

Friends Life Workplace Savings Index Q3 2011

www.friendslife.co.uk/workplacesavingsindex

Three years on since the recession of 2008 – are we returning to the same performance levels?

- Despite an eight point increase in risk since the last quarter, the level of risk experienced over the last 12 months remains at a much lower level than that experienced in the year before.
- Total Return, as predicted in the last quarterly update, is down. This has led to an overall drop of 5 index points in the last 12 months and a drop of 13 points since Q2 2011.
- Asset diversification has increased four points from last quarter.
- Contributions continue to increase year on year but at a rate below the rate of inflation.

Martin Palmer,
Head of Corporate Marketing at Friends Life said:

“Markets are clearly jittery, principally around sentiment issues. Regardless of the cause, those approaching retirement would be well advised to remove unhelpful volatility from their portfolios and protect their savings. In most Defined Contribution plans, this is typically achieved through a lifestyle glide path. In our deep dive this quarter we consider whether these de-risking periods are long enough.”

The Friends Life Workplace Savings Index has been constructed to provide the industry with insight based upon considerable member data available to Friends Life. The content has not been approved by Friends Life for use with retail customers.

Workplace Savings Index

in partnership with

DCisions®

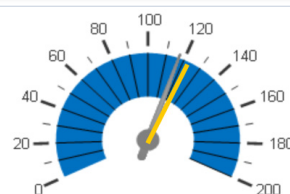
Risk Experience

54
(-18)



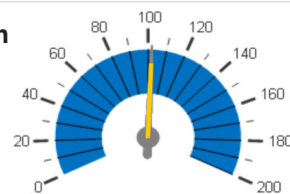
Return Experience

117
(-5)



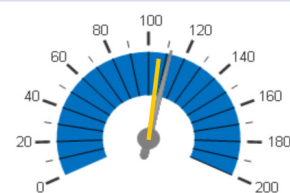
Asset Diversification

102
(0)



Contributions

112
(+3)



— Q3 2010 — Q3 2011

The index numbers indicate annual changes and not quarterly changes

Metrics: Q3 2010 and Q3 2011

	Rolling 12 Month Average Total Monthly Contributions	Trailing 12 Month Portfolio Volatility	Trailing 12 Month Portfolio Return	Portfolio Diversification Score
Q3 2010	£270	12.3%	9.2%	0.68
Q3 2011	£277	9.3%	-3.5%	0.68

* Refer to page 6 for metric definitions.

The information shown refers to the past. Past performance is not a reliable guide to future performance.

FriendsLife

Key observations for this quarter

Increasing risk and lower returns one quarter on

- Customers in the growth stage, more than 15 years to retirement, have experienced an increase in trailing 12 month volatility from Q2 2011 to Q3 2011. This has been accompanied by a significant decline in annualised returns (15.7% down to -3.6%) and in quarterly returns (0% to -9.8%).
- By way of contrast, customers within two years to retirement have actually experienced a slight reduction in trailing 12 month volatility. They have also experienced a slight decline in returns (6.1% down to 5.8%) – but this is marginal when compared with the large reductions for their counterparts that are in the growth stage.
- This disparity is due to differing asset allocations. Those nearer retirement tend to hold more bonds and cash, compared to those in the growth stage who will have a large proportion of their holdings in equities.

Risk and returns lower year on year

- Despite an increase in risk over the last quarter for growth customers, their trailing 12 month volatility for Q3 2011 (9.4%) still remains significantly lower than for the same period last year (12.3%).
- The trailing 12 month return for these customers has dropped significantly from 9.3% to -3.6%, (not having been negative since Q2 2009).
- By way of contrast customers within two years of retirement experienced much smaller movements in both risk and return with only a slight decline in both metrics.

Contribution trends in line with last quarter's observations, with men saving more than women, on average

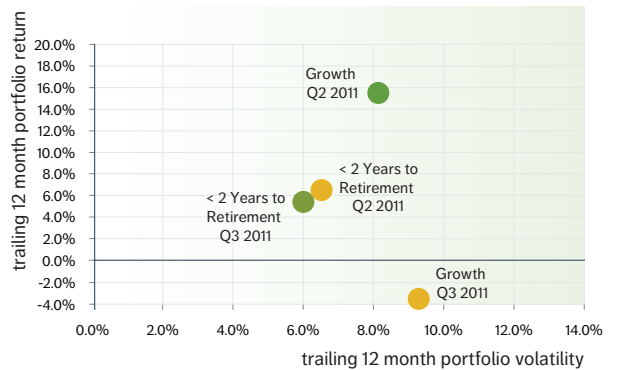
- In the last quarter there was little change in overall contributions, with women slightly decreasing their contributions and men slightly increasing theirs.
- Only men aged 45 and over seem to have increased their contributions by an average of £5 since Q2 2011, whereas all women decreased their contributions except those aged 45-60 whose saving levels remained flat in the same time period.
- Over the last year women have not changed their contributions whereas men have increased theirs by approximately 4% (£13).

Saving levels not in line with the increase in inflation

- Saving levels were broadly in line with inflation in Q2 2011. Data from Q3 2011, however, indicates that saving rates are increasing at a slower rate than inflation. Total monthly contributions have increased by 2.6% year on year, while inflation has risen by 5.2% in this same period.
- It is clear that purchasing power is being eroded.

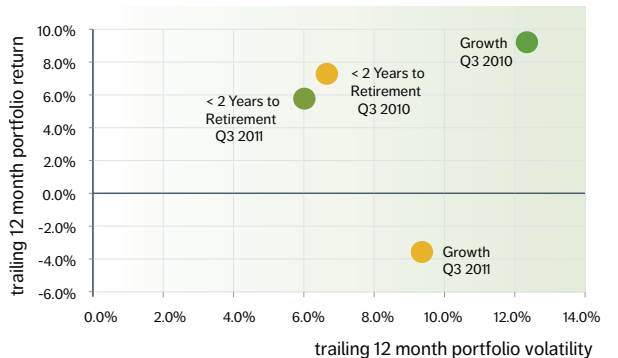
Risk & Return

One quarter on



Risk & Return

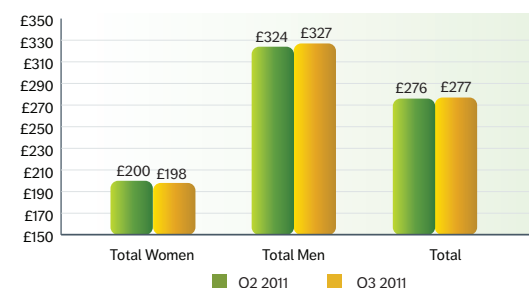
One year on



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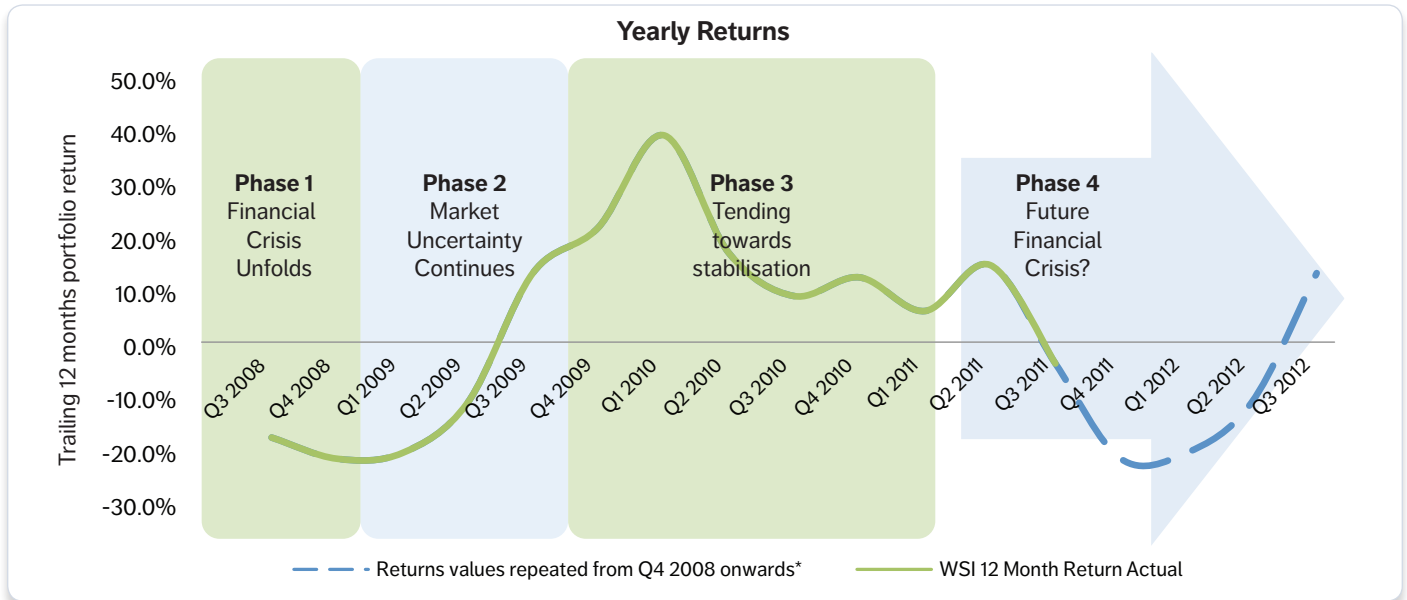
Contributions

Rolling 12 month average total monthly contributions



What the numbers reveal

A return to 2008 performance levels? A deep dive into the Performance Indices



The market landscape – first negative 12 month trailing returns since Q2 2009

In Phase 1, customers experienced negative returns due to market conditions and heavy equity exposure in portfolios. Returns then levelled off and began to rise through 2009 and into Q1 2010. Through Phase 3, returns became more stable, but led into a period of decline in Q3 2011. The 10% decline in the FTSE 100 index and impact of the Euro zone debt crisis on stock market performance in Q3 2011 is a stark reminder of the negative returns experienced in Q3 2008.

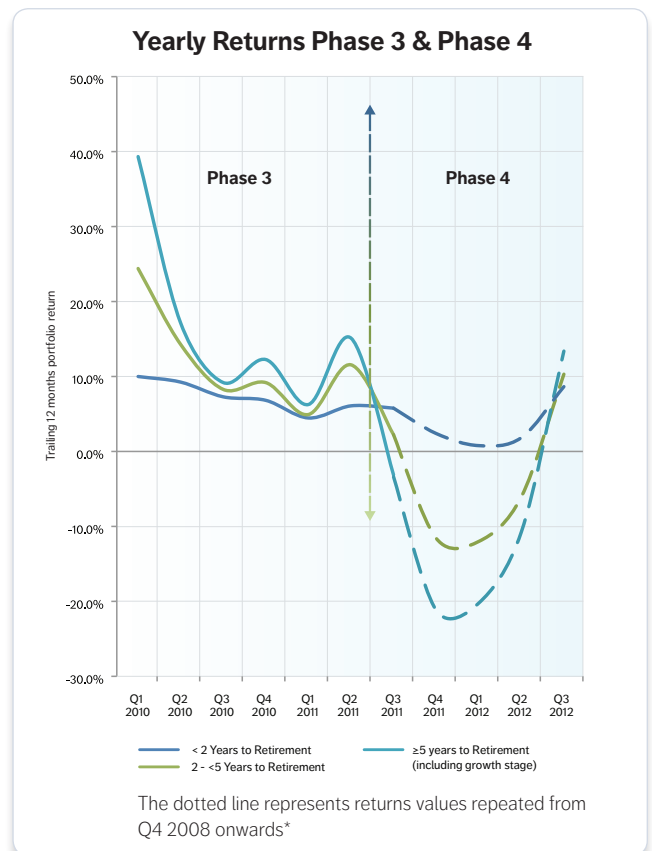
Phase 4 illustrates a potential scenario for future return levels, assuming the same performance conditions that occurred between Q4 2008 and Q2 2009 will reoccur. It could well be another year before performance returns to the relative stability of Phase 3.

The graph on the right focuses on the different stages to retirement.

The obvious question is – are lifestyle glide paths long enough?

Building in a de-risking glide path in the years towards retirement helps to remove damaging volatility from members' pension pots, avoiding the worst drops that could negatively impact income. This can clearly be seen in the return sub-indices. However, this effect is only currently present in the final few years of saving; those with five years or more to retirement enjoy little down side protection.

The trend in the US has been for de-risking periods to stretch out, even beyond 15 years, affording members some cushioning as they approach retirement. Trustee, sponsors and others tasked with the stewardship of default funds in the UK, should perhaps be asking themselves - in the face of continued market turbulence – should a longer glide path for members be considered?

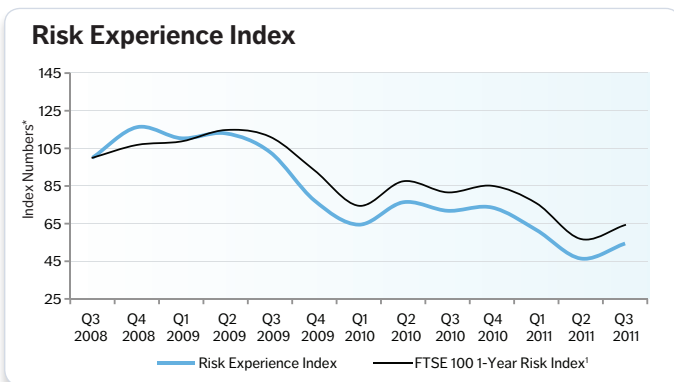


The information shown refers to the past. Past performance is not a reliable guide to future performance. Phase 4 speculates what could happen if the economy were to repeat the 2008 crisis, it is not a prediction of what will happen in the future.* Total Return Values for Q4 2011, Q1 2012, Q2 2012, Q3 2012 equals Total Return Values for Q4 2008, Q1 2009, Q2 2009, Q3 2009 respectively.

Reference: Indices and Sub Indices

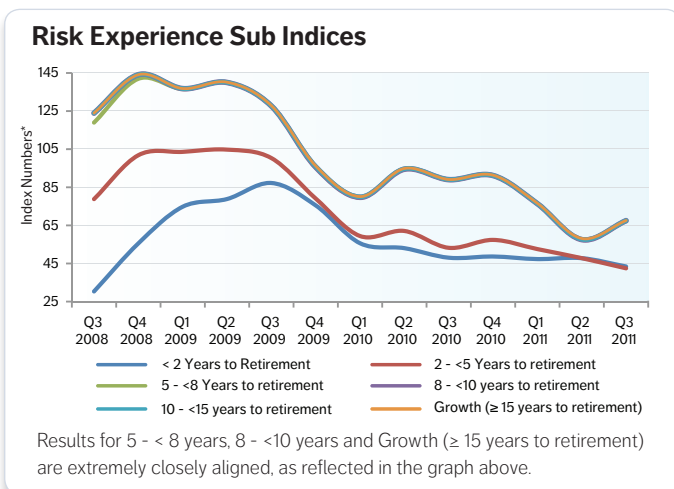
Risk Experience Index

The Risk Experience Index measures the change in trailing 12 month portfolio volatility. This measure looks through fund level metrics and actually reflects the risk the end customer experienced. This metric gives insight into whether customers are experiencing the appropriate level of risk for their investment time horizon. Risk experience has increased in this quarter; however, it is still not as high as its peak in Q4 2008. The total risk experience has increased by 8 points since last quarter. This is in line with the FTSE 100.



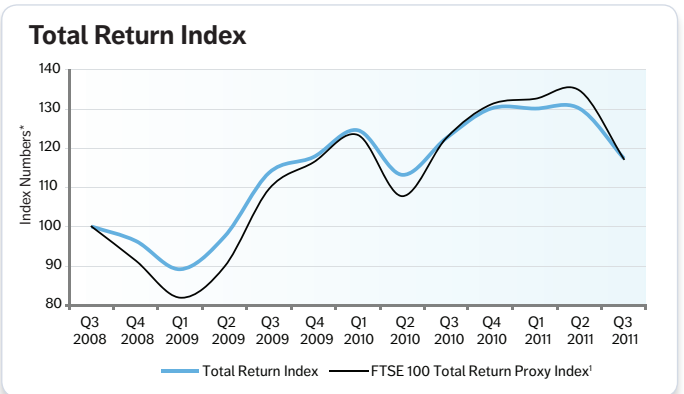
Risk Experience Sub Indices

Customers with more than five years left to retirement experience similar risk and returns levels as they have similar asset allocations and do not start de-risking until less than five years to retirement. Those with more than five years to retirement have an increased risk experience this quarter, by an average of 10 points. However, for those with less than five years to retirement, risk has decreased by an average of 5 points since last quarter.



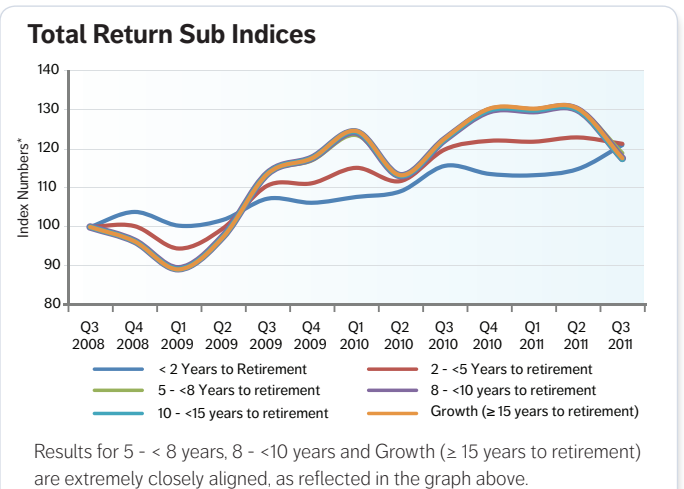
Total Return Index

Total Return Index illustrates the customers' return on £100 invested in Q3 2008. This in combination with the Risk Experience Index delivers insight into whether customers are experiencing the appropriate risk-reward trade-off for their particular time horizon. The total returns have decreased in this quarter almost to the level of Q2 2010. Total returns have decreased by 13 points in this quarter, while the FTSE 100 index has decreased by 18 points in the same time frame.



Total Return Sub Indices

Only customers nearest retirement who have invested in the less volatile cash and bonds have experienced an increase in total returns since last quarter. Customers with two to five years to retirement have experienced a decline of 2 points in the last quarter, customers within five to ten years of retirement have seen their returns decline by a staggering 12 points and those with over ten years to retirement by 13 points. These customers are heavily invested in the more volatile equities. The information shown refers to the past. Past performance is not reliable guide to future performance.



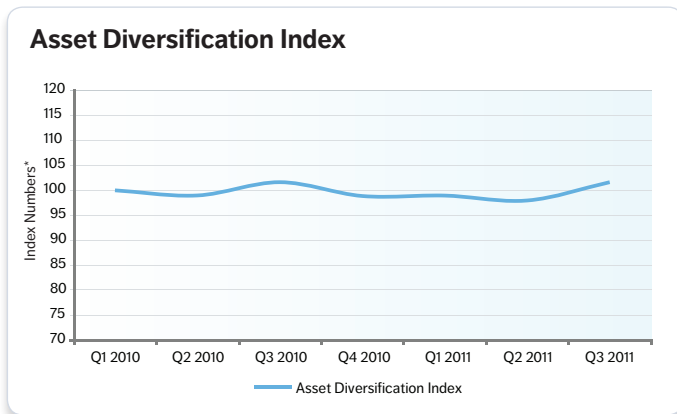
* The index numbers are numbers that are calculated by comparing the metrics of the current quarter with those of Q3 2008
 † FTSE © 100 risk and return index figures have been calculated by DCisions using part underlying data sourced from FTSE © group.
 The FTSE 100 Total Return Proxy Index is calculated by DCisions using the same methodology as the WSI Total Return Index.

Reference: Indices and Sub Indices

Asset Diversification

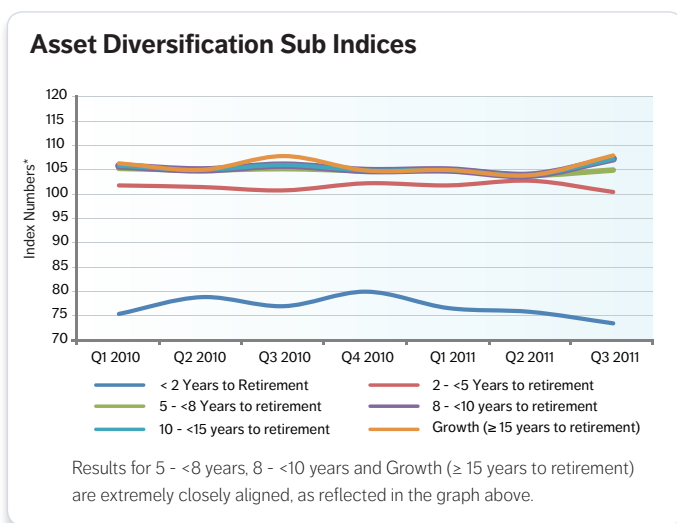
The Asset Diversification Index indicates how concentrated members' assets are within their portfolio. The key asset classes considered are UK equities, international equities, cash, bonds and other assets.

The asset diversification score has increased by four points since Q2 2011. Asset diversification last hit this level in Q3 2010, which was the former peak of this series.



Asset Diversification Sub Indices:

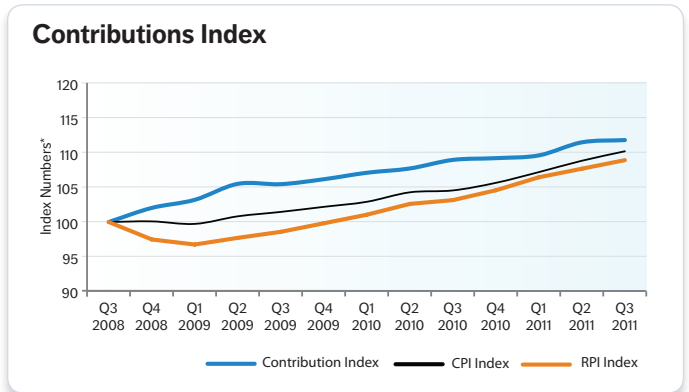
Customers with less than two years to retirement had a much higher concentration of bonds and cash in their portfolio. Due to an increase in share of bonds in the last quarter, their asset diversification has decreased by an average of 2 points. This is also true for customers with two to five years to retirement. In contrast, those with more than five years to retirement have increased their asset diversification by an average of 3 points since last quarter due to a lower allocation of international equities.



Contributions Index

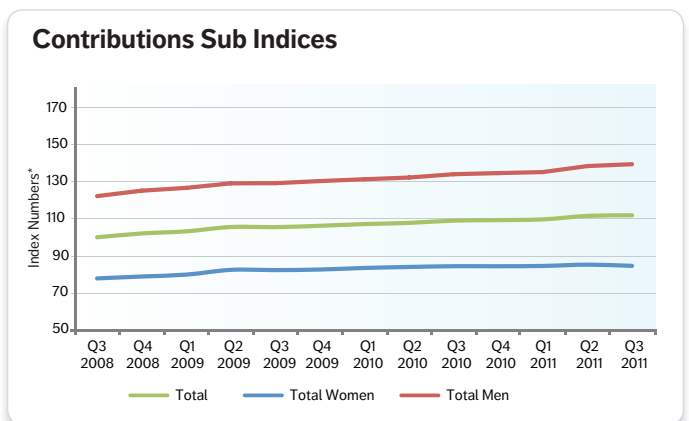
The contribution index is consistently higher than consumer inflation however; where inflation has risen by 1 point since last quarter, the contribution index has remained stagnant and shows no changes when all ages and genders are averaged.

Across the series, the contributions index is generally in line with inflation and is quite flat showing no major increases, decreases or divergence. Q3 2011 shows an increase of 3 points when compared with Q3 2010.



Contributions Sub Indices:

Contributions for women have not changed since last quarter, while, there has been an increase of approximately 1 point for men. Overall, total contributions remain relatively flat and stable across the series.



* The index numbers are numbers that are calculated by comparing the metrics of the current quarter with those of Q3 2008.

Reference: Historical Metrics

	Trailing 12 Month Portfolio Risk	Trailing 12 Month Portfolio Return	Portfolio Diversification Score	Rolling 12 Month Average Total Monthly Contributions
Q3 2008	17.2%	-17.4%		£248
Q4 2008	20.0%	-21.4%		£253
Q1 2009	18.9%	-20.3%		£255
Q2 2009	19.4%	-10.9%		£261
Q3 2009	17.7%	13.5%		£261
Q4 2009	13.3%	22.1%		£263
Q1 2010	11.1%	39.4%	0.67	£265
Q2 2010	13.1%	17.3%	0.66	£267
Q3 2010	12.3%	9.2%	0.68	£270
Q4 2010	12.6%	12.7%	0.66	£270
Q1 2011	10.6%	6.4%	0.66	£271
Q2 2011	8.0%	15.0%	0.66	£276
Q3 2011	9.3%	-3.5%	0.68	£277

The information refers to the past. Past performance is not a reliable guide for future performance.

Please remember that the value of a pension is not guaranteed. You could get back less than you paid in.

To view the Friends Life Workplace Saving Index, including historical figures and reports, visit:
www.friendslife.co.uk/workplacesavingsindex

To view the Friends Life Workplace Savings Technical Guide visit: <http://www.friendslife.co.uk/doclib/ppen11d.pdf>

*Metric Definitions

Index Numbers – The index numbers on the Y-axes of the graphs in this document are derived from these metrics and the definitions are as below.

Trailing 12 Month Portfolio Risk – The standard deviation of monthly returns experienced by the member over the last 12 months.

Trailing 12 Month Portfolio Return – Rolling time-weighted 12 month return delivered as at the relevant quarter.

Portfolio Diversification Score – Measures the consumers total portfolio asset concentration (where 1 is highly diversified). The asset classes measured are UK equity, international equity (excluding UK), cash, bonds (including fixed interest) and other assets (such as property, commodity and hedge funds).

Rolling 12 Month Average Total Monthly Contributions – Average monthly contribution amount made into a member's pension pot over 12 months. This includes both employer and employee contributions.

The Friends Life Workplace Savings Index (WSI) is compiled in partnership with DCisions, the consumer insight company that powers the index. The index was first published in September 2011.

Powered by **DCisions**[®]

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