DECEMBER 2022
CORPORATE-ADVISER.COM

corporate adviser

ROUNDTABLE

RETIREMENT JOURNEYS FOR TOMORROW'S DC RETIREES

– CRACKING DECUMULATION
– PATHWAY TO A BETTER RETIREMENT

IN ASSOCIATION WITH

Aviva Workplace Pension

Workplace pensions that hit the mark

It takes Aviva

- Getting it right for employees
- Getting it right for employers
- Getting it right for you

Our range of workplace pensions has it all.

Beautifully designed by our industry specialists, our range of workplace pensions hit the mark for everyone. We've got the flexible investment and retirement options employees crave and we back that up by making it simple for employers to set up and administer.

Search Aviva Workplace Savings to find out more

Aviva Life & Pensions UK Limited. Registered in England No 3253947. Aviva, Wellington Row, York, YO90 1WR. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Firm Reference Number 185896. Member of the Association of British Insurers. SP991786 (62239) 11/2022

EXCITING TIMES FOR DC DECUMULATION

Understanding which features are most important to retirees is the key to creating better decumulation pathways

John Greenwood
john.greenwood@definitearticlemedia.com

These are exciting times for defined contribution pensions. Probably too exciting for actual members right now, with the end of cheap money and roaring asset prices, and an economy tipping into recession. But for DC pensions professionals, it feels like we are at last seeing some credible ideas begin to emerge that could help deal with arguably the biggest challenge created by the switch from defined benefit – managing medium-sized pots through retirement without advice.

Until recently the only two options on the table for DC retirees seeking income for the remainder of their life have been income drawdown or annuity. Yes, these can be combined, and sometimes will be if an adviser is involved, but non-advised individuals are presented with a binary choice – the extreme volatility, complexity and uncertainty of income drawdown or the absolute certainty but moribund returns of an annuity.

As pot sizes gradually grow and reliance on DB recedes, it's great to see innovative thinking finding ways to offer retirees something between these two poles.

Decumulation-only collective DC (CDC) is one idea gaining increasing traction as understanding of the concept grows and greater detail on actual structure emerges. A 'flex then fix' approach is another solution being talked about, and Aviva is putting its weight behind a variant of that which uses a bulk annuity purchase for the tail-end risk post age 80.

With a trickle of providers and master trusts starting to put at least a bit of skin on the bones of their propositions for decumulation we are at last getting to a point where consultants and advisers will be able to share their perspectives on the relative merits of what is brought to market.

For advisers, it will be a case of comparing the way propositions deal with the many risks, demands and benefits that retiring workers want. High income, flexibility of withdrawals, death benefits, protection against inflation, protection against living too long, protection against underspending, tax efficiency, protection from cognitive decline, simplicity and trust – the list is long. Retirees want all of these, but the reality is, they will have to make compromises. So what set of features and compromises makes up the best pathway for the non-advised retiree with enough to want an income but not enough to feel the urge to pay for advice?

Credit to Aviva for coming out with a proposition that attempts to make that call. The round table covered in this supplement reflects views of leading thinkers from across the industry on how best to balance these competing demands and requirements. It is a conversation that is urgently needed as we scope out solutions that can support retirees to make the most of their retirement savings.

INSIDE

REPORT

04 CRACKING DECUMULATION
The flexibility of drawdown with some of the security of an annuity – has Aviva's guided retirement solution solved the non-advised decumulation puzzle? John Greenwood reports

10 PATHWAY TO A BETTER RETIREMENT
The decumulation space is alive with innovation - finding the right blend of product features will be key to success. John Greenwood reports

RETIREMENT JOURNEYS FOR TOMORROW'S DC RETIREES

CRACKING DECUMULATION

The flexibility of drawdown with some of the security of an annuity – has Aviva's guided retirement solution solved the non-advised decumulation puzzle? **John Greenwood** reports

The transition from a defined benefit (DB) to defined contribution (DC) model means workplace pension savers transitioning into retirement face a confusing, risky and uncertain future. The market volatility of the Truss/Kwarteng era and a more fundamental change in economic environment as the economy comes to terms with the end of cheap money, have highlighted just how difficult it will be for DC retirees to navigate investment markets through drawdown, most of them without financial advice.

Delegates at a recent Corporate Adviser round table, *Retirement Journeys for Tomorrow's DC Retirees*, examined models for supporting non-advised customers through decumulation, and set out the range of challenges faced by them and the sorts of features they might want.

The scale of the problem

Aviva managing director, workplace Emma Douglas said: "The big problem is we will have a lot of people without advice who have a pot of money that will need to last for their retirement, but who don't know how long that's going to be. They'll want some flexibility, but they'll also want some security, which is a difficult balance to strike. We're asking them to do a lot of difficult things that are often described as the hardest and nastiest problems in personal finance. Should we really be leaving people to do their own thing when it comes to that? Probably not."

For Aon head of DC investment James Monk, retaining a level of flexibility is key because individuals' needs change. "Individuals' objectives are vastly varied, and although the FCA has made really good steps in providing a structure around the non-advised drawdown market through investment pathways, I do think there are challenges associated with providing structures in a five-year timeframe, or a 15 years in drawdown. Flexibility is the key and albeit that guaranteed income is very expensive to deliver, it does help with retirement planning."

For Nigel Dunn, partner at LCP, for most people, the problem is too much choice, when decisions are very limited in accumulation. "What we really need is a solution where members don't need to make a choice and members get to

(Left to right) James Mouland, head of financial planning, UK at WTW; Nigel Dunn, partner at LCP; and Hannah English, consulting actuary at Hymans Robertson

retirement and we say this is what's going to happen to your pot. You're going to receive this much tax-free cash, You're going to receive this much in income. If you don't like it then you can go and see an adviser. But for the vast majority of people we have put way too much responsibility and way too many options in front of them."

Hannah English, consulting actuary at Hymans Robertson said individual factors such as longevity needed to be factored in, and made one-size-fits-all solutions challenge. "Men could have life expectancy ten years higher or lower, so having a five-year, or a 15-year solution is hard to turn into a solution that's going to be perfect for everyone."

Bad decisions

James Mouland, head of financial planning, UK at WTW said poor decision-making at retirement by those not taking advice is happening for savers with pots of all sizes. " Even with bigger pots we are still seeing some pretty questionable decisions," he said. "We are seeing people with £1,000,000 pots taking UFPLS, for example. Now that might be the right decision for that individual - you don't know their circumstances, but it's unlikely. Questionable decisions are being made

Aon head of DC investment James Monk

Aviva managing director, workplace Emma Douglas

because fundamentally they're not taking the support that is on offer to them."

For Isio director Matt Calveley, apathy remains a key challenge to engagement, meaning ready-made solutions are needed. "I think people want a range of off-the-shelf productized solutions, supported by advice. Trying to get people to engage isn't going to work – apathy will rule. I'm not saying we shouldn't try, but we need off-the-shelf products to give them."

Building solutions

Aviva's Douglas and head of investment strategy and propositions Maiyuresh Rajah set out their organisation's thinking on designing a new default model for those savers with enough of a pot to want drawdown but not enough to be likely to pay for advice or to be realistically thinking about leaving a bequest from it to their family or friends.

Douglas outlined Aviva's 'guided retirement' solution that splits the pot into three ways – a drawdown pot, a pot for an annuity from age 80 and a small amount in cash for one-off discretionary or emergency spending. "There's a lot of good behavioural finance reasons for having different pots. And knowing that money is there means you are more likely to spend the other part of your income. We are worried about people underspending in retirement because they don't know exactly how long they as an individual are going to live. If you have that little bit in reserve, it's likely to encourage more spending then of the bulk of the money used in the drawdown period," said Douglas.

Douglas explained that under guided retirement, the drawdown pot is then used to fund the 15 years from 65 to 80 and then the third pot is used for the end-of-life ▶

period. She suggested there were two options for structuring this part of the product journey.

"That part of the pot will be either used up front to purchase a deferred annuity that pays out from age 80 or you just set aside that pot and use it at age 80 to buy an immediate annuity," said Douglas. "The deferred annuity market doesn't really exist at the moment, which is a drawback to that, that solution. But we are talking to the annuity people at Aviva about how we can make this work.

"Obviously it does work in the bulk buyout world, so it does exist. It just doesn't really exist in DC. But we are looking at whether we can for, say, the master trust population, buy this bulk deferred annuity."

Fork in the road

Douglas said deferring the purchase of the later life annuity until age 80 is a less seamless solution, and doesn't help with the cognitive decline issues of making big decisions later in life. "People might not buy that annuity, but you could argue that that allows you to take account of your health circumstances at that point. Whereas if you buy a deferred annuity at 65 and a group one, your own individual state of health will not be taken into account yet. It's all part of the pooling."

Douglas was asked whether, under the bulk annuity bought at 65 option, individuals would be underwritten on health and lifestyle grounds. "You could underwrite but that just adds complexity to the proposition. So it's a question of can we start with something that is just about right for everybody or avoids the real bad outcomes for people? You come to individual issues where actually people don't fit into the default, and that's where potentially education, advice or enhanced guidance can support people," she said.

Death benefits

Maiyuresh Rajah, head of investment strategy and propositions, UK at Aviva said: "There are trade-offs in terms of what we choose and what we think is the ideal solution won't have that benefit [death benefits] for the annuity element. As soon as you start introducing things like that, the income numbers start to go down.

"What we've seen from research is that members are prepared to put that 20 per cent aside and know that they might not get it back. But the rest of the 70 per cent that's in the drawdown, and the easy access 10 per cent in cash, that's all available to you or your estate. So effectively, you're putting aside 20 per cent and you're taking that risk with it. But that gives you the ability to have a higher level of income."

Aviva said they were unable to give specifics on the amount of income that would be recommended as a sustainable withdrawal rate from the 70 per cent pot at this stage, but did feel the 20 per cent figure for the annuity at 80 was the right level to keep the level of income consistent throughout.

Health concerns

Monk said: "There is that percentage of people that, that have a significant life event change in health, cognitive decline through that period of 65 to 80. And that change in circumstance can drive significant decision making. You need that flexibility of that second optionality structure where you have the money which isn't committed and then you can buy an individual annuity immediately at age 80."

Douglas agreed it gave flexibility, but pointed out that it did not address the cognitive decline issue. You end up thinking do we have the power of attorney in place and all of those other gruesome things that we don't like to think about old age, but that do kick in."

Dunn felt there would be challenges in getting people to surrender 20 per cent of their pot at age 65 for a benefit that might kick in 15 years later. "I think you've got the same problem there as if you bought an annuity. Most people think they're going to die in the next five years."

Dunn pointed to the QSuper Lifetime Pension model in Australia, a pooled investment that gives death benefits and a spouse or partner income, as a solution that addressed the issue.

English said Hymans Roberson research had shown the tipping point where death benefits become important. "The research found that when pots get to the £250,000 mark people do really start to care about inheritance," she said.

Rajah countered that while people's first thought was that they might not like to lock their money away, that soon changed when you showed them the income differential. This solution, he said, was for people below that level, who would probably not want to pay for advice.

Rajah added that the age 65 was not cast in stone, but that the more flexibility that was added, the less could be given out from a value perspective in terms of income.

Rajah said: "At age 65 or whenever they retire, that's when they're really thinking about what they want to do with their retirement assets. So one of the things that we're thinking about is if we can get that decision point around that sort of time, that will make it easier for them to actually make a decision. You let it go and they might not come back to you, they might semi retire, they might go somewhere else, and then you've lost the engagement."

(Left to right) Maiyuresh Rajah, head of investment strategy and propositions, UK at Aviva; and Isio director Matt Calveley

Income target

English quizzed Aviva as to what the income target would be linked to, and whether it would be aiming to beat inflation by a particular percentage. Rajah replied that while it would aim to beat inflation, it would not have an inflation target per se.

"We are telling [the customer] that this is what we think they can take out if they want to try to make sure they don't run out of money before age 80. If there's a good year, we might then say, actually, you can take out more. It's up to you whether you take it," says Rajah.

"If we have said take out 8 per cent or 7 per cent and they're taking out 12 per cent and they've done it three years in a row, we're going to say, 'if you carry on doing this, you're going to run out way before you

Barnett Waddingham partner Mark Futcher

get to 80, so you need to think about what you're doing," he said.

Dunn countered that this decision-making freedom presented a challenge to the Aviva model.

Dunn also quizzed what would happen if after a string of bad years it became apparent that the individual was not going to make it to 80 at their rate of withdrawal. "Are you going to just reduce their retirement?"

Rajah pointed out that that was no different to drawdown, where individuals can pull all their cash out and run out sooner than planned.

Competing withdrawal rates

Delegates also reflected on the potential for ranking of 'safe' withdrawal rates between providers, with the potential for ambitious withdrawal rates being cited in a bid to attract customers.

Monk said: "You have to be careful not to state too many opinions in that space when it comes to pathways, because there's too much risk when you're talking to a workplace governance committee that they're going to interpret that for their own individual circumstances. It's one of those things you need to manage."

Monk also pointed out that there were already wide differences in equity allocation between providers in the bequest investment pathway, ranging from 20 per cent to 60 per cent.

Trust model

Aviva's plan is to go forward with guided retirement in the master trust rather than in the investment pathway options of its group personal pension (GPP) offering. So is this solution more suited to occupational pension rules than FCA rules?

"There is more freedom currently for a set of trustees to decide what they want to do because they do not have to offer investment pathways. Very few own-trust trustees would want to think about extending their duties past retirement, but master trust trustees do want to do that," said Douglas.

"TPR have made comments that they're looking to more closely align with FCA. So we may see investment pathways come into the trust based world, but currently I am hoping that we do keep a bit more freedom to design these solutions in trust and I think investment pathways will evolve as well. So let's hope we can bring some of this into contract."

Douglas said Aviva's current drawdown to annuity option does not sit within the five-year bucket required by investment pathways.

Asked whether it was time for a review of investment pathways, Douglas said: "Yes, a review of how successful they've been and whether there's now new thinking in market that we could incorporate. The bit that I hated most about them was the fact that you have to pick one of the pathways because it just felt that that wasn't right for a lot of people. And the five year timeline - I do understand because it's hard for any of us to think out beyond five years, but it set a rather arbitrary framework that made it harder to talk about these whole retirement solutions." ■

Aviva Workplace Pension

Workplace pensions that hit the mark

It takes Aviva

- Getting it right for employees
- Getting it right for employers
- Getting it right for you

Our range of workplace pensions has it all.

Search
Aviva Workplace Savings
to find out more

Aviva Life & Pensions UK Limited. Registered in England No 3253947. Aviva, Wellington Row, York, YO90 1WR. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Firm Reference Number 185896. Member of the Association of British Insurers. SP991906 (62239) 11/2022

AVIVA

RETIREMENT JOURNEYS FOR TOMORROW'S DC RETIREES

PATHWAY TO A BETTER RETIREMENT

The decumulation space is alive with innovation - finding the right blend of product features will be key to success. **John Greenwood** reports

Default pathways into retirement need to deliver on multiple fronts. Members will always want a combination of high income, flexibility of withdrawals, death benefits, simplicity and trust. They also want protection against inflation, living too long and underspending, and also cognitive decline. At a recent Corporate Adviser round table, advisers joined Aviva to debate the provider's new 'guided retirement' concept, which separates a retirees' pension into three pots – 10 per cent for everyday money, 20 per cent to secure an annuity from age 80 and the balance to be run down in drawdown by that age. No solution can offer everything, so product developers need to balance the relative merits of the features on offer.

Advisers were generally supportive of Aviva's new retirement pathway, designed for retirees with enough money to want to generate an income from it, but not with enough assets to place them in the sweet spot for financial advice. Advisers debated the features of the product and compared its merits with decumulation-only collective DC (CDC).

Probability of sustainability

Aon head of DC investment James Monk supported the flexibility that guided retirement offered, but cautioned that users would need to be fully aware of the impact of unsustainable withdrawals on their pots. He said: "It would be helpful for members if, when they set their yield expectation or their income needs that you were able to say that this is the median expected time frame of how long we expect your pot to last, and then you have a percentage probability of achieving that."

Maiyuresh Rajah, head of investment strategy and propositions, UK at Aviva said that Aviva's sustainability tool would allow members to do that.

(Centre) Maiyuresh Rajah, head of investment strategy and propositions, UK at Aviva

(Left to right) Aon head of DC investment James Monk; and Barnett Waddingham partner Mark Futcher

Isio director Matt Calveley asked: "I know this product is all about flexibility, but have you thought about restricting the level of income people can take? If you have a strategy, but they are going to fall short of age 80, this could be a factor."

Rajah said Aviva is thinking about this but customers are so focused on flexibility that restrictions could go against what people want.

Barnett Waddingham partner Mark Futcher said he backed the idea of having default pathways of this sort, and the guidance towards a sustainable withdrawal rate was a key part of that. "We are talking about defaults here and we are telling people this is the off-the-shelf plan – it's 15 years and this is the fund and how we have optimised it for that journey and if you deviate from it, it's not optimal. We need defaults."

Monk added: "I completely agree with needing defaults but you also need safety nets? If they withdraw 10 per cent of their

Aviva managing director, workplace Emma Douglas

pot, then they need to know that they're going to fall short by the age of 80. So if they have a life event, which means that they want to pass on some of this as a gift or something like that, then they need the foresight as to the impact it's going to have."

CDC comparisons

Calveley suggested collective DC in decumulation could be a way around some of the challenges presented by guided retirement, and Rajah said that the idea was being looked at by Aviva but that legislation meant it was years away.

Douglas added: "There is certainly lobbying to government on this. Guy Opperman was really keen on it. He is obviously still around but not directly pensions minister. It looks like the next step after Royal Mail will be accumulation for master trusts. But it's still likely to be a couple of years at least."

Adviser delegates were asked whether there was enough support to get CDC off the ground, given the vociferous critics against it.

"Dunn said: "I think it is a good idea but we don't have the scale yet. It's definitely an option for the future."

Monk said: "There's a huge amount of benefits driven from risk sharing through longevity pooling. I think liquidity risk can be managed. There is a huge amount you can do within that framework that is similar to defined benefit. There's a lot of similarities to with profits, which got such a bad name for itself because there were some people out there who very badly mismanaged it. There's no safety net for accumulation CDC, but if CDC is going to be the solution for the future, there probably does need to be some sort of government backing behind it in certain events."

CDC simplicity?

Dunn said: "CDC solves a lot of problems because you don't need to explain to members what's going on. It just happens. You just vary their income. I think that making that choice is one of the biggest challenges the industry is going to face. But I do think it's the right thing to do post retirement. CDC is so far off, so let's forget about it for the time being. We need a solution now," said Dunn.

Delegates were asked whether something like the Aviva retirement pathway model matched many of the pluses of a decumulation CDC while beating it on simplicity of understanding for members.

Calveley said: "From a member point of view the three pots model is simpler to understand than decumulation CDC."

Douglas said: "There's more decisions to make in our three parts model. Yeah, you have to think about it a bit more. But I do think that, you know, you started with flexibility. It does give you more flexibility. CDC gives you what it gives you. This at least allows you to decide how you're going to spend your money. But it's over a 15-year period. So it has you know, it has boundaries. What you really miss in CDC is the flexibility and how valuable that is to anyone, I think is the question."

State pension deferral

Barnett Waddingham partner Mark Futcher suggested an effective way to achieve a similar level of security around end of life risk to that achieved by Aviva's guided retirement model would be to defer state pension and live off drawdown in the meantime. State pension increases by 10.4 per cent for every year it is deferred.

Futcher said: "If you defer state pension it revalues quite nicely. And one thing that I think is underused, I haven't really had anyone tell me why is why wouldn't you as an individual say, I'm going to cover my risk with my DC from 65 to 80? I've got 15 years that I need to cover from my pension. I'm going to defer my state pension for 15 years, let that kick in a much, much higher level. And you cover all your tail end risk there." ▶

James Mouland, head of financial planning, UK at WTW

But Futcher accepted that such a strategy relies on trusting the government not to tinker with state pension in the coming decades. And while savers might think their chance of recouping each lost year's income through higher long-term payments were positive for years sacrificed in their sixties, that likelihood shrinks as individuals get older.

Dash for dashboards

Debate moved to the impact of the dashboard project on decumulation journey. Douglas, who is also chair of the Pensions and Lifetime Savings Association (PLSA), said she did not anticipate any movement in next year's deadline for provider connectivity. She did however suggest there could be some delay in the launch of the dashboard to the public. But she predicted it would see the light of day at some point within 2024.

Advisers suggested some commercially driven new market entrants would seek to gather large amounts of assets. Futcher said we could see a tightening of transfer rules to block transfers where there was a risk of poor outcomes.

Dunn said: "We're seeing a very similar sort of thing now where there's incentives being given to transfer into a provider. A lot of providers have already said, well that's a red flag according to the new FCA rules. So some of them have said they will move them to an amber flag. That still means in many cases that members are required to have a PensionWise or a Moneyhelper meeting. People in trust-based schemes are well protected from these new transfer rules. But if you're not, then there's more risk, depending on which provider you're transferring from. The vast majority go to these consolidators in terms of transfers out from any trust-based scheme. So it really is already a tidal wave."

Douglas added: "What we see is a lot of members exit at retirement and I think that's because we haven't had good at-retirement products. That's more the AJ Bell, St James's Place type of provider. During accumulation it is more of the consolidators, but those are much smaller pot sizes. I am hopeful that having the kind

Aviva managing director, workplace Emma Douglas

Nigel Dunn, partner at LCP; and Hannah English, consulting actuary at Hymans Robertson

Risk and opportunity

Mouland said the trend to digital was a double-edged sword. He said: "There's definitely a risk with digitisation and the ability to be able to see everything and make the wrong decision. But actually there's also opportunity, seeing the charges and being able to go for those lower cost products. There's a lot of dog products, stuff that people had 20 years ago that charges 1.5 per cent that they should be out of. If they don't have guarantees or anything like that, then consolidation can be a great thing."

Futcher added: "We did some analysis that with a 35 basis points charge as opposed to a 1.7 per cent charge, the difference in expected charge is equivalent to two years' worth of income in drawdown so if it stacks up to be a lot."

Porous in retirement

So do advisers see a concern if providers that score well in accumulation are porous in terms of losing retirees to consolidators with high charges and poor functionality over time?

Futcher said: "The short answer is yes. The accumulation space is quite an immature market. But my clients want to get under the skin of this and they want to know they have fully integrated access to things like drawdown supported by guidance. And I think the dashboard will accelerate that." ■

of product that we've been talking about today would make it more attractive for people with those middle pot sizes to stay in their workplace pension. But certainly the fees are going to be lower than they are in the retail world."

Workplace v retail

Delegates discussed the dynamics of the market and the challenges to workplace pension schemes. Futcher said: "Rather than trust versus contract, it's workplace versus non workplace that is the big distinction. If it's a workplace scheme, it's being actively governed by someone and corporates do care about their members. There was a useful clarification that caught a lot of us off guard, from the FCA, saying that trust-based schemes are now going to be classed as retail clients under FCA authorisation. We're still waiting to hear what that means. In reality, that could be very problematic for a number of companies, particularly around communications. Trustees have enjoyed rather more freedom in what they are able to communicate."

(Right) Isio director Matt Calveley

Making workplace pensions easy

It takes Aviva

Designed by our industry specialists, our workplace pension range has something to suit everyone. We've got the flexible investment and retirement options employees need alongside the simple set-up and easy administration employers want.

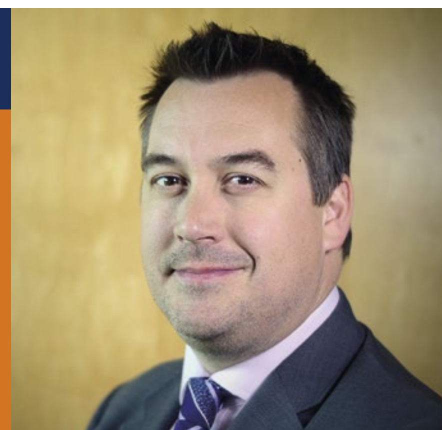
Search Aviva Workplace Savings to find out more

Aviva Life & Pensions UK Limited. Registered in England No 3253947. Aviva, Wellington Row, York, YO90 1WR. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. Firm Reference Number 185896. Member of the Association of British Insurers. SP991735 (62239) 11/2022

Q&A

A GUIDE TO A BETTER RETIREMENT

» **Chris Allen** financial education team manager, Aviva



Pension scheme savers face a bewildering range of choices as they near retirement. Aviva's guided retirement concept aims to combine flexibility and security

What has driven the need for more innovation around pension choices at retirement?

The 2015 Pension Freedom rules gave people far more flexibility about taking their retirement benefits, but also added a lot of complexity too. We've gone from a situation where members didn't have to think too much about retirement – although the main option, an annuity at 65, wasn't necessarily their preferred choice, to now where the choices available mean members have to think and make active decisions about a whole host of issues, from how much income they'll need, to how long they need their pension funds to last. Most people find this overwhelming, and with financial advice not always chosen by many, we are looking at how we can design product options and strategies that can help guide people through this process.

What could a guided retirement strategy look like?

The guided retirement concept is still in development, but we are hoping to offer it as an option to members from next year. This approach will essentially split members retirement funds into three main pots: a flexible drawdown plan to provide income during the early years of retirement, a smaller fund for unexpected expenditure and a pot to buy a later life annuity, which is likely to kick in at around the age of 80.

This gives members the benefit of a degree of flexibility in the early years of retirement, while also offering the reassurance, via the later life annuity element, that they will not run out of money later in life – regardless of how long they live, or how their investments perform.

We are currently investigating whether the later life annuity can be a deferred annuity.

This approach also addresses issues around cognitive decline. With conventional drawdown people are free to switch to an annuity at a later stage, provided there are sufficient funds left, but some may feel less confident making these decisions in their 80s. This approach has the potential to be a game-changer. It is a relatively simple product, and people like simplicity. But it still leaves them in control of their money when they retire.

> Members have to think and make active decisions about a whole host of issues, from how much income they'll need, to how long they need their pension funds to last

Will a guided retirement approach change accumulation investment strategies?

The idea behind the guided retirement approach is to have a 'to and through' retirement strategy that aligns the accumulation phase to the decumulation phase, and creates a whole-of-life journey. To get members ready for the decumulation phase their assets will be gradually moved into the appropriate investment strategies towards the end of the accumulation phase, so yes, there will be a change to accumulation investment strategies.

Does guided retirement reduce the need for financial education around pensions?

Definitely not! We see education and engagement as being key to delivering better member outcomes in retirement. Segmentation will remain important when it comes to delivering information on pensions, including details of this new guided approach. Although it is important to provide general awareness of how pensions can be accessed at retirement and the choices available, it's not as crucial to those just starting out on their long term savings journey. But as people move through their 40s and 50s they start to think about retirement. This is a good opportunity to educate members about retirement options. Their future plans might also affect investment choices made at this stage, so engagement should step up as people approach retirement and have to make important financial decisions about how they take their pension benefits.

This isn't the end of the journey however. There's a need for guidance and engagement post-retirement, particularly for members in drawdown or a guided retirement solution. People need to know whether they are taking too little or too much from their drawdown plans, and the impact that can have on their income at a later stage. ■

corporate adviser

ROUNDTABLE

IN ASSOCIATION WITH