

Annuities and modern retirement planning

Is now the time to rethink annuities?

An interview with Emma Byron

Managing Director, Legal & General Retail Retirement Income



Since pension freedoms were introduced, annuities have generally had a negative perception associated with them. But Emma Byron, Managing Director for Retail Retirement Income at Legal & General believes that can change.

What do you think Legal & General can do to change the perception of annuities?

At Legal & General, we're committed to the annuity market and I'm passionate about changing that negative perception. So, we're going out and meeting with advisers to reaffirm our commitment to the market and demonstrate that annuities can be good value and meet the needs of many customers.

Gone are the days when people stopped working at 65 and took a guaranteed income from their company pension. Retirement isn't a single decision any more and people don't necessarily switch immediately from working to not.

But I firmly believe that the majority of retirees will want some certainty of income in retirement, especially as they get older. We therefore need to help advisers understand how annuities can be used as part of a flexible retirement plan, so we're developing ways to support advisers in navigating customers through much more complex retirement needs and financial situations.

We invest retirement savings in the UK economy with the aim of promoting a stable economic environment that provides financial security for retirees: it's what we call the virtuous circle. We finance infrastructure projects, buy and build homes and offices, which in turn grows the economy. And that growth benefits both pension savers and those in retirement. This is a good news story that needs to be told.

Whether it's the economic value of annuities or the importance of a guaranteed income, I believe that the

conversations we have with both advisers and customers are crucial to changing perceptions about annuities.



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Do you think the annuity market will grow and are there opportunities for advisers?

I believe the market represents a huge growth opportunity for advisers in the short and long term.

Not only does the UK have an ageing population, who need advice about how to navigate Pension Freedoms, but more of the UK workforce is now contributing to defined contribution pension schemes as opposed to defined benefit schemes. Without a guaranteed income from their employer, this growing group of pension savers will be looking to established providers such as Legal & General for a guaranteed retirement income via an annuity.

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It is intended for professional advisers and should not be relied upon by private customers or any other persons.



The rising demand for annuities is something we are already seeing at Legal & General. In the year to 2017, we saw a 78% increase in our individual annuity sales, and whilst some of this growth can be attributed to a consolidation in the annuity market after Pension Freedoms, we are optimistic about future growth.

The ABI/ FCA's data also predicts an increase in annual annuity sales into the 2020s.

However, we can't take this growth for granted. It will take the support of advisers, a trusted voice for so many customers, to tackle the remaining negative perceptions about annuities and make sure those approaching, at and in retirement are fully aware of their options.

What are the big issues around retirement planning for consumers?

Pension reform may have led to greater choice for consumers, but it hasn't provided them with greater clarity about retirement planning.

Decisions about retirement income are no longer made for consumers; instead they face the challenge of working out for themselves how to take their income. So, not only do they need to take account of their needs and aspirations, but they also need to consider complex choices about investment and longevity risk. Advice is therefore crucial throughout retirement. The support of a trusted adviser can make all the difference to consumers, helping them understand how their needs might change in the future and the importance of a sufficient guaranteed income during retirement.



A retiree at 65 is often living a lifestyle that is far removed from someone in their 80s or 90s.

Increased life expectancy brings challenges for retirement too, and again advice is central to helping customers to prepare. Retirement is no longer a 'once and done' decision, because retirement can last 20 or 30 years. Neither is it a static time in our lives. A retiree at 65 is often living a lifestyle that is far removed from someone in their 80s or 90s, who may well be dealing with the financial implications of issues like care needs.

How can advisers identify who can benefit from an annuity?

An annuity won't be the right choice for every retiree, but for many people the security of a guaranteed income will be a very attractive prospect. I believe that annuities have a place in most retirement income plans as part of a wider arrangement that includes other sources of income, such as drawdown, property wealth and other savings.

For individuals seeking that certainty of a secure income in retirement that will never run out, investing a larger part of their pot into a lifetime annuity could provide them with the safety net they're seeking, giving them the peace of mind that the monthly bills are covered. Joint life annuities go a step further, offering customers a product that pays out even when one annuitant passes away. For those wanting the comfort that their loved one will continue to receive an income in retirement should they die, this could be a suitable option.

Clients with certain medical conditions like diabetes, or health-related lifestyle factors such as smoking, might want to



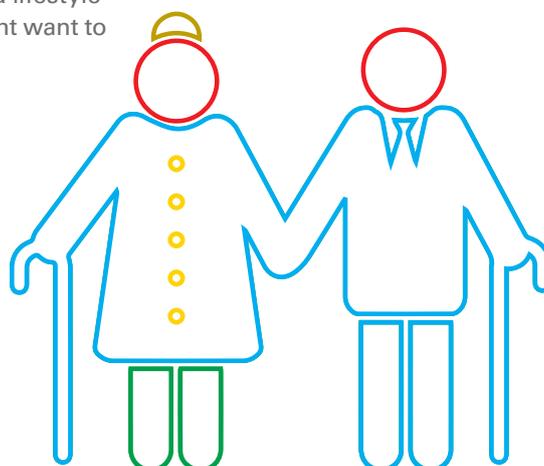
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consider an annuity as well, as they could benefit from a higher income through an 'enhanced' product. Providers have improved their underwriting capabilities significantly in recent years, so that even small factors such as weight or alcohol intake can qualify for an uplift in income.

So, whilst annuities won't be for absolutely everyone, there is a range of individuals who may benefit from an annuity as part of their income mix who advisers can identify when discussing retirement planning. My intention is for Legal & General to work closely with advisers to help customers make better and more informed choices, and to realise that retirement planning is an ongoing conversation. And part of this is helping advisers recognise the value of annuities within retirement planning.

We know some advisers think annuities are no longer relevant to financial planning following pension reforms, but we believe this is simply not true and we plan to prove it!



Find out more about the annuities available from Legal & General at www.legalandgeneral.com/adviser/retirement/products/