

▶ New Standards for Income Drawdown

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The Changing Face of Income Drawdown

More people using drawdown than annuities

H2 2015 IDD 72,000 people

H2 2015 Annuity 44,000 people

Drawdown is no longer the preserve of advised sales

37% of drawdown customers are buying without a regulated adviser

Pensionwise seems to deter drawdown

8% of drawdown customers say they have used Pensionwise

14% of annuity customers say they have used Pensionwise

25% of people cashing in whole pension say they have used Pensionwise

Drawdown provision is now more widespread

56% of drawdown customers are not moving to a new provider

Source : FCA Retirement Income Market Data Q3&Q4 2015

The old market and the new market for IDD

Additional customers

£250,000 + pot size

Advised

Adviser recommended fund selection

Other sources of income so able to take market volatility

Motivated by better investment returns and ability to leave unused capital to heirs

▶ New customers

▶ £25,000 to £500,000 pots

▶ Non-advised

▶ 90% used the default fund when saving up

▶ Don't understand sequencing risk pound cost ravaging

▶ Read in the press that annuities w bad value

The key areas where customers need help

Where should my pension assets be invested ?

What is an appropriate rate of withdrawal ?

Should I panic when markets are falling?

What's a reasonable charge to pay for an income drawdown plan?

Who is looking after my interests?

Good investment approach will

Take account of the needs and demographic profile of typical customers

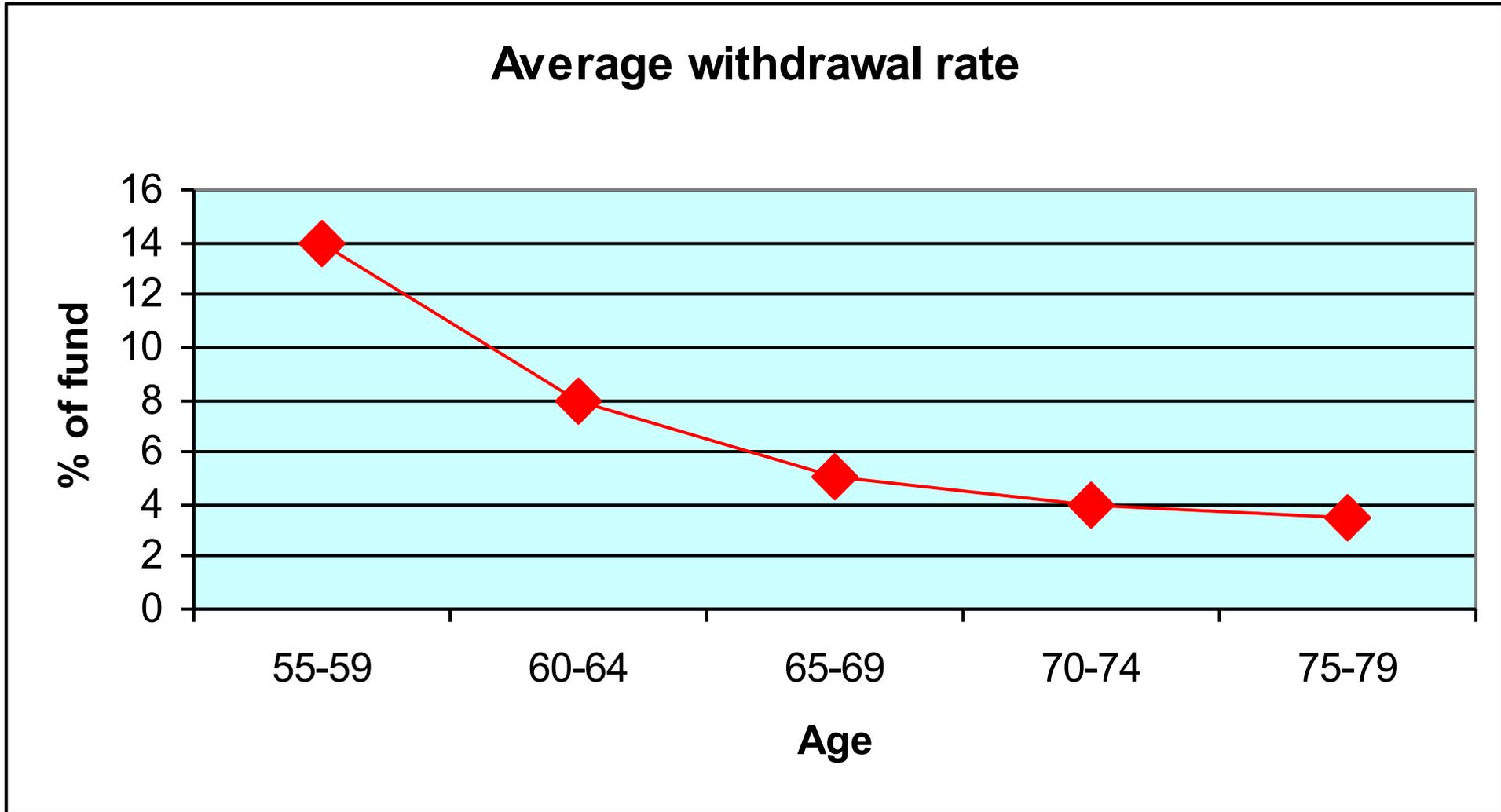
Balance investment risk with potential for income and growth

Diversify across and within asset classes

Selected by someone who knows what they are doing and who acts in the member's interests

So we'll need a default fund

ates of withdrawal : left to their own devices



Source : FCA Retirement Income Market Date Q3 2015

What's a safe or appropriate withdrawal rate?

4% – rule of thumb : 4% is safe rate of withdrawal

Cooley Hubbard and Walz monte carlo simulation on 50/50 equity bond portfolio

- ▶ 95% chance of dying before fund runs out

3 1/2% equivalent : 3 1/2% is safe rate of withdrawal

Professor Wade Pfau's replication of the monte carlo simulation for other countries

- ▶ Source : Abraham Okusanya, Finalytiq

5.6% withdrawal rate as an annuity

5.6% for average health male at 65

- ▶ 29% Risk of running out of money before death
- ▶ Source : Just Retirement (adviser tools site)

customers need help with

determining a suitable initial rate of withdrawal

warnings if they are drawing down too much

encouragement if they are drawing down too little

There isn't a right answer, but we know more about how much it's sensible to withdraw than most consumers do

What should drawdown customers do when markets sharply?

Market Volatility is Growing More Intense

- ▶ Financial Times, September 2015

Everyone is on edge as era of cheap money comes to an end

Regulatory changes have created shallower markets

- ▶ As banks find it difficult to stockpile assets

More investors now exhibit common behaviour

Greater reliance on put options

- ▶ But falling markets drive option writers to sell assets to protect themselves

What should drawdown customers do when markets sharply? (2)

Responsible messages could be

Do nothing, you have lots of cash on your portfolio so you can draw on that rather than sell assets at depressed prices

Reduce your income as your fund is now worth less

Go back and consult the plan you made when you set out with income drawdown

- ▶ Responsible risk taking is about having a plan as to what you will do when the downside risks actually come to pass

Other things to do could include

Behave like an ostrich

Panic!

Good consumers will need communications in times of market volatility

arges

arge cap seems inappropriate

It's a voluntary product, unlike auto-enrolment

The market is still developing

encourage shopping around for the best charge

Without an adviser to help them?

It's never really worked for annuities

- ▶ 64% of annuity customers stay with their existing pension provider
- ▶ 56% of income drawdown customers are staying put too!

arges can be addressed through strong independent governance

Expect IGCs to be exerting greater pressure as comparative value for money tools deve

Independent Governance

Can be a trust board or an independent governance committee
Majority independence to ensure decisions taken in member interest
Ongoing training of trustees or IGC members is essential
Reports back to members and takes feedback from them
Tests the efficacy of member communications
Including looking at older members

Independent Governance can help drive value for money

Regular assessment of charges

- ▶ Fairness
- ▶ Level against the market
- ▶ Value against services delivered

How Pension Quality Mark Can Help

PQM was established in 2009 to promote good quality DC pension schemes

Over 200 schemes hold the Pension Quality Mark

Covering 420,000 employees

11 master trusts have the PQM ready award

PQM caters for both trust based and contract based

New Retirement Quality Mark will launch this summer

PFM is creating a new Retirement Quality Mark for simple income drawdown schemes and UFPLS aimed at the new investors arising from Freedom & Choice

For savers this would

Signal which products are good quality and well governed

Ensure they get help with investment, withdrawal rates, alerts when action needed

Deliver value for money

For trustees and employers this would

Assist them in signposting members through to a suitable product

- ▶ Particularly where trustees and employers don't want to run income drawdown

Increase the number of retiring employees that take a retirement income

- ▶ Majority of pensions accessed in Q3 & Q4 2015 were fully cashed in

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