

REAL PENSION FREEDOM: THE DELIVERY SCORECARD

PART ONE: THE STORY SO FAR



MetLife®

MetLife's Pension Freedom Delivery Scorecard has been designed to monitor the delivery and performance of pension freedom. In a changing world, the need for consumers to feel confident in their choices for retirement is paramount.

The Scorecard aims to identify the issues at the heart of pension freedom and to rate how the industry, regulators and Government as well as savers are reacting to and measuring up to the new opportunities and challenges.

Our report is based on analysis of exclusive independent research among the people with the most at stake – the over-55s who are grappling with the reality of pension freedom - and is supported by insights from the advisers who are delivering pension freedom and the MPs whose remit it is to make the changes that are needed.

Advisers, consumers and MPs were asked how well pension freedom has delivered so far and what areas they feel need improvement. Key questions were asked on general awareness of pension freedom among consumers and advisers, as well as understanding of the options now available and the impact the changes have had on real pension outcomes. MPs were surveyed on their understanding and awareness as well as their experience with constituents and their views on what changes are needed.

The story so far is that pension freedom is making a difference. But to truly deliver the freedom people need in their retirement, there are areas for real improvement that must be addressed.

This is the first part of four reports outlining the initial successes and challenges. The following three reports in the series cover how to make pension freedoms more effective, an analysis of the economic and market challenges and recommendations on how to support the effectiveness of pension freedom in the short and long-term.


EXPERT INSIGHT FOR CONFIDENT DECISIONS

To receive the full suite of Scorecard reports, please contact your MetLife representative

 0800 022 3131

 salesresource@metlife.com

 www.metlife.co.uk

A person is sitting at a wooden desk in a library, reading a book. The person is wearing a dark blazer over a blue and white checkered shirt and light-colored trousers. Their hands are resting on the open book. The background is filled with bookshelves containing many books, creating a warm and studious atmosphere. The lighting is soft, highlighting the person and the book.

Progress is rated on a scale of 1 to 10 across the three key audiences with 5 representing a pass mark and acceptable performance. The overall 18/30 represents a fair score. The focus is on raising the total score to more than 21 with a real need for improvement among consumers.

THE ADVISERS' SCORE



WELL DONE

✓ 79% of advisers believe pension freedom has been a success

MUST TRY HARDER

! 39% believe over-55s are very aware of pension freedom

SERIOUS WORK NEEDED

✗ 26% believe there has been enough innovation

✗ 20% believe the advice framework is supportive

ADVISERS' SCORE 7 / 10

THE CONSUMERS' SCORE



WELL DONE

✓ 76% say they do not support more change to pension rules

✓ 55% are very aware of pension freedom

MUST TRY HARDER

! 54% find the new rules confusing

SERIOUS WORK NEEDED

✗ 36% are worried about being scammed

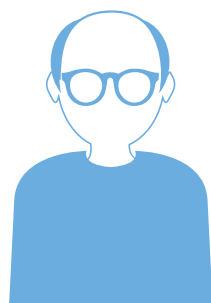
✗ 43% are worried about running out of money in retirement

✗ 57% are worried that low annuity rates mean their savings are too low

✗ 71% want to see more retirement income innovation

CONSUMERS' SCORE 5 / 10

THE MPs' SCORE



WELL DONE

✓ 81% say products requiring advice should be differentiated

MUST TRY HARDER

! 61% say guaranteed drawdown should be included in guidance framework

! 44% say pension freedom has made savings easier

SERIOUS WORK NEEDED

✗ 37% say pension system is not fit for purpose

MPs' SCORE 6 / 10

TOTAL SCORE 18 / 30

THE STORY SO FAR



KEY RESEARCH FINDINGS

- Around 79% of advisers say pension freedom has been a success and 55% of savers are aware of the changes
- But more than half of savers say pension freedom is confusing and just a third say they understand their options
- 3 out of 10 (32%) said they would change behaviour relating to paying money into their pension, seeking advice or withdrawing more cash from their pensions
- Just one in five advisers say the regulatory framework is supportive
- Two-fifths of MPs believe the current pension system is not fit for purpose



KEY INSIGHT

The guidance structure put in place alongside pension freedoms is being overhauled after less than two years. While the Financial Advice Market Review is a good start, the glaring hole at the heart of pension freedoms is the need for more advice and guidance. Independent advice and financial education are critical in helping to address the confusion and to improve savers' understanding of their options.



THE SUCCESSES

The first full year of pension freedom saw savers taking a "sensible approach", according to the Association of British Insurers*. Talk of pensioners splurging their cash on Lamborghinis fell away and around 57% of pension funds have had 1% or less of the total funds withdrawn during the first quarter of 2016.



£4.3 billion was paid out in **300,000** lump sum payments with an average payment of **£14,500**



£3.9 billion was paid out via **1.03 million** drawdown payments, with an average payment of **£3,800**



£4.2 billion was invested in **80,000** annuities, with an average fund of **£52,500**



£6.1 billion was invested in **90,700** drawdown products, making the average fund invested nearly **£67,500**

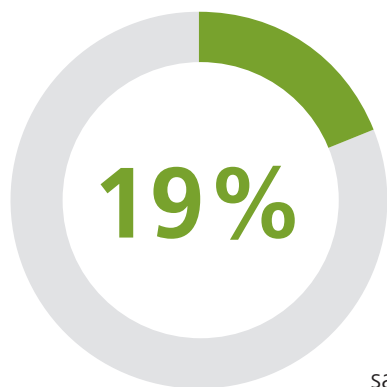


THERE'S REAL CONFUSION AND DEMAND FOR IMPROVEMENT

Pension freedoms have been well-received as a sensible development by savers, advisers and MPs. However, translating what's at the heart of the thinking into practice has not been easy.

More than half (54%)

of over-55s said they find the new rules confusing and worryingly just **35%** of those who are able to take advantage of the freedoms believe they have a good knowledge of the new rules.



say that having additional freedom has increased their understanding of retirement planning.



Around **71%** of over-55s want more choice in retirement income solutions but this is perhaps indicative of the lack of understanding of the options that are already available.



ADVISERS WELCOME PENSION FREEDOM - BUT WORRY ABOUT CLIENT UNDERSTANDING

Around 78% of retirement specialist advisers say pension freedoms have been successful so far, but they are concerned about how well clients understand their options. Fewer than two in five (39%) clients over 55 are fully aware of their options under pension freedom, highlighting an issue that will need to be monitored. People need advice if they are to make the best of pension freedom.

Just one in five advisers believe the current advice framework is supportive of pension freedoms while 69% want to be able to offer automated, so-called robo-advice to savers with smaller funds.



MPS BELIEVE THE PENSION SYSTEM NEEDS MORE REFORM

While 44% of MPs surveyed said that pension freedoms have made saving for pensions easier, around two in five (39%) still have concerns about the system itself, believing the current system is not fit for purpose.

QUOTE FROM A SENIOR POLICYMAKER

"The pension freedom changes are welcome and have made people aware they have choices. The challenge for the industry is to prove that the various product options being offered are fit for purpose, cost effective, easy to understand and only offered to those investors who they are appropriate for."



The key point is that pension freedoms in themselves will not eliminate the issues with the UK's pension system. What the freedoms do provide is a framework to deliver retirement income planning and income solutions for a wide range of savers. However, consumer education and awareness is key to making it a success.



FINAL COUNTDOWN FOR FINAL SALARY

The percentage of defined benefit (DB) schemes that are closed to future accrual rose yet again in 2016 from **34%** to **35%**, while the percentage of schemes that are still open remained at just **13%** and has changed little over the last four years.

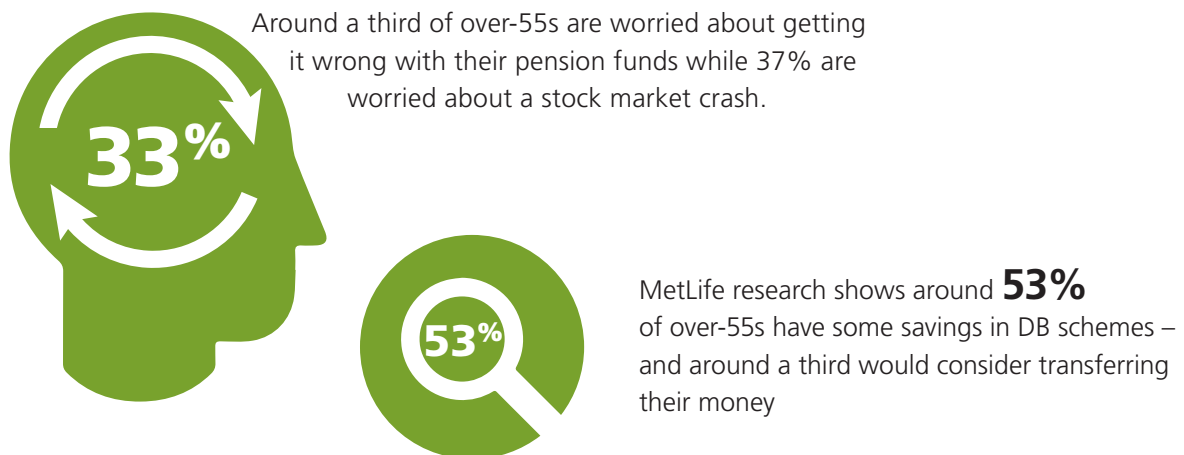
The proportion of active members still paying into schemes fell again by **3%** to **13%**.

The current focus in the world of DB schemes is concentrating on members who are no longer paying into them. Transfer values for savers have soared to all-time highs. This has been driven in part by historically low interest rates, as well as the desire by companies providing the schemes to reduce their liabilities.

Cashing in on generous transfer values is potentially tempting but the worry is that savers do not understand their options. Any decision to transfer out of a DB scheme needs to be carefully considered as it involves giving up valuable guarantees. MetLife research shows savers recognise the risk.

DB schemes offer certainty while defined contribution (DC) schemes share the cost and transfer the risk to the employee. Whilst this brings a level of flexibility, there is generally very little engagement by the majority in how their scheme is performing. More than **90%** of employees invest in the default fund of their company pension scheme with investment decisions made on their behalf.*

The worries underline the need for more support and new thinking to help savers and make pension freedoms more effective.



IN CONCLUSION

MetLife's Pension Freedom Scorecard series highlights the challenges and opportunities around pension freedom and makes suggestions as to how the industry can respond. Despite predictions of doom and disaster, there has been progress. However, challenges remain and need to be solved.

Asking consumers, advisers and MPs for their thoughts has shown that there are clear opportunities:

- Clear communication of the choices people have
- Product innovation to address changing needs in changing times
- New thinking around how people access and take advice

The Government has provided a framework and a concerted effort will be required to make it work for consumers. The challenge of ensuring money does not run out in retirement while making the best use of income is the next stage of the series.

FURTHER PARTS IN THIS SERIES INCLUDE:

- **Part 2: Making pension freedom more effective**
- **Part 3: Pension freedom meets reality**
- **Part 4: The way ahead - short and long-term wins**

ABOUT METLIFE IN THE UK

MetLife launched in the UK in 2007, with a commitment to bringing customers a genuine alternative to traditional retirement and investment products.

We are the leaders in the guaranteed retirement and investment market and our long-term UK growth strategy also includes our Employee Benefits business focusing on Group Risk and our Individual Protection business.

We understand that retirement has changed and that retirement solutions have to adapt and be flexible. We believe that the role of financial advice is crucial in helping people to make informed decisions that enable them to live confidently. By developing a deep understanding of the needs of future generations, we are providing solutions that work in the new world of retirement planning. We are committed to broadening understanding of the changes in the UK pensions market through useful content driven by exclusive independent consumer and adviser research.

MetLife provides a range of innovative investment options to suit a wide range of customers helping them make the most of their savings. We are focused on the importance of certainty, flexibility and value and designed our guaranteed drawdown product and range of guaranteed solutions to directly answer consumer needs for real pension freedom.

MetLife in the UK is affiliated with US-based MetLife, Inc. (NYSE: MET), which through its subsidiaries and affiliates ("MetLife"), is one of the largest life insurance companies in the world, serving approximately 100 million customers. Founded in 1868, MetLife is a global provider of life insurance, annuities, employee benefits and asset management.

MetLife has operations in nearly 50 countries and holds leading market positions in the United States, Japan, Latin America, Asia, Europe and the Middle East. For more information, visit www.metlife.com.

Independent research for this report was commissioned by MetLife and conducted in September and October 2016 among nationally representative samples of 960 over-55s and among 109 specialist retirement advisers. Research among 84 UK MPs weighted for party representation was conducted by Dods' Research in September 2016.



Want to find out more?

 0800 022 3131

 salesresource@metlife.com

 www.metlife.co.uk

.....

Products and services are offered by MetLife Europe d.a.c. which is an affiliate of MetLife, Inc. and operates under the "MetLife" brand.

MetLife Europe d.a.c. is a private company limited by shares and is registered in Ireland under company number 415123. Registered office at 20 on Hatch, Lower Hatch Street, Dublin 2, Ireland. UK branch office at One Canada Square, Canary Wharf, London E14 5AA. Branch registration number: BR008866. MetLife Europe d.a.c. (trading as MetLife) is authorised by the Central Bank of Ireland and subject to limited regulation by the Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA). Details about the extent of our regulation by the FCA and PRA are available from us on request. www.metlife.co.uk

WM17 00 073 | 2315 APR 2017

ENTER A MORE CERTAIN WORLD

MetLife®