

Employee benefits

# How Long Will You Live?

None of us can predict exactly how long we are likely to live. However for those approaching retirement it is worth spending some time thinking about how much time they may spend in retirement and therefore how far their savings will need to last. This is also a time when professional assistance provides great benefits.

The average length of time people will spend in retirement is increasing at a dramatic rate. The table below demonstrates this. It shows how long a man or woman can expect to live for on average depending on when they turn 65.

While this is helpful, it's important to bear in mind these are averages. In other words, roughly around 50% of people will die earlier than the average age and 50% will die later.

This begs the question, how long might retirement last? For the answer we need to look at the probability of dying at different ages, rather than the average time people are likely to live for. For example, consider the following:

- A 65 year old man in good health has a 50% chance of living to 89 and a 1 in 4 chance of living to 95.

Projected Life Expectancy at 65<sup>1</sup>

	Life expectancy on reaching age 65 in the year shown <sup>2</sup>					
	2011	2015	2020	2030	2040	2050
Men	23.8	24.3	24.9	26.0	27.1	28.2
Women	21.1	21.7	22.2	23.4	24.6	25.8

Source: Pension Policy Institute

Notes:

1. ONS cohort expectations of life

2. Based on actual mortality rates and projected calendar year mortality rates from the 2010 based principal population projections



- A 65 year old woman in good health has a 50% chance of living to 93 and a 1 in 4 chance of living to 97.
- In a couple, both aged 65 and in good health, there is a 1 in 4 chance one of them will still be alive at 99 years of age.

Whether a certain retiree will live longer than the average will depend on a number of factors. For example, their state of health, lifestyle and the genes they have inherited from their parents. While it's impossible to predict life expectancy, it's worth noting that most people tend to underestimate how long they will live. The results of a previous study found that men in the age group 60-69 underestimate their average life expectancy by around 5 years and women aged 60-69 by about 3 years.

As this research suggests even those who do consider their life expectancy often underestimate how long they will need to draw on their financial resources.

Retirement is not a snap decision. It is unlikely that most people will be able to make a considered judgement on how much money they will need in retirement at the point that they commence the transition from employment to retirement. Apart from making

a judgement on longevity, they must consider the quality of life they will expect and question what compromises they may have to make.

When it comes to pensions, there is much more to it than just choosing an income vehicle shortly before vesting benefits. Pensions should ideally be managed into final product. The current default is for underlying investments to be gradually "lifestyled" into lower risk options, to facilitate a smooth transition into annuity purchase. For retirees who move their pensions into drawdown, one of the primary reasons for choosing this product is to maintain equity exposure into retirement in order to maximise potential investment growth. By failing to consider their eventual retirement product choice, many people could be unintentionally allowing their pension investments to drift, instead of actively managing their finances toward their final choices.

Many firms now offer educational material either through their own websites or by working with retirement market specialists. The online client experience has been carefully considered, leading to more interesting and easy to understand information, as well as a wider range of media being used. Additionally, these packages offer external links to assist

with their wider benefits, such as State Pensions and Benefit calculators, as well as assisting those not already in receipt of advice, to understand where this can prove of real benefit. Additionally, pension sites provide real-time valuations, as well as offering benefit calculators or indicative annuity portals.

There is still a strong desire for direct human contact, even from those individuals who are technologically adept. The demand for retirement seminars is increasing and the response from attendees remains positive. This is an ideal arena for future retirees to be educated about alternative products or discuss ideas with retirement experts, through Q&A sessions.

None of us can predict exactly how long we are likely to live. However for those approaching retirement, early engagement is key to ensuring that finances support the quality of life, no matter how long they live!

# Moving with the times

## Chris Hudson

Head of Sales and Marketing,  
Retirement Income, Friends Life

As a result of higher standards of living and medical advances, life expectancy is improving. You only need look at the number of telegrams the Queen has been sending to people celebrating their 100th birthday to see the improvement. In 1917 only seven men and 17 women received 100th birthday greetings sent on behalf of King George V. In contrast, 2013 saw the Queen sending a total of 13,000 birthday messages<sup>i</sup>. According to the Office of National Statistics around one in three babies born in 2013 will live to celebrate their 100th birthday<sup>ii</sup>.

### Underestimating length of retirement

The average life expectancy for a male currently aged 65 is 18 years and 20 years for a female<sup>iii</sup>. But these figures ignore expected future increases in lifespan and are averages, and many people are likely to live longer than this.

Almost 85,000 people, (31,000 men and 54,000 women) aged 65 in 2013 are expected to celebrate their 100th birthday in 2048<sup>iii</sup>. Therefore, planning to save enough funds to last in retirement on the basis that you will live for your average life expectancy could be inadequate for many people.

People are likely to live longer than they think they will and underestimating life expectancy has a huge impact on retirement planning. People are unprepared for the fact they will have to support themselves in retirement for many years. Educating customers on the potential risks of living longer than expected and how to put plans in place to counter these risks is key. Putting money aside or into a pension is a must, but so is making the most of savings on reaching retirement. An annuity offers one way of providing a guaranteed income stream for life.

### Growth of enhanced annuity market

The annuities market has been growing and is expected to expand rapidly as increasing numbers of the baby boomer generation now reach retirement, and with increasing numbers of these holding defined contribution pension funds. Key to continuing success and competitive advantage for providers in this market is the accurate modelling of longevity risk.

So it's not surprising that the retirement market has seen significant expansion of non standard annuities in recent years, with enhanced annuity sales now in excess of 30% of the

## About Friends Life

Friends Life provides pensions, investments and insurance for over five million customers. One of our key business lines is Retirement Income and we're committed to increasing our penetration of the growing 'at retirement' market. With a large number of retiring customers we're already an experienced annuities provider, we currently pay over £800 million in pension income a year to more than 380,000 customers<sup>i</sup>.

And it's from these strong foundations and through leveraging this experience, that we have recently launched on the open market with the Friends Lifestyle Annuity. Available through major portals, our new annuity primarily focuses on clients lifestyle factors to help provide a higher income in retirement.

At Friends Life we are striving to provide your clients with the best annuity to suit their retirement needs. We truly believe in our approach that recognises the individuality of your clients and brings some new and original development to the enhanced annuity market.

<sup>i</sup> Friends Life annuity customers – Sep 2013

Managing longevity risk is at the very heart of Friends Life's annuities strategy and forms a crucial foundation on which we build our annuities business. Our longevity experts' detailed research has helped us develop our new open market lifestyle annuity product.

total market and more than half of the open market<sup>v</sup>. This is where factors affecting future longevity are taken into account in determining annuity rates, such as health conditions like hypertension, diabetes or cardiovascular disease. Those customers who don't suffer from a medical condition may still be able to benefit from an increased rate due to certain lifestyle factors.

As more providers enter this market with increasingly sophisticated and finely tuned underwriting, increasingly around specific lifestyle factors, intermediaries will need to understand the positioning of these product variants in order to present the most appropriate solution that best meets the individual needs of their clients.

Managing longevity risk is at the very heart of Friends Life's annuities strategy and forms a crucial foundation on which we build our annuities business. Our longevity experts' detailed research has helped us develop our new open market lifestyle annuity product. There are already many annuities available on the open market catering for people with serious medical conditions. But there are also many people without these conditions who could still qualify for an increased income purely due to lifestyle factors alone. That's why our longevity experts

have worked hard to develop a product that does just that.

Our specialist approach focuses on how we can judge mortality risk by complementing the existing Common Quotation Request form with additional supplementary lifestyle questions. Lifestyle factors such as smoking history, alcohol consumption, occupation and family medical history are all taken into account. In launching this innovative new product, we are seeking to bring the benefits of an enhanced annuity to more people than ever before.

### Importance of advice and guidance

With more providers entering the open market, increasing competition in the enhanced space, there is clearly a crucial role for intermediaries to help customers consider all these product variants to ensure customers are getting the very best deal for their personal circumstances. There's no going back once an annuity is purchased, making the wrong choice could be the equivalent of taking a permanent pay cut, potentially equating to hundreds, or even thousands, of pounds of lost income. And with retirement potentially now lasting over 30 years, that's a long time to have to struggle by if you get it wrong!

i. <http://www.royal.gov.uk/HMTheQueen/Queenandanniversarymessages/Factsandfigures.aspx>

ii. <http://www.ons.gov.uk/ons/rel/lifetables/historic-and-projected-data-from-the-period-and-cohort-life-tables/2012-based/sty-babies-living-to-100.html>

iii. <http://www.ons.gov.uk/ons/rel/subnational-health4/lifeexpect-at-birth-age-65/2004-06-to-2008-10/statisticalbulletin.html#tab-National-life-expectancy>

iv. <http://www.ons.gov.uk/ons/rel/lifetables/historicand-projected-data-from-the-period-and-cohort-lifetables/2012-based/sty-babies-living-to-100.html>

v. Source – ABI

# Cavendish Online shakes up the market with a commission cashback comparison service for annuities

**Cavendish Online has launched a commission 'cashback' annuity comparison service which will shake up the industry and save consumers a packet. Cavendish Online is the first to use Weblin's Annuity portal to obtain consumer facing quotations and build the question set and functionality utilising their E-CQRF.**

The new service, which was launched at the end of January, enables consumers to compare and buy annuities on standard and enhanced terms available from 4 leading providers including Aviva, Canada Life, LV= and Legal & General with more providers being added shortly. It will be the first service of its kind to offer a cashback payment for any commission received above the company's flat fee.

Cavendish Online chose to work with Capita on this project as they had the most advanced consumer facing panel of providers that offered enhanced terms. Cavendish developed a customer facing front end incorporating the common quotation form, creating a complete journey that helps customers understand the implications of their annuity choices, their health and lifestyle on the annuity income provided.

Cavendish Online's unique pricing model will also give consumers more information on the price and value of advice in the annuity market. The average pension pot at retirement is £36,800\* and if all of this was used to buy an annuity it would generate a payout of £1,104 for a broker receiving up to 3% commission, on an enhanced annuity, from the annuity provider. With a £36,800 standard terms annuity providing an income of around £1,600 a year to a healthy 65 year old male, the cashback in this

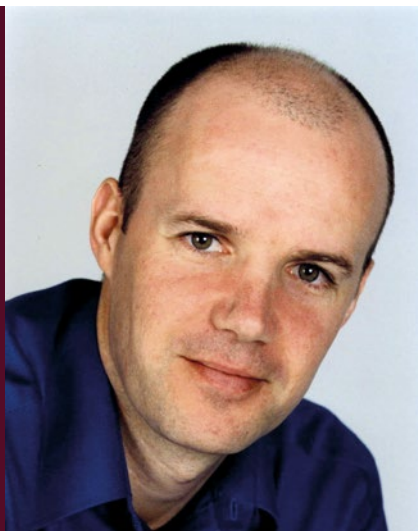
instance would represent an additional 7.5 months of income.

Customers with larger pension pots, with more complex requirements or those who simply decide they require more help in choosing the right annuity, can opt for a guided or fully advised service provided by AS Life, trading as Compare Annuities. The system automatically recognises when a customer indicates that they have a pension pot of over £100,000 or has more complex circumstances or requirements and suggests that they seek advice.

The online system enables customers to generate instant, guaranteed quotes based on the information they provide and the comparison results screen also shows the cashback sum they are likely to receive for the choices of annuity shown. The annuity quotes are the same as those provided to other brokers who retain commission.

Customers could also use the service as a completely free means by which to check that the annuities recommended by their own adviser are the best available whilst also seeing the commission their adviser could be earning from the sale.

The intuitive online process encourages the customer to input all relevant information about any medical conditions and health or



**Ian Williams**

Managing Director  
Cavendish Online

## Execution only online service will cost customers just £100



lifestyle issues which may affect the size of the annuity offered. The detailed medical information is input just once for the details to be submitted to all of the providers compared and for guaranteed quotes to be generated in a matter of seconds. The customer can see how the indicative quote changes as more information about their situation is entered and their choices for the type of annuity they require are made.

Even when the final quotes are returned for each annuity provider the customer can alter factors such as spousal income, guarantee periods, and increasing income rates to quickly see how they affect the annuities offered. A simple minimum / maximum line chart clearly shows them how their choices affect the potential income offered between the lowest and highest sums available.

Once a customer has chosen their annuity via the online execution only service they are given a summary and links which enable them to print off their pre-completed key facts documents and application forms which can be checked and then sent to Cavendish Online for processing. Eventually the system will be electronic from end to end.

Ian Williams, Managing Director of Cavendish Online said:

"Our new online annuity comparison service will allow consumers to get a quick and underwritten annuity quotation. The service will take them through a process which enables them to keep control of your money, guides them through important decisions about their retirement and encourages them to benefit from enhanced annuities where appropriate.

"Cavendish Online has built its reputation on only charging customers only what's fair rather than taking huge margins. We are committed to returning what we believe to be excess charges and commissions to the customer either in the form of the lowest premiums for life cover or the lowest platform charges for investments. Now we are shaking up the annuity industry and giving those heading into a retirement a much fairer deal."

To link to our annuity service website please use [annuities.cavendishonline.co.uk](http://annuities.cavendishonline.co.uk)

\* Source – ABI



# Choosing the right annuity – how simple is it?

The focus on annuities during 2013 was greater than it had been for many years.



**Mike Teall**

Head of Annuity Proposition  
Scottish Widows

The European Gender directive, RDR, ABI Code of Conduct on Retirement Choices – they have all played a role in both increasing the attention and confusion around annuities.

It should be fairly simple – client pays a lump sum to the provider, the provider then guarantees to pay client an income for life. Alas, life is never simple with fluctuating annuity rates, economic uncertainty, ageing population and the expectation of a decent level of retirement income making for an uncertain future for your clients.

Helping your client through this journey is not simple and competition from online annuity comparison sites can complicate this further.

The ABI Code of Conduct on Retirement choices encourages those at retirement to shop around to achieve the best rate. Often forgotten, but it also encourages buying an annuity at the right time and in the right form should also form an integral part of the annuity purchase decision.

Despite a choice of retirement products, annuities are still the most popular retirement solution for people with a pension, especially for those with smaller pots. Enhanced Annuities, whilst gaining popularity, are still not as widespread as they could be, particularly amongst customers that buy an annuity from their pension provider.

Whether that is due to lack of awareness on part of the customer or a reluctance to admit that their life expectancy is shorter as a result of medical condition/lifestyle is up for debate. However, individuals could enhance their retirement income by as much as 40%

by researching different annuity options and being open about their medical history. Scottish Widows estimates 45% of its customers could qualify for its enhanced annuity.

Choosing when to buy and the right shape of annuity is one of the biggest decision clients will make and their lifestyle in retirement depends on this decision. Therefore it is important that they have access to advice and/or the right level of information to enable them to make an informed decision.

At Scottish Widows we launched our Enhanced Annuity proposition to the Intermediary market in June 2013 and our product became available on the Weblines portal at the beginning of November. We've adopted a forward looking position taking advantage of the improvements to the ORIGO e-CQRF messaging standard introduced in 2012. The core part of our process revolves around a fully electronic enabled quote and application process.

How our proposition helps you and your client

- Competitive quotes first time
- Automatic underwriting decisions on all quote requests, so you will know instantly if your client meets our criteria.
- Consistency of underwriting assessment and outcomes.
- Quotes will be guaranteed for 30 days from the date the quote is produced. The application form and purchase price must be received within the 30 days for the terms in the quote to apply.

At Scottish Widows we launched our Enhanced Annuity proposition to the Intermediary market in June 2013 and our product became available on the Weblines portal at the beginning of November.

Due to complexities of underwriting, we may not be able to provide an automated underwriting decision in all circumstances. However, we believe that this should represent a small proportion of cases and 80% of customers should be able to receive a guaranteed quote instantly.

**For more information about Scottish Widows Enhanced Annuity visit:**

[www.scottishwidows.co.uk/extranet/products/individual-retirement/enhanced-annuities](http://www.scottishwidows.co.uk/extranet/products/individual-retirement/enhanced-annuities)

# New research shows that one in ten of the nation's retirees are spending less than an hour to determine their financial future for potentially the next 25 years or longer

- Over one in five, (22%) spend a year or more researching their travel plans and other big dreams for their life in retirement.
- Over one in ten, (12%) of the nation's retirees admitted that they spent less than an hour arranging their retirement income for potentially the next 25 years or longer.
- One in seven, (14%) of retirees wish they had spent more time on planning their retirement income.
- 71% of retirees had big retirement dreams – with nearly half saying that holidays topped their list, (49%), followed by nearly a fifth wanting to take up new hobbies, (18%) and a similar number looking to do house renovations, (17%).
- Legal & General and unbiased.co.uk have prepared an At-Retirement guide to help increase awareness, for those at retirement who are arranging their retirement income, of allowing adequate time for the important decisions they need to make. Please ask your usual Legal & General contact for details.

New research<sup>1</sup> released by Legal & General and unbiased.co.uk shows that over one in ten, (12%) of the nation's retirees spent less than an hour researching, choosing and arranging one of life's most important decisions – their retirement income.

## Total time spent planning and arranging retirement income:

Time	% of all respondents
Less than an hour	12%
1 week or less	33%
1 month or less	43%
3 months or less	49%
A year or over	16%

Yet, when it comes to their plans for their life after work, the nation's retirees take their time to plan and research. When asked to choose from a list of retirement dreams, nearly three quarters, (71%) said they planned at least one of these for their life after work, with nearly a quarter, (22%) of this group admitting they have spent a year or more planning their big retirement dreams.

Topping the 'retirement dreams' table for retirees aged over 55 is travelling or a big holiday, with nearly half, (49%) planning on making a big trip in retirement. This was followed up in second place by 'taking up a new hobby', (18%), 'renovating their house', (17%) in third and moving house, (13%) in fourth.

## Retirement satisfaction

When asked if they had any regrets about how much time they took planning their retirement income, 14% said they felt they hadn't spent enough time arranging their retirement income and were concerned. Nearly one in seven, (15%) said they arranged their retirement income with their employer and trusted they had spent enough time looking at the options. One in ten, however said they used a financial adviser and were confident in the income they receive. Overall, only 38% of over 55 retirees said they were happy with their retirement income, while nearly a third, (30%) said they were dissatisfied with the amount.

Tim Gosden, Head of Strategy for Legal & General's Individual Retirement Solutions Business said: "Our research shows that there is a clear knowledge gap among retirees aged 55 and over about the time required for planning their retirement income. While retirement is a great time to enjoy the dreams we've thought about during our working days, the amount of time spent planning those dreams, versus the time spent considering our retirement income options, which will

ultimately fund those retirement dreams, appears worryingly inadequate. Many of us will now live into our nineties and beyond and so taking less than three months, let alone less than an hour is unlikely to be long enough to plan ahead. Investing in time, which includes researching options, seeking financial advice and shopping around the market for the best deal can pay real dividends, particularly if it results in a lifetime of extra income.

"Arranging retirement income can be a daunting process, with some people ending up making the wrong choices, often because they just choose the quickest, easiest route. We believe that every customer arranging their retirement income deserves at least a conversation, with a knowledgeable person to start to understand their retirement options and priorities, and so they appreciate why it is worth investing the time."



# Annuities on Webline

## – further enhancements to the service

The annuity market has changed significantly in recent years. Issues have been raised about the role of advice in the purchase of annuities including obtaining 'open market' options for annuitants. The ability to charge for advice around the purchase of an annuity income has also come to the fore.

Warren O'Connell

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Building on the existing 'detailed' service that was built in 2007, Webline have developed a service which has brought the Common Quotation Request Form (CQRF) online and used the most up to date Origo messaging (v 3.7). One aspect of these improvements is the facilitation of Adviser charging on the service and inclusion of the full medical questions set.

Unlike our competitors, this remains a free service to anyone with a Webline (or Synaptic) licence and there are a number of important differentiators setting us apart from the competition:

Unique lookup fields will save the adviser time and effort.

Users only need to enter data for relevant 'conditions' using dynamic filtering, again saving a lot of time.

Full medication lists are provided by a third party and regularly kept up to date.

As with all of the products developed by Capita Financial Software, Weblane is supported across multiple browsers and operating systems, including tablets.

The CQRF is widely used but presents the adviser with an amount of paperwork requiring time to complete. In a post RDR world where an adviser has to charge for his time advice, the proposition we have developed will help.

Choosing the right annuity and making sure a retiree understands all of the options available to them is imperative. As we have seen and learnt in the past, people are reluctant to give full medical details and 'admit' to certain conditions, under the impression that this will make things more expensive for them. Of course, this has the opposite affect for annuity providers. Research has shown that a person's annuity income rate offer can increase, by as much as 30% in some cases, when declaring all of the necessary information.

As Paul Evans discusses in his article, advisers must get 'engaged at retirement' as annuities are an area where more people are likely to require professional assistance. Jonathan Covill from industry experts LV= further underlines the importance of checking all of the necessary options in retirement.

The users input can be saved at any time and retrieved at a later date. This is ideal for an IFA when entering specific medical conditions and medication that may need to be checked with the client (if not completing in their presence)

#### Saved annuity quotes

Retrieve a part-saved enhanced annuity quote request using the search form below

Client A Forename			
Client A Surname		smith	
Client A Date of birth (dd/mm/yyyy)			
Client B Forename			
Client B Surname			
Client B Date of birth (dd/mm/yyyy)			
<b>Go</b>			

Client A			Client B			
Forename	Surname	DoB	Forename	Surname	DoB	Save Date
A	Smith	23/08/1954				24/04/2013
						<b>Select</b>

The functionality exists to support multiple adviser charging options and the basis of sale, giving the adviser total flexibility. Automatic filters ensure adherence to RDR rules:

- an advised sale cannot receive commission
- an execution only case will allow commission or adviser charging to be applied.

+

Product Selection

-

Charging

Advice basis

☒ Advised Sale      please select type of advice given     

☐ Non-Advised Sale      please select sale category

Type of Remuneration

☐ Commission

☒ Adviser charging

Adviser Charging

☒ Chargeable

☐ Non-Chargeable

Please define the initial charge

Please enter the amount     

Where is it facilitated from?     

Please choose

Annuity In Payment

Annuity Purchase Amount

Fund

Pension Transfer Amount

Tax Free Cash

Back

Next

Submit

Save Form

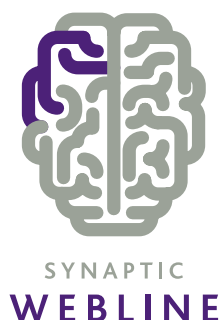
The intuitive results screen remains for annuity results, allowing the user to toggle different options very easily and receive different quotes without needing to re submit the entire form.

Provider	Single Life	Single Life	Single Life
	<input type="text" value="Single Life"/>	<input type="text" value="Escalating @ 2%"/>	<input type="text" value="Escalating @ 2%"/>
			<input type="text" value="5 year guarantee"/>
LV=	£8,062	£6,301	£6,284
Legal & General	£7,853	£5,955	£5,945
Canada Life	£7,259	£5,376	£5,372
Aviva	£7,088	£5,299	£5,293
Prudential	£0	£0	£0

Quote Report

New Quote

Users are also shown a summary screen of the details entered.



For more information or a demonstration of this service please contact  
0800 783 4477 or Michelle Wheeler at [michelle.wheeler@capita.co.uk](mailto:michelle.wheeler@capita.co.uk)