Impact of UK Policy Changes 'Pensions Freedoms' Emma Douglas, Legal & General Investment Management



Agenda

- What has changed?
- What have people done?
- Impact on investment strategies
- Future developments



Budget 2014 - the DC Landscape changed - Freedom and choice

• No caps

• No drawdown limits

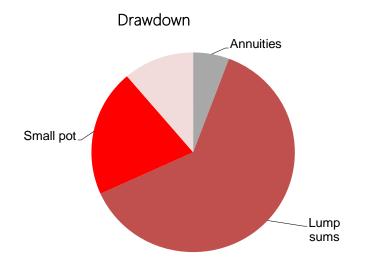


• No need to buy an annuity



What have people done so far?

Overwhelming majority took their cash..

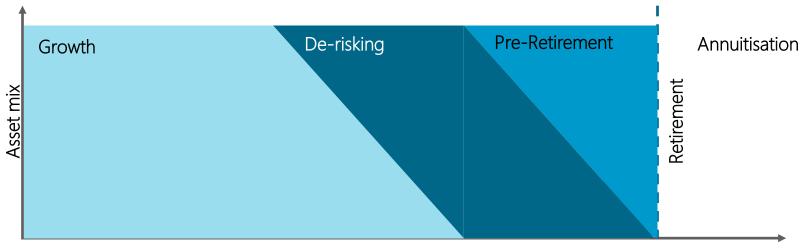






Source: Analysis based on L&G post budget experience from 7 April to 31 January 2016. Guidance and decision statistics have been collated based on the 2nd line of defence surveys completed by transacting customers.

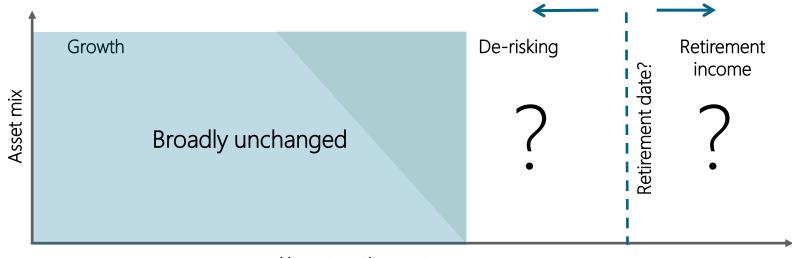
Once upon a time.....it used to be so simple



Years to retirement



So what has changed?

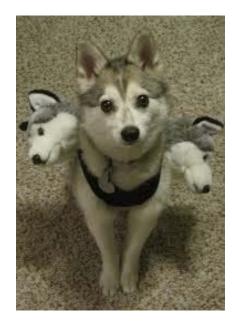


Years to retirement



What should the default strategy target?

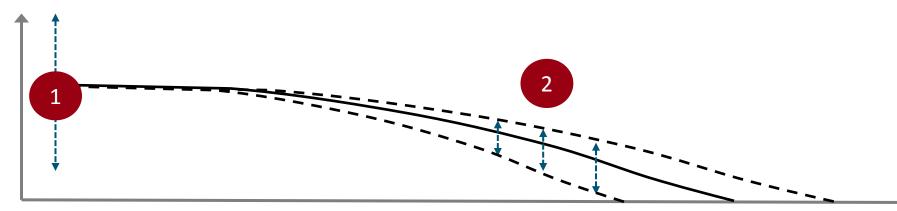
- Cash?
- Income Drawdown?
- Annuity?
- Combination?
- Split by £ size?



Key risks for income drawdown

1. Fund value risk

2. Retirement outcome risk





Trying to live off the dividend yield is too risky

Illustrative dispersion of outcomes £100 invested in 100% UK equities – 40 years projection £200 £150 £100 £50 f_{0} -£50 20 0 2 8 10 12 18 22 24 26 28 30 32 34 36 38 40 16 -10th Percentile -25th Percentile ----Median Percentile -75th Percentile 90th Percentile

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Source: LGIM Calculations. Assumptions: Monthly drawdown at a rate of £6 p.a. Fees 0.5% p.a. Median returns for each asset class are based on the assumption that investment markets are in broad equilibrium and close to "fair value". We estimate the distribution of potential outcomes for each asset class, around the median outcome, based on our analysis of the historic performance history for these asset classes. In some cases we "calibrate" the distributions of historic data with the aim of making our estimate of the distribution of future returns more realistic in light of current market conditions. Past performance is no guide to the future.

INVESTMENT MANAGE

Multi asset income fund

Illustrative dispersion of outcomes £100 Invested in Multi-asset income fund - 40 years projection £200 £150 £100 £50 f0-£50 18 20 22 24 26 0 2 8 10 12 14 16 28 30 32 34 36 38 40 -10th Percentile -25th Percentile -Median Percentile -75th Percentile -90th Percentile

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INVESTMENT MANAGEMENT

What's important?

- Adequacy and sustainability of income
- Will the money last?
- What is the sensitivity to different withdrawal rates?
- Limiting downside risk
- Fees



The 'White Linen on a Beach' Years





The TV Years





The 'Care Home' Years





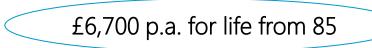
Combination Product – Idea 1

• Income drawdown with longevity insurance











Source: L&G. These figures are illustrative only based on current annuity charges and must not be interpreted as quotations.

Combination Product – Idea 2

• Income drawdown with longevity insurance



Set aside £25,000 at 65







Source: L&G. These figures are illustrative only based on current annuity charges and must not be interpreted as quotations.