

IAA Pensions Seminar

Stakeholder Pensions in the UK

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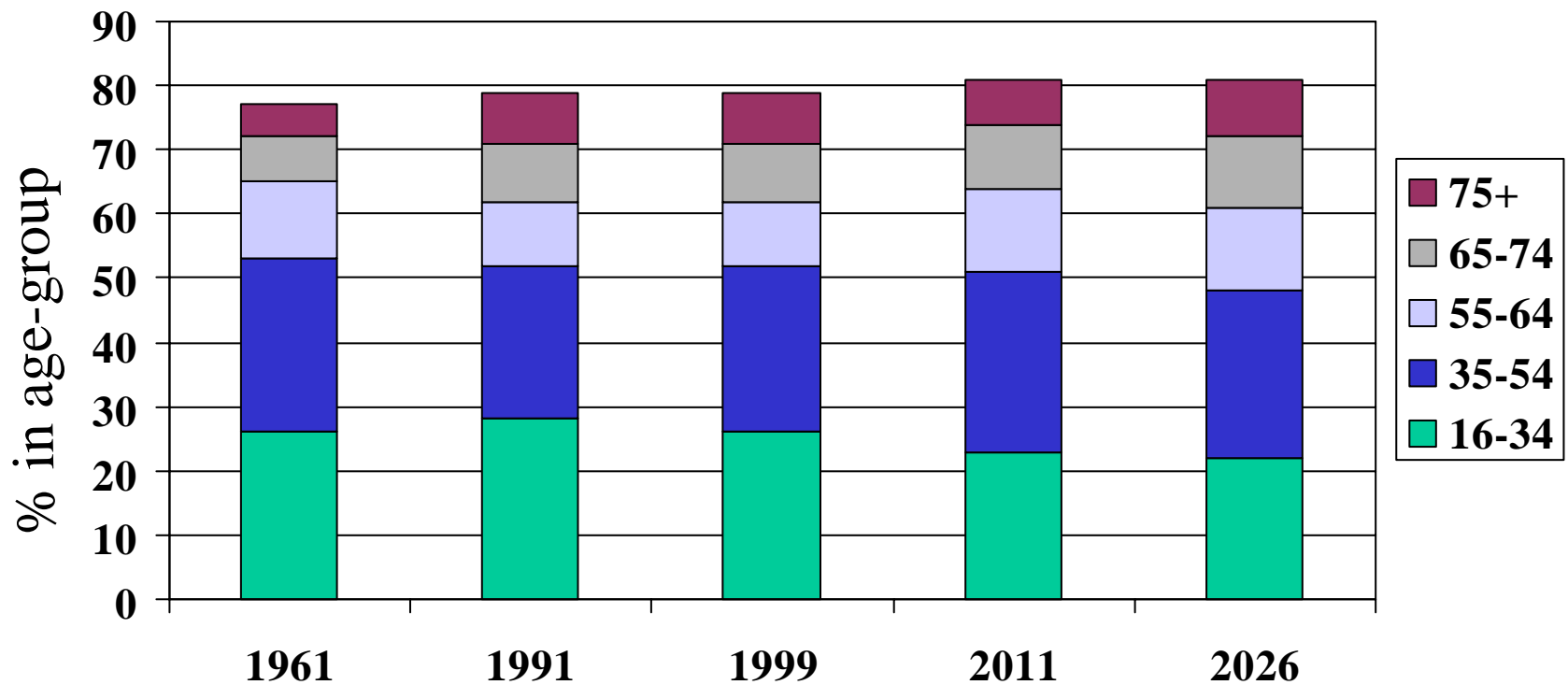
What are Stakeholder Pensions?

- A private pension plan owned by an individual that can accept payments by that individual and by their employer

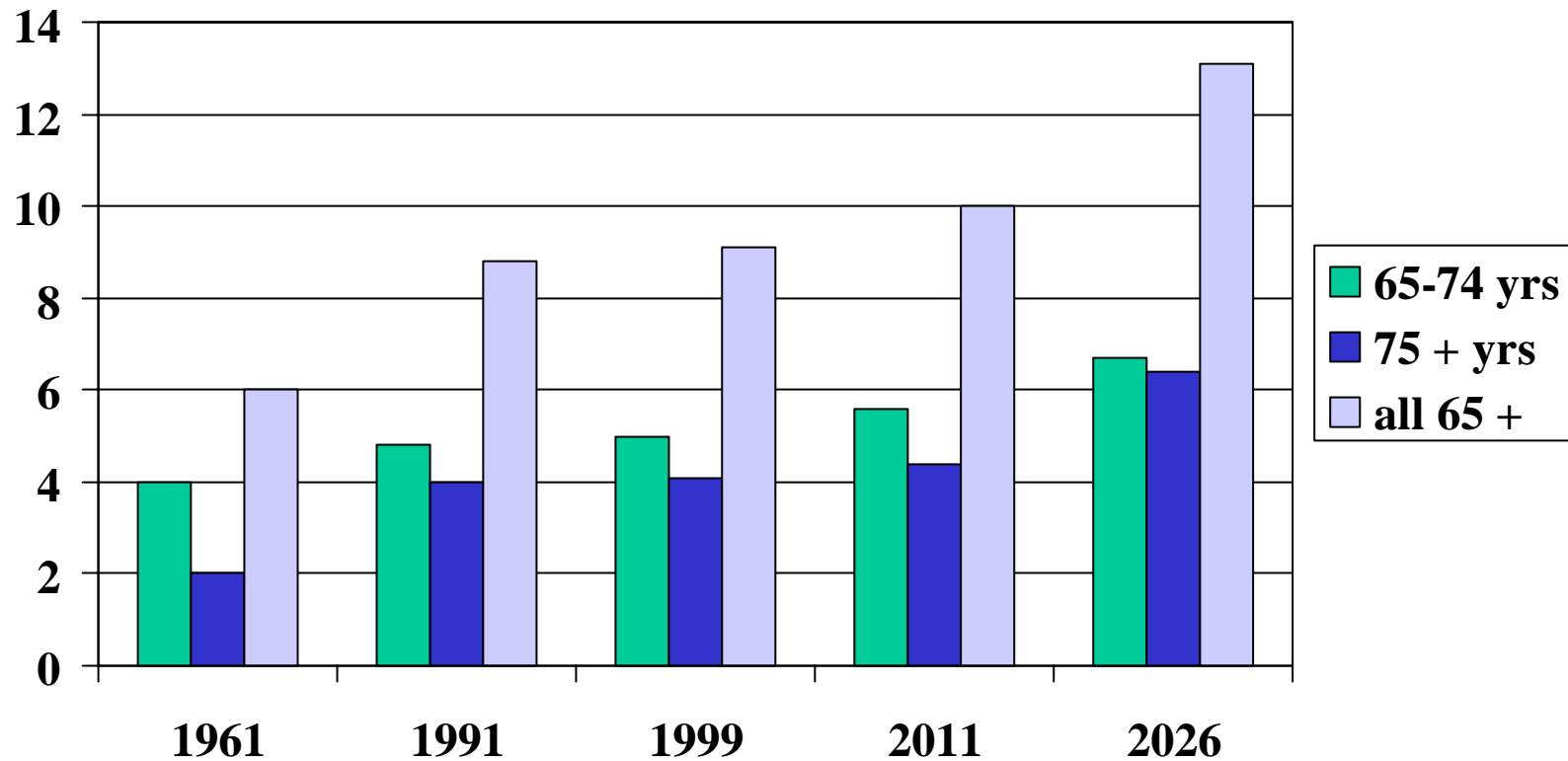
Why Introduce Stakeholder Pensions?

- State pensions provided by today's workers
- Demographics
 - Increasing number of pensioners in the UK

UK Demographic Composition



UK Retired Population



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

<u>AGE</u>	<u>MALES</u>	<u>YEARS</u>	<u>AGE</u>	<u>FEMALES</u>	<u>YEARS</u>
50		34.3	50		37.3
55		29.0	55		32.1
60		23.9	60		27.0
65		19.0	65		22.1
70		14.7	70		17.7

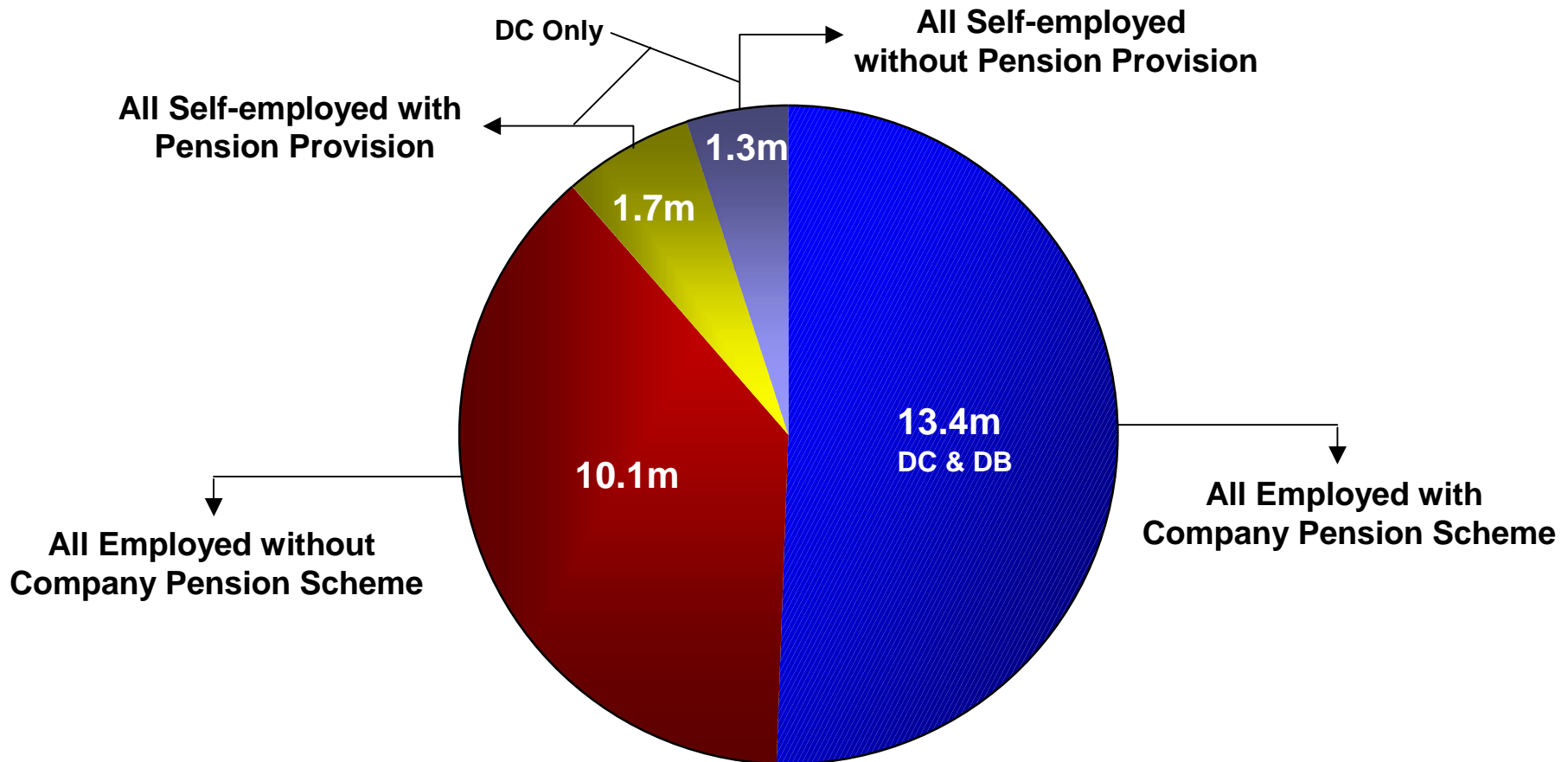
Source: Mortality Table PFA92
(Year of use 2000)

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



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?

X


- 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



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