REDEFINING **RETIREMENT**

PENSIONS FREEDOM, PENSIONS FUTURE

Conversations and opportunities for advisers

For financial advisers only

OLD MUTUAL WEALTH

CONTENTS

FOREWORD
BY CARLTON HOOD

It's all about the person, not the product.

Advisers know this to be true and it's reflected in the changing client conversations. The evolving retirement landscape has gone from being an apparent scramble to understand all the new options and their consequences, to a realisation that it still comes down to the importance of understanding individual client needs.

Compared with previous generations, people are typically more active, living longer and with a baby boomer's desire for personal fulfilment - but their financial needs and attitudes are the same as before: a decent income in retirement, the desire not to run out of money and, ideally, something left to pass on.

For those at or near retirement, the anticipated certainty of an annuity or income drawdown has been supplanted with an alluring but complex range of options. Their expectations have been raised – but so have their apprehensions.

This paper explores how you, as an adviser, have the power to understand, influence and redefine one of the most important financial journeys your clients will ever make. It examines the human, emotional and irrational issues that need to be addressed alongside the logical ones.

The new freedoms have given you wider opportunities to deliver much more finely-tuned advice. The challenge now is to get clients to a place where they feel competent to understand the choices facing them and confident about their future plans. Our commitment is to stand alongside you with the support of industry-leading technical expertise, advanced financial planning tools and the most versatile investment options.

THE THINGS WE KNOW:

- The majority of clients are poorly equipped to make choices on their own.
- Financial advisers are increasingly exploring beyond the financial solution and taking account of potential irrational behavioural biases as an important part of their service.
- The way questions and income options are framed with clients is of vital importance.

CARLTON HOOD
CUSTOMER DIRECTOR

ADVICE MATTERS

There are three main dilemmas being faced by clients today:

1. Now versus the future

2. Visualising a long-term plan

3. Thinking the unthinkable

SECTION 1

PUTTING THINGS IN CONTEXT

THE EVOLVING CONVERSATION

THE THREE MAIN DILEMMAS

Industry research, including our own, shows that people find it hard to articulate what they really need in retirement. They don't understand how retirement income is achieved, they misunderstand key issues such as longevity risk, and as a result they tend to defer making decisions.

The paradox of pension freedom means that there are now many more choices available to people who are largely ill-equipped to make the necessary decisions or trade-offs - and who face potentially catastrophic implications if they make the wrong choices.

There are three main dilemmas being faced by clients today:

Now versus the future
What clients want today versus what they need to think about for the future.

Visualising a long-term plan
An inability to see the long-term picture or comprehend how much income will be needed in the future.

Thinking the unthinkable
The natural human tendency to put off thinking about the unpalatable, or those 'what if' scenarios that unfortunately affect so many people.

THE FIRST DILEMMA
NOW VERSUS THE FUTURE

Behavioural research has shown that, given the choice, people tend to choose a smaller-sooner reward over a larger-later reward.

Understanding this behaviour is key to unlocking (and ultimately changing) the irrational and short-term decision-making processes that are hardwired in the human condition.

In the past, clients were faced with the question of what level of income they could secure for the rest of their life. The only variables were external ones such as interest rates, inflation expectations, gilt yields and mortality. Some choices were irrevocable, and limited to deciding when to retire before accepting the best annuity on offer, and how to spend their tax-free cash.

The new reality is that clients are now being forced to calculate their life expectancy, their current and future spending patterns, future inflation and expected investment returns over a period likely to exceed 30 years.

Swapping the traditional comfort of 'knowns' with these new 'unknowns' will require significant psychological adjustment.

The best strategy for most clients is to engage the services of an adviser who can help them attain enough confidence and competence to avoid making disastrous decisions.

THE SECOND DILEMMA
VISUALISING A LONG-TERM PLAN

Research* suggests that clients find it extremely difficult to visualise what they will require in retirement, often giving a figure reflecting what they feel they want - but with little focus on their actual need.

Research shows that clients pay scant regard to their income needs and merely settle for the income they could achieve, adapting their consumption to match. It also indicates that the vast majority have the following issues:

- Limited understanding during accumulation of how retirement income is achieved.
- A tendency to defer, or ignore, retirement planning.
- An understanding that shopping around is possible – but not doing so.
- Failing to understand the long-term ramifications of small differences in annual income.

*source: FCA behavioural insights - Ignition House December 2014

The problem arising from the first two issues is that by the time accessing retirement savings becomes a priority, it is often too late to make any difference to the outcomes that can be generated.

The new breadth of choice has been labelled freedom, but with freedom comes responsibility. By deciding against the security of annuities, clients are opting for a lifelong variable income and with it an acceptance of risk.

THE THIRD DILEMMA
THINKING THE UNTHINKABLE

Many people are reluctant to openly address the implications of later life, such as long-term care for themselves and, indeed, for family members.

Despite overwhelming evidence that more and more individuals will require residential care at some stage, this very large elephant in the room continues to trumpet unheard.

The truth about what long-term care might really cost is a conversation that is often deferred, or ignored. Even the press has failed to give coverage to the Government's decision to kick this issue into the long grass. Yet the desire to pass on wealth to dependants can be severely impacted by any period of time in care.

This is a subject, unpalatable or not, that needs discussion – ideally with the whole family unit, where the duty of care is central to the advice conversation.

HELPING CLIENTS WITH THE PSYCHOLOGICAL ADJUSTMENT

These dilemmas need to be addressed - or at least recognised - by clients approaching their retirement. Accessing pension rights at the wrong time, ignoring all of the options available, and operating in ignorance of the rules could lead to bad decisions being made today with some ramifications only being felt in 15 or 20 years.

Underpinning most of the research is the sense that the vast majority of those approaching or beyond age 55 often don't fully understand the problem they are trying to address, haven't planned sufficiently well, and are not emotionally or behaviourally equipped to make decisions that have medium- to long-term ramifications.

This tends to encourage a decision based on the raw emotion of "how it feels" rather than an analysis of how the consequences might play out over a long period of time.

So, if it really is all about the person and not the product, the value of advice lies in the quality of the conversation. This leads to a deep understanding of the client's individual needs.

KEY TAKE-OUTS

- **Long-term thinking is difficult for most clients.**
- **Behavioural biases lead to irrational decisions and short cuts.**
- **There is a shift from the traditional conversations with the breadwinner to inclusive family financial planning.**

1. How long will I live and need an income for?
2. How much money do I need?
3. How long will my money last?
4. What is the risk of not taking professional advice?

SECTION 2

PUTTING THINGS IN CONTEXT

THE KEY CLIENT QUESTIONS

To help clients make the psychological adjustment to the new way of planning for retirement, there are four main questions around which to frame client conversations.

> **"Pension savers display well known biases such a tendency to under estimate longevity, inflation and investment risk. Consumers are highly sensitive to how options are presented to them."**
>
> (FCA Retirement income market study, March 2015)

QUESTION 1 - LONGEVITY RISK
HOW LONG WILL I LIVE AND NEED AN INCOME FOR?

It's common practice to use market studies when considering life expectancy, with mortality tables from the Office of National Statistics (ONS) readily available, for clients and advisers.

However, there is a danger in being led by averages and defaults. One approach to consider as part of the conversation based on client needs is to position the question in more relatable terms: 'Might you live longer than expected and, if so, will your income last long enough?'

Simply put, most individuals under-estimate how long they may live. This presents a problem where individuals live longer than their money.

The implications of living longer go far beyond the individual. And it's not necessarily just about including elderly relatives alongside younger family in discussions. Increasingly the 'circle of trust' is expanding to include other important people who may act as trustees or executors.

There are three key factors to help with the personalised and realistic conversation around life expectancy:

Health

What about genetics and family history?

Lifestyle

DNA may not be your destiny: Although your genetics have a major effect on your life expectancy; the most important factor is your lifestyle: in particular, smoking, drinking and lack of exercise.

History

Life expectancy is increasing, and each generation is living longer than the last.

A strange twist of statistics creates the anomaly that the older you are, the older you are likely to live to. The average 65 year old man in the UK is expected to live until age 83, and the average woman to age 85 (based on ONS statistics).

Making it last. How many pay packets are needed?

Working life over 40 years= 480 pay packets

Retirement Ave 25 years = 300 pay packets

1 money bag = 10 pay packets

You could think of retirement income in the terms of pay packets. Just as clients could work out how many they are going to get in their working life, they could do the same for retirement income until death. Even if they have a realistic assumption in mind about the number of pay packets they may need to generate throughout their retired life, the implications of living longer are a whole different ball game.

LIFE EXPECTANCY STATS

Men tend to underestimate their life expectancy by around 5 years, women by around 10 years.

BEWARE OF 'AVERAGES'

Statistically there is a 50% chance you will die before this age, and a 50% chance you will die after it.

MARRIAGE

A married couple both aged 65 have a 66% probability that one will survive will until at least 90.

MONEY

These stats have consequences not only for clients' money lasting their lifetime, but also for their legatees.

KEY TAKE-OUTS

- **Mortality averages are good indicators, but are no substitute for a 'personalised conversation' on the implications of living a fulfilling retirement.**

PUTTING THINGS IN CONTEXT

SECTION 2: **THE KEY CLIENT QUESTIONS**

QUESTION 2 - INFLATION RISK
HOW MUCH INCOME DO I NEED FOR THE RETIREMENT I WANT?

According to Age UK* those most hard hit financially and emotionally by later life poverty are those who were used to much higher income levels in the past.

*Getting by in later life: an overview of living on a low income.

One of the biggest questions we know advisers ask is: 'what are you planning to do with the rest of your life?' Assuming the client is fortunate enough to have the vaguest idea of their chosen lifestyle in retirement, they might think they're on the way to identifying the income pattern they will need.

If only it were that simple! As you know, many clients find it incredibly hard to understand what they actually might need. As stated earlier, visualising a long-term plan is hard enough on its own without having to work out what elements of the plan are going to cost along the way.

SMILING ALL THE WAY

The profile of retirement income can be characterised by the 'smile' graph below, tracing the varying requirements at different stages of the client's journey. It shows how expenditure is typically higher in the early years to fund a more active lifestyle, and at the later stages when the cost of care can become a significant factor.

QUESTIONS FOR YOUR CLIENTS

- What is the likely pattern of income need? How variable is it?
- Should you splash out or restrain your discretionary spending – what are your priorities and what trade-offs need to be made?
- Should retirement income last beyond the individual's lifetime to provide for a surviving partner?
- What expenditure do you need to plan for – heaven forbid that it might be needed?
- What legacy do you plan to leave for future generations?

Different stages of retirement determine different income needs - the 'retirement smile'

EXPENDITURE CATEGORIES

A surprising number of people approaching retirement are flummoxed by the complexity of working out exactly what they will need in terms of an income once they have retired. Many decisions and conclusions made by clients are likely to favour the near future whilst ignoring the long term.

Before you begin to ask your clients to total up the amount of money they will require for the rest of their lives to sustain their standard of living (which is the hardest question of all to answer) it feels like the right time to express expenditure differently.

By breaking down costs into these manageable categories, it becomes easier for the client to visualise both what they need and the potential consequences of trading off one expenditure for another.

Hierarchy of retirement income pyramid

LEGACY
(What lasting legacy do you want to leave for loved ones?)

UNKNOWN COSTS
(e.g. the unexpected boiler breakdown, hospital bill)

KNOWN COSTS
(e.g. lifestyle choices, holidays, events)

ESSENTIAL INCOME NEEDS
(minimum requirement for your lifestyle)

KEY TAKE-OUTS

- **Life goals will drive the need for income**
- **Variability of income and realistic trade-offs are an increasingly important part of the planning discussion**
- **Despite the array of tools available to help guide a client's income requirements, they are only as good as the conversation that underpins them.**

QUESTION 3 - INVESTMENT RISK

IS MY MONEY GOING TO RUN OUT… BEFORE I DO?

According to the FCA, only around 15%* of clients are now choosing an annuity, with 85% opting for a variable income. This now introduces investment risk to clients.

*FCA pensions data findings September 2015

Many clients will implicitly be taking on investment risk by not purchasing an annuity. Therefore, choosing a variable income introduces the explicit need for sustainable investment strategies.

Until retirement, investment strategies are traditionally benchmarked by an equity, bond or composite multi asset approach. This all changes at retirement.

The benchmark retired clients are most concerned about is whether they will have enough to live on or meet their lifestyle aspirations, effectively moving from a commoditised measure to a more meaningful personal barometer.

TO RISK OR NOT TO RISK?

Expecting a relatively high income from a relatively low-returning portfolio over a long period of time will expose clients to the risk that their money will run out altogether; referred to as the "risk of ruin".

It would seem natural to de-risk an investment strategy upon retirement. However, this strategy may not provide the level of return that is required to meet specific income needs over the long term.

Equities are generally seen as the most obvious asset class likely to provide a reasonable level of income over the long term. However, higher returning asset classes often come with enhanced volatility, which can expose the retirement income client to a new set of risks, namely:

- "pound cost ravaging" - where taking an income from an investment portfolio dampens positive returns, and accelerates any negative return. This makes it harder to recover from losses when markets rise.
- "sequence of returns risk" - is the risk of when bad returns occur. The earlier they come within the lifetime of an investment, the worse they affect the investor. This effect is amplified by taking an income from the investment.

THE SEQUENCE OF INCOME

However, just as important a risk as "sequence of returns" is what we refer to as "the sequence of income". This brings another set of crucial considerations that could accelerate how soon the money could run out.

- How much income is required? – Too much too soon?
- How is it paid? - From income, capital or total returns?
- When is it paid? – In a falling or rising market?

Risk assessment tools and stochastic modelling can clearly help determine personalised risk strategies. Once set, the strategies only remain personalised when reviewed regularly against clients' changing needs.

"Risk control is the best route to loss avoidance; risk avoidance on the other hand is likely to lead to return avoidance"

Howard S Marks, Investor and author of 'The most important thing: uncommon sense for the thoughtful investor'

FINDING THE RIGHT INVESTMENT STRATEGY IN RETIREMENT

To increase the chances of clients having a sustainable income in retirement, some advisers are considering different strategies for different layers of the hierarchy of retirement income pyramid.

- Essential needs may be met with an annuity purchase or lower investment risk portfolio.
- Optional luxuries could be targeted with a medium-risk investment.
- Legacy requirements may be higher risk (equity only) strategies designed to run for the longer term.

So, is there a perfect investment strategy to cover all these needs?

Multi asset solutions are becoming the predominant choice but, more specifically, those designed for retirement needs, as opposed to existing multi asset strategies which have simply been rebadged as retirement solutions.

KEY TAKE-OUTS

- **Few people are now choosing an annuity, introducing investment risk to clients.**
- **Volatility can be welcomed in accumulation phase and unwelcome "at retirement". The withdrawal of income risk requires regular reviews to avoid risk of ruin.**
- **A plan makes a difference, reviewed regularly. Hoping for the best without a plan is unlikely to succeed.**

QUESTION 4 - UNADVISED RISK
WHAT IS THE RISK OF NOT TAKING PROFESSIONAL ADVICE?

90%

90% of people who see a financial adviser regularly say that they have benefited from it.

53%

Having an advice and income target in mind can result in a 53% increase in income compared with those who sought no advice.

KEY TAKE-OUTS

- **Planning pays. Taking financial advice and setting a goal make a real difference.**

Retirement decisions can be irrevocable, so poor planning can have catastrophic implications. Given the range and complexity of the options now available at retirement, the risk for clients acting without regular, consistent professional advice is now even greater than ever. No other approach can provide the bespoke and tailored solutions that can be continually adapted throughout the client's lifetime.

Earlier this year we commissioned YouGov to survey over 1,600 adults on their thoughts on retirement and financial advice. The results, released in September 2015 bear out our belief that advice is crucial. (Old Mutual Wealth Redefining Retirement report)

The top five benefits of financial advice reported by respondents to our research were:

1. Peace of mind
2. Finances that are efficient for tax purposes
3. Achievement of financial goals
4. Protection against losses
5. Being better off financially

RESEARCH HIGHLIGHTS THE BENEFIT OF ADVICE

Pre-retirees often have unrealistic expectations about the amount of income they will have available in retirement. Our research shows that there is an average 32% shortfall between expectation and reality.

EXPECTED RETIREMENT INCOME	ACTUAL AVERAGE RETIREMENT INCOME	GAP BETWEEN EXPECTATION AND REALITY
£26,000	**£19,700**	**£6,300**

IMPACT OF FINANCIAL ADVICE ON RETIREMENT INCOME

Those retirees surveyed who did not have a target income, achieve an average of just £18,138 a year.

Retirees who saw a financial adviser saw their average income in retirement increase to £24,797.

Those who saw an adviser and also had a target saw their income increase further to £27,736.

WITHOUT ADVICE	WITH FINANCIAL ADVICE	TARGET PLUS ADVICE
£18,138	**£24,794**	**£27,736**

THE STORY SO FAR - **AT A GLANCE**

WHAT DO CLIENTS SAY THEY WANT?

NEEDS

- Income that grows in line with inflation.
- Security of a guaranteed fixed income until I die.
- Protection from falls in the value of investments due to stock market movements.
- Ability to access lumps sums when I want.
- Ability to pass on money to dependants.

...BUT WHAT ARE THE CHALLENGES?

DILEMMAS

NOW VERSUS THE FUTURE

Scientific research has shown that, given the choice, people tend to choose a smaller-sooner reward over a larger-later reward.

VISUALISING THE LONG-TERM PLAN

Research suggests that clients find it extremely difficult to visualise what they actually need in retirement.

THINKING THE UNTHINKABLE

Another area that is being ignored is long-term care.

...AND THE CONVERSATIONS?

RISKS

- How long will I live and need an income for?
- How much money do I need?
- How long will my money last?
- What is the risk of not taking professional advice?

THE ROLE OF THE FINANCIAL ADVISER HAS BEEN REDEFINED

VALUE

- Financial planner
- Futurist
- Life coach
- Family adviser

Having highlighted the dilemmas and the key conversations, what follows is a range of advice opportunities that are topical, in some cases urgent, and all relevant for you and your clients.

SECTION 3

ADVICE OPPORTUNITIES

REDEFINING ADVICE IDEAS

ADVICE OPPORTUNITY 1
LOCATION – LOCATION – LOCATION

Can all of your existing pension arrangements accommodate flexi-access drawdown and beneficiaries' (dependants' plus nominees') flexi-access drawdown?

Location, location, location; proverbially, these are the three most important things to consider when buying a house. We believe the same applies to pensions. That is why ensuring your clients are located in the right pension is the number one advice opportunity.

Clients, reasonably enough, will expect that the change in pension rules means their own contract will be able to provide all the flexibility the Chancellor has promised. Not all of them do, of course.

It is crucial to ensure that clients are located in a pension contract which offers (to give its full and correct name) "flexi-access drawdown and beneficiaries' (dependants' plus nominees') flexi-access drawdown". This is so they can have the reassurance of knowing that it can provide a tax-efficient legacy for their beneficiaries when they die. In addition, as their adviser, you will have mitigated any potential risk, should the family wishes not be fulfilled.

It is evident that many people are located in contracts without such flexibility and, unfortunately, "dying in the wrong pension" is by no means an uncommon circumstance.

Should every expression of wishes have additional beneficiaries, effectively providing for future generations to receive flexi-access drawdown?

A WARNING FROM A GENUINE RECENT PENSION CASE (names withheld)

In a recent £700,000 pension case (not with Old Mutual Wealth), the money had to be paid to the estate as a lump sum, minus a tax charge of 45%. This was contrary to the client's wishes that it should be paid as an income to their children and grandchildren at their marginal rate of tax, through nominee drawdown.

The client in this case was located in an old style pension. This table shows the outcome of that compared with what it could have been with a pension offering "flexi-access drawdown and beneficiaries' (dependants' plus nominees') flexi-access drawdown".

ACTUAL OUTCOME ON DEATH IN OLD STYLE PENSION	WHAT COULD HAVE BEEN ACHIEVED IN THE RIGHT LOCATION
Lump sum paid to the deceased client's estate, minus 45% tax	Regular income paid to beneficiaries at marginal rate
The whole pension lump sum now sits in the value of the estate and potentially subject to IHT	Money remains in the pension and outside of the estate
Beneficiaries remain restricted to their normal Lifetime Allowance	Beneficiaries would have access to inherited pension fund IN ADDITION TO their own Lifetime Allowance

ADVICE OPPORTUNITY 2
PENSIONS: FIRST TO FUND, LAST TO DRAW

PENSION

ISA

OEICs

CASH

OFFSHORE BONDS

The hierarchy of sources from which income is to be drawn may have changed for some clients as a result of the freedom and choice legislation.

It may be that, with advice, your clients decide not to draw an income from their pension. Instead they can leave that money outside the estate and take income from their ISA, collective investments, on/offshore bonds, or alternative assets such as buy-to-let properties.

We are also likely to see an increase in equity release, as more people recognise that accessing equity in their own home represents a viable alternative to downsizing and may be viewed as an inheritance tax arbitrage strategy.

Deferring pension income may have implications at the second LTA test at age 75. However, with the right advice, this is a trade-off between keeping money outside the estate, a potential tax charge and income taken to stay below the thresholds.

MAKING THE MOST OF ALLOWANCES

Utilising all available allowances would seem entirely sensible for an individual or couple, from personal allowances to the more recent savings and dividend annual allowances.

CASE STUDY (ILLUSTRATED ON THE OPPOSITE PAGE)

Jonathan Brown is aged 56 and retired. He lives in the UK with his wife Mary. Jonathan has the following investments (they have no other income):

- Stocks and Shares ISA: current value £150,000.
- Pension: current value £300,000 uncrystallised.
- OEICs: current value £100,000, paying dividends of £2,000 per annum. Initial investment £70,000.
- Offshore Bond: surrender value £130,000, no withdrawals have been taken. Premium invested of £100,000 on 5 January 2010.
- Cash: current value £50,000 and paying interest of £1,000 per annum.
- ISA and Pension allowances have been used.

HOW MUCH CAN BE WITHDRAWN WITHOUT ANY TAX LIABILITY?

PENSION	ISAs	OEICs	CASH	OFFSHORE BOND
£10,600 [2] **£75,000** [3]	**£150,000** [1]	**£20,000** [4] **£37,000** [5]	**£1,000** [7] **£50,000** [8]	**£34,000** [6]
[2]Within £10,600 Personal Allowance. [3]Pension Commencement Lump Sum (PCLS).	[1]Stocks and Shares ISA withdrawals are not subject to tax.	[4]No further tax liability on dividends received by a non taxpayer or basic rate taxpayer. He will also be able to take up to £5000 in dividends from 6 April 2016. [5]Part disposal within £11,100 capital gains tax exemption.	[7]£1000 within £5000 savings allowance [8]Capital withdrawals from bank accounts are not subject to tax.	[6]6 years 5% part surrender tax deferred allowance + £4000 within the £5000 savings allowance.

TOTAL: £359,600 WITHOUT ANY TAX LIABILITY

ADDITIONAL POINTS TO CONSIDER:

TAX EFFICIENCY
Transfer investments into joint name to utilise both sets of allowances.

INHERITANCE TAX
Minimise withdrawals on pension - use offshore bond instead. Place offshore bond into a discounted gift trust.

FUTURE TAX EFFICIENT WITHDRAWALS
Minimise capital withdrawals from Stocks and Shares ISA. Drawdown £14,133.33 from Pension (£3,533.33 PCLS and £10,600 within the Personal Allowance).

EMERGENCY FUND
Minimise capital withdrawals from bank account.

ADVICE OPPORTUNITY 3
NO TIME LIKE THE PRESENT, OR NO PRESENT LIKE A LEGACY

The ability to leave money to dependants is important for many clients, yet most will require their pension and other investments to provide an income they can live on.

In many cases, the outcome is that beneficiaries receive whatever money remains on death. But with timely planning and commitment, this issue can be tackled in a way that provides a greater level of certainty and reassurance for both benefactor and beneficiary. An alternative approach to gifting pension money is now being used by a number of advisers. This involves the use of a guaranteed whole of life plan (GWOL) as a form of asset protection or wealth creation.

DOING THE MATHS - A REAL RECENT GWOL EXAMPLE (names withheld):

A 65 year old couple paid £255 a month into a guaranteed whole of life plan on a second death basis.

With a joint life expectancy of 22 years, based on UK Government actuary statistics, the couple's plan would provide a sum assured of £200,000 on death, yet the total premiums paid over the presumed life of the plan would only be £67,449.

In investment terms this would represent 9.0% pa equivalent growth rate. If the clients were to actually invest the same premium for the same 22 year period at an assumed net investment compound return of 5%, the projected investment value at the expected age of death would be £120,993 – just 60% of the sum assured.

The outcome suggested in this example is obviously not guaranteed and issues such as longevity and affordability play a part in individual cases.

In cases where affordability may become a problem for the plan owners, their ultimate beneficiaries may well decide that the calculations behind it are compelling and choose to take over payment of the premiums themselves, either immediately or at a later stage.

There are now readily accessible tools that allow advisers to quickly calculate the premiums payable by clients at various ages.

THIS TABLE PROVIDES EXAMPLES BASED ON A £200,000 SUM ASSURED:

Age	Expected lifetime of female (GAD mortality)	Premium	Equivalent Rate of return
50	36	£123.47	6.4%
55	31	£163.52	6.8%
60	27	£207.32	7.3%
65	22	£255.49	9.0%
70	18	£340.86	10.2%
75	14	£514.19	11.3%

ADVICE OPPORTUNITY 4
NOT AS CRITICAL (YIELD) ANY MORE

Before the new rules were introduced, the main benchmark to assess the pros and cons of a DB to DC transfer was the critical yield calculation. The new flexibility however means that there are now many more considerations to be taken into account. These include:

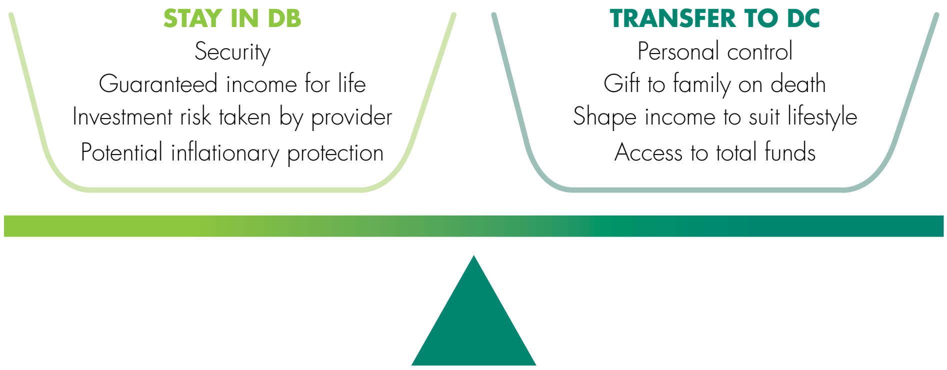
- low gilt yields
- higher transfer values
- an increasing emphasis on more personal control, and
- the previously unavailable opportunity to keep the fund within the family upon the death of the Defined Benefit (DB) scheme member and spouse.

The increasing number of transfers from defined benefit schemes shows no sign of abating. Our own TVAS service has seen a 300% increase in requests so far this year (up to 30 September 2015) and we will continue to support your DB advice in this area.

Among the many reasons why some clients are considering a transfer from DB schemes are:

- concern that the pension protection fund (PPF) limits, (currently a maximum of £32,000 pa at age 65) are inadequate
- inability to provide a different shape of income at retirement, more specific to individuals' tax and varying personal circumstances, indicated by the 'Retirement Smile' on page 12
- health issues and marital status, around which DB rules are typically inflexible
- death benefits and dependants' benefits are key drivers.

While critical yield remains a factor in the decision to transfer or not, the above considerations put a broader context around the CY calculation



Transformational retirement planning: IncomeSelect brings together all the elements you need to give robust, scalable yet tailored advice to your clients at retirement.

SECTION 4

ADVICE OPPORTUNITIES

REDEFINING RETIREMENT PLANNING

We've spoken about some of the advice opportunities, so now it's time to look at what advisers have been telling us they need to help them redefine retirement planning for their clients. And what we are doing to fulfil those needs.

WHAT ADVISERS SAY THEY WANT:

- Income modelling
- Income with management of short-term volatility
- Tax-efficient drawdown
- Profitable ongoing servicing tools

INTRODUCING INCOMESELECT – POWERING THE CHANGE IN RETIREMENT PLANNING

The traditional advice process is tried and tested, but today's retirement landscape requires bespoke strategies, tailored to individual needs.

IncomeSelect is transforming retirement planning for advisers by bringing together all the elements you need to meet your clients' income needs and legacy plans. IncomeSelect allows you to:

- Model income in retirement – our retirement planning tool is easy to use with clients, allowing you to model on and off platform assets and create a unique retirement strategy.
- Invest for income in retirement – investment solutions designed for the at-retirement market to remove some of the risks of investing and give a smoother experience in retirement.
- Withdraw income in retirement – an award-winning drawdown product with automated flexible income options designed to drive tax efficiency for income and transfer of capital on death*.
- Review income in retirement – our retirement planning tool makes client reviews simple with stored records for those essential annual reviews.

INCOMESELECT IS MADE UP OF THREE KEY ELEMENTS:

- The Retirement Income Explorer tool – a sophisticated, yet simple to use planning tool for income, that goes beyond pensions and includes `what if' scenario modelling options.
- The Generation funds – 3 CPI+ targeted multi-asset portfolios delivering a smoother retirement through diversification and short-term risk management, allowing you to set the income level.
- The Collective Retirement Account – hassle-free, automated flexible income options to drive tax-efficiency for both income and legacy planning through our award-winning pension

All in all, IncomeSelect offers comprehensive, holistic solutions and tools to support you.

Alongside these elements we have designed the Retirement Advice Blueprint, which provides you with the framework you need to deliver best advice in a scalable manner to your clients (see overleaf).

*The tax treatment and efficiency of these options will depend on the individual circumstances of each customer. Tax rules and their application may change in the future.

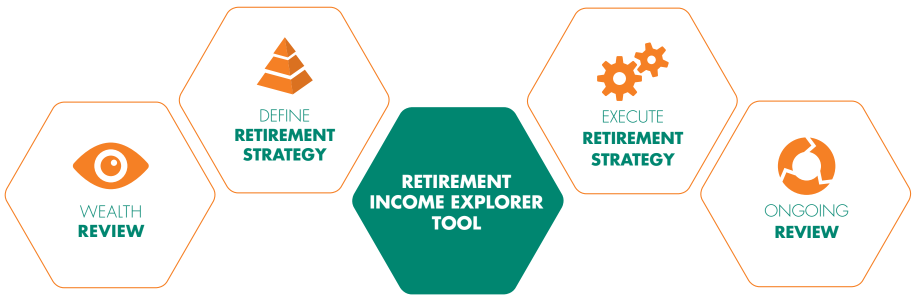
A BLUEPRINT FOR DESIGNING UNIQUE RETIREMENT STRATEGIES

Since April 2015, on the face of it, there are now three primary options: annuity, drawdown, and lump sum, as well as numerous permutations and combinations. April 2015 has been a catalyst for change to the way in which advisers need to define, plan, and deliver desired retirement outcomes – putting the focus on two key requirements:

- Income provision
- Legacy provision

To support you with your advice process for your clients, we have created a blueprint for retirement advice. Based on our centralised investment process, it includes the four crucial stages shown below.

- FACT FIND
- WEALTH REVIEW
- 1-10 RISK ASSESSMENT
- DISCUSSING RISK
- DEFINE RETIREMENT STRATEGY
- TAX WRAPPER SELECTION
- SUITABILITY
- STRATEGIC ASSET ALLOCATION
- FUND SELECTION
- EXECUTE RETIREMENT STRATEGY
- TRANSFERS AND CONSOLIDATION
- ONGOING REVIEW



WEALTH REVIEW

- What are the clients' income and legacy objectives?
- What assets could they use for retirement income provision?
- Is any inheritance likely in the future?
- Enter all these assets and objectives into the Retirement Income Explorer Tool.

DEFINE RETIREMENT STRATEGY

- When will the client stop working, full time or part time?
- What is the client's and their dependants' likely lifespan?
- What income profile is required?
- How long will income need to be sustained?
- Which assets should be drawn from first?
- Plan the unique income strategy for the client in the Retirement Income Explorer Tool to model how long income will last.

EXECUTE RETIREMENT STRATEGY

- How do I agree the strategy with my client?
- How can I review the strategy in the future?
- Do I need to manage off-platform investments as part of the strategy?
- Can I illustrate the strategy to the client easily?
- Create and white-labelled a personalised client report from the Retirement Income Explorer Tool.

ONGOING REVIEW

- How often should I review the retirement strategy with the client?
- Will I need to review the asset sequence that's funding their retirement income?
- What happens if the client becomes unwell?
- Will inflation remain low?
- Store client records in the Retirement Income Explorer Tool to easily access for essential reviews.

A NETWORK OF DEDICATED SUPPORT FOR YOU

DEDICATED INTERNATIONAL SUPPORT TEAM
In the isle of man

OLD MUTUAL GLOBAL INVESTORS
Regional business development managers

WEALTH MANAGEMENT CONSULTANTS
Providing dedicated support and tangible advice opportunities

15+ SPECIALISTS PROVIDING
Pension, investment, offshore & protection support

15+ E COMMERCE SPECIALISTS
to give you training advice on how to operate efficiently

TECHNICAL SUPPORT
With over 300 years of experience

ACCESS TO YOUR TEAM OF EXPERTS TO DRIVE EFFICIENCIES AND IDENTIFY OPPORTUNITIES

SK11905/215-1163/October2015