IAA Pensions Seminar
Stakeholder Pensions in the UK

Tony Conn
Pensions Marketing Manager
Prudential
Contents

- What are stakeholder pensions?
- Why introduce them?
- Existing UK pensions market
- The key points on stakeholder pensions
- Effect on employers
- Effect on providers
- Will they be successful?
- The future
What are Stakeholder Pensions?

• A private pension plan owned by an individual that can accept payments by that individual and by their employer
Why Introduce Stakeholder Pensions?

• State pensions provided by today's workers
• Demographics
  – Increasing number of pensioners in the UK
UK Demographic Composition

Source: Social Trends 2001
UK Retired Population

Source: Social Trends 2001
Why Introduce Stakeholder Pensions?

- State pensions provided by today’s workers
- Demographics
  - Increasing number of pensioners in the UK
  - Increasing life expectancy
# UK Life Expectancy

<table>
<thead>
<tr>
<th>AGE</th>
<th>YEARS (MALES)</th>
<th>AGE</th>
<th>YEARS (FEMALES)</th>
</tr>
</thead>
<tbody>
<tr>
<td>50</td>
<td>34.3</td>
<td>50</td>
<td>37.3</td>
</tr>
<tr>
<td>55</td>
<td>29.0</td>
<td>55</td>
<td>32.1</td>
</tr>
<tr>
<td>60</td>
<td>23.9</td>
<td>60</td>
<td>27.0</td>
</tr>
<tr>
<td>65</td>
<td>19.0</td>
<td>65</td>
<td>22.1</td>
</tr>
<tr>
<td>70</td>
<td>14.7</td>
<td>70</td>
<td>17.7</td>
</tr>
</tbody>
</table>

Source: Mortality Table PFA92 (Year of use 2000)
Why Introduce Stakeholder Pensions?

• State pensions provided by today’s workers
• Demographics
  – Increasing number of pensions in the UK
  – Increasing life expectancy
• Need for private pension provision
Overview of the pensions market

UK Pension Provision by Employment Status

- All Employed with Company Pension Scheme: 13.4m
- All Employed without Company Pension Scheme: 10.1m
- All Self-employed with Pension Provision: 1.7m
- All Self-employed without Pension Provision: 1.3m

Source: Prudential - MLTS Model
History of Private Pension Provision in the UK

• High charges representing poor value for the consumer
• Not easily accessible
• Complex products
• Expensive distribution
• Customer service - not a priority
Stakeholder Pensions - The Key Points

• Charges
  – Limited to a maximum of 1% a year of pension fund
  – No other charges permitted
  – No penalties allowed

• Better value to the consumer
Stakeholder Pensions - The Key Points

• Accessibility
  – Employers may need to provide one
  – Employers must provide employees with details
  – Payments deducted through payroll
  – Payments can be stopped, started, changed at any time

• Easier access for the consumer
Stakeholder Pensions - The Key Points

• Product Design
  – Simpler products
  – Easy to understand features
  – Transparent charges

• Easier for the consumer to understand what they are buying
Stakeholder Pensions - The Key Points

• Distribution
  – Margins for commission to salesperson significantly reduced
  – Need to adopt low cost remote distribution
  – Development of one to many communications

• Need for providers to review distribution methods
Stakeholder Pensions - The Key Points

• Customer Service
  – Service becomes key
  – Consumer given more control
  – Introduction of service standards

• More focus on putting the consumer first
Effect on Employers

• Those with an existing pension scheme
  – Check it needs certain standards
  – Amend if necessary or
  – Need to designate a stakeholder pension
Effect on Employers

- Those without an existing pension scheme
  - Set up a pension scheme that meets certain standards or
  - Need to designate a stakeholder pension plan
Effect on Employers

- If required to provide a stakeholder
  - Choose provider after consulting with staff
  - Provide information to staff
  - Provide payroll deductions
  - Keep record of payments
  - Ongoing administration
Effect on Providers

- Re-assessment of existing business models
- Effect on other products
- Marketing on lifetime value of the customer
- Improve cross selling opportunities
- Development of technology solutions
- Creation of new, cost effective distribution links
Will Stakeholder Pensions be successful?

- Improved accessibility
- Good value, simpler products
- Improved Customer Service
- Better education on need for a pension
Will Stakeholder Pensions be successful?

• Pensions not seen as priority in consumer’s eyes
• Poor reputation of insurance providers in UK
• Still perceived as confusing/complex area
Stakeholder Pensions - The Future

- Compulsory contributions?
  - By employers?
  - By individuals?
Summary

• What are stakeholder pensions?
• Why introduce them?
• Existing UK pension market
• The key points about stakeholder pensions
• Effect on employers
• Effect on providers
• Will they be successful?
• The future
Prudential is a trading name of the Prudential Assurance Company Limited (which is also used by other companies within the Prudential Marketing Group of companies).
The Prudential Assurance Company Ltd is registered in England and Wales. Registered office at 142 Holborn Bars, London, EC1N 2NH. Registered no. 15454.
The Prudential Assurance Company Ltd is regulated by the Personal Investment Authority for investment business.