



Innovating for a changing retirement
AEGON IFA Insights Survey Research and Analysis
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Introduction from Rachel Vahey

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The recent unprecedented turmoil in the financial markets means the need for income security in retirement has probably never been greater. Guarantees have come to the fore with governments forced to step in to try to restore market confidence. And the continuing decline in defined benefit pension scheme membership means more and more people are having to find their own ways of providing a guaranteed income throughout their retirement.

The UK, in common with many other developed countries, is facing the economic challenges of dealing with an ageing population. The face of retirement is changing. People are living longer and, for the first time in the UK, the number of pensioners is greater than the number of people aged 16 or under. And this is before the main bulk of the influential baby boomer generation reaches retirement. Faced with the prospect of 30 years or more in retirement it is becoming increasingly clear that people's attitudes to retirement are changing. It is no longer the cliff edge it once was, with an abrupt move from working life to full retirement. In future, people will need much more flexibility and choice in retirement solutions to meet the challenges of increases in longevity, fluctuating income requirements and providing a secure income stream.

AEGON believes developing the right solutions to meet the challenges of today's retirees starts with listening to what people want. We conducted consumer research earlier in the year into the attitudes towards, and needs in, retirement of the baby boomer generation.

It revealed baby boomers don't see themselves as 'old', and many intend to carry on working in some capacity after retirement age. The vast majority want some level of guaranteed income in retirement and also expect their income needs to rise and fall during the course of their retirement. To advance our thinking, we followed this up by getting IFAs' views of their clients' attitudes to the changing nature of retirement and the role guaranteed products can play in their retirement portfolios.

People are increasingly required to take responsibility for planning and providing for their own financial futures, and AEGON believes the Government and industry should do all it can to make it easy for them to do so. We can do this by widening the access to financial advice so everyone can get help they can trust, in a way best suited to their needs and lifestyles. We can also listen to what people and IFAs are telling us and innovate to provide the right solutions to meet people's needs. And Government can play its part by making legislation more flexible to allow new retirement solutions to emerge. Only by doing all this will we ensure future generations can get on track to make the most of their longer and healthier lives.

As in our previous reports, we have published the top line findings in this document in order to illustrate the most important points. Should you have any comments or queries relating to the following pages, please do not hesitate to contact me, as I would be delighted to hear your views. For more information on the IFA Insights project or to see previous reports please visit our website at: www.aegon.co.uk/media

Methodology

Populus interviewed 100 Independent Financial Advisers specialising in retirement, long term savings and investment products by telephone between 23 June and 2 July 2008.

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Question 1

Please say whether you think the following is important to your clients at retirement age in times of market uncertainty.

	Yes	No
Guarantees on income	89%	7%
Guarantees on capital	81%	15%

Commentary

Market volatility has increased dramatically since the credit crunch began to bite and the importance of securing an adequate income in retirement has come to the fore. As food and household fuel prices rise, and stockmarkets and house prices fall, it's no surprise to find an overwhelming majority of IFAs say their clients value guarantees on their money. Almost nine out of ten (89 per cent) of IFAs say guaranteed levels of income are important and more than eight out of ten (81 per cent) believe clients want to protect their investment capital.

These results echo the findings of consumer research undertaken by AEGON earlier this year*. When asked which options appealed to them money wise in retirement, 87 per cent of people surveyed chose a guaranteed income for life.

The desire for peace of mind on income streams could also indicate recognition of increasing longevity. As people live longer they will have to fund a longer period in retirement. As a result people may feel they need a guaranteed level of retirement income to at least cover basic outgoings, such as food, energy, and fuel.

*AEGON surveyed 2,140 people aged between 50 and 65 who have not yet retired. The research was carried out by OnePoll on AEGON's behalf in May 2008. Full details of the research can be found at www.aegon.co.uk/downloads/pdf/pdf20080813.pdf



Question 2

The term ‘variable annuity’ can be used to describe pension or investment products that offer guarantees on income or capital. What do you think are the most significant barriers to the development of the variable annuity market in the UK?

It’s a new market and the benefits of variable annuities are not widely understood	87%
Shortage of UK providers in this market	71%
The cost of the guarantees looks too high	70%
The products are complicated and hard to understand	58%
It’s hard to explain the benefits to clients	38%
There is no need for these products as I can meet my clients’ retirement needs with existing retirement products	15%

Commentary

While popular in the USA and Japan, variable annuity products, offering guarantees on income, capital and death, have been slower to take off in the UK. However there is evidence IFAs recognise the importance of variable annuities as a retirement solution with only 15 per cent saying there is no need for these products and that they can meet their clients’ retirement needs with existing retirement products. This, coupled with the vast majority of IFAs saying guarantees are important to their clients, shows a significant potential for growth in this market.

Almost nine out of ten IFAs (87 per cent) say the most significant current barrier to the expansion of variable annuities is the fact it is a new market in the UK and the benefits of the products are not widely understood. A shortage of UK providers in the market is seen to be the second most significant barrier to the development of this market (71 per cent of IFAs). AEGON expects variable annuities to become more widely accepted as a retirement solution as market volatility continues.

While seven out of ten IFAs (70 per cent) say the cost of the guarantees looks too high, increasing stockmarket volatility and falling long-term interest rates make the guarantees on variable annuities more valuable. It is also important to remember variable annuities are insurance products and people are usually willing to pay a premium to buy peace of mind and protect the things they value.



Question 3

Over the next ten years do you think the demand for guaranteed products will:

Increase significantly	33%	Total increase: 69%
Increase slightly	36%	
Stay the same	23%	
Decrease slightly	1%	Total decrease: 3%
Decrease significantly	2%	

Commentary

Nearly seven out of ten IFAs (69 per cent) predict a growth in demand for guaranteed products over the next ten years, with a third (33 per cent) expecting the increase to be significant. This may partly be fuelled by demographic trends as the UK population ages. The number of pensioners in the UK is, for the first time, greater than the number of under 16s and the baby boomer generation, now approaching retirement, will swell those numbers. Watson Wyatt's In-Retirement study, published in March this year, estimates the retirement market will grow from around £14bn in 2007 to £49bn by 2017, with variable annuities accounting for around ten per cent of this. Demand may also increase as guaranteed products become more mainstream and more advisers and their clients recognise their benefits in helping with longevity and market volatility issues.

Question 4

How strongly do you agree or disagree with the following statements relating to the retirement market?

My clients would welcome the development of flexible retirement products that can provide an income in retirement that rises and falls according to their needs	Strongly Agree Somewhat Agree	45% 41%	Total Agree: 86%
	Neither Agree nor Disagree	5%	
	Somewhat Disagree Strongly Disagree	4% 5%	Total Disagree: 9%
I expect my clients to need access to additional income in retirement to pay for things such as long-term care, health emergencies, home improvements or other significant purchases	Strongly Agree Somewhat Agree	39% 45%	Total Agree: 84%
	Neither Agree nor Disagree	5%	
	Somewhat Disagree Strongly Disagree	9% 1%	Total Disagree: 10%
People are choosing alternative means of saving for retirement because of the inflexibility of retirement products	Strongly Agree Somewhat Agree	55% 23%	Total Agree: 78%
	Neither Agree nor Disagree	9%	
	Somewhat Disagree Strongly Disagree	10% 2%	Total Disagree: 12%
An increasing number of my clients intend to carry on working either full time, part time, paid or voluntary	Strongly Agree Somewhat Agree	39% 45%	Total Agree: 84%
	Neither Agree nor Disagree	7%	
	Somewhat Disagree Strongly Disagree	6% 3%	Total Disagree: 9%
An increasing number of my clients intend to undertake further training or education after they reach retirement age	Strongly Agree Somewhat Agree	4% 13%	Total Agree: 17%
	Neither Agree nor Disagree	13%	
	Somewhat Disagree Strongly Disagree	33% 26%	Total Disagree: 59%
What matters to my clients is an absolutely guaranteed minimum income	Strongly Agree Somewhat Agree	40% 23%	Total Agree: 63%
	Neither Agree nor Disagree	11%	
	Somewhat Disagree Strongly Disagree	18% 7%	Total Disagree: 25%



Question 4 Continued

Commentary

Retirement is no longer the lifestyle cliff edge it once was, and 84 per cent of IFAs say an increasing number of their clients will carry on working in some capacity when they reach retirement age. People's income needs in retirement are also changing indicating that much more flexible solutions are needed. 86 per cent of IFAs say their clients would welcome the development of retirement products that can provide an income that rises and falls according to their needs. A similar number (84 per cent) also expect their clients to need additional income in retirement to pay for things like long-term care, health emergencies, home improvements or other significant purchases. And, illustrating the importance of income security, more than six out of ten IFAs (63 per cent) say their clients want an absolutely guaranteed minimum income. These statistics echo the findings of AEGON's consumer research and signal a need for innovation in this market. With 78 per cent of IFAs saying the inflexibility of retirement products is causing people to choose alternative means of saving for retirement it's vital the pensions industry and Government keep pace with people's changing needs.





Question 5

Do you expect your clients' income needs to:

Remain constant throughout retirement	9%
Increase and decrease a little between early, mid and late retirement	58%
Change significantly throughout retirement	26%

Commentary

The need for retirement solutions that offer flexibility in the income taken is clear as more than eight out of ten IFAs (84 per cent) say they expect their clients' income needs to change throughout retirement. Under current legislation the only retirement solution to offer income flexibility is unsecured pension where income withdrawn from the fund can be flexed up or down (within certain limits) according to income needs. However while unsecured pension offers flexibility, the income is not guaranteed and could fall significantly with poor investment returns. Legislative change would be required to allow the smooth emergence of guaranteed products, such as annuities and variable annuities, where the income could fall as well as rise, depending on needs and life events.





Question 6

To the nearest £10,000 what do you think is the minimum size of retirement fund appropriate when recommending the following pension products? And what do you think is the maximum? If you don't feel there is a minimum or a maximum, please say so.

	Annuities		Unsecured pensions		Pension variable annuities	
	Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Less than £10,000	34%	-	4%	-	9%	
£20,000	22%	1%	5%	-	5%	1%
£30,000	8%	-	-	-	3%	-
£40,000	1%	-	-	-	3%	-
£50,000	4%	1%	14%	-	23%	-
£60,000	-	-	1%	-	2%	-
£70,000	2%	-	-		1%	-
£80,000	1%	-	2%	-	4%	-
£90,000	-	-	1%	-	-	1%
More than £100,000	18%	78%	62%	89%	37%	85%
None, I wouldn't recommend this product	1%	-	2%	-	3%	-
Don't know	9%	19%	9%	9%	10%	10%
Average	£35,556		£85,843		£67,816	



Question 6 Continued

Commentary

IFAs indicate they see pension variable annuities as a “third way” product bridging the gap between conventional annuities and unsecured pension. 56 per cent of IFAs think annuities are suitable for people with funds less than £20,000 while more than six out of ten (62%) say the minimum fund size for unsecured pension is £100,000. While 37 per cent of IFAs also believe £100,000 should be the minimum fund when recommending pension variable annuities, almost a quarter (23%) regard the minimum as being £50,000. Looking at the average minimum fund size for each product, variable annuities occupy the middle ground, perhaps offering a more flexible alternative to conventional annuities for people with insufficient funds, than considering unsecured pension.



Question 7

In the light of increases in longevity and greater choice in the decumulation market, have the recommendations you give to clients at retirement age changed? If they have, please say whether you are more or less likely to recommend the following.

Annuities	Much more likely	7%	Total More Likely: 25%
	A little more likely	18%	
	A little less likely	13%	Total Less Likely: 18%
	Much less likely	5%	
	The advice I give hasn't changed	55%	
Pension variable annuities	Much more likely	12%	Total More Likely: 51%
	A little more likely	39%	
	A little less likely	2%	Total Less Likely: 6%
	Much less likely	4%	
	The advice I give hasn't changed	34%	
Bonds with income and capital guarantees	Much more likely	15%	Total More Likely: 43%
	A little more likely	28%	
	A little less likely	8%	Total Less Likely: 14%
	Much less likely	6%	
	The advice I give hasn't changed	41%	
Keeping a higher percentage of funds invested in equities	Much more likely	8%	Total More Likely: 38%
	A little more likely	30%	
	A little less likely	13%	Total Less Likely: 25%
	Much less likely	12%	
	The advice I give hasn't changed	34%	
Inheritance tax planning vehicles, such as trusts, which restrict the client's use of the funds	Much more likely	8%	Total More Likely: 35%
	A little more likely	27%	
	A little less likely	19%	Total Less Likely: 22%
	Much less likely	3%	
	The advice I give hasn't changed	41%	



Question 7 Continued

Commentary

The introduction of variable annuity products into the UK over the past few years has increased the choice available to people approaching, or at, retirement. With increases in longevity well documented, IFAs are faced with statistics indicating there is now a 50 per cent chance a 60 year old man will live to 88 and a 60 year old woman will live to 91. If the man takes five per cent of his original investment as income each year from an onshore bond he has a one in three chance of running out of money before he dies. This rises to two in five for the woman. In light of this IFAs say the information they give to clients at retirement age has changed and they are more likely to recommend pension variable annuities (51 per cent) and bonds with capital and income guarantees (43 per cent).





Question 8

What types of people might you recommend variable annuities to? Please choose all that apply.

High net worth clients	77%
Clients with an adventurous attitude to risk	67%
Single clients	67%
Clients with dependants	55%
Clients with a cautious attitude to risk	31%
I would not recommend variable annuities	5%

Commentary

Despite the newness of the market in the UK there seems to be a growing acceptance amongst IFAs of the benefits of variable annuities with only one in twenty IFAs (5 per cent) saying they would not recommend them to their clients. The introduction of variable annuities has widened the choices available to IFAs and their clients at retirement by combining investment control and inheritance benefits with valuable guarantees.

IFAs see variable annuities as being suitable for a broad spectrum of clients. Nearly eight out of ten (77 per cent) think they would be suitable for high net worth clients, perhaps to be used as part of a diversified retirement portfolio. They are also regarded as more suitable for clients with an adventurous rather than a cautious attitude to risk. This may be because any increase in guaranteed income levels in these products depends on good investment performance from the underlying funds. However IFAs shouldn't lose sight of the fact that income is guaranteed not to fall and/or capital will be protected even if the fund value drops, which may appeal to clients with a more cautious attitude to risk.



Question 9

Where does advice add most value to your annuity clients? Please rank in order of importance, with 1 being the most important and 4 being the least important

	Most important	Second most important	Third most important	Fourth most important
Choosing the right annuity shape (guarantee period, spouse's pension, escalation)	28%	23%	23%	18%
Obtaining an impaired life annuity if appropriate	36%	31%	16%	10%
Moving to the provider with the top annuity rate if the rates provided by the client's existing provider are in the top five	18%	20%	29%	27%
Moving to the provider with the top annuity rate if the rates provided by the client's existing provider are outside the top five	14%	20%	22%	35%

Commentary

There has been increased focus by the FSA and in the media during the course of the year on the potential benefits to people of exercising their open market option (OMO) at retirement. Much of the commentary has been on making people aware of the OMO so they can shop around for the best annuity rates, however 67 per cent of IFAs say obtaining an impaired annuity for their clients, if appropriate, is either the most important or second most important area where advice can add most value. This reflects the fact there are differences of around 20 per cent between best and worst annuity rates compared to a boost of up to 40 per cent with an enhanced annuity. Advisers also recognise choosing the right shape of annuity to suit a client's circumstances is more important than simply securing the best rate. Making sure a client considers provision for dependants and possible erosion of income over time can make a big difference to their financial circumstances in retirement. As annuity purchase is a one-off decision, getting the right advice at retirement can be vital. Providers can help by increasing the flexibility of remuneration options for advisers to make it worth their while financially to advise clients with smaller pension pots.