

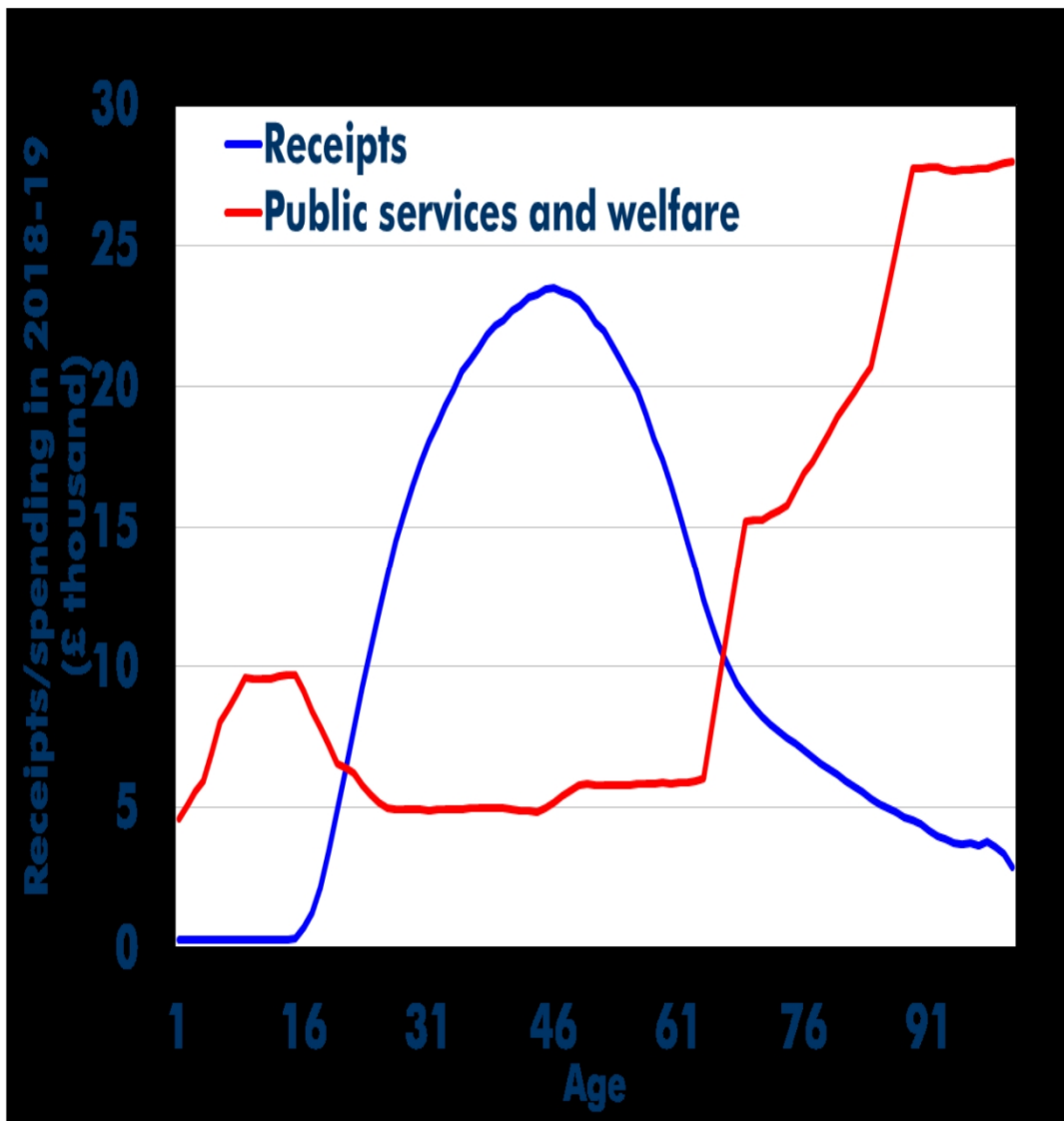
BETTER PENSIONS, REAL ECONOMIC GROWTH, OR MORE IMMIGRATION?

NIGEL WILSON.
GROUP CHIEF EXECUTIVE OFFICER.

**EVERY
DAY
MATTERS.®**

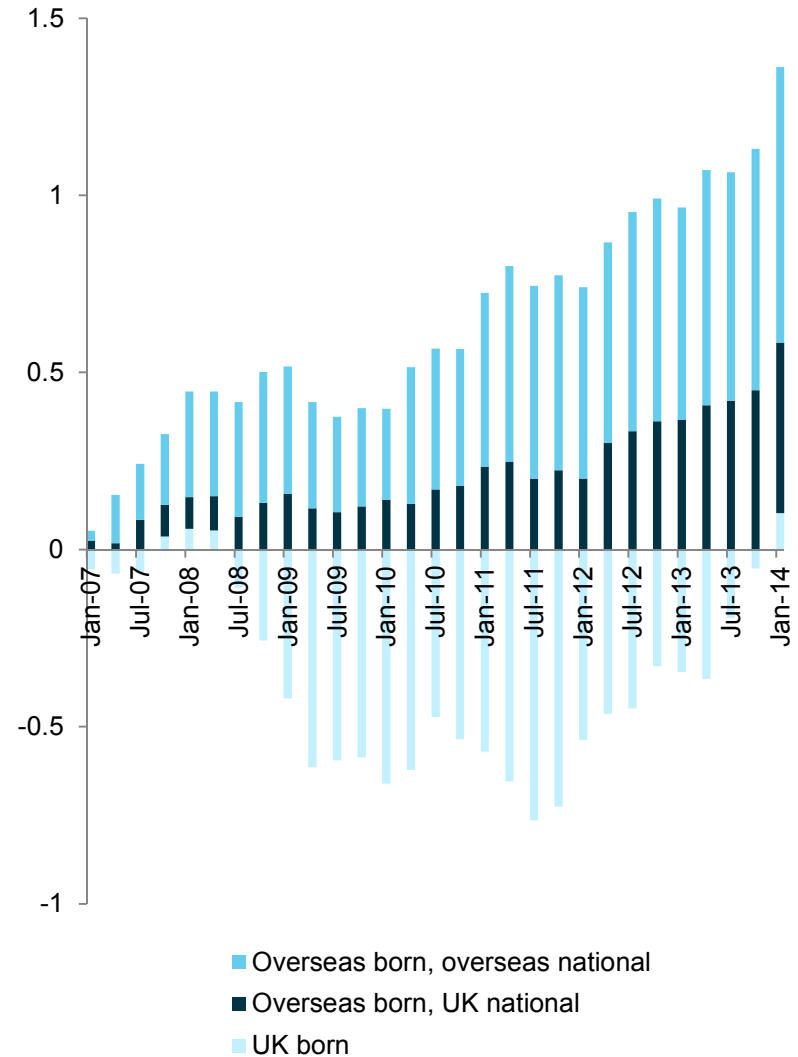
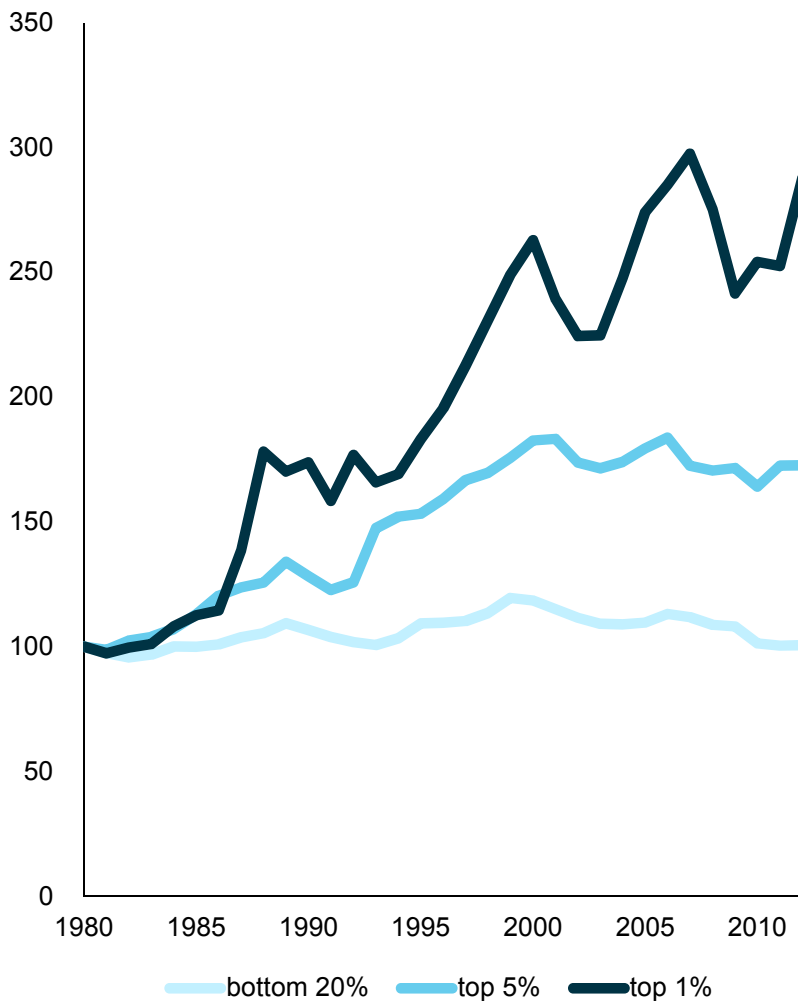


WHY PENSION PROVISION MATTERS TO PUBLIC FINANCE: OBR VIEW.



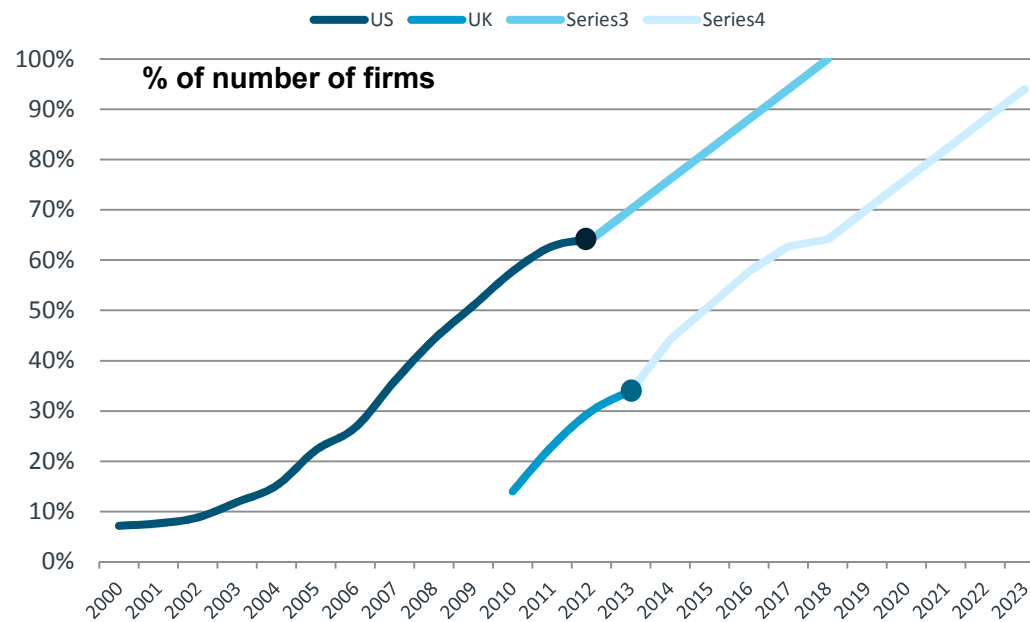
- Ageing population and strained healthcare will require £19bn of spending cuts / tax rises after 2019
- Cost of state pension will rise from £90bn now to £170bn in 2032/3, to £438bn by 2062
- State pension, social care and healthcare could rise from 14% of GDP now to almost 20% by 2062
- It would take 140,000 working-age immigrants annually (6m total) to offset costs of ageing demographic

REAL WAGES STATIC OR DECLINING: IMMIGRATION FILLS JOB VACANCIES.



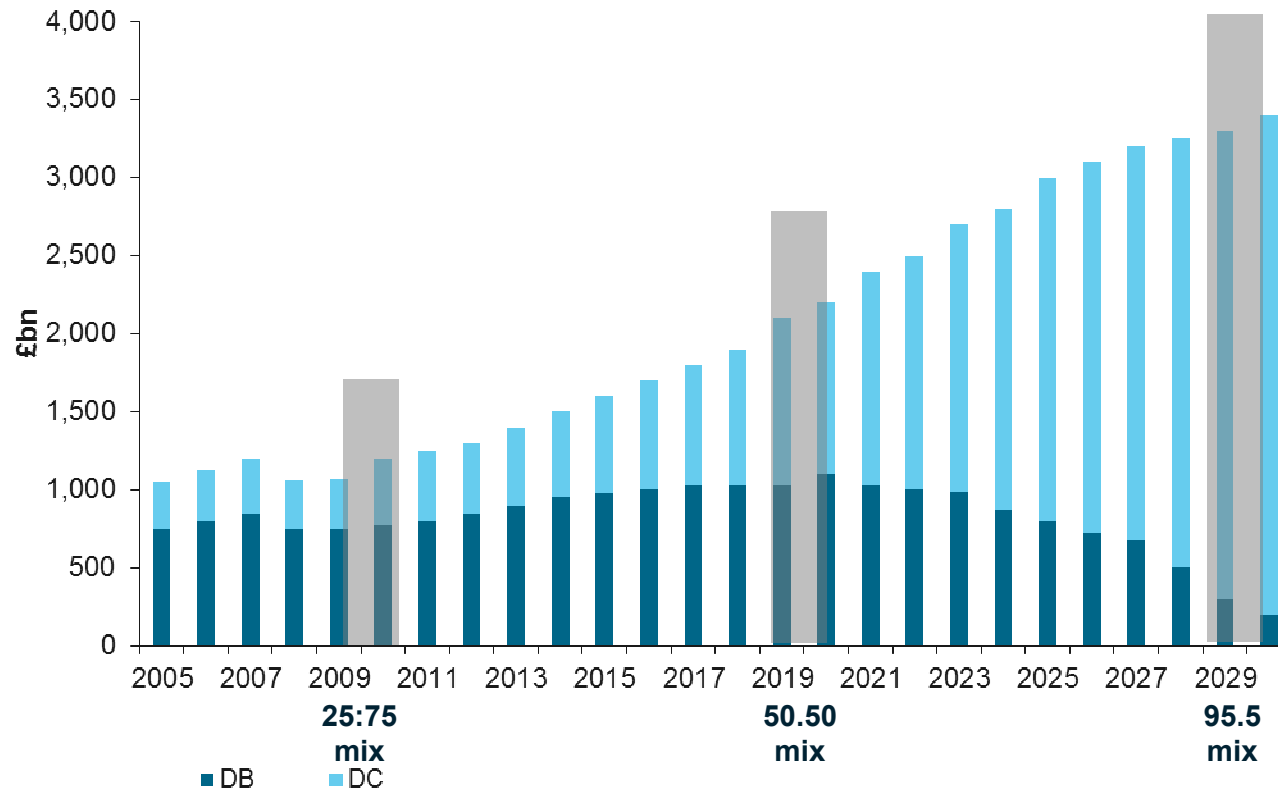
BY 2023 DB WILL VIRTUALLY ALL BE CLOSED.

Proportion of large company schemes offering only DC to employees



Source: Spence Johnson

GROWTH IN DC & THE DECLINE OF DB.

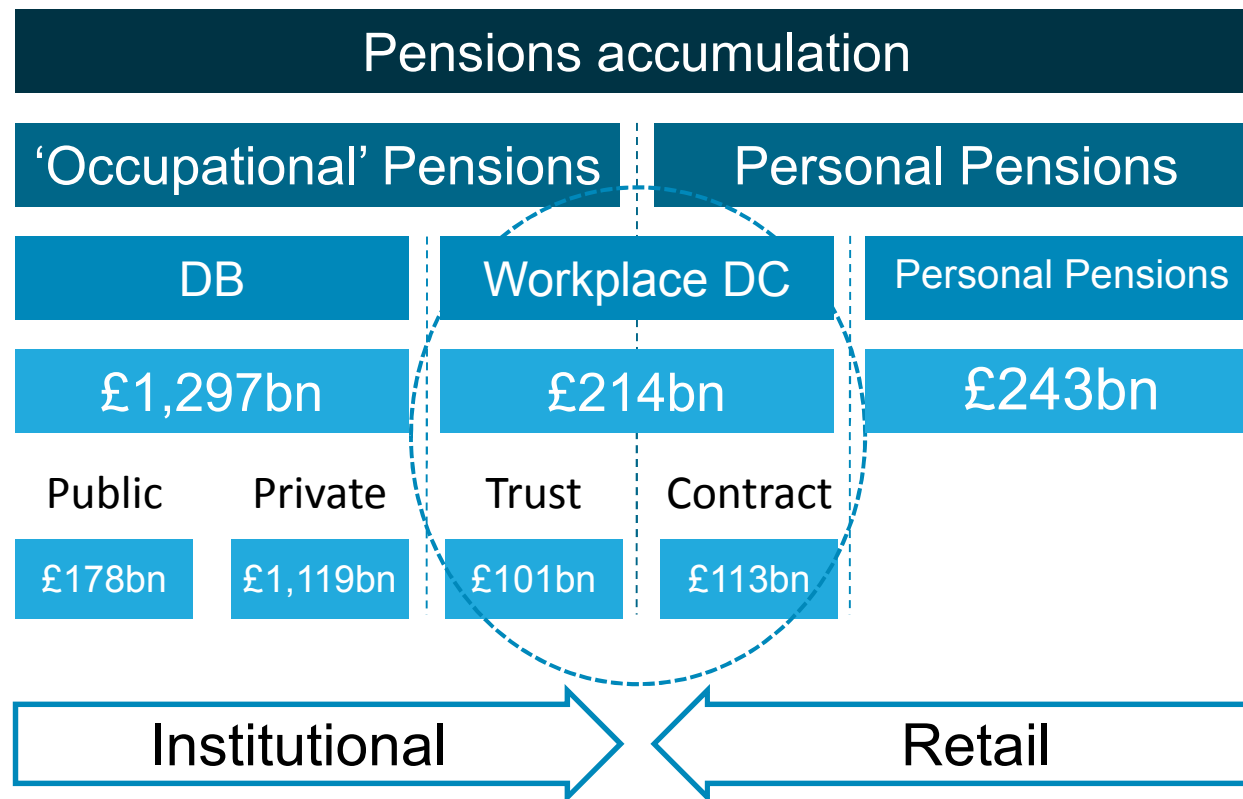


Source: PPI, Towers Watson, ONS, FSA, Oliver Wyman

Produced By Legal and General Investment Management

WORKPLACE DC IS WHERE THE INSTITUTIONAL AND RETAIL WORLDS COLLIDE.

The Pensions accumulation market in the UK
Assets under management by type of pensions vehicle



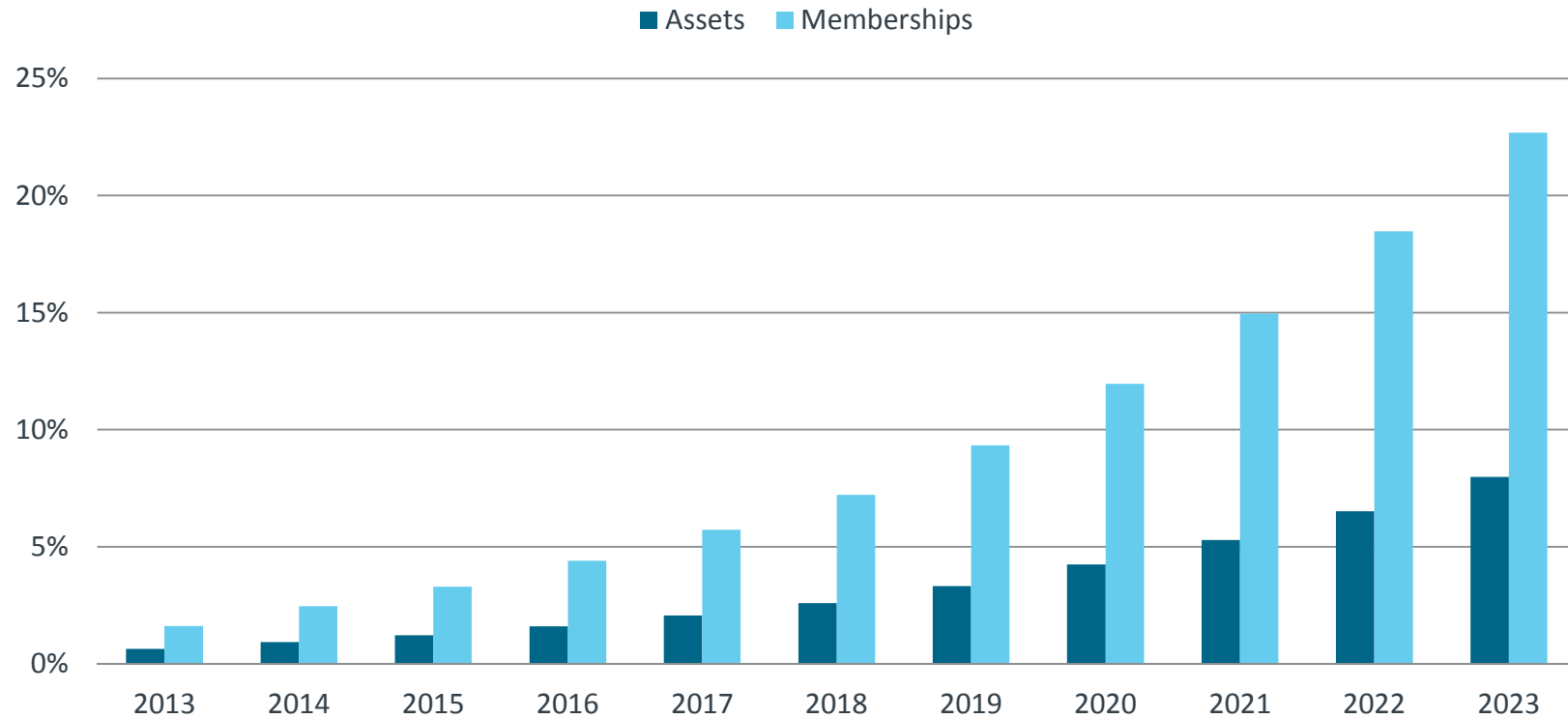
Source: Spence Johnson

AUTO ENROLMENT – GAME CHANGER.

- Larger Employers
 - Retention of talent
 - L&G worked with employers in placing bespoke schemes
 - MasterTrust create a ‘Schemes within a Scheme’
- Smaller Employers
 - introduce schemes for hygiene factor
 - Off the shelf schemes
 - Straight through processing

MASTER TRUSTS WILL GROW TO OVER 20% OF DC MEMBERSHIPS.

Master Trusts share of DC memberships
Proportion of total memberships



Source: Spence Johnson

COMPULSION.

- Greater flexibility & choice announced in 2014 budget proposal increases the attractiveness of pension saving
- Later life saving will not be best served by voluntary savings system – flexible benefits should mean that compulsion will become politically acceptable.
- The future economic activity of persons no longer active in the workplace will be critical for the UK economy in the decades to come.

TWO FOR ONE.

- Pension tax relief needs to be reformed so it becomes an effective incentive for ordinary employee
- The majority of savers will be winners.
- Increased savings amongst the group that most needs to save more.
- Clear messaging – contribute more get more.

L&G - HELPING CONSUMERS THROUGH THE RETIREMENT JOURNEY.

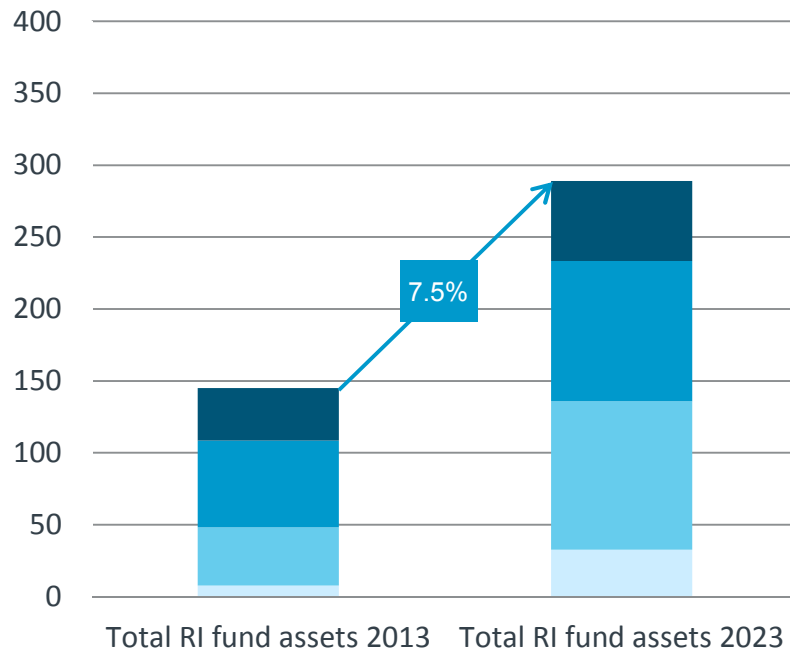


- ✓ Provided by impartial third party – MAS/ TPAS central role
- ✓ Multi channel - face-2-face, telephone and crucially digital
- ✓ **Not** a one-off event – financial needs change
- ✓ Explain choices and options – cash, annuity, drawdown, debt, expenditure, work longer, save more?
- ✓ Provide tools and ready reckoners - e.g. “how long might I be retired for?”
- ✓ Set out what customers should do next
- ✓ “Verify” customer understanding

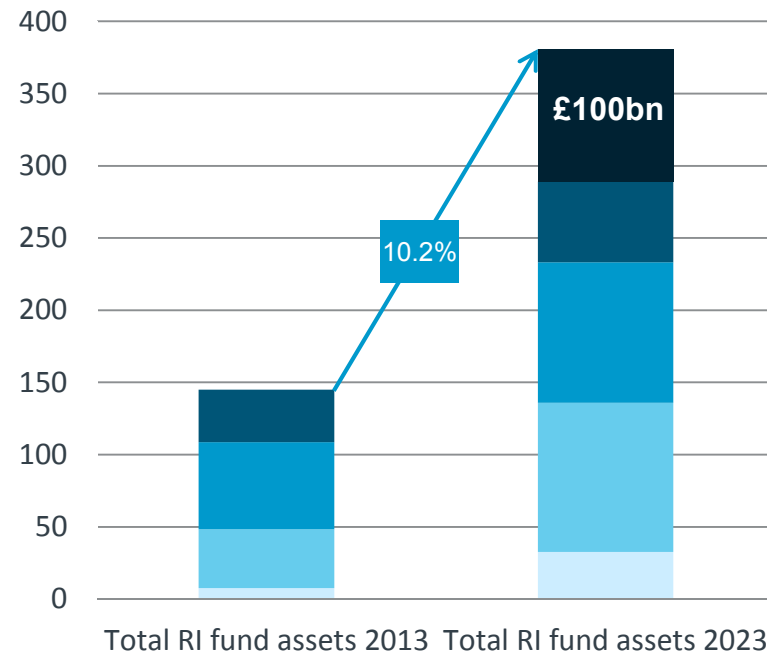
POSSIBLE ADDITIONAL FLOWS INTO FUNDED RETIREMENT MARKET.

£100BN EXTRA COULD FLOW INTO THE 'FUNDED' RETIREMENT MARKET.

Estimated 'funded' retirement income market (2013-2023)
Pre-2014 Budget Growth predictions



Estimated 'funded' retirement income market (2013-2023)
Growth including flows caused by post-Budget declining annuity sales



■ Investment-backed annuities
 ■ Drawdown
 ■ ISA
 ■ Private Assets
 ■ £100bn potential additional flow*
x% Compound annual growth rate

*Based on an assumption of a 40% fall in annual annuity sales over the next 3 years before the market returns to growth
Source: Spence Johnson analysis

PENSIONER BALANCE SHEET – AGE 65.

ASSETS

- £250,000
 - House, typically one third larger than average
- £220,000
 - State Pension, £148pw index linked
- £178,000
 - Final Salary Pension. Median UK DB pot, ONS figures quoted in D Tel 23/4/13
- £15,000
 - Lifetime value of free bus pass, senior rail card, free TV licence from 75, Winter Fuel Payment, Christmas Bonus, Free Prescriptions.
- £20,000
 - Savings

TOTAL

- £683,000

LIABILITIES

- £75,000
 - Long Term Care, level of Dilnot Cap
- £6,000
 - Inheritance Tax, average UK payment per pensioner death, source HMT
- £3,000
 - Funeral, average cost according to arrangingafuneral.co.uk
- £599,000
 - Working capital

TOTAL

- £683,000