

# How to connect with pension customers

The Financial Services Forum

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Fin International

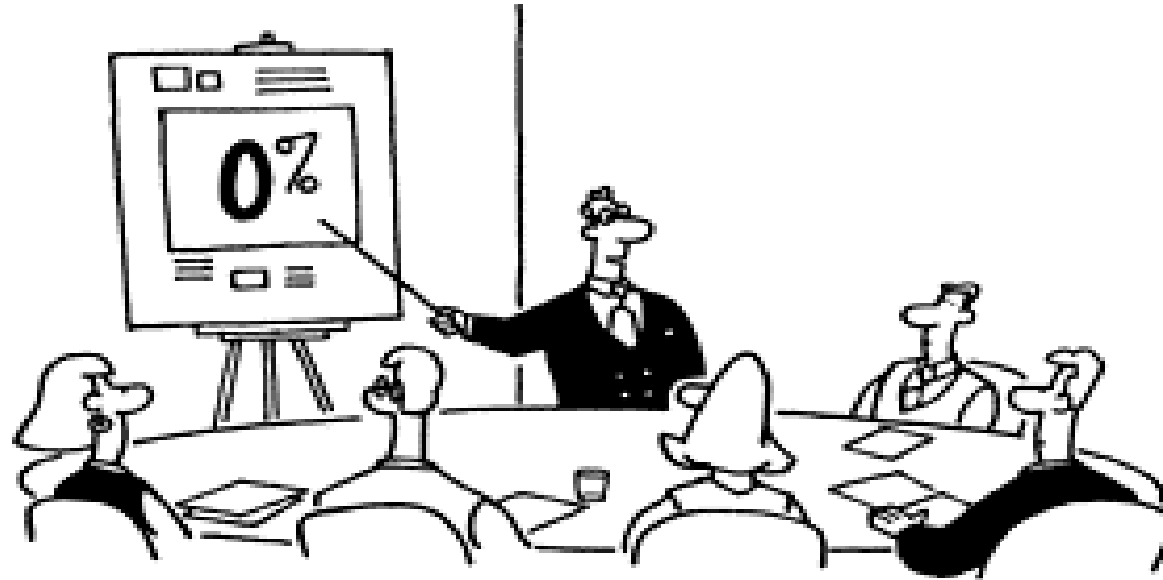
29 January 2015

# John Humpish

My life in pictures



# No free lunch...



"Our study concludes that this is the percentage of our customers who will buy from us without any effort whatsoever on our part."

**Those were the days...**

“I’m going to retire  
at 65  
with a pension  
that’s two thirds of  
my final salary”

(1 in 3 of private sector workers pre-Gordon Brown)

## One sentence, four problem terms...

“I’m going to retire  
at 65  
with a pension  
that’s two thirds of  
my final salary”

(At least the grammar and punctuation both seem OK)

1

# Retirement ?

## ...or 'later life' ?

(This is in part psychological !)

2

At 65 ?

...Or 67, 68, 69...?

(and is retirement a 'point-in-time' event anyway)

3

A pension ?

...Or 'income in later life'

(from multiple sources)

(Of which the pension you're providing is only one)



# One pot ? Absolutely not.

My State Pension

My current company/private pension plan

My SIPP

5 previous plans I've only been able to partially consolidate

All my partner's plans

My ISA portfolio

Their ISA portfolio

Savings interest

An inheritance

Buy-to-let property income

Equity release

Some expected continuing 'semi-formal' employment income

4

“Two thirds of my final salary” ?

I'm not even sure what my target is.

# Rule of thumb on saving ?

## How to spend your income

Spend on needs

50%

Spend on wants

30%

Save

20%

# Rule of thumb on what your savings might deliver ?

## What long-term saving delivers what lifestyle

Basics

10%

Comfort

15%

Escape

20%

# Rule of thumb on the cost of freedom?

## **Financial independence**

Requires a capital sum equal to **20** times your **annual future expenditure**

# So what does unravelling this single sentence tell us ?

- (1) The language needs to change, as people look at life differently
- (2) It's no longer possible to look at a single point of transition as people will be invested for longer and 'ease' into later life
- (3) There needs to be a greater appreciation that people's perspective extends beyond that of a single product
- (4) New rules of thumb are required so people have a greater sense of the longer term rewards for shorter term sacrifice

# And remember that the traditional pension product itself is not without threat

	DC Pension	ISA
Annual investing limit	£40k	£15k
Tax relief on investing	Marginal rate (for now)	No
Taxable on realising	75% @ marginal rate	No
Compulsory annuity	No	No

# Are customers, however, ready to engage and invest ?

**Realistically...**

There are no  
short cuts to  
anywhere  
worth going.

Anonymous

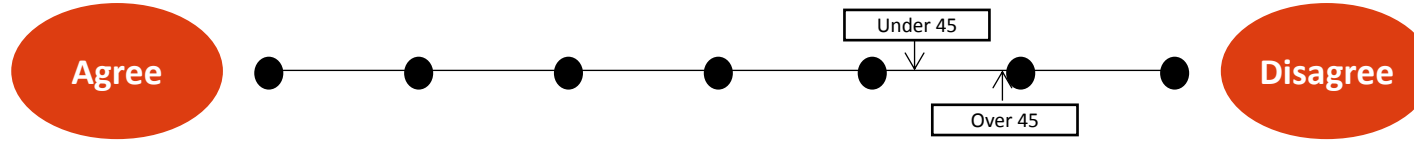
**But encouragingly...**

A little bit of  
sacrifice now  
can pay big  
dividends later

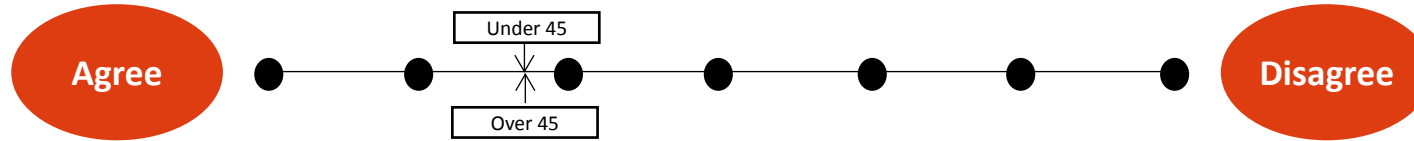


# Ready to engage ?

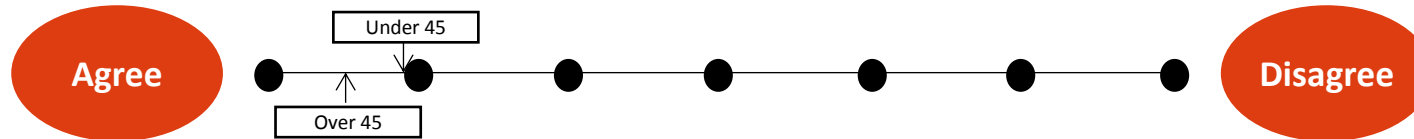
The whole topic of long term financial planning is too complex for me.



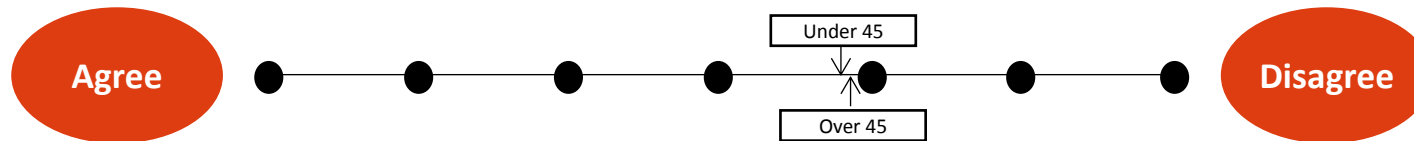
It's not actually that difficult to do, I just need to knuckle down and do it.



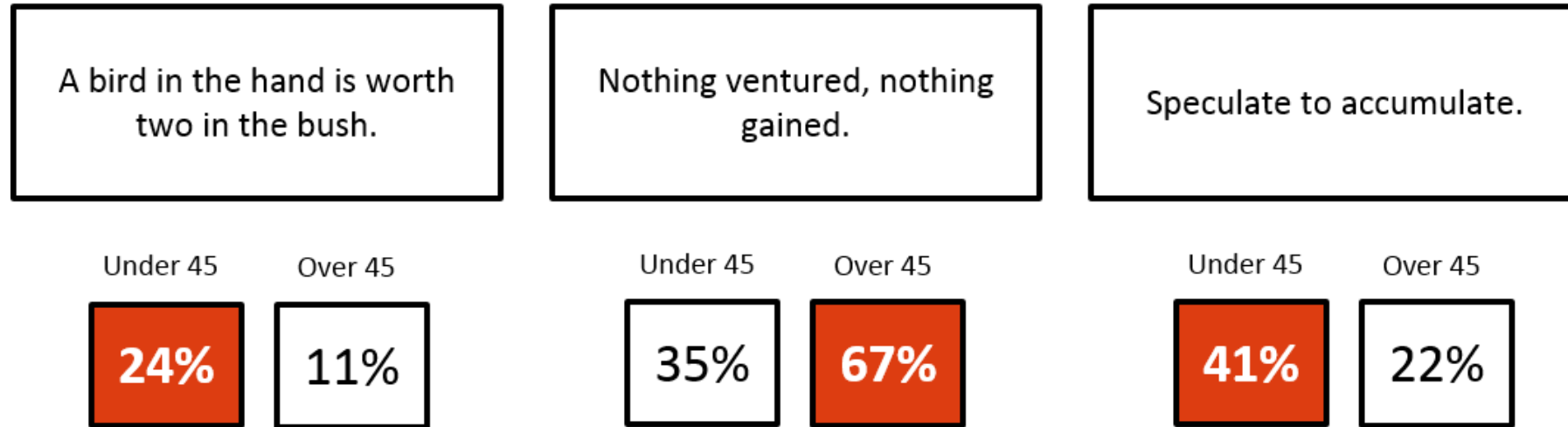
It's too important to neglect.



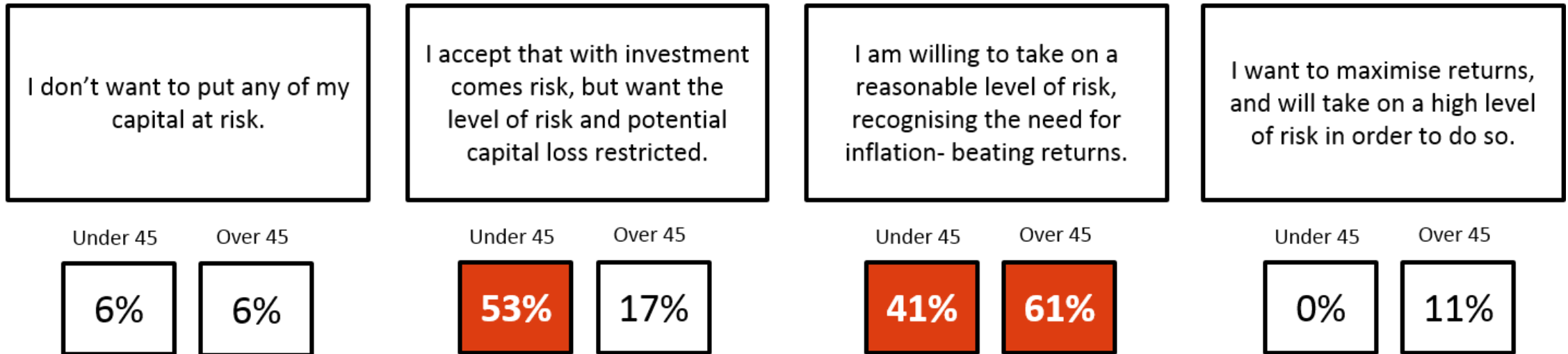
It makes little sense when so much in life can change.



# Ready to invest ? (1/2)



# Ready to invest ? (2/2)



We need to be responsible with our own numbers though

2%

5%

8%

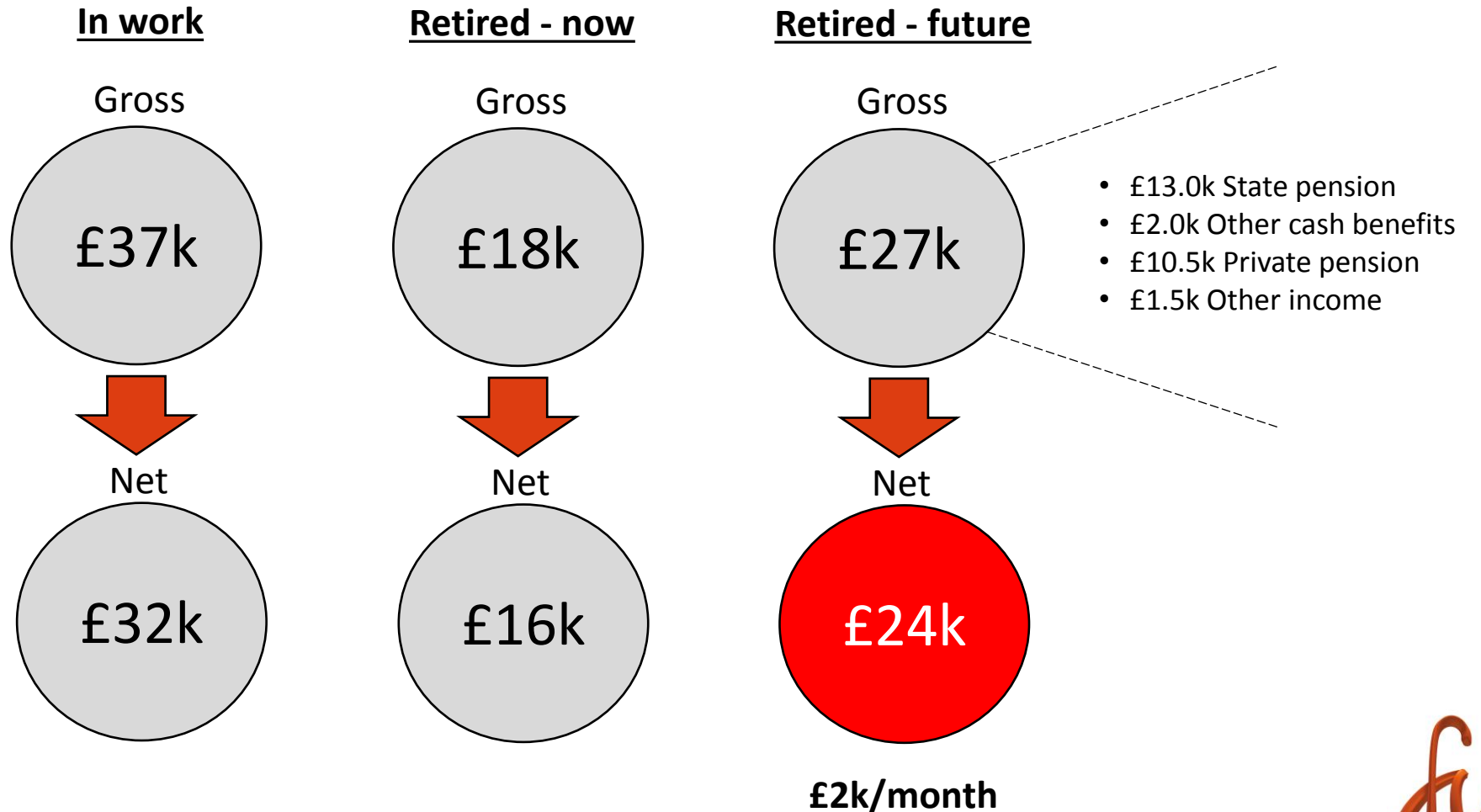
“A bit ‘punchy’ ?”

# So how does this all work in practice ?



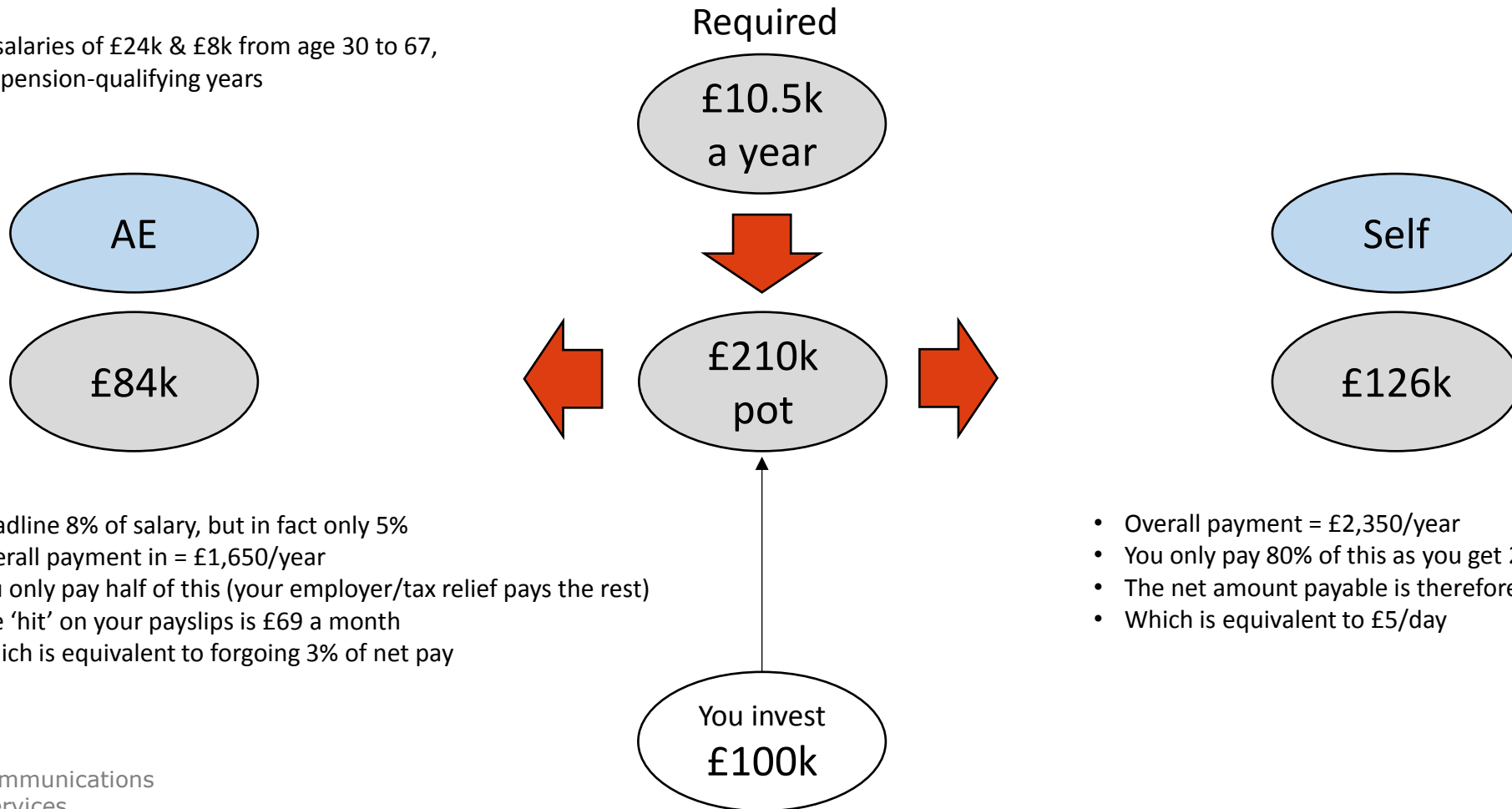
# Start with a desired outcome

Middle quintile household



# Isolate what 'the system' is going to do for the client, and what they need to do for themselves

Scenario – 2 salaries of £24k & £8k from age 30 to 67, with 35 & 25 pension-qualifying years

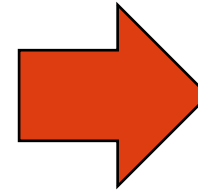
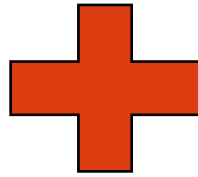


- Headline 8% of salary, but in fact only 5%
- Overall payment in = £1,650/year
- You only pay half of this (your employer/tax relief pays the rest)
- The 'hit' on your payslips is £69 a month
- Which is equivalent to forgoing 3% of net pay

- Overall payment = £2,350/year
- You only pay 80% of this as you get 20% tax relief
- The net amount payable is therefore £1,880/year
- Which is equivalent to £5/day

# And set out the journey in plain English in a way that the target market can identify with...

Employee No.	Employee	Date	Net/Total	Net/Total
0224	G. B. Elington	13/04/09	1,078.23	1,178.23
<b>Payments</b>				
Standard Rate	17.00	17.50	212.50	
Overtime	5.00	25.00	125.00	
Total Hourly Pay			337.50	
Basic pay			691.00	
OSPP Added			138.73	
Total Payments			1,078.23	
<b>Deductions</b>				
Income Tax			238.10	
National Insurance			95.54	
Stateholder Pension			56.68	
Statutory Sick Pay			70.00	
ASPP - CISA			73.28	
Total Deductions			519.50	
<b>Summary</b>				
G. B. Elington				
22 Gable Crescent				
Weymouth				
Dorset				
BA1 5TB				
Flywood & Drifwood Ltd				
Totals This Period			Total Payments	1,078.23
Totals Year To Date			Taxable Gross Pay	59,144.02
			Income Tax	3,917.56
			Employee NIC	3,396.91
			Employer NIC	4,714.19
			Employee Pension	2,000.00
			Employer Pension	200.00
			<b>NET PAY</b>	<b>£ 558.25</b>



2x

Sacrifice

**3%**

of your net pay every month by participating in your AE scheme

Put by

**a Fiver**

a day in addition


Look forward to

**Double**

the State Pension in retirement (£2,000 a month net of tax in today's money)



# Different journeys for different clients



We want to stop work at 60 with the equivalent of £100k combined salaries going forwards

Professional couple aged 25-30

- £100k gross equals around £72k net across 2 similar incomes while in work, equating to £6k net income/month
- £80k gross in retirement would generate the same net income (no NI, 25% of pension income tax-free)
- £15k would come from the new State Pension (assuming 2x 35 years of contributions), leaving £65k to come from a pot of £1.3m
- AE schemes would generate a quarter of this with a combined salary sacrifice of £240/month (4% of net pay if £6k/month)
- An additional pension contribution of £920/month (net of tax relief) (15% of net pay) would be required
- Higher tax reliefs make this plan overall 60% self-funded, and 40% by the employer/The Government
- A separate cash pot of around £42k would be required to draw from from age 60 in advance of receiving the State Pension at 67

**Where does product  
provider information and  
guidance finish and  
advice take over ?**

# No one ever said this was going to be easy



"If it gets any worse, I suppose we could try to improve the product."



For listening