



Extending Retirement Choices

Leslie Gray and David Riddington
(United Kingdom)

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Outline

- Background
- Our approach in general
- Our approach in detail
 - Some examples
- Defined benefit schemes
- Summary

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Background

- Falling annuity rates
- Need to annuitise at retirement
 - although some can postpone
- All must annuitise by 75 at latest
- Inheritability issues
- New products
- Choices report and Curry Bill
- Government announcements

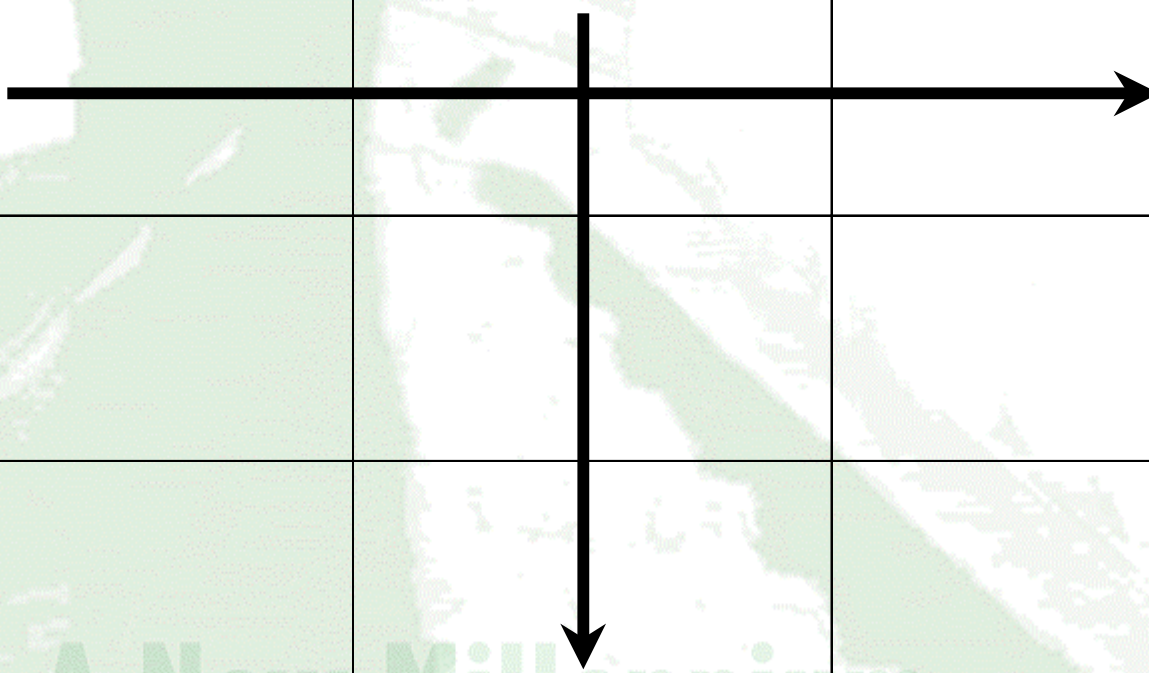
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Our approach in general

- Add to debate on annuity reform
- Needs rather than products
- Needs will differ
 - for different people
 - for the same person, over time
- Different solutions meet different needs
- Importance of choice
- Not favouring any one option

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Our approach in detail

	Need #1	Need #2	Need #3
Solution #1			
Solution #2			
Solution #3			

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Seven needs or priorities

- **Choice** - Can it be tailored?
- **Security** - How much risk am I running?
- **Inheritability** - What happens if I die?
- **Flexibility** - Can I change things later?
- **Self Reliance** - Can I stay off the State?
- **Investment efficiency** - Long term return?
- **Cost effective** - Will the charges be high?



Four possible solutions

- Traditional annuities
- Newer forms of annuities
- The Choices Report
- New variation
 - “Personal Distribution Plan”

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Traditional Annuities - Details

- Income fixed or increases at agreed rate.
- Guaranteed
- Payable throughout life
- Based on insurance cross-subsidy
- Guarantees backed by fixed interest investments.

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Traditional Annuities - Analysis

Choice	Some choice of type of annuity but limited in eg nature of increase	
Security	Absolute – based on guarantees not projections.	
Inheritability	Some provision possible but likely to be restricted to eg first five years. Concept based on mortality cross-sub.	
Flexibility	Once set up cannot be altered.	
Self Reliance	Significant due to guarantees but generally not index-linked so can lose value.	
Invest. effic.	Generally gilts so no equity growth.	
Cost effect.	High. No costs due to changes or reviews.	

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Personal Distribution Plan - Details

- Determine minimum income (X)
- If fund > annuity cost of X, no annuity purchase
- Invest fund. Draw down income as required.
- Check value of fund v. cost of annuitising X
- Annuitise when fund just sufficient to buy X
- Some controls over investment freedom
- Regular information on fund v. annuity cost

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Comparison of four options

	Choice	Security	Inherit.	Flexib.	Self Rel	Invst Eff	Cost Eff
Trad An	☆☆	☆☆☆☆☆	☆	☆	☆☆☆	☆	☆☆☆☆☆
Ext An	☆☆☆☆	☆☆☆	☆☆☆☆	☆☆☆☆	☆☆☆	☆☆☆☆	☆☆☆
Choices	☆☆☆	☆☆☆☆	☆☆	☆☆☆	☆☆☆☆	☆☆	☆☆☆☆
PDP	☆☆☆☆☆	☆☆☆☆	☆☆☆☆	☆☆☆☆	☆☆☆	☆☆☆☆☆	☆☆

- Greater Choice generally means giving up some Security.
- Trade off between Cost and Flexibility
- Self Reliance broadly the same across all options

Defined Benefit Schemes

- Strong on *Security, Self Reliance, Cost Effectiveness* and *Investment Efficiency*
- Add *Choice, Flexibility* and *Inheritability*?
- Transfer funds to DC arrangement
- Alternatively, flexible income in DB scheme
 - actuarial certification of equivalent value.

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Summary

- Retirement needs are diverse
 - can vary between people and over time.
- Diversity implies greater choice
- Similar choice to that available to savers
- Flexibility to change later.
- Choice implies regular information
 - annual retirement statements

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