

METLIFE

HEAD TO HEAD ON VARIABLE ANNUITIES

PENSIONS WEEK

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The retirement planning market is going through turbulent times with many people suffering huge drops in their pension funds just before they are about to try and cash them in.

When they try to turn their fund into a pension they have to cope with the effects of historically low interest rates and the Bank of England's quantitative easing programme on income.

Calculations by PwC show that defined contribution pension investors have lost 3% a year every year for the past 10 years. Someone investing £24,000 in pension contributions over the past decade will now have £21,000.

It should be a time when maximum flexibility and strong credible guarantees are required and that is precisely what variable annuities offer. At MetLife we prefer the term unit-linked guarantees as, to be blunt, variable annuities are neither variable nor annuities.

What they are however is a balance between the guaranteed nature of an annuity and the flexibility and death benefits of a drawdown plan.

They offer guarantees on income and/or capital plus the option of deferred income guarantees while also enabling clients to lock-in investment gains and remain invested in equities.

Customers can choose to opt into guarantees when they want so that they can in effect future-proof their pension funds. Unit-linked guarantees are suitable for customers at retirement and also for those who are still accumulating their pension funds.

They address the need for potential growth enabling investors to remain exposed to equities while providing an in-built defence against stock market falls. That is very valuable when markets are volatile.

Retirement savers need the option of capital and income guarantees. Income guarantees will generally offer a guaranteed income for life irrespective of fund performance plus the potential for income to increase subject to performance.

Deferred income guarantees offer the option of guaranteeing a minimum income immediately with annual increases until the date the client takes the income. As with the immediate income guarantee their future income is protected and again if the client outlives the fund then the income continues for the rest of their life.

The products are ideally suited to the current turbulent times and will be equally strong when (or if) calm returns.

Even when markets stabilise retirement savers will still face risks from living too long for their pension funds; risks from inflation eating into fixed incomes; and risks from interest rate movements.

Unit-linked guarantees help mitigate these risks by enabling investors to stay invested and to benefit from increases in their funds and to have the guarantee of income for life with the potential for uplifts. If they outlive their fund, the income continues.

Clients and advisers should look at all their options and those options should include unit-linked guarantees.