After the crunch:
Saving for retirement.

Foreword

I am delighted that Billy Burrows, one of the UK's leading pensions experts, has agreed to share the benefit of his experience by writing this guide on how people can plan for their retirement following the credit crunch.

Billy has more than 20 years experience in the financial services industry where he has advised thousands of customers on the best way to meet their retirement needs. He is a regular media commentator in the personal finance pages of national newspapers and on TV.

Fresh thinking

In this paper Billy highlights the need for a complete change in thinking and behaviour when it comes to saving for retirement post credit crunch. His portrayal of typical consumer groups helps put the recent economic changes into perspective. Similarly, he provides a practical set of recommendations to improve retirement planning in this new financial era.

Valuable research from the Hartford's Facing Retirement Forum

This guide is the latest piece of research from The Hartford's Facing Retirement Forum, which aims to be at the forefront of new thinking in financial planning. The Forum is supported by leading commentators and academics including retirement authority Dr. Ros Altmann and one of the UK's specialists in the issues affecting older people, Professor Simon Biggs from King's College London.

The Hartford has been providing financial products for almost 200 years and is one of the world's leading financial services companies. In the UK, it currently provides a range of investment bonds and pensions.

Find out more about The Hartford's Facing Retirement Forum at **www.facingretirementforum.com**.

We hope you find this guide useful and informative.

Michael Rudge, UK MD, Hartford Life.

About the author Billy Burrows

Billy runs William Burrows Annuities (WBA), is a director of the Retirement Partnership and hosts the popular annuity website www.williamburrows.com.

WBA provides advice to individual clients and pension schemes on all aspects of annuities and drawdown. The Retirement Partnership provides consultancy services to insurance companies and professional advisers.

His interest in annuities goes back to 1993 when he helped establish Annuity Direct. In 1997 he set up William Burrows Annuities, and a year later joined Prudential Annuities as their marketing director for annuities.

On leaving Prudential in 2001, William Burrows Annuities was re-established as one of the country's leading annuity advisers and regularly features in the national press and on the radio. WBA is now a trading name of MPL Wealth Management.

Recently he received the 2008 Scottish Widows Personality of the Year award.

Time for a change?

Executive summary

The longer this economic cycle persists, the more I see people's attitudes to retirement planning still remain firmly fixed in the pre credit crunch era. From an over reliance on property for income in old age, through to a lack of interest and understanding of pensions right until the last minute, many people have not adapted to the economic realities of 2009.

For those people about to hit retirement age there may be little they can do to improve their financial situation. But, for the huge swathe of baby boomers approaching retirement, there is an opportunity to adopt post credit crunch behaviour and look at changes they can make to help ensure a more prosperous retirement. In short, we are at a watershed in retirement planning and people need to adapt accordingly.

The reality

This guide looks at the issue of retirement planning post credit crunch from a consumer's perspective. It outlines the reality of the current financial situation for consumers, detailing the difficulties and obstacles we all face, including sifting through a barrage of seemingly conflicting information and confusion over where to turn for help.

Much of what I have to say echoes the latest research by professional advice website Unbiased.co.uk, which shows one in three consumers (35%) have been hit by ‘recession paralysis', admitting they won't address any major financial decisions until things improve.

Most importantly, this guide highlights the opportunities for improving pension provision that still exist, with practical recommendations for action.

Billy Burrows, of William Burrows Annuities (www.williamburrows.com)

From the frontline

Based on my experience on the frontline of providing retirement planning advice, I show how forward looking consumers have adapted their behaviour to the current situation.

I provide insight by discussing the questions I am asked on a regular basis, and the types of answers I usually provide.

I also provide a useful summary of typical pre and post credit crunch behaviour. You may find it interesting to discover what behaviour type you are and what you should do to correct this.

The state we are in

"It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness" wrote Charles Dickens in A Tale of Two Cities.

In a short space of time we have moved from a world where many people benefited from the best economic and financial circumstances in living memory, to a world where many are facing financial hardship resulting from falling house and share prices. A world where we thought investment bankers and financial whizz kids had wisdom, to a world where they look very foolish.

The bad news

Much of the bad news about pensions and retirement comes from three sources:

1. A lack of customer understanding
2. The failure of some pension providers and advisers to do what they say they will
3. The turmoil in financial markets.

As a result, many over 45s are delaying making important decisions when it comes to their finances. In fact, The Hartford's 2008 International Retirement Survey provided evidence of this trend, with half of respondents admitting they currently have no financial retirement plan. While 9.1% of those said they plan to create one soon, 18.6% have put it off until "someday in the future" and, alarmingly, 22.8% see no need to have a financial plan for retirement.

One of the most frequent complaints I hear is: "Nobody told me my fund could fall by such a huge amount and nobody told me I had the option to switch to cash. I thought I was locked in."

Misunderstanding

It is human nature to shy away from making decisions about things that are difficult to understand or appear very complex. However, many people have lost out because they didn't realise they had choices and failed to understand the importance of making the right decisions, including seeking specialist financial advice when necessary.

When discussing the issue of people's understanding of pensions, I am reminded of the Chinese proverb: "Tell me something and I will forget it, show me something and I will remember it, involve me with something and I will understand it."

Experience shows that those people who make the effort to become involved with their pensions understand much more and are likely to make better decisions.

FREQUENT MISTAKES I COME ACROSS INCLUDE:

- Not realising that it is sensible to invest in a broad range of investments rather than just opting for the default investment fund
- Not appreciating the need for regular and constant reviews of investment performance
- Not switching out of higher risk funds into safer funds in the approach to retirement if you have no retirement income guarantee in place
- Not shopping around for the best annuity at retirement.

Mistrust

Better regulation and more public accountability have helped to address many of the problems associated with insurance companies providing poor value for money products and delivering poor customer service. Alas, not all companies have been dragged into the 21st century.

From an industry perspective, one of the most important casualties of the credit crunch has been confidence and trust. Individuals are fast losing confidence in all things financial as they see their share portfolios and pension plans fall in value and many are asking "who can I trust?".

Therefore, the single most important thing that the pension industry must do is restore confidence in their products and re-gain the trust of customers. This is not about pension companies selling more policies; it is about helping individuals plan wisely and save prudently in order to obtain the level of income they will need to maintain their chosen lifestyle when they retire.

ACTION:

- Remember you cannot tar everyone with the same brush. The majority of UK financial services companies are strong, well managed organisations. Do your homework and speak to a good financial adviser.

Market turmoil

The problems caused by the turmoil in the financial markets have been widely reported, especially the plight of many who find themselves at retirement age with a significantly depleted pension pot and facing the prospect of a drop in the standard of living they are used to.

While it is too late to reverse the declines already suffered, speaking to a financial adviser and coming up with a plan for the future could significantly improve the outlook for the future.

ACTION:

- Take the time to understand the mistakes you made leading up to the credit crunch and make sure that lessons are learnt for the future.

The good news

The good news is that:

1. More people are investing in pensions following a change in the rules in 2006
2. The Government has made it easier to invest in personal pensions, which is still the most effective way to save for your retirement
3. Providers are developing innovative new products to suit people's changing retirement needs.

Rule changes

In April 2006, the Government introduced new rules aimed at making pensions simpler. Previously, investing in pensions was a rather more complicated affair especially when it came to company pensions, but now it is much easier. For instance, providing you don't save more than £1,650,000 over your lifetime you can:

- Invest up to 100% of your annual salary into a pension each year subject to a cap of £235,000 per annum
- Get tax relief at your highest rate on pension contributions
- Enjoy tax free investment growth (except for dividends which are taxed)
- Invest in a wide range of investments (excluding residential property)
- Take up to 25% of the fund as a tax free cash sum at retirement
- Take your pension benefits anytime after age 50 (age 55 from 2010)
- Choose from a wide range of pension income options such as annuities and pension drawdown.

This means that saving for a pension has considerable benefits over other forms of savings, especially given the low savings rates. Not many people know that!

Personal Accounts

From 2012, it will be even easier to save for a pension when the Government introduces Personal Accounts. The Department for Work and Pensions estimates there are currently around seven million people in the UK who are not saving enough to generate the pension income they are likely to want, or expect, in retirement. The aim of the Government's reforms is to make saving for retirement the norm. The changes will mean it will be compulsory for employers to offer a qualifying workplace pension scheme to their workers.

Innovation

Pension companies are continually developing new products and investment opportunities. These include the new "Living Benefits" options that were first developed in other mature financial markets such as Japan and the US. These products combine the best features of the retirement products already on offer in the UK by guaranteeing an income while allowing investors to stay invested in equity markets. There is a cost attached to this added flexibility but some people feel it is worth it.

And then there is equity release which allows people to release equity in their home. This has become increasingly popular over the last five years as property prices have increased. However, because the amount of cash people are able to release from their homes will fall in line with property prices it is important not to rely solely on your home for your retirement income.

Changing attitudes

Before the credit crunch I hardly dared admit to people I met at parties that I worked in pensions. I would inevitably get responses such as: "I don't believe in pensions, I have put my savings into buy-to-let properties," or "my business is my pension".

But retirement planning and pensions are no longer taboo as people gorge on a daily diet of negative media stories highlighting financial problems both now and in the future. For example, attitudes and behaviour are changing as increasing numbers of people realise that second properties are not the answer to the pension problem. And, while a pension is for life, businesses can be short lived.

If, as expected, there is a reversal in the flow of savings from buy-to-let properties back into pensions, people will need to take an active interest in their pensions. Maximising returns in the post credit crunch world of low interest rates and volatile financial markets presents many challenges. Individuals will once again need to change their attitudes to pensions.

TACKLING THE ISSUES

- Make sure you maximise retirement income provision by taking into account all the options, such as pensions and other investments such as property, stocks and shares, ISAs etc.
- Review your financial plans leading up to retirement with the aim of protecting the value of your pension pot
- Make sure you have enough flexibility in your retirement strategy to meet your future needs, such as wanting or needing to work part-time before fully retiring and health issues
- Consider all of the options at retirement and shop around so that you make the right decisions about the pension products available.

Everyone has their own way of dealing with the credit crunch and its impact on their retirement savings. However, in advising clients, I have noticed many fit into one of three categories. Which type are you?

What type

Crunch denial

In a state of denial about the state of their finances following falls in equity and property markets.

Unlikely to have taken action and will continue on the same path as previously.

- Typically this group of people are stuck in pre credit crunch thinking and behaviour
- They have been committed to the same course of action for a long time, and have no plans to change it
- They tend to attribute failure to bad luck, or blame others rather than take responsibility for their financial plan themselves
- Many of these pre credit crunchers may not have yet seen the folly of their existing approach as the full impacts of the economic crisis have yet to hit home.

# of investor are you?

Crunch drunk

Understand the impacts of the credit crunch and realise they need to adapt.

However, they are getting being bombarded by information and are confused.

Crunch conscious

Have taken decisive action as a result of the economic crisis in a bid to ensure the best outcome for retirement.

Likely to have acted on advice from an independent financial adviser.

- These people will have got the message that the financial crisis is affecting their personal finances
- They may be trying to adapt but the mass of information from a variety of sources including media, friends and family is causing paralysis
- Even though these people may recognise the need to change their strategy, they are unsure where to turn for guidance
- Need proper advice to come up with a plan to suit their individual circumstances and avoid following 'the herd'.

- Recognised the advanced signs of the approaching financial storm
- Are likely to have reviewed their retirement strategy, with the help of a financial adviser, and may have moved to protect their capital from further erosion where possible
- May have changed their attitude to investment risk and moved to safer funds where appropriate, or taken the view that there are bargains to be had when the market is low and are reinvesting
- Take an active interest in all retirement assets and monitor them on a regular basis.

What should investors do now?

One of my clients said to me, "give me a one handed adviser because I am tired of people saying; on the one hand this on the other hand that".

I can sympathise with this statement. Turn on the news or open the newspaper and you will find someone with a different take on events offering advice. But the thing is no one really knows what's going to happen, so all you can do is plan for the worst and position yourself for the best by learning from the mistakes of the past.

I have highlighted what people were doing before the crunch and have outlined some common sense tips on what they should be doing today.

Pre Credit Crunch (up to late 2007)	Post Credit Crunch (what should people do now)
Most people regarded retirement as a set destination and took their pensions on their retirement date	Need to see retirement more as a journey where you may retire gradually, perhaps supplementing your pension with part-time or consultancy work
A widespread perception that the state pension would be sufficient to support their retirement income needs or at least provide a significant proportion of their retirement needs	Recognise that the state pension will be insufficient to support your lifestyle and you will need to have other sources of income especially private pensions
Reliance on property, second homes for rental income (highly speculative) to provide an income in retirement	Realise that you can no longer rely solely on property, and you need to look at a wider range of investment options
Many left their retirement planning until the last minute	Start to plan ahead from an early age
Lack of focus about their needs and aspirations in retirement	Focus on your core retirement objectives and especially inflation proofing and longevity
Most had minimal interaction with their professional advisers	Increase active engagement with financial advisers and trusted partners
Many relied on default or managed funds in pension investments	Follow the lead of the more sophisticated and informed investor who is taking more interest in their investments and reviewing their funds regularly
Many purchased their annuity from the same company they invested with	Exercise the open market option which means that you can gain up to 40% more income if you shop around
Usually picked annuity with highest initial income	Seriously consider inflation linked annuities or different types of annuity
Reluctant to take any risk with their pension income.	Give more consideration to taking limited risk in return for the potential of a growing income in the future.

Getting your plans back on track

Before the credit crunch many people put their faith in property prices increasing. But with stock markets, property and interest rates all falling at the same time, it's never been so important to spread your retirement assets.

Within this mix a pension should play a key role, so it's important you regularly monitor whether you are paying in enough.

Make your pension work harder

Before the credit crunch, it was fashionable to hear many in Middle Britain say, "I would rather invest in property than pensions". The dramatic fall in property prices has highlighted the risk of this approach and we expect a change in attitude towards recognition that it is prudent to maximise pension investments rather than solely buying into the speculative property market.

Let's not forget a pension is still one of the most efficient ways to save for your retirement. That's because for every £100 saved in a pension the government will contribute £20 for basic rate tax payers and £40 for higher rate taxpayers.

However if the average size of a pension fund at retirement for the majority is only £30,000 (and perhaps £100,000 for Middle Britain), most people will still retire with a pension income that falls short of the income required to live the lifestyle that they aspire to.

There are ways to get your plans back on track. The current economic slump has resulted in lower share prices, which means your money could go further. Whilst no one can predict when stockmarkets will rise again, equities have generally outperformed other asset classes in the long term. Therefore you could look to position yourself for when the recovery does materialise, by drip feeding more money into your pension ready to boost your future retirement income when equity prices rise again.

Regularly review your retirement plans

If you haven't reviewed your retirement plans for a number of years, they might not be appropriate for your needs or the level of risk you want to take with your pension.

Whilst younger investors can take on more risk, because they have more time to recoup any loses, those who are approaching retirement need to protect their pension from future stock market falls.

After all, many people go to great lengths to ensure that their car has enough oil and the tyres are fully inflated to avoid the risk of a crash. But few pay attention to what is happening under the bonnet of their pension.

By regularly reviewing your retirement plans you can help ensure that your plans remain on track. Taking out a pension and investing in the same mix of funds for 30 years was never really a healthy option. The current economic turmoil is further proof, if proof were needed, that things have a habit of going bad at just the wrong time.

Look realistically at when you will be able to afford to retire. The view that people will work for thirty years, pay into a pension and then when they reach age 65 settle down in retirement for another 20 years is long gone.

Twenty years ago a 65 year old man had an average life expectancy of around 13.33 years. By 2004, it was around 17 years, which fits with the rule of thumb that life expectancy increases on average by two years every decade (Source: Government Actuaries Office).

An increasing number of people want to continue working beyond the traditional retirement age in some capacity. However, for others, working in to their retirement years will be a necessity rather than a lifestyle decision.

What other forms of income can you fall back on?

Continuing to work in order to supplement your pension income could be one option to fund your retirement. But what if you're made redundant just prior to your retirement?

The current recession is likely to hit all areas of the job market. But it's the over 50s that will be hardest hit. Those affected will suffer a double blow not only because it's generally harder for the over 50s to re-skill and/or get back in to work, but because it's this age group who are generally more focused on contributing to their pension in the run up to their retirement.

If you are one of those who have fallen foul of the credit crunch, then you may have to look at alternative sources of income. Your property – often the largest asset you will ever own – could be one of them.

If this is the family home you could look to downsize to a smaller property if you have children and they have flown the nest. Then the remaining funds can be used to reinvest to provide an income. Or you may consider releasing some of the equity in your home through an equity release product. For more information about equity release you can visit the website **www.ship-ltd.org**

Consider all the options at retirement

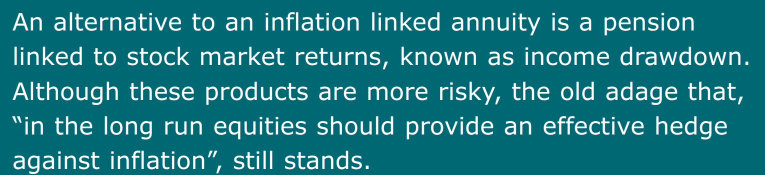
Pension planning can be seen as a game of two halves. The first half is all about saving in a pension; the second half is all about drawing an income from it.

It's critical that you show an interest in your retirement plans and don't just select the default fund to pay into and then your current pension providers' default annuity when you're at retirement. It is important to consider all the options. Remember that decisions made at your retirement date will have an impact on how you fund what could be the next 20-30 years of your life.

When you buy an annuity you invest your pension fund with an insurance company and in return they promise to pay you an income (an annuity) for the rest of your life no matter how long that is.

However, what many people fail to realise is that, you don't have to buy your annuity from the same company as you have your pension with. By going to another company for your annuity you could increase your income by as much as 40%. This is called exercising the open market option (OMO) and normally there is no charge for this.

One of the really important decisions with annuities is deciding whether to have the maximum income payable from a level annuity, which means you will receive a fixed amount until the day you die, or choose an inflation linked annuity, which starts lower and increases over time with inflation. It's only human nature to take the highest income and not worry about the future, but such an approach can be dangerous. That's because inflation at just 4% per annum can reduce the real value of your income by as much as 50% in just 17 years.



An alternative to an inflation linked annuity is a pension linked to stock market returns, known as income drawdown. Although these products are more risky, the old adage that, "in the long run equities should provide an effective hedge against inflation", still stands.

One of the most popular flexible options is pension drawdown or "Unsecured Pension" to use the proper name.

Instead of buying an annuity you can continue to invest your pension fund and take income withdrawals directly from the fund. This has the following advantages:

- Income flexibility - Each year the amount of income taken can be varied between the minimum and maximum limits. Income can also be taken monthly, quarterly, half yearly or annually

- Control over investments - If drawdown is set up through a Self Invested Personal Pension (SIPP) there is a wide range of investment options available

- Choice of death benefits - On death, before the age of 75 the remaining fund can be paid as a lump sum less tax at 35%.

Generally speaking income drawdown products are only suitable for those with larger funds who are able and prepared to take the extra risks associated with these options because if your investments fall, so could your income. However, the market is continually evolving and with the introduction of income guarantees, it's possible to establish a lower risk drawdown plan. In fact some plans, which originated in other pension markets such as the US and Japan, can offer the best of both worlds; the promise of a guaranteed income for life with flexibility and potential for income and capital growth.

In these volatile times, such an option could prove very valuable.

Time to take action

In a changing world where nobody has the right answers because nobody can guess what will happen to the economy or financial markets, all we can do is to ask the right questions.

Learning from previous economic downturns is not a good option as these are unprecedented times. Stock markets have declined at the same time as property prices have fallen, and cash accounts are offering extremely low interest rates.

All this means now, more than ever, people must put a plan in place for their retirement as early as possible, regularly monitor their investments and review their approach.

1. How much do you save into your pension each month? Can you increase the amount?
2. Have you discussed the full range of investment options with your adviser?
3. Are you relying too heavily on your property as a source of retirement income?
4. When did you last speak to your independent financial adviser to get a review of your finances?
5. Which underlying funds are you investing in? Do these match your risk profile?
6. If you're about to retire, have you researched all of the available options including annuities, pension drawdown and phased retirement?
7. If you are going to purchase an annuity have you shopped around for best deal?
8. Have you considered the impact of inflation on your retirement income?
9. If you are considering investing in drawdown, or are already invested in drawdown, do you understand the risks and have you considered ways of reducing the risk?
10. Have you planned ahead for the future cost of long term care?

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