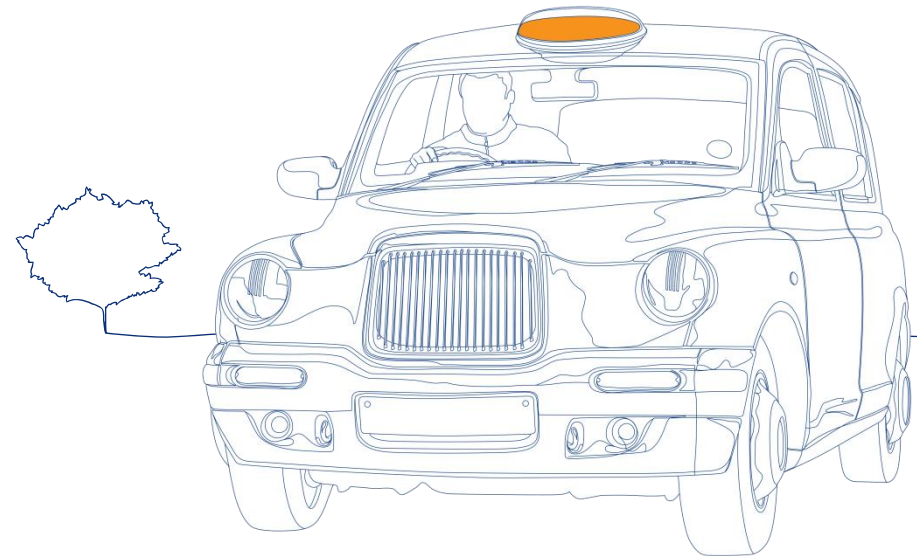


New World Investment Solutions

*Jenny Holt, FFA
Head of Investment Solutions*

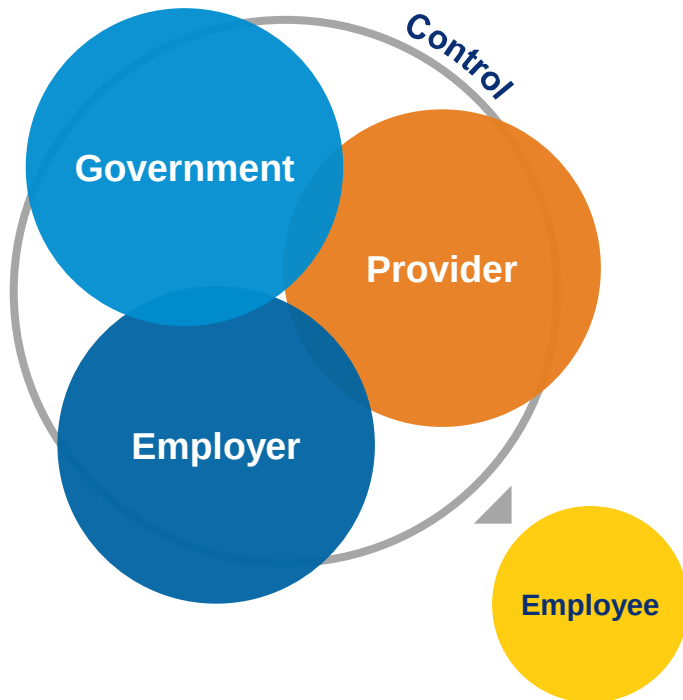


Standard Life

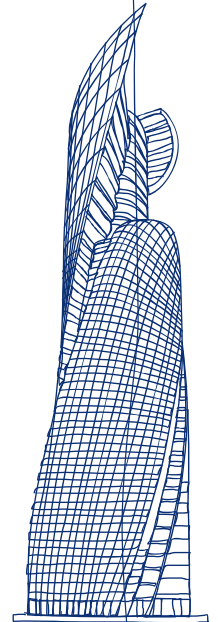
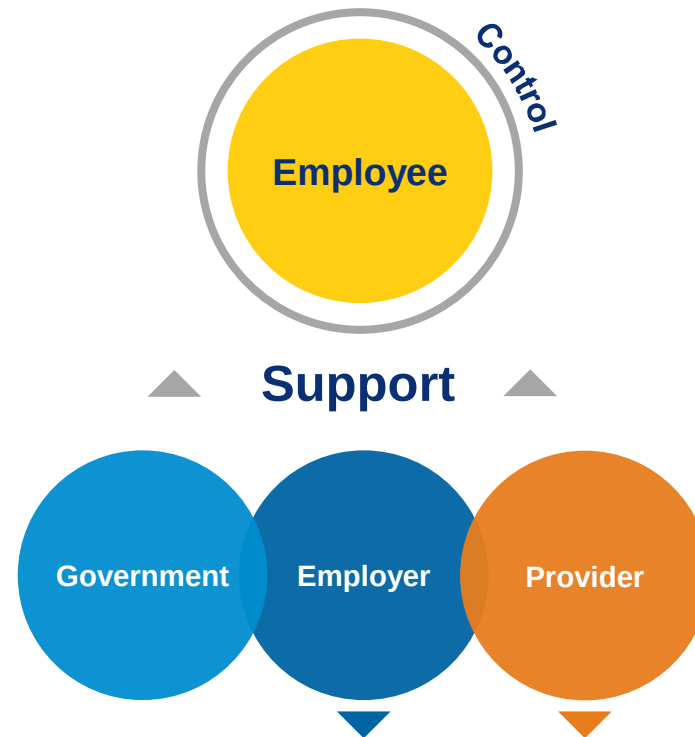
For financial professionals only

The New World of pensions

Old World



New World



What might people do with freedom?

Only 12%
will take some or all
of their Tax Free
Cash (TFC) as soon
as they can

Though tax
efficiency
remains
important

26%
said they are likely to
take the rest of their
pension money, after
TFC, as one or more
lump sums

62%
are likely to use
their pot to provide
an income

This is
consistent
across pot
sizes

There is often
disappointment
when monthly
amounts are
calculated

Source: Standard Life
Employee Research,
Q3, 2014



How might they take income?

What's important to you when choosing income?

Fixed	27%
Flexible	59%
Don't know	14%

Are customers happy for their pension money to remain invested?

I do not want my pension money invested and happy for lower growth	12%
Happy to remain invested but in lower risk investments	54%
Happy to remain invested in higher risk investments to get the best growth	26%
None of the above	8%

Source: Standard Life Employee Research, Q3, 2014



What have people actually done?

Only 6% of Standard Life's eligible customers have made use of the new pension freedoms since 6 April – 94% choosing not to touch their pension pots and stay invested

Customers who have withdrawn some or all of their cash are spending their money on a wide range of things

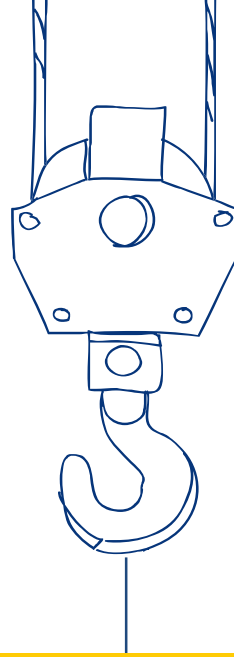
- Home improvements
- Repaying a debt or mortgage
- Having an emergency fund in the bank
- Paying for a special occasion like a holiday or wedding
- Getting children on the property ladder

66% of people entering a drawdown arrangement with Standard Life since 6 April have taken their 25% tax free cash and have left the rest invested – rather than taking an income straight away.

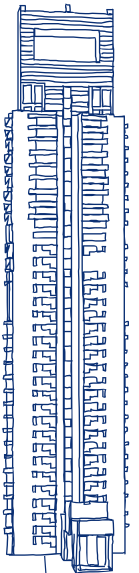
The average pot size of those entering drawdown between April and August was **£132,344**

Source: Standard Life, Q3, 2015



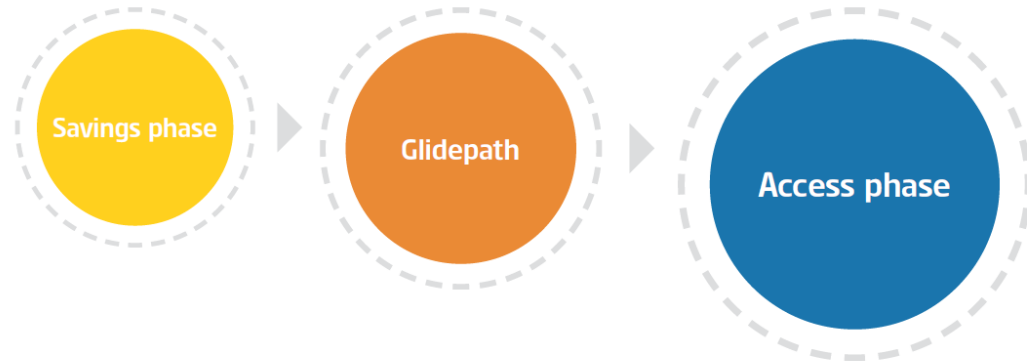


Investment Solutions



Investing Pre Retirement

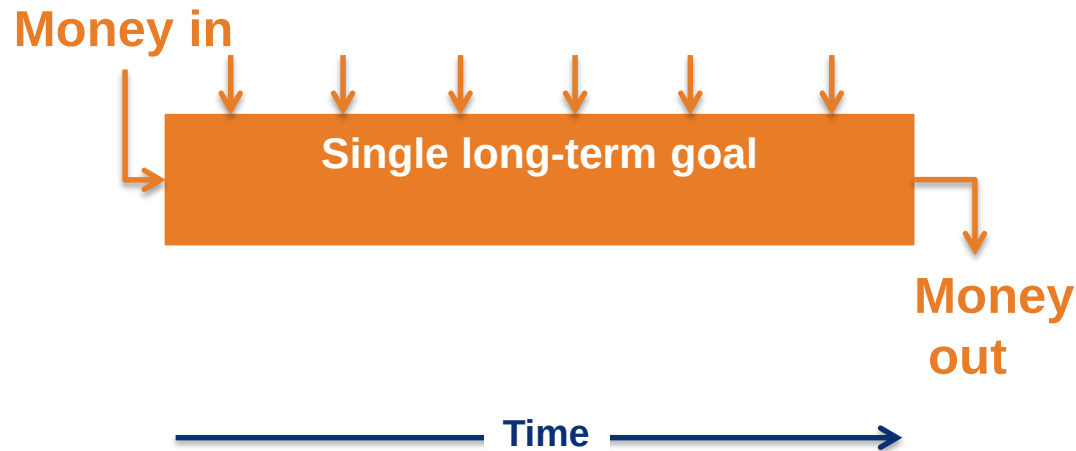
A range of flexible, future proofed lifestyle profiles targeting different retirement options



* Risk Level I Universal and Active Retirement glidepaths aren't available as these would take more risk than appropriate for employees with a very low tolerance to investment risk.

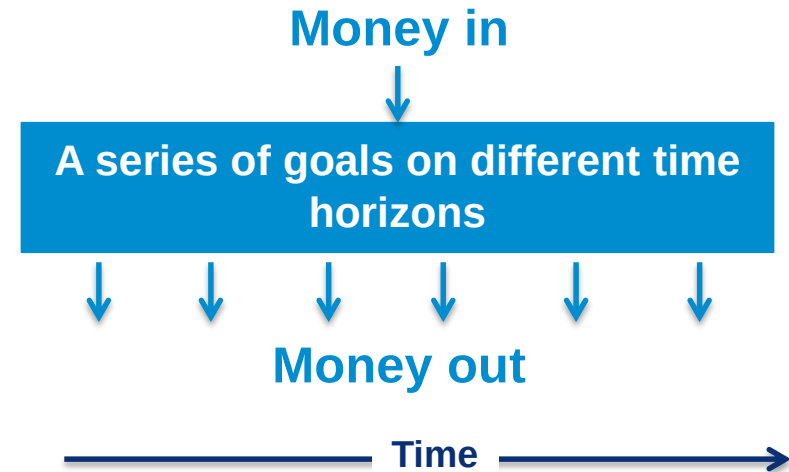
Investing in Retirement

Build Wealth



- Long term investor
- Single goal
- Well understood risks

Spend Wealth



- Unknown time horizon
- Multiple goals
- Additional risks
 - Inflation
 - Sequence of returns
 - Pound cost ravaging

The investment challenge is fundamentally different



Getting investment right

What do post retirement solutions need to do?

Flexible

Needs to be easy to use and able to meet a wide variety of needs

Sustainability

Needs to help members manage their income in retirement to make their money last

Investment outcome

Needs to manage key risks to improve the chances of members meeting their objectives

Composure

Needs to provide members with the confidence to invest and stay the course

Focus on member needs



Help building a portfolio

Flexible

Research shows...

...that people will use their retirement savings in a variety of ways.

- Create a regular income for the rest of their lives
- Take ad hoc payments as and when they need to
- Create a regular income for a period of time

...and that people are not knowledgeable or confident about investing.

Our solution aims to make it easy for members

Allows members to build a portfolio to meet their needs just by knowing what their needs are:

- Personal portfolios consisting of up to three funds with differing risk levels
- Allocation is automatically set based on simple information
- The shorter the time horizon, the bigger the allocation to lower risk funds
- Members can change withdrawals and/or reset allocation at any time

Easy and flexible



Help managing withdrawals

Sustainability

**Academic
research
indicates
that...**

- Members need to be realistic about what level of withdrawal is sustainable.
- Inflation is a key risk in retirement
- Income flexibility is key to making savings last longer
- Having a withdrawal plan helps

**Our solution
aims to help
members...**

...maintain spending power, remain engaged and manage withdrawals affordably:

Withdrawal plan will let customers know when they may be able to take an inflation increase and when it may not be such a good idea

- Increase offered only when portfolio performance is positive
- Affordability check stops increase if size of withdrawals becomes too large relative to the current value of their savings
- Members have to engage to accept increases so they know the effect on sustainability

Improving sustainability



Help managing key risks

Investment
outcome

For those planning for the long term, exposure to growth assets improves outcomes on average

CASH



Money lasts
23 years
On average

UK EQUITY



Money lasts
34 years
On average

...but 'bad luck' can mean much worse outcomes for some

CASH



Money lasts
17 years
In the worst
cases

UK EQUITY



Money lasts
9 years
In the worst
cases



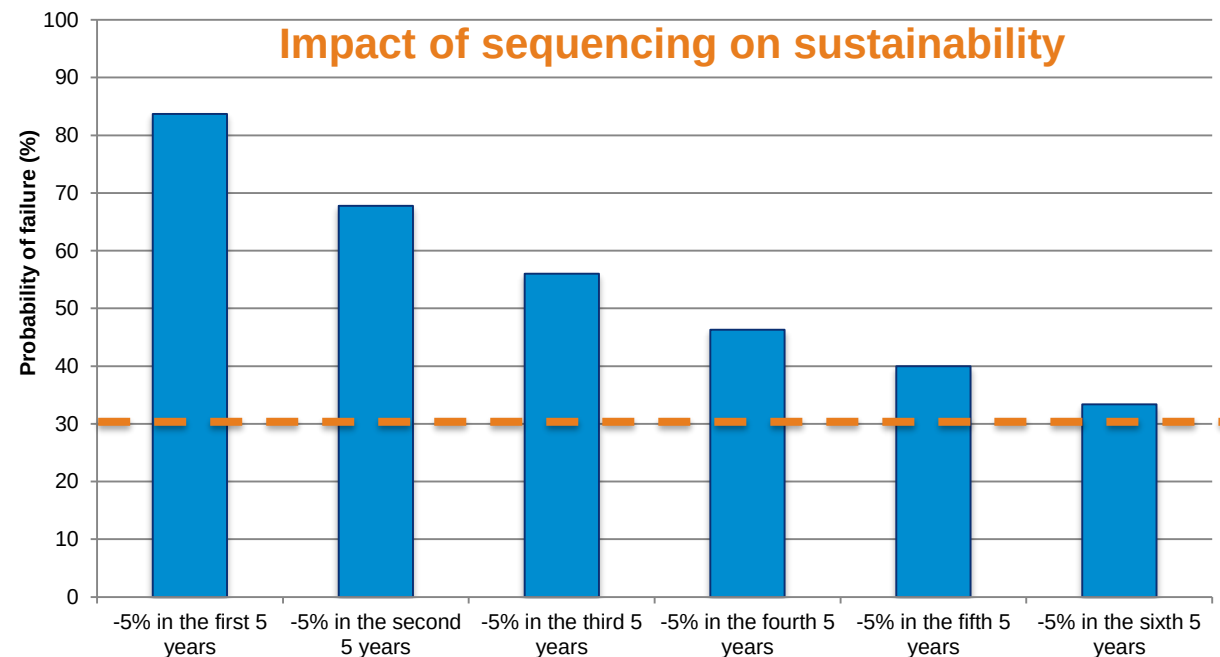
Source: Standard Life. Based on expected returns in 1000 economic scenarios provided by Moody's Analytics. Assumes 4% annual withdrawal rate escalating with inflation returns net of charges at 1.5% p.a.

Help managing key risks

Investment
outcome

The size and sequence of returns are key drivers of outcomes

- Volatility in drawdown can cause 'pound cost ravaging'
- Poor returns received early in retirement can lead to worse outcomes
- The investment journey is as important as the total return earned



Probability of failure increases from 31% to 84% if the portfolio falls 5% in the first five years

Improving investment outcomes



Help managing key risks

Investment
outcome

**Academic
research
indicates
that...**

- Increasing the consistency of returns improves outcomes
- Taking less risk in the early years can help improve sustainability in bad scenarios

**Our solution
aims to help
members...**

- ...sustain their retirement spending by reducing the effect of investment risk:
- Balancing need for growth with likely risk appetite and capacity for loss
 - Broadly diversified portfolios to help improve consistency in the long term
 - Additional low risk assets held in the early years after retirement



Improving investment outcomes

Our investment solution

Investment
outcome

Automatic allocation

Pot 1

Initial Allocation = Higher of 15% of assets or 3 years withdrawals



Pot 2

Initial Allocation = Higher of 20% of assets or 4 years withdrawals



Pot 3

Initial Allocation = Remaining assets



Withdrawal policy

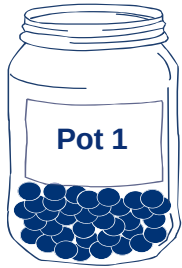
Improving investment outcomes



Our investment solution

Composure

Tell us how you want to withdraw your money
and we split it across three pots for you:



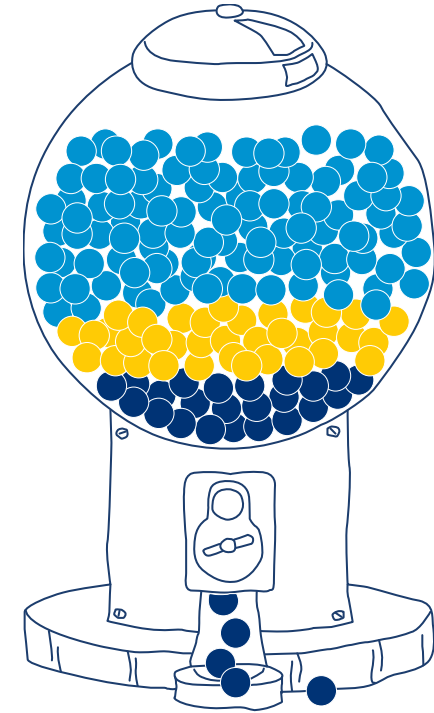
Very low risk
investments
designed to remain
fairly stable.



Investments selected to
provide a better return than
Pot 1, while still remaining
relatively low risk.



Medium risk investments
selected to provide a
higher return over the
longer term.



If you're taking a regular income, we will help you manage your
withdrawals affordably so you can make your savings last



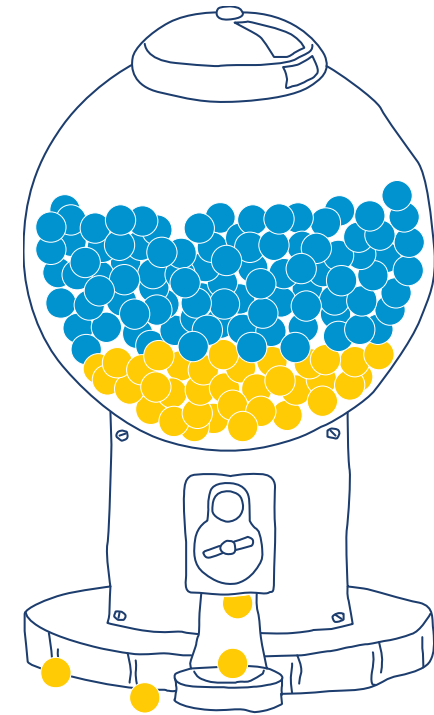
Intuitive design helps improve composure



Investments selected to provide a better return than Pot 1, while still remaining relatively low risk.



Medium risk investments selected to provide a higher return over the longer term.



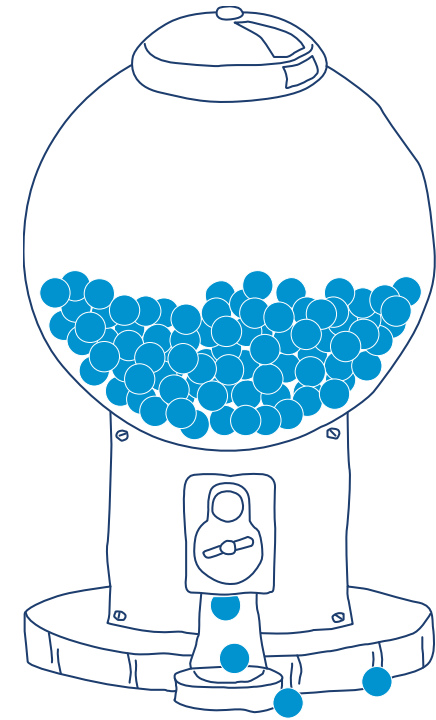
Pot 1 covers spending in the first few years of retirement



Intuitive design helps improve composure



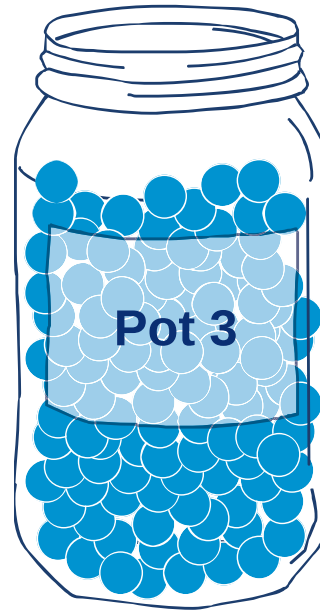
Medium risk investments
selected to provide a
higher return over the
longer term.



Then pot 2



Intuitive design helps improve composure

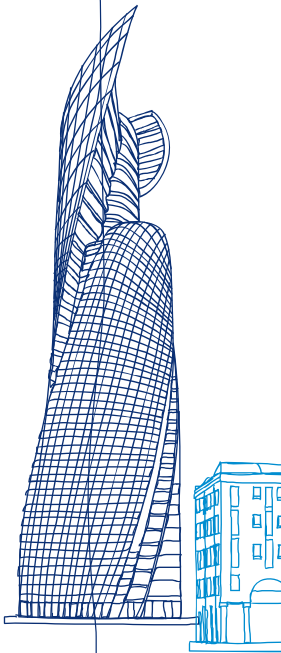


Medium risk investments
selected to provide a
higher return over the
longer term.

**Pot 3 is allowed as much chance to
grow before you start to use it up**



Intuitive design helps improve composure



Improving member outcomes

If £100,000 were invested with a 4% escalating withdrawal

Performance	Cash	UK Equity
20 year; PV of payouts	75,850	70,149
20 year; PV of portfolio	<u>14,732</u>	<u>73,671</u>
Total Real Return	90,582	143,820
Sustainability	Cash	UK Equity
Lowest ruin age at 99.5% confidence	17.5	9.2
Lowest ruin age at 97.5% confidence	18.8	13.0
Lowest ruin age at 90% confidence	19.8	17.2
Median ruin age	23.3	34.3

Diversify Portfolio

Myfolio I	Myfolio II	Myfolio III	Myfolio IV	MyFolio V
73,612	73,561	73,154	72,531	72,027
<u>18,906</u>	<u>25,746</u>	<u>34,986</u>	<u>43,385</u>	<u>58,565</u>
92,518	99,307	108,140	115,917	130,592
18.8	17.5	15.0	13.0	11.5
20.5	19.5	18.0	16.3	15.2
22.0	22.0	21.5	20.5	19.8
25.3	27.0	28.8	30.5	34.0

+

Manage Withdrawals

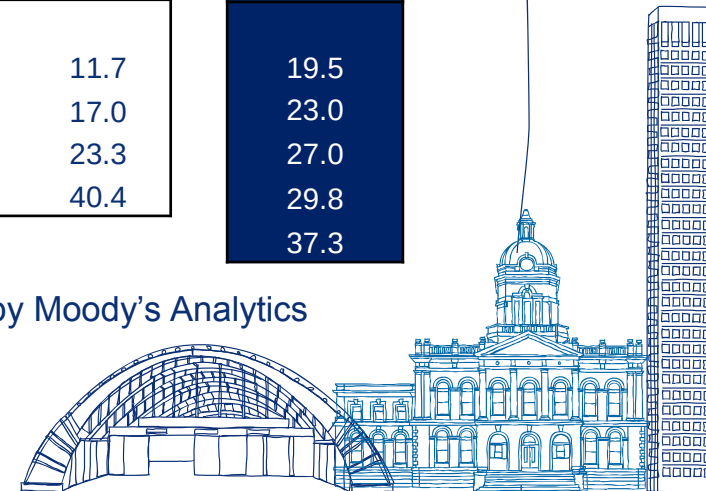
Myfolio I	Myfolio II	Myfolio III	Myfolio IV	Myfolio V
63,631	65,320	67,013	68,616	71,570
<u>28,822</u>	<u>34,177</u>	<u>41,474</u>	<u>47,627</u>	<u>59,031</u>
92,453	99,496	108,487	116,243	130,601
25.0	20.8	16.0	13.3	11.7
26.7	24.7	22.0	19.0	17.0
28.5	27.5	26.5	24.8	23.3
33.3	35.5	37.3	38.3	40.4

+

Reduce Early Years Risk

66,315
<u>39,853</u>
106,169
19.5
23.0
27.0
29.8
37.3

Source: Standard Life, based on expected returns in 1000 economic scenarios provided by Moody's Analytics



Improving member outcomes

If £100,000 were invested with a 4% escalating withdrawal

‘LOWEST’ RISK?

CASH



20-year real return
£91K



On average money could last 23 years but might run out after just 17 years

‘HIGHEST’ RISK?

UK EQUITY



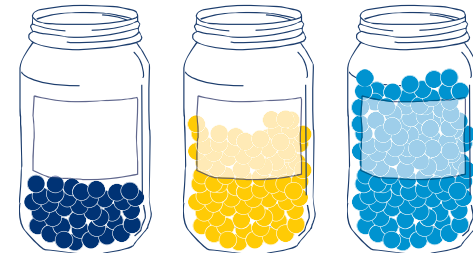
20-year real return
£144K



On average money could last 34 years or run out after just 9 years

‘FLEXIBLE’

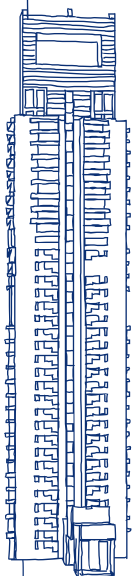
SL SOLUTION

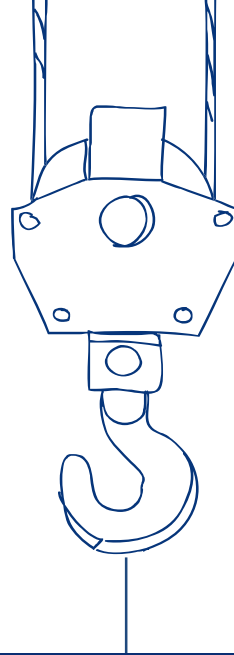


20-year real return
£106K

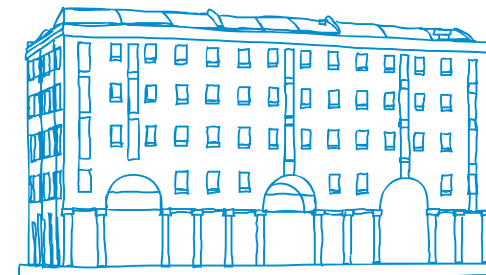


On average money could last 37 years and even in really bad scenarios might last 20 years





Support



The online journey – our approach

Working with True Office

a gamification company
based in New York who
specialise in making
complex things simple

tested with
77 users

Test and learn approach

Very innovative approach

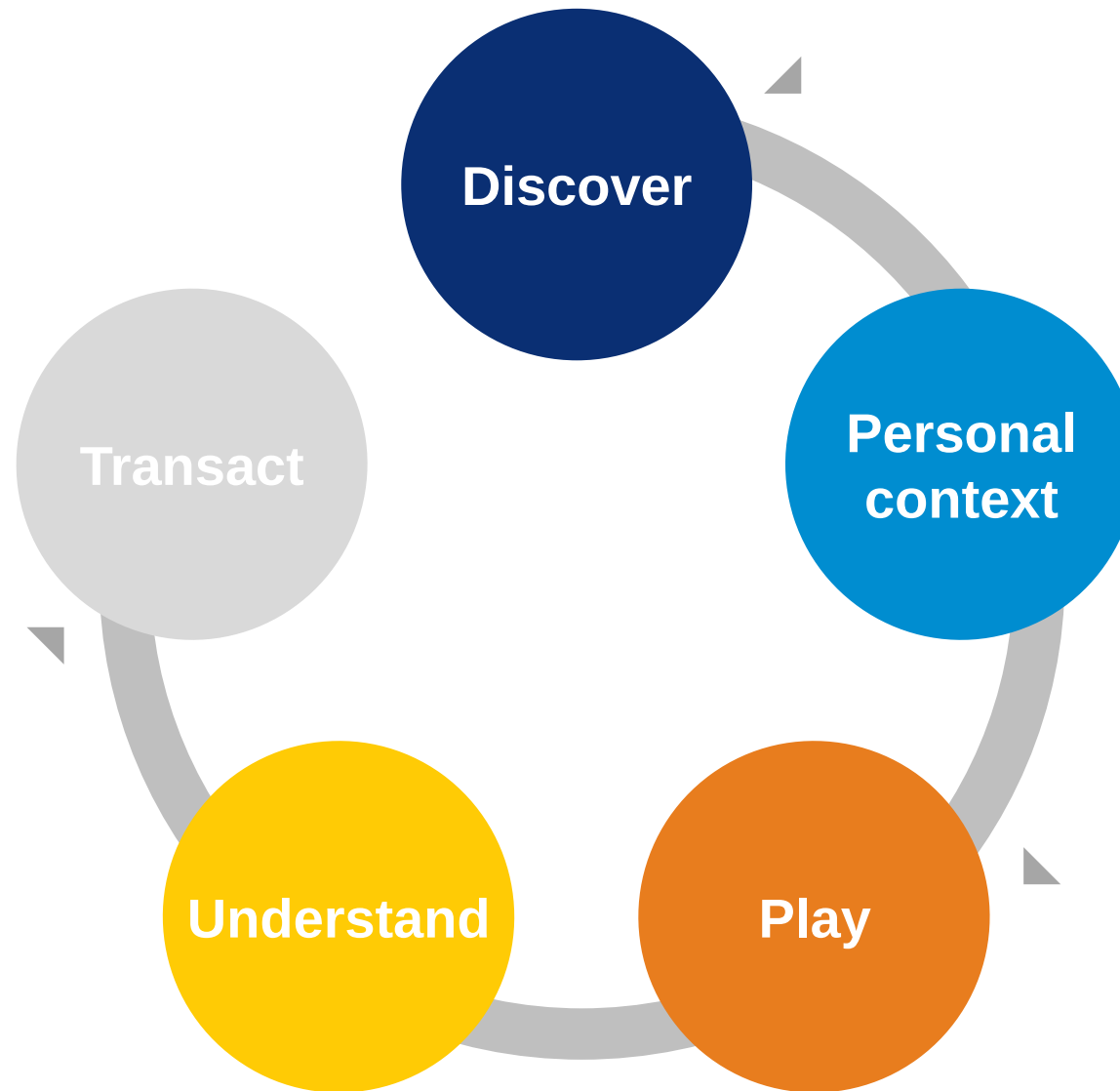
highly motivational and
educational user
experience achieved
through intuitive design,
advanced game
mechanics and
interactive technology

will continue to
evolve, based
on what our
customers need

Our test and learn journey



Online journey **user flow**



Online journey play – income sustainability



Your pension pot of **£ 72,200** can provide an income in two ways

Flexible (Drawdown)

Monthly income:

–

£ 308

+

Paid until age:

–

90

+

How long your income lasts depends on how your investments perform.

☒ Low ☐ Medium ☐ High

Change your income whenever you like.

Can pass on any remaining pension to your spouse or family when you die.

Not guaranteed to last the rest of your life; on average people your age live to around 90 and about 1 in 10 live to 100.

You'll normally pay income tax on your pension income.

Stays invested in the funds you choose, so has potential for growth.

Fixed (Annuity)

Monthly income:

🔒

£ 301*

Guaranteed for the rest of your life

Find out more about fixed incomes

[Guide to buying an annuity >](#)

*This figure is for illustration only and does not reflect your personal circumstances. Shop around to improve your retirement income.

Compare and Contrast:

	Flexible	Fixed
Pension pot passed onto my family when I die	✓	✗
Guaranteed to last the rest of your life	✗	✓



Online journey **understand**



OK, here's what you've explored

Share, print, compare:

 Print

Print, share and discuss so you're ready for the pension rules changing in April. Have a think and, if you need more help, call us.

You have a total pension pot of **£ 100,000**

Take a cash sum of:

£ 25,000

[edit](#)

- This will be taken from your tax-free amount, so you'll have no tax to pay.



Set up flexible income of:

£ 270 / month

[edit](#)

- Could last until about age 90 depending on how your investments perform, based on using £ 25,000 of your pension.



Which leaves you with:

- What's left will depend on the cash and income you take, and how your investments perform.



What this means for you.

- Your cash sum will be taken from your tax-free amount, so you'll have **no tax to pay**
- Taking cash now means **you may have less for later on**.



On-going Expert Support

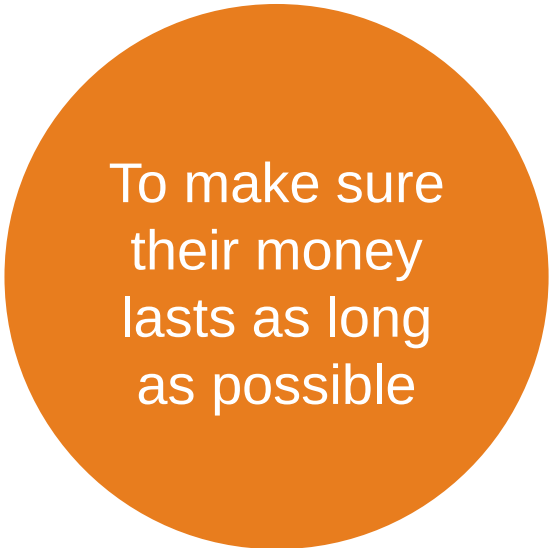
It's important that employees are supported throughout:



In case
people's
circumstances
change



To make sure the
investments are
still right for their
objectives



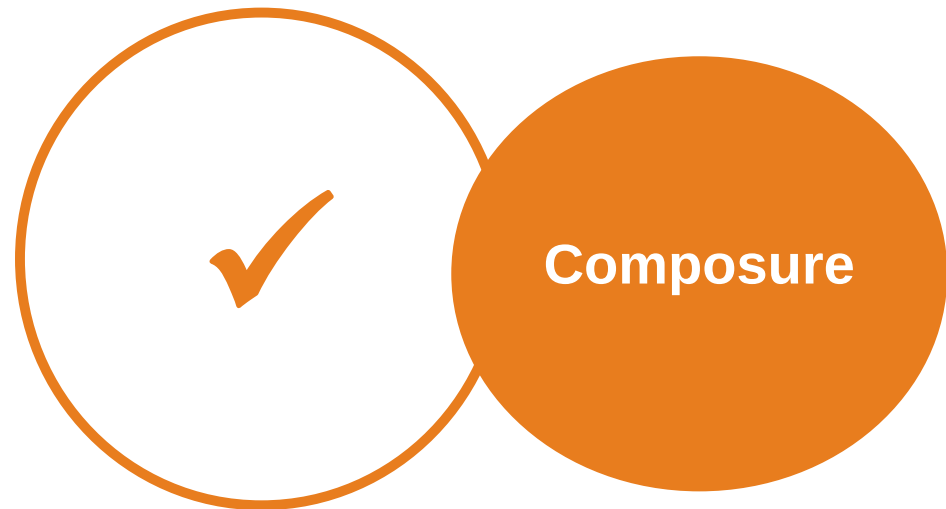
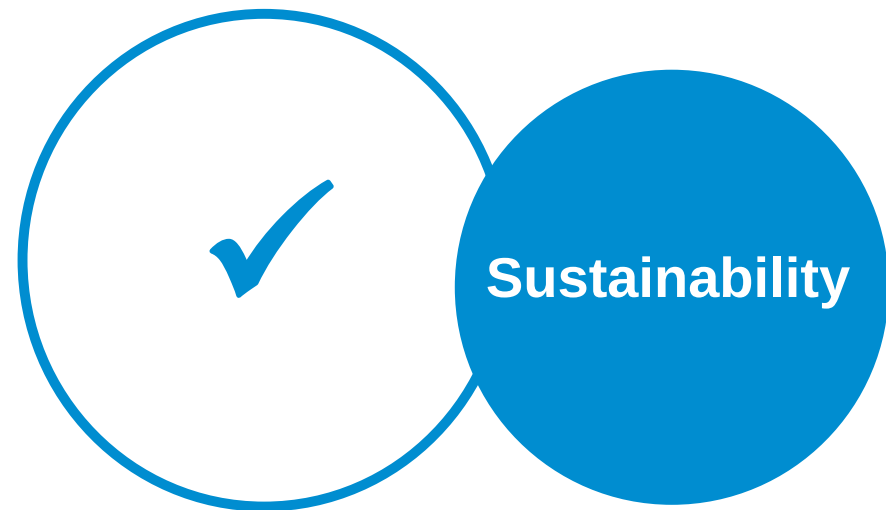
To make sure
their money
lasts as long
as possible

We provide on-going support* that employees can access whenever they want to.



**Charges apply for this service*

Our investment solutions



Focus on member needs



Next section

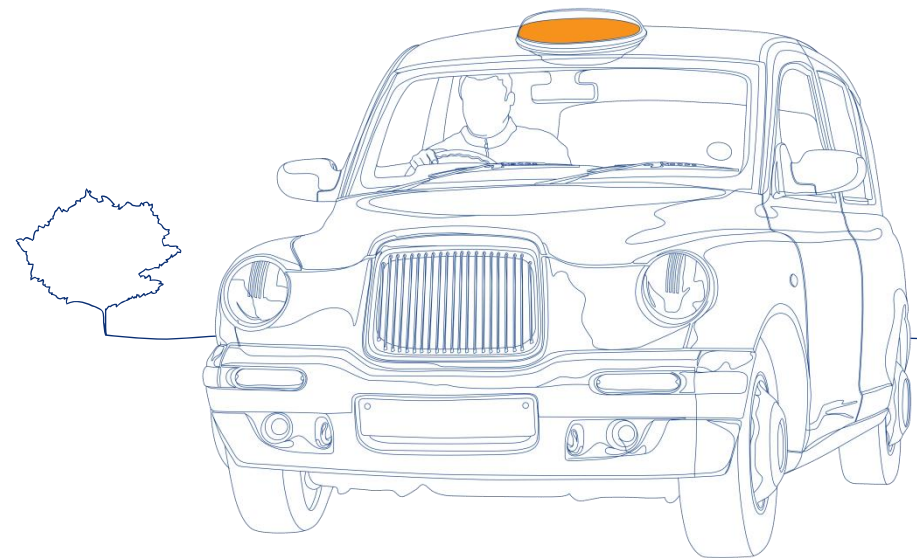


Thank you

The value of investments can go up or down and may be worth less than was paid in

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