FREEDOM AND CHOICE IN PENSIONS
CONTENT

ACCESS TO FREEDOM AND FLEXIBILITY
FIONA DUNSIREE
UK Market Leader and Chief Executive Officer

THE NEW DC WORLD
ROGER BREEDEN
Product Leader DC & Savings Team

DB TO DC TRANSFERS
STEVE GEERE
Senior Partner
ACCESS TO FREEDOM AND FLEXIBILITY

ACCESSING THE CHANGES
- Statutory override to scheme rules
- Transfers up to normal retirement age
- Guidance Guarantee
- Greater access to smaller funds

FROM APRIL 2015
- Flexible access to retirement savings from age 55
- No one has to buy an annuity
- No limits on the amount that can be withdrawn each year
THE NEW DC WORLD

£10,000

Annual allowance for those already in flexible drawdown or entering drawdown (exemption for small pots)

MORE FLEXIBLE ANNUITIES

- Decrease income payments
- Pay lump sums
- Provide guarantees beyond 10 years
- Pay lump sums up to £30k on death

IN THE FUTURE

55%

Tax charge on death in drawdown likely to be reduced

57 from 2028

Minimum retirement age increasing and linked to State Pension Age
TO DO

Determine policy and process on access to flexibility and transfers.

Review investment choices and Default Strategy.
THE NEW DC INVESTMENT MODEL

- Saving Phase
  - Growth plus
  - Growth

- Pre-retirement Phase

- Retirement Destination
  - Cash
  - Variable income
  - Secured income

Critical engagement point
THE NEW DC WORLD
MAKING IT HAPPEN

TO DO

Determine policy and process on access to flexibility and transfers

Review investment choices and Default Strategy

Review administration requirements and capabilities
GUIDANCE GUARANTEE

MAS/TPAS

Guidance Guarantee to be provided by organisations with no conflict

For every individual with DC pension savings (including AVCs within a DB scheme)

FCA to set standards and oversee delivery – consultation published

Paid by levy on financial services firms

Providers and trustees responsible for ensuring retirees are offered the guidance
IN PROVIDING MEMBERS SUPPORT WITH THEIR DECISION MAKING AT RETIREMENT WILL YOU:

- Only signpost the Guidance Guarantee (a)
- Offer additional financial planning in the workplace (b)
- Facilitate an introduction to a firm of retirement income product providers or brokers (c)
- b) and c) combined (d)
<table>
<thead>
<tr>
<th>TO DO</th>
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<tbody>
<tr>
<td>Ensure retirees have clearly signposted access to the Guidance Service</td>
</tr>
<tr>
<td>Review member communication and engagement</td>
</tr>
<tr>
<td>Make it easy to consolidate previous pension arrangements</td>
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<td>Review at retirement support and services</td>
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</table>
DB TO DC TRANSFERS
### DB TO DC TRANSFERS
SAMPLE RETIREMENT STATEMENT

#### RETIREMENT STATEMENT FOR M ABC

<table>
<thead>
<tr>
<th>Name:</th>
<th>M ABC</th>
</tr>
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<tbody>
<tr>
<td>National Insurance No:</td>
<td>ZZ9999999A</td>
</tr>
<tr>
<td>Date of Birth:</td>
<td>31 December 1950</td>
</tr>
<tr>
<td>Date Joined Scheme:</td>
<td>1 June 1996</td>
</tr>
<tr>
<td>Accrual Cessation Date:</td>
<td>1 June 2011</td>
</tr>
<tr>
<td>Total Service:</td>
<td>15 years 0 months</td>
</tr>
<tr>
<td>Normal Retirement Date:</td>
<td>31 December 2015</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Option (1) – Full pension</th>
<th>£10,000 pa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Option (2) – Tax free lump sum plus residual pension</td>
<td>£50,000 £7,000 pa</td>
</tr>
<tr>
<td>Option (3) – Transfer value</td>
<td>£250,000</td>
</tr>
</tbody>
</table>

#### TRANSFER VALUE

<table>
<thead>
<tr>
<th>£0</th>
<th>£250,000</th>
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MERCER
## Retirement Statement for M ABC

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### Options

<table>
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<tr>
<th>Option</th>
<th>Value</th>
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</thead>
<tbody>
<tr>
<td>(1) Full pension</td>
<td>£5,000 pa</td>
</tr>
<tr>
<td>(2) Tax free lump sum plus residual pension</td>
<td>£25,000 + £3,500 pa</td>
</tr>
<tr>
<td>(3) Transfer value</td>
<td>£125,000</td>
</tr>
</tbody>
</table>

### Transfer Value

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<td><strong>TRANSFER VALUE</strong></td>
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WHAT PROPORTION OF DB MEMBERS DO YOU THINK WILL ELECT TO TRANSFER THEIR BENEFITS AT RETIREMENT?

- <10% (a)
- 10 – 20% (b)
- 21 – 40% (c)
- 41 – 60% (d)
- >60% (e)
WHY MIGHT A DB MEMBER TRANSFER AT RETIREMENT?

IF THEY:
- Are heavily in debt
- Have a short life expectancy
- Do not have dependants
- Would prefer wealth to an income stream

ALSO:
- Because they will now be actively considering it
- Concerns over employer covenant
DB TO DC TRANSFERS
TRANSFER VALUE REVIEW

- Mostly at retirement?
- More transfers?
- Selection?
- Partial transfers?
  
  Comparison with commutation factors
MEMBER CHOICES

- Retirement Flexibility (ReFlex)
- Enhanced Transfer Values (ETVs)
- Pensions Increase Exchange (PIE)
### DB TO DC TRANSFERS

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<td>Review transfer values (trustees) and liaise with employer</td>
</tr>
<tr>
<td>Agree communication approach</td>
</tr>
<tr>
<td>Monitor experience - may impact disinvestment, LDI</td>
</tr>
<tr>
<td>Revisit liability management</td>
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RETIREMENT IN THE CONTEXT OF THE EMPLOYEE VALUE PROPOSITION

MAKING RETIREMENT SAVING ATTRACTIVE AGAIN

FROM:

FOR EMPLOYERS:
- Carries high cost and risk for the company for little impact on engagement
- The demise of DB has hurt affinity and trust

FOR EMPLOYEES:
- Pensions seem complex, technical and dull...until I need them
- The value only comes clear when there’s change
- Because I don’t understand them, if you change them I’m worried
- Lost entitlement

TO:

FOR EMPLOYERS:
- An opportunity to reset the importance of retirement savings
- Less risk and complexity
- Value in line with cost

FOR EMPLOYEES:
- Choice and freedoms mean less to fear
- Starts to feel like real money
- Choice to suit my life
SCHEME OF THE FUTURE

Employer payroll election

Gross - Auto Enrolment compliant

Net

Pension Section

Savings Section

Tax optimisation transfer

Short to medium term expenditure

Cash

Variable income (outsourced or same platform)

Annuity / product provider

At retirement (with adviser support option)

Guidance Service

Employer payroll election

Cash

Variable income (outsourced or same platform)

Annuity / product provider

At retirement (with adviser support option)

Guidance Service
IN THE FUTURE, SAY, 3-5 YEARS TIME, DO YOU THINK YOUR ORGANISATION WILL OFFER FLEXIBLE SAVINGS ALONGSIDE A TRADITIONAL PENSION SCHEME?

a) Yes

b) No

c) Don’t know
IN THE FUTURE, SAY, 3-5 YEARS TIME, DO YOU THINK YOUR ORGANISATION WILL OFFER

POST RETIREMENT SOLUTIONS

a) Within the scheme
b) Outsource to a third party
c) Won’t offer them, will let members find their own solution
QUESTIONS VIA ONLINE CHAT