

Retirement Income Lessons from the UK:

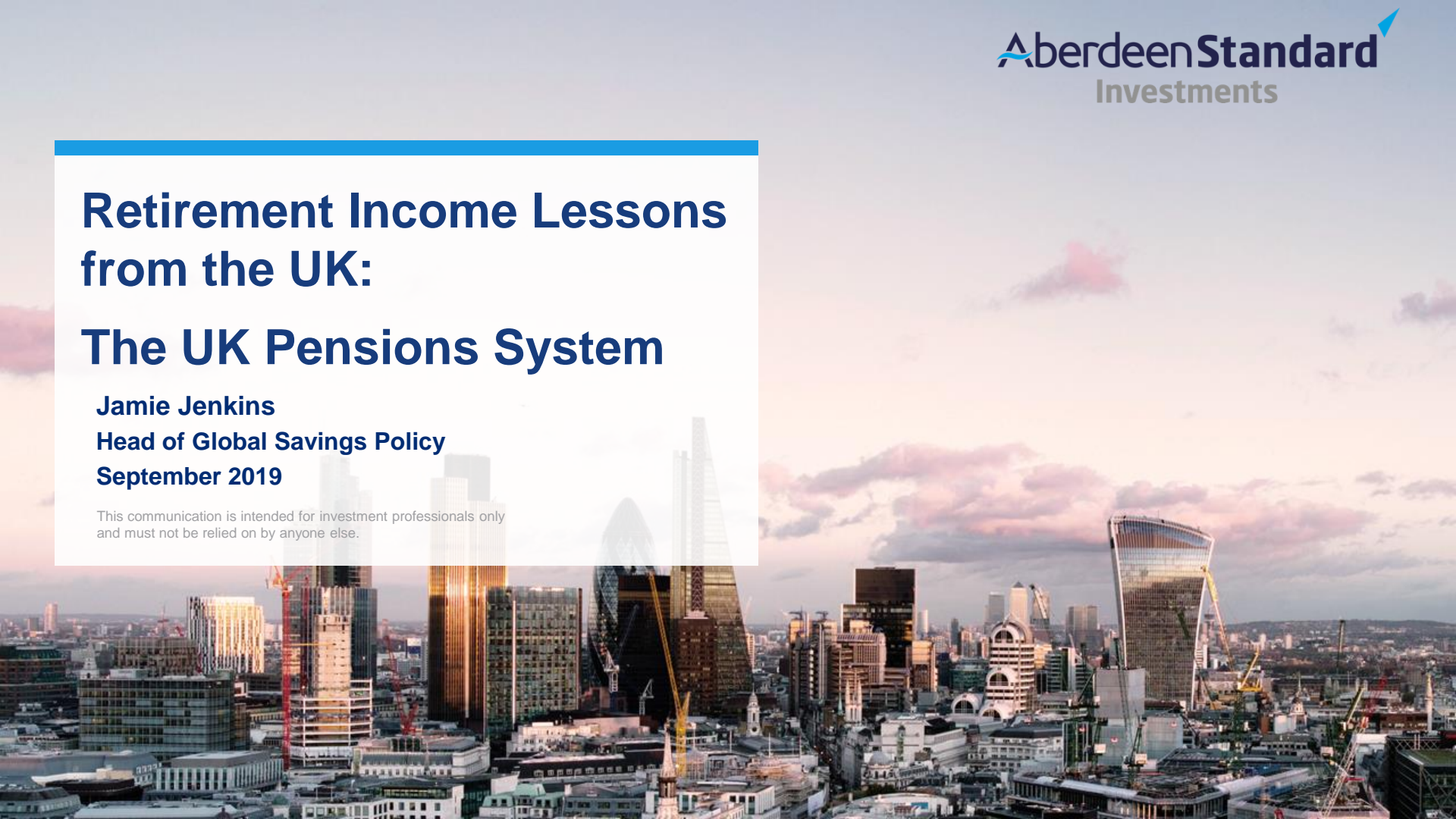
The UK Pensions System

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Head of Global Savings Policy

September 2019

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and must not be relied on by anyone else.



The UK pensions system

- State Pension (Pillar 1)**
 - Single, simplified amount payable from **65** for men and women for **35 years'** **tax**, increasing to **66** from 2020
 - Equal to **c1/3** of median income, increased annually by rate of inflation, wages or **2.5%**
 - Currently **c6%** of GDP
- Workplace Pensions (Pillar II)**
 - Private sector **DB schemes** mostly closed, public sector only
 - Automatic enrolment for anyone **aged 22** earning **£10,000pa**
 - Minimum **8% contribution**, with **mandatory 3%** from employer
 - Default investment fund charge capped at **0.75%pa**
- Personal Pensions (Pillar III)**
 - Used **for additional savings**, **self-employed** and **drawdown** in retirement
- Flexibility in retirement**
 - Ability for people to **take cash** and **income** as they wish from **age 55**

Key challenges

Only 39%

of UK adults trust financial advisers to act in the best interest of their clients

<10% have taken up the offer of free independent guidance

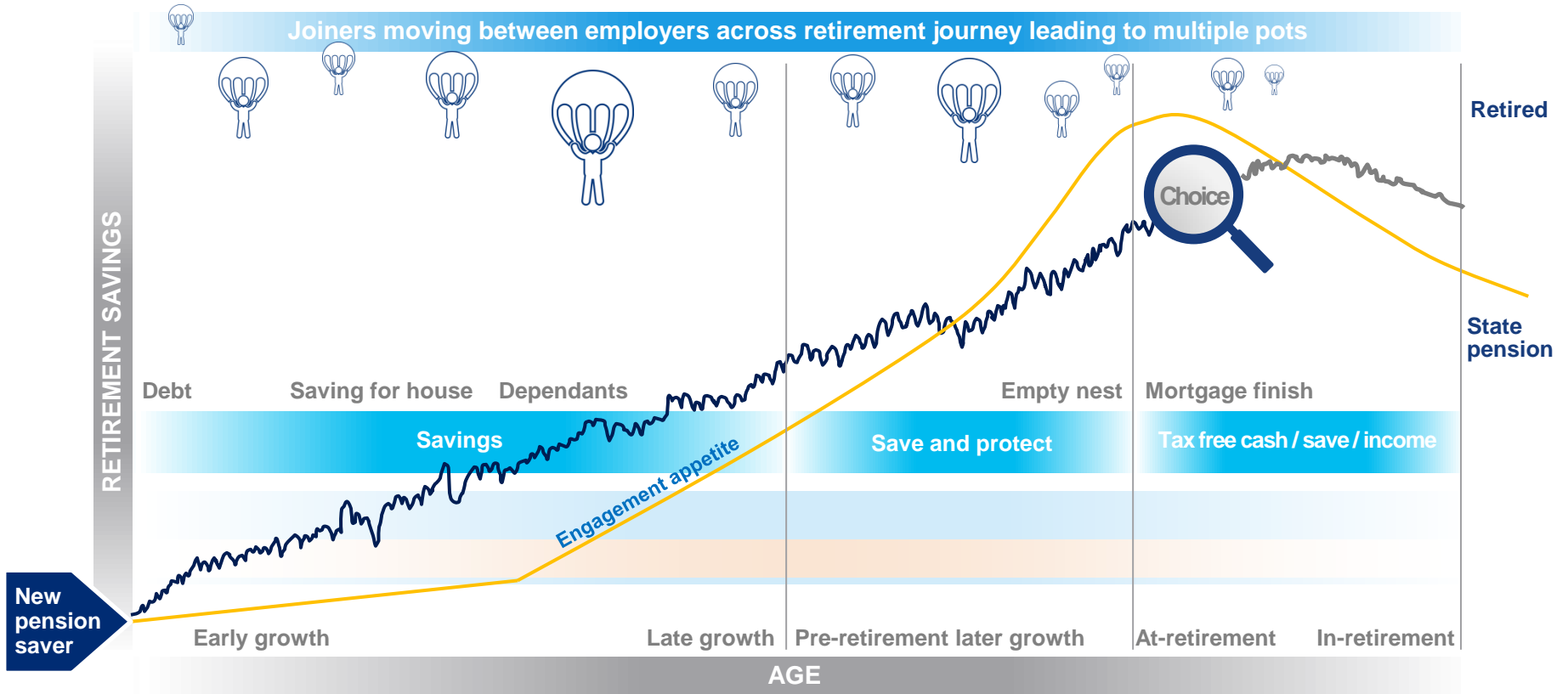
5 times the amount of money is now flowing into drawdown v annuities

42% Of pension savers at risk of being scammed

33% of people are holding their retirement investments in Cash

Private sector participation in workplace pensions has increased from **40% to 80%**

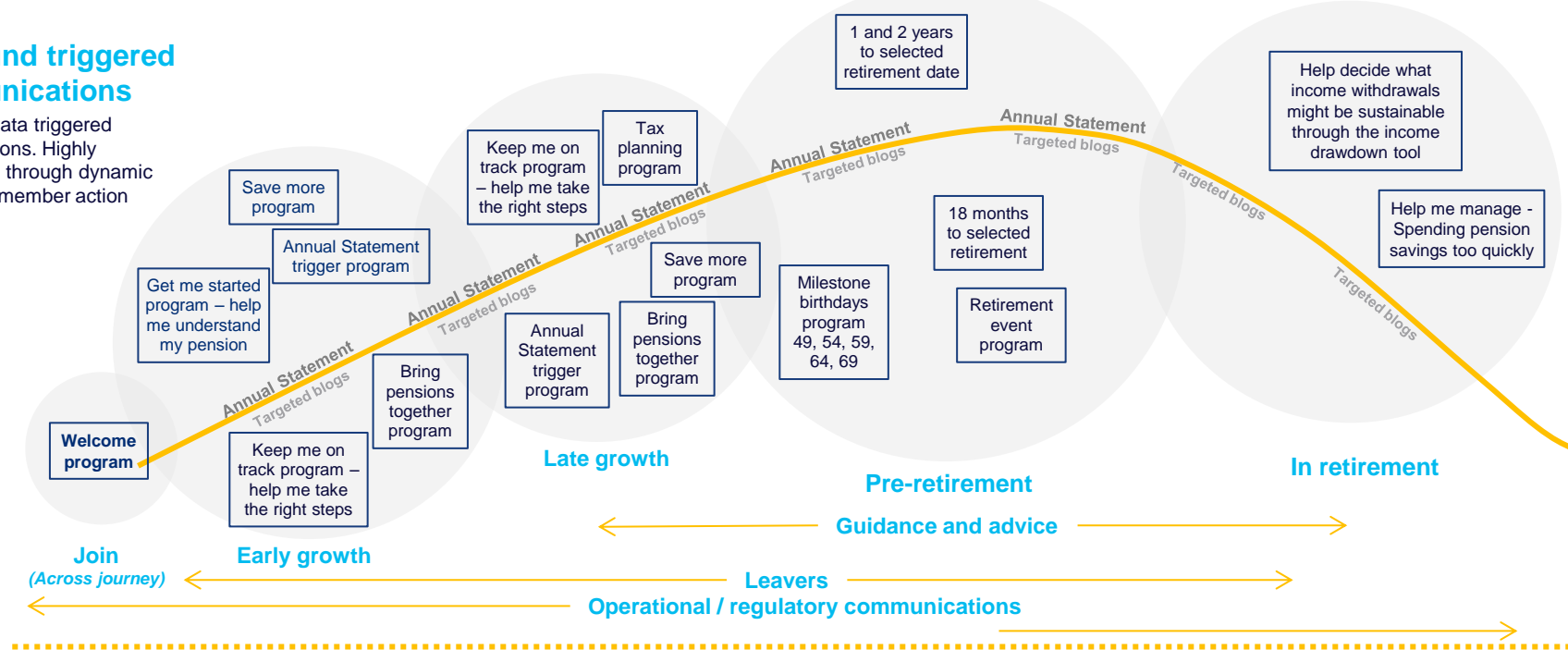
The UK retirement journey



Marketing approach

1 Outbound triggered communications

Automated data triggered communications. Highly personalised through dynamic content and member action



2 Connected member experience

Insight driven journeys across digital and servicing



- Content personalisation driven by data
- Self serve approach
- Multiple contact points – secure messaging, phone, mobile app, social, secure member site
- Driving best next action through data

Email benchmark / Our average

Open rate	21%	43.5%
Click through rate	2.5%	7.1%

Challenges & Solutions

Government & Industry

Transition from Defined Benefit to Defined Contribution

Stabilisation of State Pensions and tax reliefs

Increased coverage through compulsion or nudging

Increased engagement among employers and members

Good quality guidance and affordable advice



Society

Acceptance of personal responsibility

Understanding of balance between State and individual

Increase in gig economy and regular employment moves

Technology adoption & ESG considerations across generations

Understanding the value of advice

Risk transfer

State/employer

Generous state benefits including top ups, incentives and payable from early age

Defined Benefit schemes where employers fund entire risk

Retirement income structured and guaranteed throughout retirement



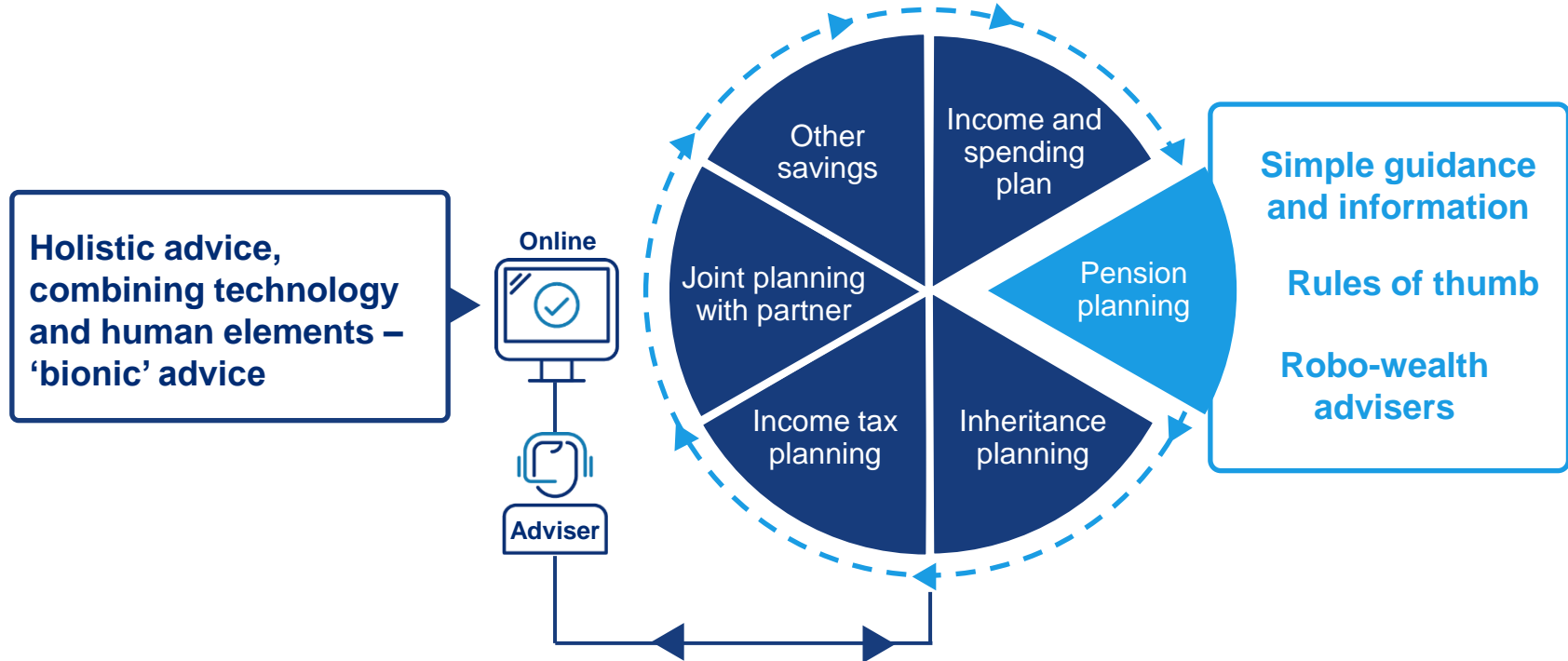
Individual

State benefits only focused on basic subsistence

Defined Contribution provides no promise and only part-funded by employers

Retirement decisions entirely responsibility of individual

Increasing need for advice



**Holistic advice,
combining technology
and human elements –
'bionic' advice**

**Simple guidance
and information**

Rules of thumb

**Robo-wealth
advisers**

Current issues

- Low consumer engagement
- Lack of shopping around
- Poor investment choices

...caused by

- One-off 'wake-up' packs
- Overly formal risk warnings
- Limited information on annual statements

Regulatory
intervention

Retirement Outcomes Review

- Single page wake-up packs from age 50
- Signposting to Money & Pensions Service
- Annual drawdown statements to include charges
- Industry-led drawdown comparison tool
- No cash default
- Investment pathways

Investment pathways – the new ‘nudge’

- 1) I have **no plans to touch my money** in the next 5 years
- 2) I plan to use my money to **set up a guaranteed income (annuity)** within the next 5 years
- 3) I plan to start **taking my money as a long-term income** within the next 5 years
- 4) I plan to **take out all my money** within the next 5 years

The Australian Retirement Income Journey

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September 2019



Australia's imminent retirement income journey can be accelerated by adopting key lessons learnt from the UK

Significant UK Policy Change (2009 – present)

❖ Retail Distribution Review (RDR)

❖ Pension Freedom reforms

UK developments

- **Member/client digital solutions incorporating behavioural methods** (accumulation and retirement)
- **Advice vs Product focus**
 - SMAs
 - Separation of product and fund selection from advisers
 - Outcome based investment solutions
- **Alternative retirement income solutions** (post abolition of compulsory annuity)



Australian implications

- **Adoption of best of breed digital retirement income solutions**
- **Adoption of learnings from RDR:**
 - Best practices and further adviser professionalism
 - Re-imagining adviser role
- **Opportunity to leverage latest UK retirement income products and investment solutions**
(i.e. implement the next generation of retirement solutions and fulfil CIPR requirements)

Behavioural techniques



Design defaults

Power of inertia

Industry consultation with a variety of stakeholders to assess our retirement assumptions and propositions

Engagement Sessions

Key questions



Industry and
retail super funds



Adviser groups
and platforms



Industry
consultants

**Industry
consultation
Phase**



Trustees

>40

Industry consultation
meetings and interviews




Industry bodies



Software and
Fintech

1. How are you approaching the retirement income legislation and framework?
2. What other initiatives are a higher priority in your business?
3. What are the essential must-get-rights to be successful?
4. What are the prerequisites and starting blocks you need to enable a retirement income solution?
5. What eco system or partners do you require to implement a retirement income solution?
6. Where is the best example in Australia of putting in place retirement income solutions to date?

Retirement Income Industry feedback...



1. Demographic changes and the “tsunami” of retirement money

2. Member interaction and journey is a ‘must get right’

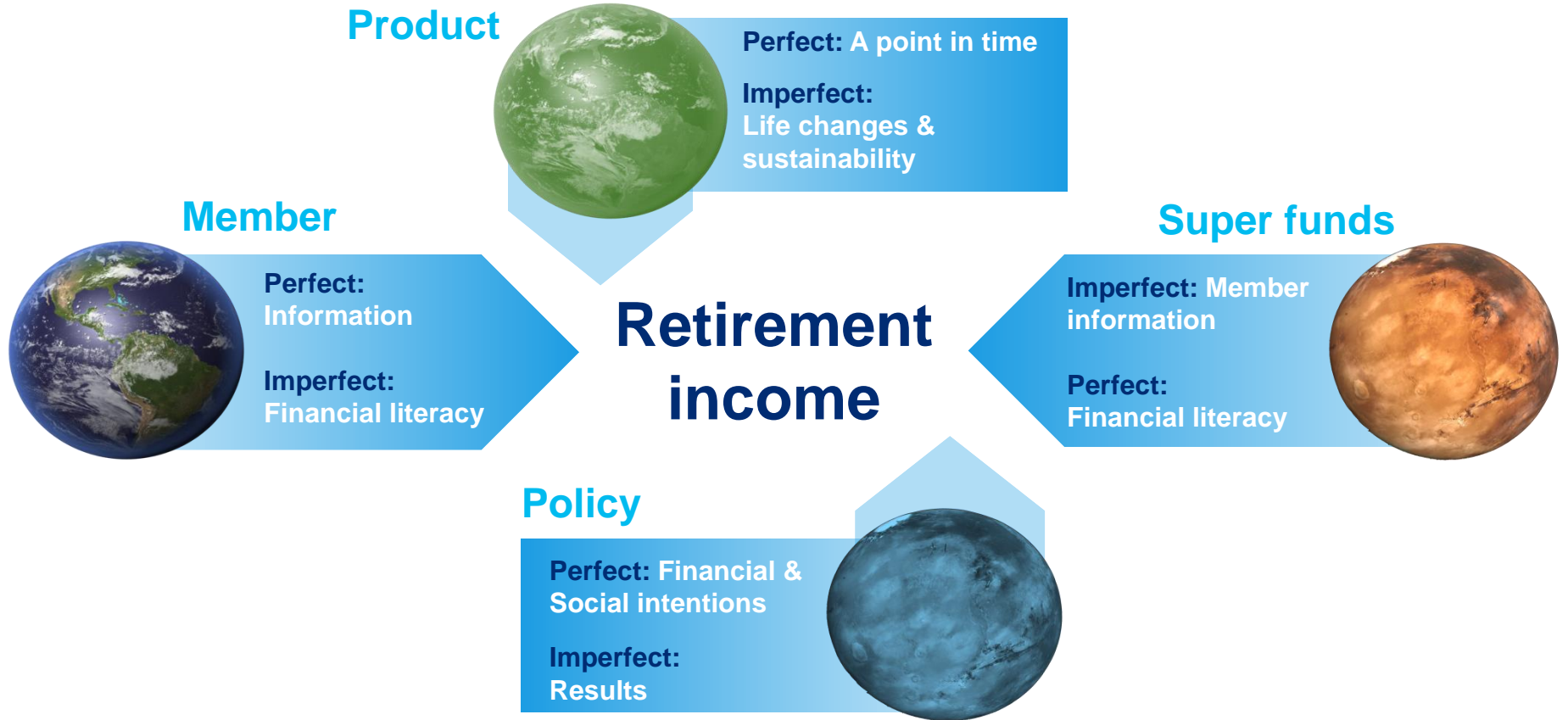
3. Digital solutions essential – no plan B

4. Super funds will require some degree of partnerships

5. Legislation must lead to simplifying the retirement income process

6. Advisers and platform providers have work to do

When worlds collide...



Simplifying the beast: The Retirement Income Industry Value Chain

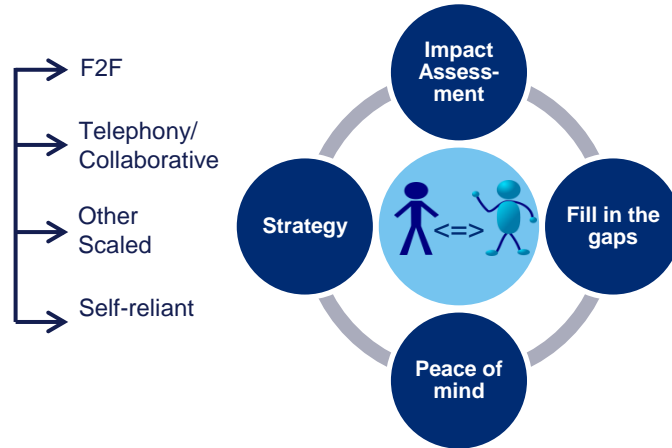


(1) Deepen the digital engagement



Understanding retirement in plain language

(2) Complete the dialogue



Translating individual circumstances into appropriate investment solutions

(3) Adaptable retirement solution



Adjustable to changing life & retirement circumstances

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