

## SPONSORED GROUP SIPP PANEL



# Flexible retirement

This month the panellists discuss changes associated with the removal of the Age 75 rule and how they will affect members

**Alan Reid, corporate distribution director, Standard Life**



services. Reid's main focus is to set the distribution strategy for the channel in addition to working with colleagues across the business in the development

of Standard Life's corporate benefits proposition.

With more than 20 years' experience, previously with Scottish Equitable and then Standard Life, Reid has predominantly worked in the corporate benefits arena. Prior to his current role he headed up the pensions product development area of sales.

**Jonathan Watts-Lay, director, WEALTH at work**



KNOWLEDGE | EXPERIENCE | OPPORTUNITY

Jonathan Watts-Lay is a founding director of WEALTH at work having been

dedicated to its development since inception.

Watts-Lay has a sales and marketing background and holds both a MBA and chartered membership of the Institute of Marketing. He began his career at Nationwide Building Society where he progressed to product manager for mortgages and life assurance.

Watts-Lay then spent more than five years working for SHL Group PLC, a leading HR consultancy.

## What impact do you feel the removal of the Age 75 rule will have on the Group SIPP market?

**ALAN REID:** For some, the removal of the need to annuitise at age 75 will allow greater flexibility, as people increasingly live more active lives well into their 80s and 90s. As proposed, the concept of 'capped' drawdown will broadly allow the continuation of what is currently available as Unsecured Pension. 'Flexible' drawdown, although the rules on determining minimum income are still to be clarified, has the potential to create much greater flexibility for retirement planning for those who can afford it.

Group SIPP is ideally placed to cater for these changing needs, with already flexible retirement options available to those who choose them. However, it should be noted that only a few people can realistically afford to exercise drawdown options, or indeed are willing to remain exposed to some form of market risk, so for many there is still an important role for annuities in providing a guaranteed income and the certainty this brings.

**JONATHAN WATTS-LAY:** The removal of the age 75 rule for annuity purchase is likely to increase demand for group SIPP arrangements. Employers will seek to provide a pension arrangement that not only provides flexibility in the accumulation phase but also at the time employees begin to take their pension benefits.

The group SIPP arrangement will support both the capped and flexible drawdown options proposed by the new government while also serving the needs of the many who will simply buy an annuity.

There is likely to be new interest in the group SIPP market by those providers who may not currently offer a group SIPP anticipating an increase in demand. This is further supported by the removal of the default retirement age, which in future will mean employees demand greater flexibility in how they take their pension benefits, and as a consequence are likely to remain invested for longer, making the group SIPP a more profitable product for providers.

## How should these changes be communicated to members?

**ALAN REID:** There is a widespread consensus around the importance of people understanding their options on taking benefits. Providers and advisers have come a long way towards ensuring people are appropriately informed – initially with their right to an open market

option. It would be reasonable to expect this to extend to explaining other options beyond annuities.

However, it is again important to stress that annuities still form the bedrock of providing certainty for many people, and in fact the suitability and features of the annuity chosen may well be a more important consideration than other options suited better to others with more significant funds. As such, we need to ensure the messages are balanced, and that people are able to choose the most suitable option based upon their capital and income needs.

**JONATHAN WATTS-LAY:** Communication and education in relation to the change will need to be provided to ensure members are aware of the choices available to them. Currently many employees will simply be made aware of a single annuity provider at the time they take their benefits. In future, communication and education will need to reflect the flexibility of timing in relation to retirement but also the various income options available, both of which are interlinked.

It is unlikely that passive communication forms, for example booklets, will suffice in delivering the information members will need to make decisions. A formal process of financial education is required, starting some time before benefits are likely to be taken. The content will need to reflect the need for members to assess their overall financial position when making decisions particularly relevant for those considering drawdown options.

## What do you see as being the main challenges associated with this change?

**ALAN REID:** It seems likely we will not have the final rules confirmed until the end 2010 or early 2011, with a proposed implementation April 2011, so these time-scales may pose challenges for some.

Provided that the changes are finalised in a way that is easy to implement, I believe the industry will largely welcome the removal of the need to annuitise at age 75. It is important to have rules that are not only clear for providers and advisers, but that can be explained to members themselves.

In addition, advisers will undoubtedly want to revise the scope of their advice processes to encompass the new options.

The one issue that does need to be addressed is of individuals taking out their entire fund and then being unable to pay for future costs, such as long-term care. We expect to see measures to mitigate this

risk, but they must be practical to implement.

**JONATHAN WATTS-LAY:** A key challenge will be the changes that employers and trustees will need to make to the choices presented to members to avoid the position where individual members may claim they have not been adequately informed and as a consequence have made an irreversible decision.

There will also need to be safeguards in place to ensure that those remaining invested via either of the drawdown options do so in a responsible manner and are not unduly exposed to investment risk. The question of suitability is likely to be scrutinised in relation to any advice provided.

Providers will also need to consider the charges associated with the changes and whether the costs for updating existing product offerings are effectively passed on to members.

## Do you think it will have an impact on how members choose to invest?

**ALAN REID:** As with annuities, I suspect we will see continued innovation in the area of investments. While some members take a very active approach to their investments, the majority rely on the advice from their adviser, or default/recommended funds available to the scheme. In the latter case, these are often lifestyle funds packaged in a way that gears up for the traditional cash/annuity retirement option. We anticipate increased governance in the selection and construction of these packaged investment options and, in addition, greater flexibility in the choices available.

For members near or beyond age 75, I believe we will start to see more active engagement in how their funds are invested, and more active governance from advisers and providers to ensure the appropriateness of those choices, subject to each individual's attitude to risk. Ultimately, this will lead to more sophisticated (but still easy to use) fund selection tools.

**JONATHAN WATTS-LAY:** Members should reconsider how they invest in light of the changes. Flexibility of timing as to when benefits are taken will require members to review existing investments, particularly if they are currently set to be taken at a set date and in their entirety. Many will now be taking a longer-term view. This, combined with the removal of the default retirement age, will increase the requirement for advice reflecting the objectives and desired outcomes of individual members.