ACA

Post-retirement investment options for drawdown – how do we help members get the best outcome?

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LifeSight

Willis Towers Watson

Agenda

1. How are people responding to the new flexibilities?
2. NEST – research and blueprint
3. What about the members?
4. Clarity of mission and Governance
5. Risks and strategies
6. The future

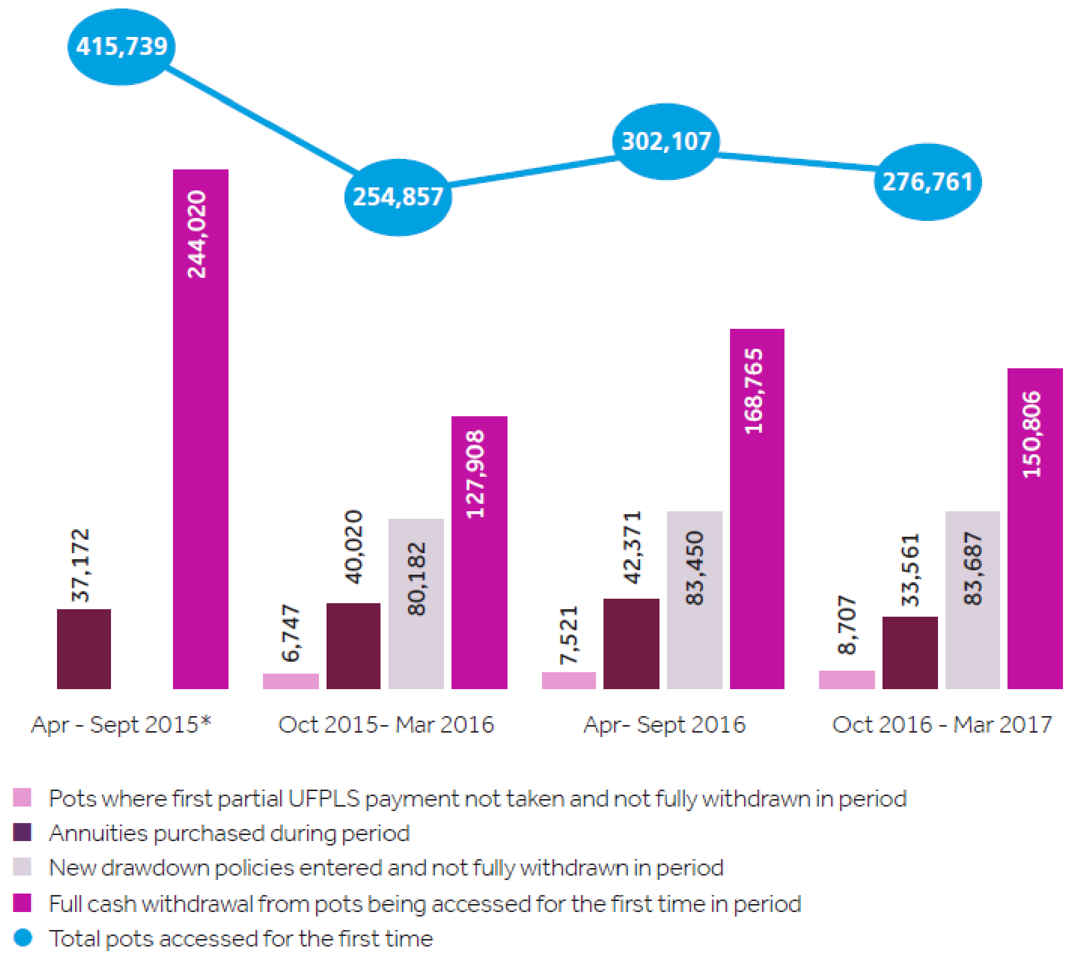
FINANCIAL CONDUCT AUTHORITY

Data Bulletin
September 2017

In focus:
- Latest trends in the retirement income market
- Highlights from the FCA and Practitioner Panel Survey 2017

Number of pots accessed by product type

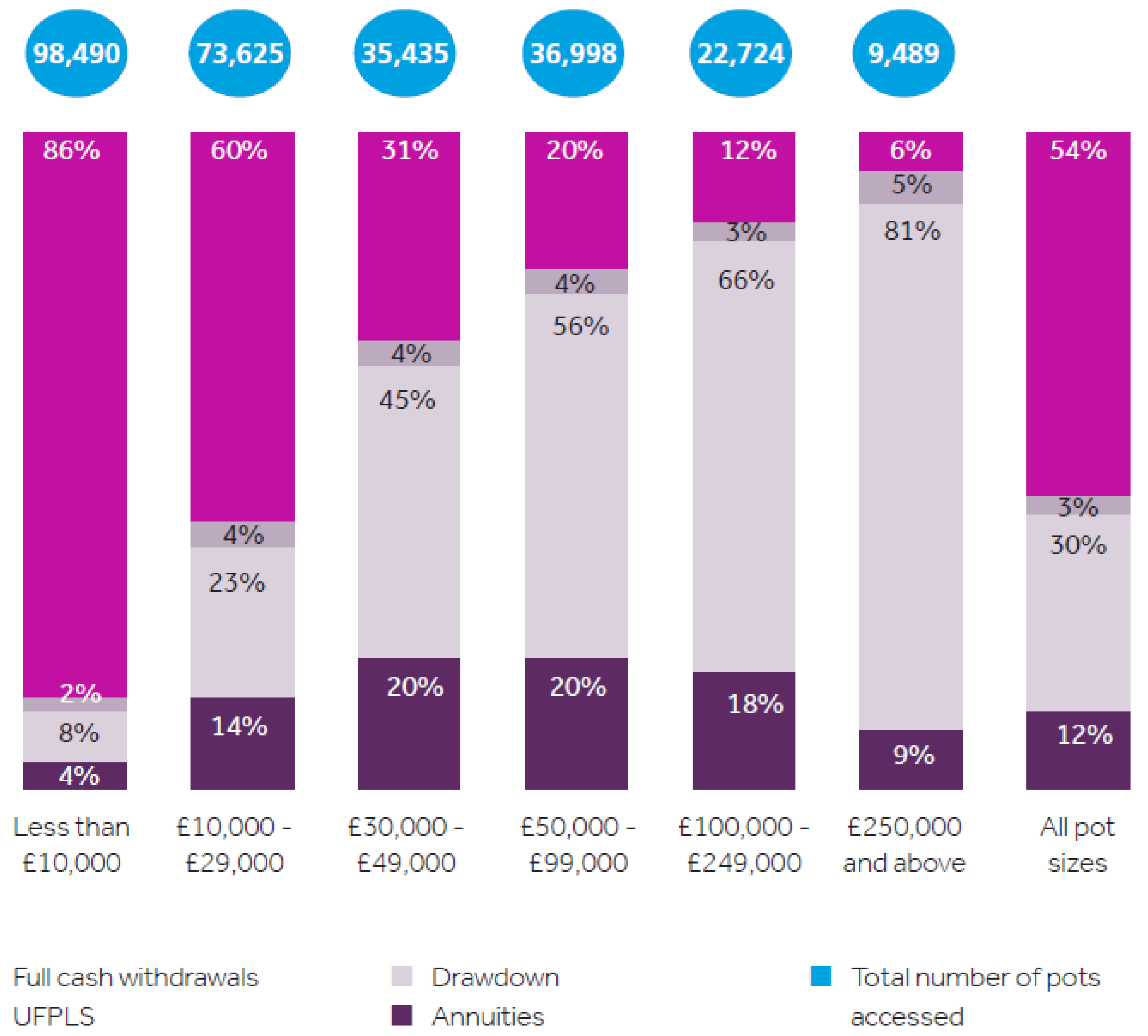
Figure 1 – Number of pots accessed by product type since April 2015



*Figures on drawdown and UFPLS were not collected in the same format between July and September 2015 and therefore have been omitted for this period.

Product by pot size

Figure 2 – Composition of product purchases made between October 2016 to March 2017 by pot size



What are the options available for drawdown?

Model	Features	Delivery	Target market
Low Cost Transactional Drawdown	• Corporate pricing discounts • Investment strategies available to assist members with choice • Easy-to-use tools to engage users • No/limited additional fees • Appeals to masses seeking alternative to annuity • Simplified advice/guidance models embedded and often automated	Master-trusts Insurance companies	• Individuals with reasonable sized funds, who wish to maintain flexi access • Individuals comfortable with self-service approach • Allows trustees to nominate a suitable solution
SIPP and platforms	• Wide fund ranges • Esoteric investments • Ongoing IFA assistance required • Broad wealth management platforms • Individuals advised across all assets • Appeal to individuals with significant wealth	Insurance companies Specialist SIPP administrators Fund platforms Wraps	• Targets higher earners/larger funds, while ignoring the masses

NEST research and blueprint


nest

The future of retirement

A retirement income blueprint for NEST's members

What members want
- An income in retirement
- Inflation protection
- Access to lump sums
- Ability to pass on

Three phases or retirement
- 60s – mid 70s
- Mid 70s to mid 80s
- Mid 80s on
- Phase impacts on 'What members want'
- Suggests changing approach as individuals age

Blueprint
- An income drawdown fund
- A cash lump sum fund
- Later life protected income

NEST research and blueprint

"Guiding principles"

1. Longevity and running out of money is the key risk
2. Savers should expect to spend all of their account
3. Income should be stable and sustainable
4. Volatility is particularly harmful
5. Flexibility and portability are valuable
6. Inflation should be managed but not hedged

NEST research and blueprint

The Blueprint

1. Phase one and two:
    1. Income drawdown with default income and investment strategy
    2. Income sustainable and increasing
    3. Allocation to cash lump sum fund
    4. Premium for longevity “later life protection” from fund
    5. ‘Surplus’ redistributed to cash lump sum fund
2. Phase three (from age 85) :
    1. Same income as at end of phase one
    2. Becomes fixed
    3. Funded from longevity pool
    4. Any balances from drawdown fund transferred to cash lump sum fund

Mission Clarity: what do members want

We know drawdown members are not:

- Cash Seekers
- Secure Income Seekers

There remains a distribution of missions with those pursuing drawdown

- Tax Planner
- Deferred Decision Maker
- Income Seeker
- Enhanced Income Seeker
- Discretionary Spender

While across all arrangements members may need a stable income, individuals have a variety of sources of income in practice.

Objectives

Tax Planner	Deferred Decision Maker	Income Seeker	Enhanced Income Seeker	Discretionary Spender
Capital security	Controlled growth	Income & growth	Income & growth	Growth
Short-term	Inflation protection	Income flexibility	Shortfall reduction	Long-term

Key questions to manage

The timing of transactions is a key risk in drawdown

- Reverse pound cost averaging
- The sequence of investment returns matter
- It is more detrimental to sustainability if negative returns at the beginning of the withdrawal phase
- Poses risks where stock market crash shortly after retirement
- **Appetite for risk**
- **Need for annuitisation?**
- **Longevity insurance?**
- **Member capability to manage drawdown**

The future

- Advice gap for transferring DB pensions
- More drawdown
  - Growth in reliance on DC
  - Average pot sizes grow
  - Changes in ‘Mission’ – reduction in cash seekers
- Investment market changes
  - Credit prices won’t be the same for ever (we live in hope)
  - Deferred annuities
  - Addressing longevity risk
  - Better at meeting income need
- But any innovation in investment needs to address
  - Pricing
  - Need for ready access to funds
  - Member understanding of the options
- Changes in how members interact in the digital age

Guiding principles

It is still early days for drawdown investments and listening is one of the key things that all involved need to do at the moment. When thinking about possible solutions some guidelines might be helpful. Here are three suggestions:

1. Price: low cost solutions are to be favoured as one of the few variables that can be controlled

2. Accessible: savers do not want to tie up their money beyond reach

3. Understandable: if an investment can't be readily understood it is probably unfit for purpose

4. Governance: most individuals aren't equipped to actively manage their assets, so the options need to reflect their abilities and skill they will bring to managing their money.

Perhaps the one certainty is that the solutions in the near future for drawdown investors will be different tomorrow than today.