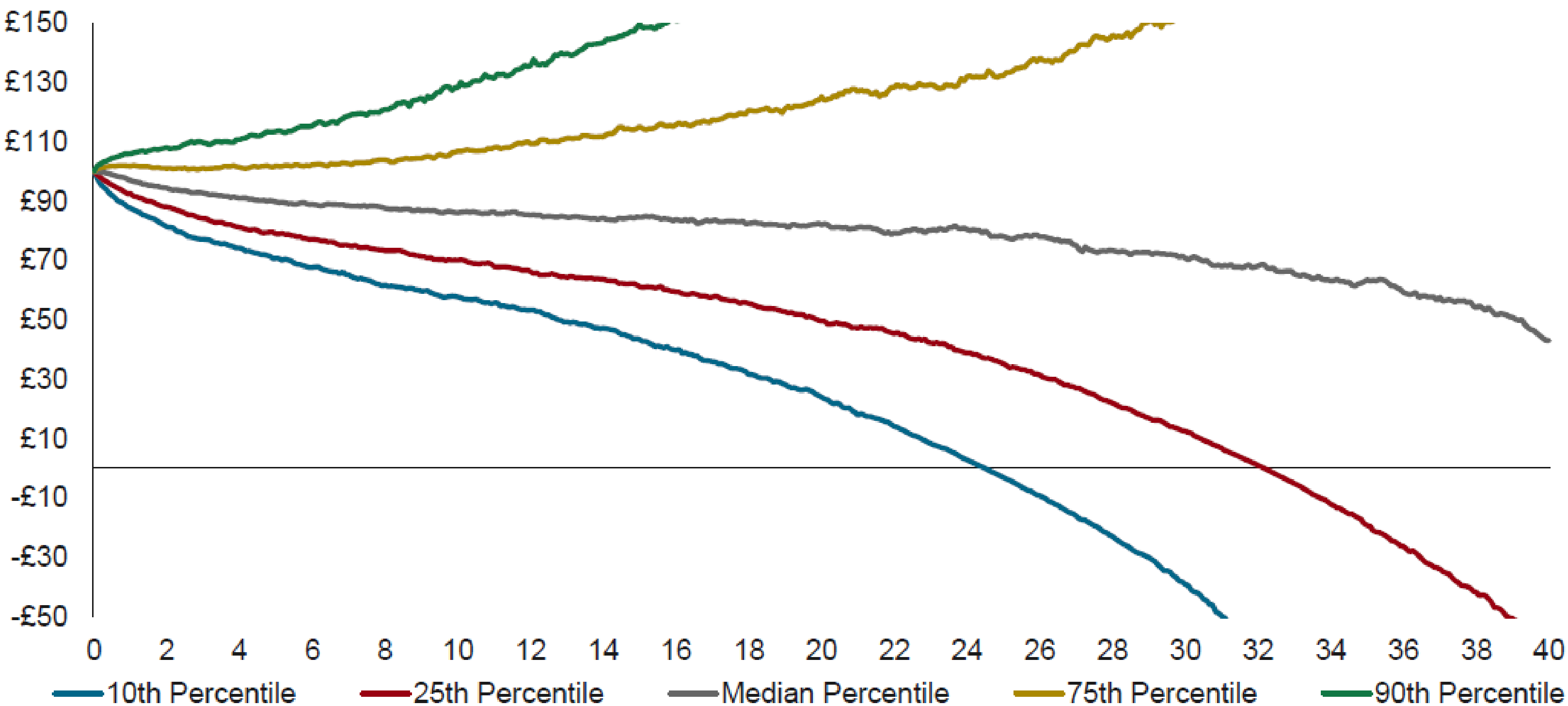
Projected long term outcomes

£100 invested – 40 years projection



Source: LGIM calculations. Based on monthly drawdown at a rate of £6 p.a. Fees of 0.75% Fund alpha of around 0.6% p.a.

Improving member outcomes

- Setting appropriate goals and helping members visualise the need to save more.
- Creating an investment strategy which accounts for the transition towards a more flexible approach in retirement will be vital.
- Utilising further tools up to and into retirement will help provide greater certainty of outcomes for individuals.
- More development to come...

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