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The end of retirement (Part One) // Tom Murray - Head of Product Strategy - Exaxe

Investment Life & Pensions Moneyfacts

This article was originally commissioned and published for the *Investment Life & Pensions Moneyfacts* publication.

In the first part of a two part series, Tom Murray explores what society might be like in a new age where people no longer retire in the traditional manner.

Cradle to Grave

The cliché "cradle to grave" is a rhetorical device that covers the entire gamut of life's experiences from birth to death, including by implication the educational stages, working life, and retirement. This addition of retirement is a relatively new phase, as it was not until the end of the 19th century that the concept of retirement became a reality for the majority of the population. Until then, one just worked until one could no longer do so and if one hadn't died by then, one struggled to survive without an income, (I'm ignoring the minute proportion of the country's working population who actually earned enough to stop working as they formed such a small group they could reasonably be identified with lottery winners in today's society).

Given increasing longevity and the less physical nature of a lot of the work done in the 21st century, the question is whether the retirement phase will fade away as quickly as it came, leaving us with one less stage in life as we all essentially work until we die. If so, are the products that the financial services sector are currently providing up to the task of delivering what the public will need in the next few decades? This article, the first of a two part series, proposes to look at what society might be like in a new age where people no longer retire in the traditional manner but adapt their working life to cope with their ageing until they get to the point where only illness or death makes them exit the workforce. In the follow-up article, I aim to address the financial needs of this new workforce and see what changes the current product sets will need in order to be attractive in this new era.

What is leading to this?

There are a number of factors at play that are leading to the shrinking of the retirement phase and these factors may well bring about its complete elimination. They are as follows: the increasing longevity of the population and resulting inability of most western economies to support such a large proportion of their population in leisure, the decreasing level of physical strength needed for much of the work that takes place today as technology and machines take over much of the physical work required, the improvement in health levels that enable people to carry on working for much longer, and the changing nature of society that makes retiring a less appealing proposition than it used to be.

Live long and prosper

This is the number one reason for the need to work longer. By traditional standards of retirement, where people generally retired at 65, the increase in life expectancy means that after 25 years or so of education and 40 years of work, people can now expect to spend at least 20 years in retirement. This means that roughly half of a university educated person's life is spent working. As a result, the wealth generated from that work has to essentially do twice as much work in terms of supporting them – I know they don't have to cover their childhood costs but in general they will have to cover the next generation's childhood costs, so from a societal point of view it comes down to the same thing.

Given the amount of living their working life has to support, it has become difficult to see how this can be achieved by working over a mere forty years.

The bionic generation

As technology, and robotics in particular, has improved, a lot of the physical labour involved in the workplace has been removed or diminished so that the physical strength barrier that previously would lead to retirement has now been removed. Although physical strength does decline as one grows older, the impact has been incredibly reduced so that it is now possible for people to do work in their sixties and seventies that would have been beyond someone in their fifties just half a century ago, as the job now involves manipulating machinery rather than actually doing any of the work directly. As this barrier falls, and the cost of supporting machinery drops so that even small businesses can afford it, it enables experienced people to keep doing a job long after the decline in their strength and flexibility would normally have allowed them to do it.

Healthcare bonus

The strides in medicine that have been taken over the last few decades would dumbfound anyone who visited this century from just 100 years in the past. The advances have meant that diseases that were previously debilitating are now more routinely curable, giving the general population a major extension to the part of their lifespan where they are capable of fully functioning.

Both through improvements in health education and more directly in the procedures they can carry out, we have greatly extended the lifespan of the average person. As a result, people feel less ready to give up working when they feel perfectly capable of keeping going. As long as they can earn, and in the absence of a high enough income to live a good lifestyle, they are perfectly happy to continue to work to generate the level of income they feel they need.

Collapse of community

Back in the day of more community-based living, retirement did not mean isolation. Community groups were frequently dominated by the retired who had the time to put into the organisation and its projects. However, modern society is far more individually based and therefore there is a risk, particularly in large urban areas, of having little interaction with the rest of society post-retirement.

There are many people who prefer instead to work on, either at their own job or to change and work in one or more part-time roles that ensure they are still meeting people and interacting. This includes, but is not restricted to, the voluntary sector.

Many people no longer associate happiness with stopping working, which removes one of the most powerful incentives to retire. This is one of the reasons that the raising of the state pension age did not lead to the kind of riots on the streets that one would have expected if the government had decided to do it during the 1980s

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What will the future look like?

The result of these forces is likely to be dramatic in their impact on society as we currently know it. The knowledge society has increased the number of people who like their jobs for their own sake rather than merely endure them for the financial recompense associated with them. As a result, we can probably look forward to having a nation that is happier with what it does, rather than a nation of people just suffering through their working years and dreaming of an escape. On the bright side, this should lead to a reduction in the type of mental health issues that can all too frequently be associated with the 'over the cliff-face' approach to retirement that takes place at present.

The difference between this view and that of bygone times is that previous visions were always focused on retirement being spent in non-productive activities and generally associated with pleasure. The cruise-ship represented the ultimate destination for many on life's weary journey or at least some equivalent of it for those who found the idea of being cooped up in a luxurious, floating, geriatric home too much to bear.

But for those who enjoy their work and the challenges it brings, sitting at home trying to solve the Countdown Conundrum in thirty seconds sends a shiver of fear down their spine. For many people, artificial challenges represent a pale shadow of the excitement of real work. The appeal to these people of working on, perhaps in a different role, is a far more attractive option particularly as technology that allows working from home and at convenient times now means that it is possible to structure work around your life instead of having to structure your life around your work.

Flexible work for flexible income

Given this more flexible approach to work in the future, where it remains part of your life but perhaps no longer the dominant part, the financial rewards aren't necessarily the dominant part and many will be looking to have the extra choice in their own future that comes from having built up a certain degree of financial independence during their earlier working years. Thus our later years could become years when previous investments, such as National Insurance payments and pension savings deliver income streams that augment the income streams coming from one or more part time jobs. They could even augment reduced income from someone's current job, particularly if they have dropped a grade or two to work in a less stressful position.

Financing the future

The types of products that are currently used by pensioners are quite rigid. Tax effective savings plans are turned into income streams but with restrictions due to the fact that the money was garnered using tax-favoured status. This leaves a lot to be desired as in many cases, the income stream is not flexible and cannot cope with the further changes that people experience as they move through the years. For example, an annuity covers the needs of an individual who lives on for twenty years but pays out whether they need the money or not and will not provide protection for future events such as ill-health, medical expenses, moving into a care home, nor even with simple straightforward ones such as gaining a dependant through marriage or dealing with a separation or divorce.

The issues that tend to cause anxiety for those of more advanced years are based around security of income, need for assistance in independent living, care costs and, for some unknown reason, a legacy to those left behind after death. Those couples who share an income also have issues where one might need care while the other is living independently. Our simplified view of the financial needs of the elderly requires updating and so do the products the financial services sector offers to support them.

What does this new "retired" generation need?

In the next article, I intend to take a look at the types of products that will be suitable for the pensioners who don't stop working – the un-retired, as HBSC referred to them in a recent report – and see what kind of changes are needed to the current product set that the industry is offering in order to fulfil the needs of this new breed. Financing the type of lifestyle lived by the working pensioner is going to demand a major shift of thinking from the life and pension providers and only those who can adapt their product set to meet the needs of this market will survive.

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Pension's regime collapses like a house of cards // Kathryn Desmond - Business Development Manager - Exaxe

Is the recent pension reform by Chancellor George Osborne, which has caused mayhem in the post-retirement market, a stroke of genius or a political masterstroke worthy of Machiavelli? The scale of his reforms took everyone by surprise, last Wednesday; in particular, the abandonment of the compulsion to buy an annuity or drawdown product with one's pension savings and to allow full access to the money, albeit taxed at the individuals marginal rate.

The Government has staked out a position on the moral high ground; they are merely freeing pensioners to do whatever they wanted with their own money. This was a stratagem worthy of Mr Underwood, the scheming Chief Whip in the US version of the House of Cards, as the opposition was left with the unpalatable argument that people could not be trusted with their own money, hardly likely to be a vote-winner.

However, there are a number of issues with the Chancellor's announcement that have been successfully stifled by clever politics but are relevant nonetheless.

The first point is that the original relationship between tax relief to save for one's pension and the compulsory annuity purchase with the money saved made sense. It ensured that the individual whom the state had

Is the recent pension reform by Chancellor George Osborne a stroke of genius or a political masterstroke worthy of Machiavelli?

helped to save for a pension was far less likely to become a burden on the state because he or she now had an income for life. This link has now been broken and the logic that allows the individual to essentially defer tax, and even reduce it by taking the money in stages in their later years seems to disadvantage today's taxpayer without providing any benefit for the future taxpayers.

Secondly, the argument that the annuity market needed the abolition of compulsion to become efficient completely ignores the fact that there are other highly competitive markets, such as car insurance, which are based on compulsion and that successive reports on the annuity markets never mentioned compulsion as an issue that was stifling the market.

Thirdly, the idea of pension saving is to provide income security for the whole of one's retirement. Actuaries may not have been particularly successful at estimating longevity in recent years – witness the closure of so many defined benefit schemes – but moving the onus to the individual for calculating the speed to draw down one's savings doesn't sound like the answer.

Of course, there have been those holding the view that this is more of a political stunt than a well thought out response to problems within the at-retirement market. They point to the curious co-incidence that "pension liberation" will become a fact in April 2015, just weeks ahead of the next General Election. And older people are more likely to vote than younger ones. One might say that this would be likely to pull some older voters back from the arms of UKIP and into the Tory fold. One might very well think that; I couldn't possibly comment!

Stone age illustration systems are holding back the industry // Tom Murray - Head of Product Strategy - Exaxe

This article was originally commissioned for the January edition of the Actuarial Post.

The idea behind Key Feature Illustration (KFI) documents is an excellent one; standardised projections should allow consumers to compare products from different providers and enable them to understand the effect of the varying charging structures across all the different providers.

Of course, the KFIs don't guarantee outcomes but it does enable those who wish to choose on the basis of price rather than on the promises of returns to make an informed decision and it helps them to understand the effect of the differing features that may be attached to a particular plan, as the associated costs will reduce the projected outcomes.

However, there are problems with the KFIs. There are regular changes in the regulations governing them, as the effect of these documents on the buying public is assessed. These changes are required because the investing environment changes frequently and the assumptions behind the illustrations in the KFIs need to be changed accordingly to reflect the current situation rather than to merely replicate what happened in the past. These changes should happen far more often but instead tend to only happen after a gap of a number of years with the result that the illustrations quickly become outdated as the assumptions no longer reflect the world that the investor is living in. Of course, regulators should be able to respond more quickly to the changes in the real world, but they are generally restrained by the cries from the industry that changes are expensive and time consuming to introduce and should therefore be only made every few years rather than a few times a year, a timeframe that would be more responsive to the changing state of the economy.

While this might reduce the cost incurred by the industry, it has two detrimental effects – on the consumer and on the industry itself.

From the consumer's point of view, it means that the illustrations are out of step with reality. The original projection rates were standardised to prevent unscrupulous companies from using rates that were too high and therefore misleading customers into the belief that their funds would grow at a ridiculously high level. However, these have now been outpaced by the realities of the world and now the regulated rates are widely seen as too high and therefore also misleading. Of course, given that the idea is to allow customers to compare across different providers, one cannot seriously expect the providers to correct this issue themselves and thereby make their own projections look artificially lower than every other market player.

From the industry's own viewpoint, the infrequent changing of the basis for illustration removes the pressure to upgrade their technology. As a result, they don't have the ability to mroe actively use illustrations. This is a pity for a number of reasons. The outdated versions of illustrations can look unrealistic and compare unfavourably with other forms of investment. When most people are thinking of how they will fund their retirement, those without pensions consider a number of options, not just a pension product. Particularly attractive as an idea is buying a property to produce a stream of rental income which will provide for the owner's needs in retirement and at the same time will be accessible as an asset either to get a loan against, perhaps via an equity release programme, or by selling to realise the value. The difficulty for pension investments is that
this means of providing for our future is easily understood and in order to compete against it, pension product illustrations need to be flexible, modern and up-to-date.

A second problem with sticking with legacy technologies for illustrations is that the staff is left maintaining out-of-date systems and spreadsheets. This work can be difficult but also repetitive and boring. This is deeply demotivating for the staff and while it is a highly skilled job, the professionals involved are therefore even more likely to become bored with the antiquated approach and the sheer drudgery of maintenance – it's not what they've believed they were studying for through all those years of examinations.

The answer is to make the move to a modern illustrations system that will not only deliver what is required by the current changes mandated by the FCA but also will allow future changes, such as the forthcoming PRIPs to be incorporated without the need for major programmatic changes. The FCA can assist in this move by refusing to listen to the moans coming from provider companies and insisting that changes are made on a more regular basis in order to encourage pension saving. This approach would push companies along the path of moving to newer technology platforms which will allow, via configuration, improvements to be drip fed and minor adjustments made based on feedback from the implementation of the regulations rather than the infrquent big bang approach that is enforced at the moment.

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Exaxe signs a five year deal with Irish based insurer for Illustrate Plus // Sharon McGuire - Marketing Manager - Exaxe

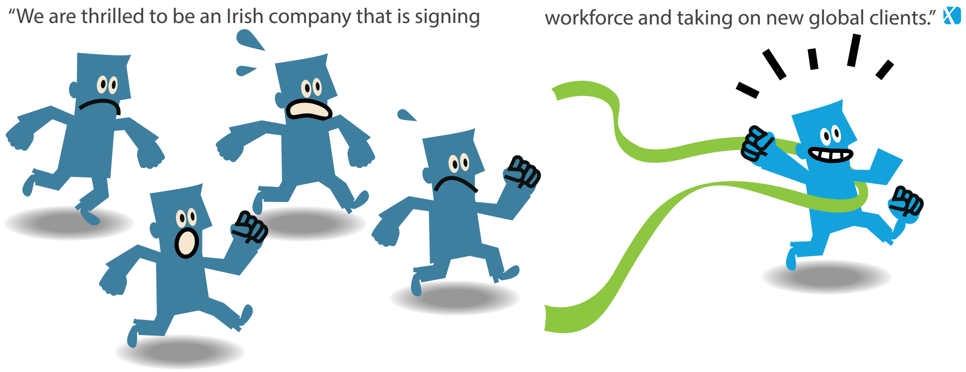
Exaxe is delighted to announce that it has signed a new contract with a french global life assurer based in Ireland which provides investment and retirement protection solutions to clients throughout Europe. The contract will see the insurer replacing its current legacy system with Exaxe's flagship product Illustrate Plus. When implemented, Illustrate Plus will deliver significant service improvements and cost savings to the insurer.

Illustrate Plus is a highly flexible, web-based illustrations and quotations solution that supports new and existing business across all products for life, pensions, wealth management, group and individual business.

This five year deal involves the implementation of Illustrate Plus across the insurer's Irish operations to support its European business.

Philip Naughton, Executive Director of Business Development, commented "It is a another endorsement that Illustrate Plus is a leader in the market for illustrations and quotations to blue chip companies for Exaxe go live with this well established company. We trust that this is a partnership which will grow stronger over the coming years as we help to support their growth and success. Work has commenced and the solution will be fully implemented by May 2014."

"We are thrilled to be an Irish company that is signing deals at home and abroad and we continue to recruit to meet our growth objectives. It has been a tough economic climate for all Irish businesses but we are pleased to be in the position to be increasing the workforce and taking on new global clients."



By George, everyone's an actuary now! // Tom Murray - Head of Product Strategy - Exaxe

ACTUARIAL POST

This article was originally commissioned for the April edition of the Actuarial Post.

Lost in the deluge of journalistic outpourings regarding the Chancellor's latest budget and the 'Dawn for Freedom' for retirees, was the fact that the Chancellor was basically saying that in future the estimation of how long one will live and therefore how quickly one can spend one's retirement savings is down to the individual themselves, implying that people can and should take a DIY approach to the actuarial assessment of their own needs. From being an extremely difficult profession that requires acute mathematical skills and many years of training and study, the profession appears to be regarded in the Treasury as something that can be undertaken by anyone.

Is this really how the Treasury view the actuarial profession? That someone can replicate the work involved with a calculator and a quick Google search? Or is it that they no longer care whether people's pensions actually last for the duration of their lifetime?

The thinking behind the new strategy is not easy to fathom. On the one hand, there is the basic state pension to remove the means-testing trap and auto-enrolment to ensure that everyone has some level of private pension to top it up. This is designed to ensure that the state will not have to fund impossible levels of pension in the future with a much smaller active workforce.

On the other hand, there is this new approach that, having finally ensured everybody has a pension pot, the Treasury will now allow them to draw it down at whatever rate they want. This seems designed to throw a huge number of people back on the resources of the state a few years after they have retired.

So where does the actuarial profession sit amidst all this change? Well, obviously, there will still be a number of people who will want to buy annuities, the cautious types who are more concerned with the risk of running out of money than are actually tempted by the thought of a Caribbean cruise. However, according to a recent PwC survey, this market could decline by as much as 75%. This is a severe drop that will impact the industry and the type of products that need to be offered.

However, God rarely closes one door, but he opens another. The market is ripe for a rush of new products incorporating some type of guarantees that will bring comfort to those who are retiring. The exact nature of the products is still to be seen, but the need is there and it will be up to the actuarial profession to support the design of such products in such a way that they fulfil the need of providing value to the clients whilst giving the security of the old form of annuity.

There is another area that will require much ingenuity from the actuarial profession. That is the support of online tools and apps that will help the prospective retiree through the quagmire of retirement planning. Although the Chancellor has promised that "guidance" will be provided for all new retirees, the details of his plan are yet to emerge, as is the exact definition of "guidance". The majority of retirees will not be able to afford the kind of detailed financial health check from an IFA that would be undertaken by the high net-wealth sector of society.

Therefore, this guidance will likely have to take a highly automated form. But it's not only the official guidance that is likely to require automated support. Pension providers will need to make it easy for those who are trying to manage their own retirement areas to understand the products they have on offer and to reconcile them to the customer's individual needs. Therefore automated tools incorporating actuarial assessments of longevity and fund performance are likely to be key offerings by most providers to this new self-investing section of the population.

Far more creative thinking will be required for these kinds of applications. Instead of an educated audience of advisors, these will be primarily used by those to whom the secrets of the pension world have up to now been an arcane mystery. Shedding light on those mysteries is likely to require a blend of the hard factual calculations provided by the actuarial industry with the softer skills of the multi-media professionals who are skilled in taking difficult matter and making it intuitively understood by non-expert users in the app and social website world.

While the Chancellor may have seemed to make the actuary redundant in the Brave New World of retirement planning, the reality is the work of the actuary will be just as important as ever. The only difference being the emphasis will be on collaborating with designers in order to work directly with the end consumer rather than via an expert intermediary.

Actuaries need to come to the forefront of this new era. The Chancellor has allowed everyone to manage their own longevity risk. The actuarial profession needs to find suitable ways to support the endeavours of the retirees who chose to take this path. A huge challenge but one that is more satisfying and more in tune with technology changing the way we live.

Technology can keep work flowing smoothly // Kathryn Desmond - Business Development Manager - Exaxe

This article was originally commissioned for the February edition of the Actuarial Post.

The recent floods that engulfed the Somerset Levels were shocking in their effects and all our sympathies lie with those whose homes have been destroyed and who now face many months of hard work to try to restore their lives to some semblance of normality. The planners of the Environmental Protection Agency also face a difficult time, post the blame game, in trying to improve the flow of the rivers and cater for the dangers to the eco-system from the run-off from surrounding hills as well as the effects of excessively high tides moving in from the sea during times of storm.

While not of the same direct human consequence, nevertheless, it is easy to see a simple parallel in the flow of work throughout an organisation. How often do we see processes in place that become overwhelmed by external events and fail to function smoothly? Over-reliance on individuals to decide priorities when the situation is under stress and changing fast is a recipe for disaster within an organisation; the pressure can frequently lead to mistakes that make the situation worse as people try to take shortcuts in order to relieve the load. This kind of ad-hoc response can quickly exacerbate the problem and runs the risk of leading to even more mistakes and so on in a vicious, downward spiral. Many organisations are still operating with processes that were designed in a previous era using older technologies and an old fashioned approach to customer services. Often these processes are operating without any true metrics on their efficiency. This makes it extremely difficult to see the bottlenecks that have evolved over the years in their business processes that ultimately hamper their ability to deliver an efficient, modern, and streamlined service to their customers.

The answer to this problem lies in the better use of technology in order to control and prioritise the flow of work throughout an organisation. There are a wide variety of workflow solutions currently available in the market, which can be used to optimise the performance of the company and can also allow the flow of work to be altered rapidly in response to external events, ensuring that the company's service levels to its customers remains optimised irrespective of the external stresses being applied. The ability of these systems to control and monitor the work within an organisation allows managers to flush out the inefficiencies within their processes, thus optimising their ability to provide a smooth service under normal circumstances and to increase their capability of responding when their work load becomes excessive and reaches a point that would normally overwhelm the organisation.

Those companies that operate using an automated workflow system get a number of advantages over those who rely on a manual work allocation approach.

The first advantage is that the flow of work throughout the organisation can be organised consistently according to the priorities of the management. All workflow systems can provide this level of automation, whereby different types of work and interfaces with the public can be prioritised and guided to the right person in the organisation to deal with the item. Branches in the flow of work can be defined to allow parallel work streams. Waiting points can also be defined in order to prevent the movement of the piece of work on to the next stage until all the required intermediate parallel stages have been completed. Work streams can be defined that branch to different individuals based on the result of a previous stage or stages in the process, thus optimising the engagement of expertise within the organisation, as required.

Secondly, teams can be defined and subsequently augmented or reduced in order to respond instantly to peaks and troughs in the workload. Some of the more sophisticated systems allow for a number of levels of expertise to be defined within the teams so that the complexity of the individual piece work can dictate which member of the team is allotted that particular task. This provides a smooth flow of control for the manager, optimising the efficiency of the team by directing the work according to their abilities and giving compliance with national regulations by ensuring that only those who are authorised to do certain tasks actually do them. This level of sophistication in work analysis and allocation is more efficiently done automatically rather than being left to the individual team leaders, who may not always be present or may be too busy to allocate the work items as they arise.

Thirdly, the metrics surrounding the day to day work within the organisation are available and easily mined to flush out problems, bottlenecks and inconsistencies that are not always easy to perceive by those who are actually close to the coalface.

Automated workflow is a vital component of the modern complex office environment but it needs to be correctly used to realise the full benefits of the system. Without it, you risk your workforce ending up knee deep in a quagmire of work items that at the very least may be inefficient and at worst may completely overwhelm their ability to provide a professional service, damaging both the reputation of the company and the morale of the organisation.

Equity release must be part of retirement solution // Kathryn Desmond - Business Development Manager - Exaxe

Looking out of the window of my hotel bedroom in London on a recent trip, it was impossible to ignore the signs of a booming property market; the numerous cranes were clustered together like groups of midwives around a maternity bed, bringing forth new buildings under the watchful eyes of the skyscrapers that currently dominate the skyline: The Gherkin, The Shard, The Cheesegrater and the Heron Tower to name but a few.

It occurred to me that the boom in the property markets, domestic as well as commercial, means that even more wealth is being tied up in property in the UK. This is true of personal wealth as well as corporate wealth and it seems impossible for us to address the problems of low levels of saving for retirement without reference to the huge amount of money that is being tied up in property assets.

The majority of the public have insufficient investments to provide for their retirement years and that's just in terms of day-to-day spending. With increasing longevity, it is inevitable that the amount required in order to provide care for those elderly who become too ill or infirm to look after themselves is going to increase dramatically and that hardly anyone has set aside the funds to provide for this care.

However, an awful lot of the wealth accumulated by people over the last 40 years is tied up in bricks and mortar. For many people, it is their only significant asset as they move into retirement. Why should this asset be separated out from the rest? Surely it should be recycled into the system by making this wealth a part of the solution rather than somehow seeing it as a specialised form of asset that remains inviolate from the rest?

Equity release products, particularly those that guarantee the ability to remain within the home for the rest of your lifetime have a big part to play in providing for pensioners in their old age. The home should be seen as just like any other asset, something that has been accumulated during the working lifetime and can now be drawn upon during the non-working retirement years. That way the money is no longer just tied up in property but can be seen as a long-term sensible investment of today's wages, essentially deferring the income to be drawn down in later years.

Equity release products have strong guarantees that ensure people retain their home for the duration of their lifetimes and that the total owed can never exceed the value of the home when it is sold. Yet people still shy away from these products, with only 19 thousand policies sold last year.

The industry and government need to start looking at ways to increase confidence in this market. Otherwise, we're just locking more and more of the UK's wealth out of the retirement market, making it ever more difficult to come up with solid solutions to fund this very expensive time.

Exaxe licences its Channel Plus solution to existing client // Sharon McGuire - Marketing Manager - Exaxe

Further to its recent announcement, Exaxe is delighted to announce it has licenced another of its software solutions to an existing client and consequently, in addition to implementing Illustrate Plus to replace the insurer's legacy systems, Exaxe's Channel Plus solution will also be implemented.

Channel Plus is a web-based, automated solution that supports agency and compensation management for the life, pensions and wealth management sectors across all distribution channels. The implementation of Channel Plus will enable the client to unify its entire agency and financial advisers' administration services onto a single platform, yielding operational efficiencies and providing an improved service to all its distributors.

The contract is a five year deal and implementation is already underway.

Philip Naughton, Executive Director of Business Development, commented "We are delighted to have signed this contract with our client. It highlights the long term vision we share with our client and is representative of the strong relationship we have built with them. The solution will be fully implemented by June 2014."