



Decumulation Strategies

Do we need a fresh approach?

Presentation to IAPF

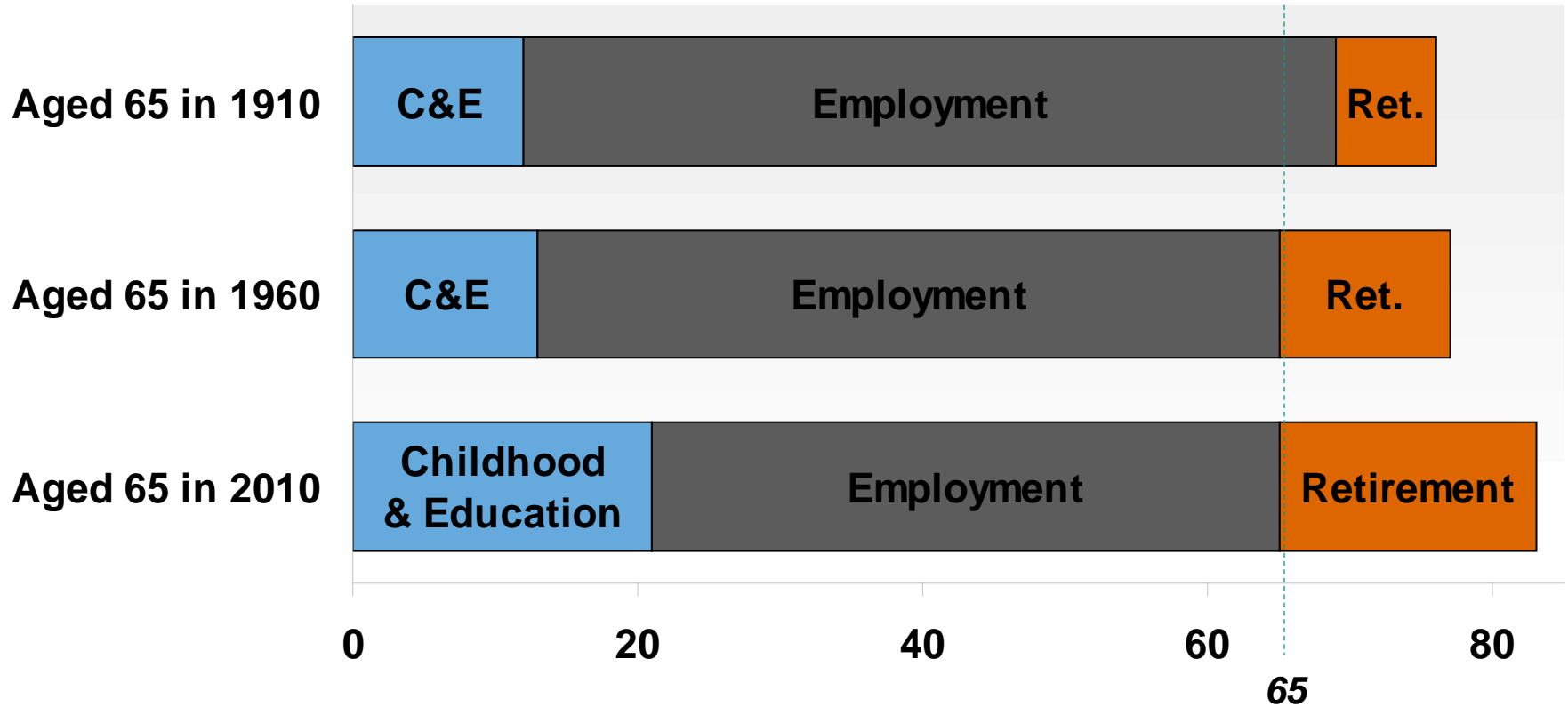
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Thursday, 12th May, 2011



Demographics continue to evolve rapidly

The Three Ages of Man



Source: 2009: Office for National Statistics; 1960: <http://www.bls.gov/opub/mlr/2001/10/art2full.pdf>; 1910: <http://research.dwp.gov.uk/asd/asd5/rports2005-2006/agepos21summ.pdf>
Life Expectancy at 65: <http://www.public-sector-pensions-commission.org.uk/wp-content/themes/pspc/images/Public-Sector-Pensions-Commission-Report.pdf>
Workforce entry data in 2010 estimated on the basis of full time education trends



The Russell “ELE” Retirement Framework

Assets

Description

Requirement



Estate

Assets set aside for inheritance, charity, etc.

Lifestyle

Funds set aside for entertainment, travel, etc.

Essentials

Fund lifetime income for food, clothing, etc.



The Russell Retirement Rule of £20

Every £20 of savings *at* retirement can generate £1 of annual income *during* retirement



£200,000

E.g. Savings *at* retirement

£100,000

£10,000

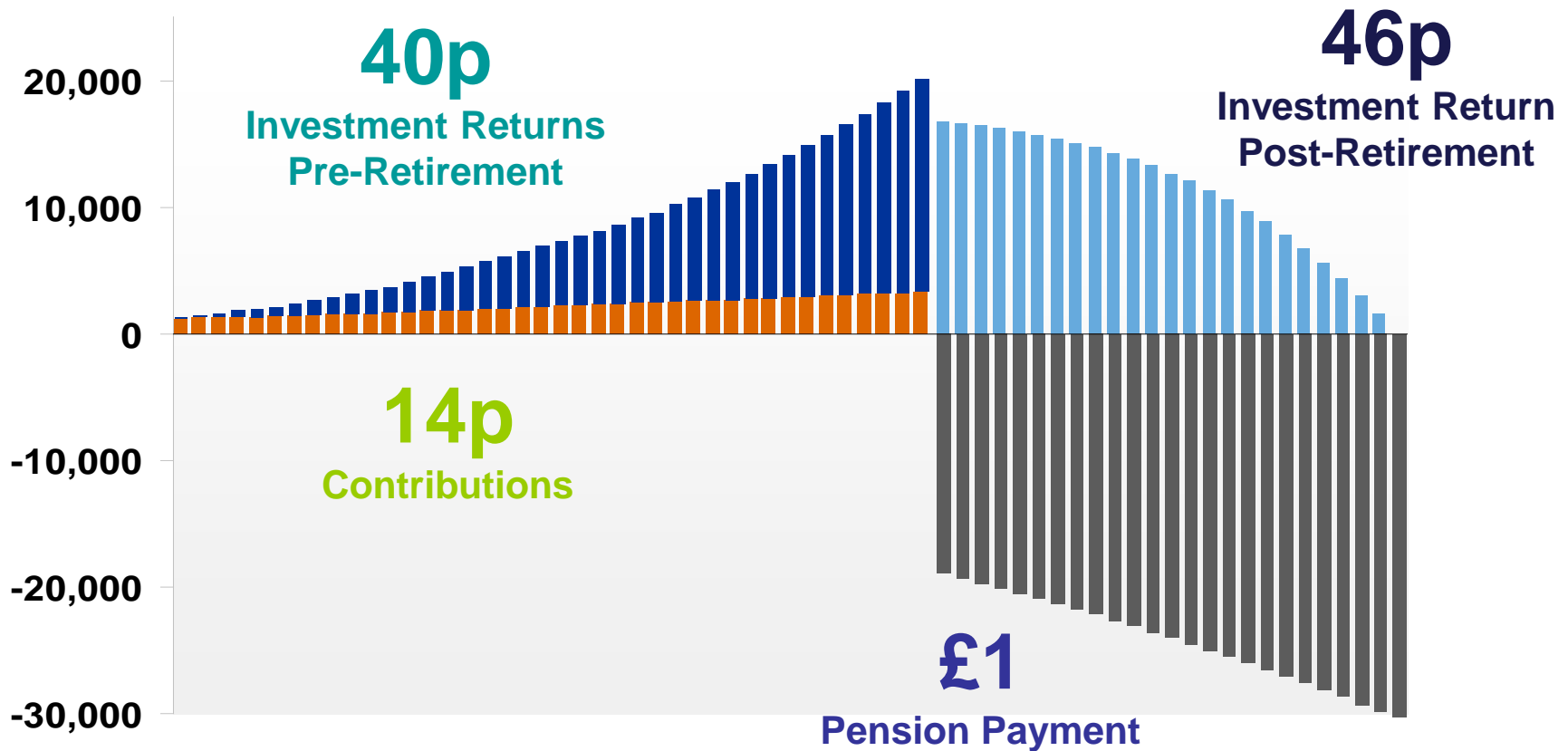
Annual income *during* retirement

£5,000



The Power of Post-Retirement Returns

Sources of £1 of Pension Payment (Base Case)





Impact of Investment Choices

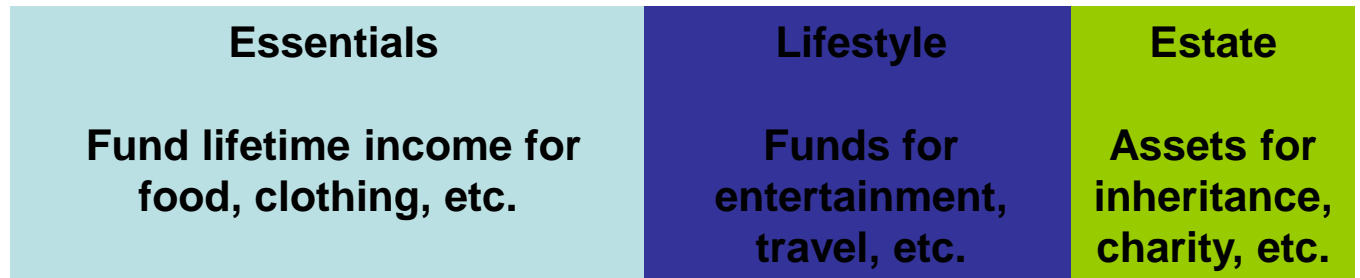
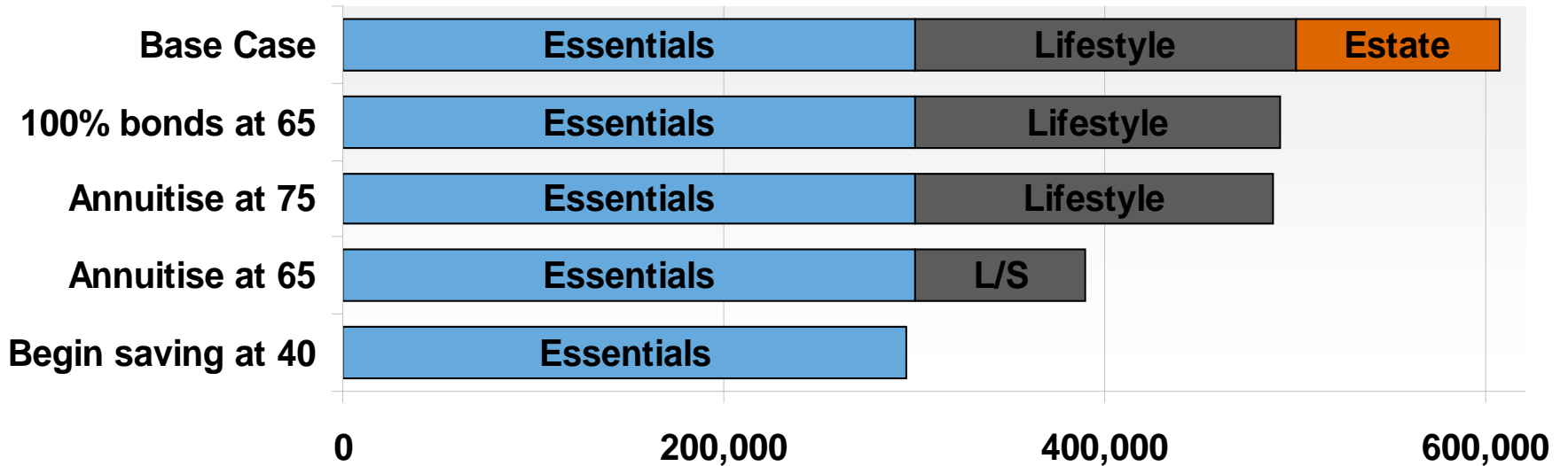
Assume the same 14p contributions

	Contributions	Pre-Retirement Returns	Post-Retirement Returns	Total Pension	Wage Replacement Ratios
Base case	14p	40p	46p	100p	57%
100% bonds at 65	14p	36p	30p	80p	46%
Annuitise at 75	14p	40p	26p	80p	45%
Annuitise at 65	14p	40p	10p	64p	36%
Begin saving at 40	14p	13p	23p	50p	27%



The Russell “ELE” Retirement Framework

Pension Savings at Retirement (£)





Market Beliefs and Realities

Beliefs	Our View
Annuities are like Marmite: you either love them or hate them.	Annuities provide valuable protection against longevity risk
People do not know how long they are going to live.	They are more aware than before, but still do not know how much to save.
Individuals should buy annuities because they are good value.	Level annuities represent 90% of money's worth but indexed annuities as low as 70%
Retirees become more risk averse as they get older.	Retirees should care most about longevity risk rather than limited equity risk.
Investors should hold only cash and bonds when they retire.	Such investors face an opportunity cost post retirement.



Innovation is required



- Suitable products do not exist yet.
- Solutions should:
 - Balance safety and the desire to grant to beneficiaries
 - Protect against reasonable inflation and sequential risk
 - Incorporate annuities features, i.e. pooling of longevity risk
 - Provide for growth before the need to annuitise arises



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