



HM TREASURY

The UK Annuities Market: Structure, Trends & Innovation

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UK Annuities: Legal framework

- Individual contributions and savings growth tax free
- Tax-free lump sum up to 25%
- Trivial commutation - £16,500 cash (25% tax-free)
- Remainder must be used to generate income, between age of 50 (rising to 55) and 75
- Producing an income from savings
 - Income withdrawal: specialist products
 - Annuities
- Annual income from annuity should not fall





Annuities in UK : Regulation

- No product regulation (within tax rules)
- No price regulation
- Prudential regulation of insurance companies
- Financial Services Compensation Scheme
- Financial Services Authority conduct of business rules
 - Treating Customers Fairly
 - Sales must include explanation of risk and product detail





Rationale for the UK system

- Generous tax treatment of pension saving
 - £18.9 billion on 2007-08
 - Individual pension may have 60% or more funded by taxpayer
- Protect taxpayers' interest

See *The Annuities Market*, HM Treasury, 2006





Some consumer issues

- Early death
- Lack of flexibility
- Individual discount rates
- Lack of financial knowledge
- Adverse selection
- Value for money





Value for money

- Intangible benefits – insurance
- Annuity rates – interest rates, longevity
- Money's worth ratio (MWR): 0.85-1.05
- 0.94 (1994) to 0.88 (2007) – 65 year old male
- 0.92 to 0.86 – 65 year old female
- Drop due to more realistic longevity assumptions

Cannon & Tonks (2006), *Survey of Annuity Pricing*, DWP Research Paper 318





The decumulation market in the UK

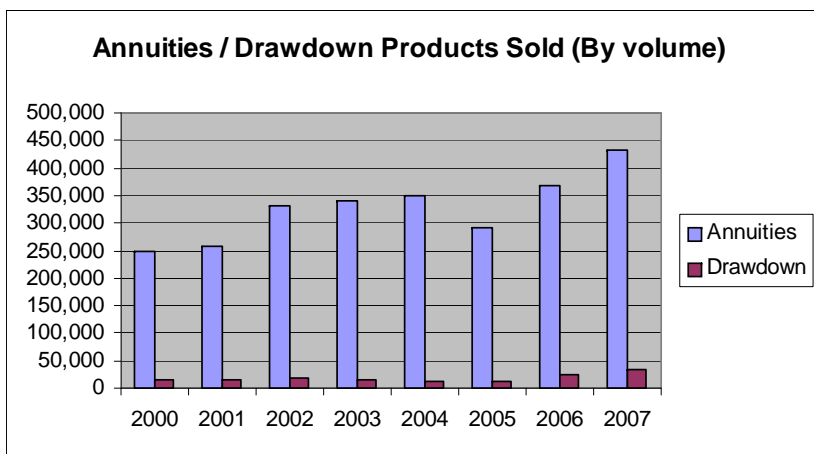
- Insurance companies provide annuities and income withdrawal products
- 40 firms offer annuities, top 5 have 61% of market
- 66 firms offer income drawdown, top 5 have 66% of market
- Vast majority annuity purchase is generated from tax-advantaged savings - £7,478m as against £56m 'voluntary' annuities (2004, ABI)
- Most (over 90%) buy level annuity





Annuities versus income withdrawal

Majority of pensions converted to income through annuities



- In 2007: 78% annuities (433,000), 22% income withdrawal (33,000)

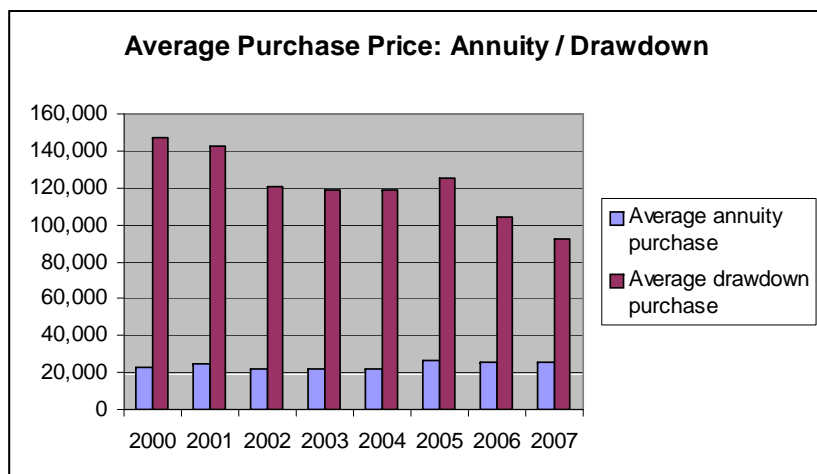
Source: ABI (www.abi.org)





Annuities versus income withdrawal

Price of income withdrawal much higher than annuities



Source: ABI (www.abi.org)

- Income withdrawal prices are falling, and annuity prices increasing
- Increased competition and demand for drawdown products, and reduction in minimum amount





Many types of annuity products

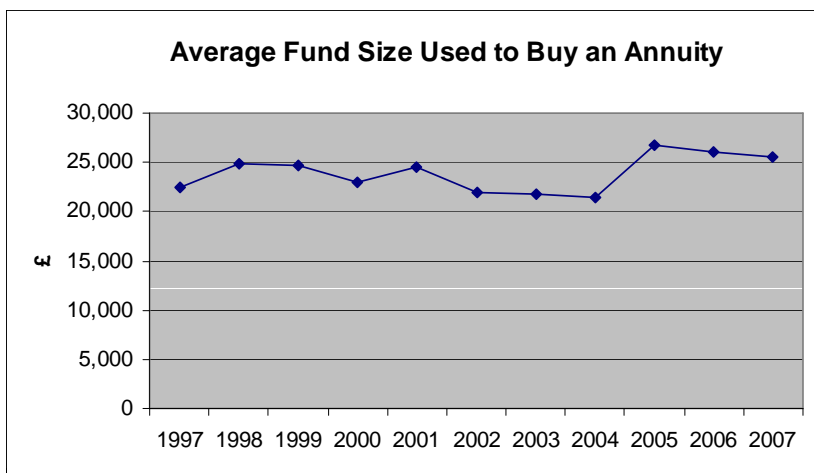
- Single Life
- Joint Life
- Guaranteed Term Annuity
- Value Protected Annuity
- Flat Rate (or Level) Annuity
- Escalating Annuity
- Investment-Linked Annuity
 - With-Profits Annuity
 - Unit-Linked Annuity
- Impaired Life Annuity
- Enhanced Annuities





Annuities: average fund size

- Higher trivial commutation limits introduced 2006

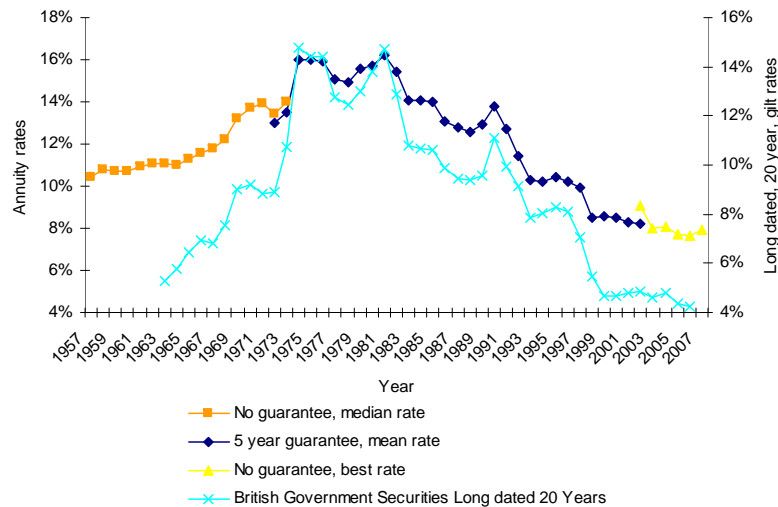


Source: ABI (www.abi.org)





Annuity prices versus gilt yields



- Higher rates to early 1970s due to lower longevity rates
- Post 2000, different measurement and increased demand for long dated gilts

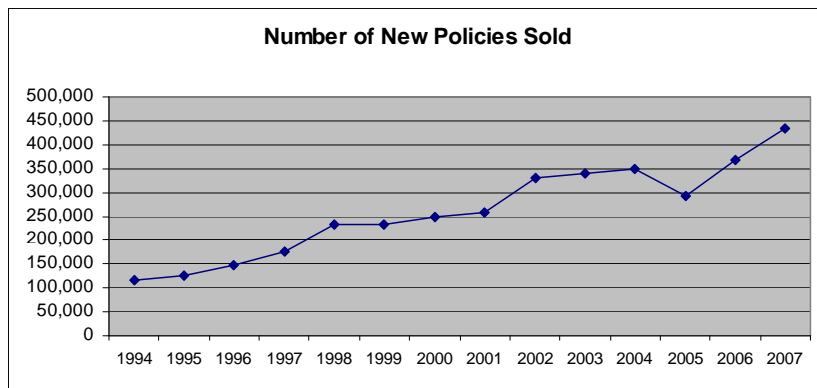
Note: Because the type of annuity measured has changed over the years, there are discontinuities in the graph.





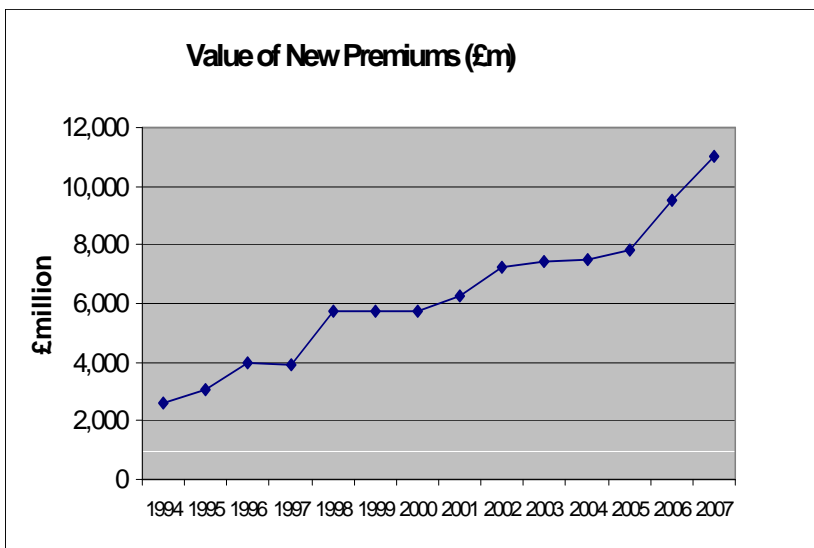
The UK annuities market is expanding

- Dip in 2005 anticipated widespread pension changes in 2006



Source: ABI (www.abi.org)





•2007 sales exceeded £11 billion

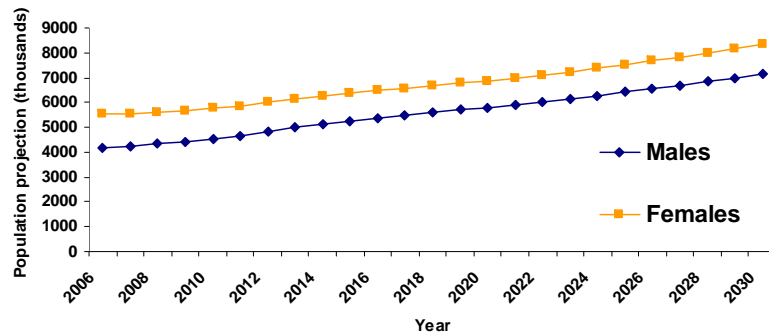
Source: ABI (www.abi.org)





Drivers for a growing annuities market

- Shift from DB to DC pensions
- More people over retirement age
- Personal Accounts



Source: Office for National Statistics. Figures are 2006-based principal projected populations at mid-years of males and females aged 65 or over at their last birthday





Personal Accounts

- Pensions Commission Report: *A New Pension Settlement for the Twenty-First Century*
- DC scheme for low (£5,035) to moderate (£33,540) earners
- 4:3:1 – individual: employer: tax relief
- Compulsory employer contribution
- Auto-enrolment
- Additional 6-9m pension savers
- Funds under management £100-200bn





Sustainability

- **Backing assets**
 - Long-term, secure, yield, index-linked
- **Longevity risk**
 - Reinsurance expensive
 - Emerging capital market solutions





Innovation

- Specialised annuities
- Shared risk
- 'Mid-market' products
- Personal Accounts





Increasing efficiency – Open Market Option

- Choice of annuity provider
- Monthly income can vary from £460 to £566
- Only 40% exercise open market option





Encouraging greater use of open market option

- The Pensions Advisory Service online tool
- Financial Services Authority
 - Reforming process
 - Deadline for firms to meet transfer guidelines
 - Reviewing 'wake-up' material
 - Educating and informing consumers
- Association of British Insurers
 - Promoting good practice, '*Improving Customers' Retirement Experiences*'





On line annuity planning

The Pensions Advisory Service (TPAS) - Microsoft Internet Explorer

the pensions advisory service

Need help? Call us on **0845 601 2923**
Open 9am to 5pm, Monday to Friday

TPAS Online Annuity Planner

Welcome!

This online annuity planner is provided by The Pensions Advisory Service (TPAS). TPAS is an independent non-profit organisation that provides free information, advice and guidance on the whole spectrum of pensions covering State, company, personal and stakeholder schemes. TPAS is funded by the Government.

This online annuity planner will give you general information and guidance and help you with the decision-making process for converting your pension fund into income. **It is not a calculator, nor will it provide financial advice.**

At the end of this annuity planner, you will have the opportunity to access comparative tables provided by the Financial Services Authority (FSA). These tables provide a list of providers and incomes available.

Click on the Continue button below to proceed...

Exit Continue

Safari on Mac OS is not currently supported by the Annuity Planner

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Help with choosing annuities

MONEYmadeclear™
from the UK's financial watchdog (FSA)

No selling. No jargon. Just the facts.

Home Moneymadeclear Help using this site Useful links About the FSA More tools

You are here > Choose a product > Annuities choices > Annuities results

Annuities results

Show shortlist > Sort results Monthly income - Increasing by 3%

0 products out of 0 Page 1 of 1

Short list	Providers	Smoker/ All	Level	Monthly income Increasing by 3%	Better Rates Available Increasing by RPI	Enhanced/ Impaired Loyalty	Restricted availability
<input type="checkbox"/>	Legal & General	All	£121	£74	£60	Yes No	Yes
<input type="checkbox"/>	Canada Life Ltd	All	£115	£73	£59	No No	No
<input type="checkbox"/>	AEGON Scottish Equitable	All	£113	£70	n/a	No No	No
<input type="checkbox"/>	Reliance Mutual	All	£114	£69	n/a	No No	Yes
<input type="checkbox"/>	Standard Life	All	£110	£67	£53	No No	Yes
<input type="checkbox"/>	Friends Provident	All	£106	£65	n/a	No No	No
<input type="checkbox"/>	Scottish Widows	All	£103	£61	£58	Yes No	No
<input type="checkbox"/>	B & C E Insurance Ltd	All	£103	n/a	n/a	No No	Yes

0 products out of 0 Page 1 of 1

Show shortlist > Sort results Monthly income - Increasing by 3%

Useful info
[How to use this table](#)
[What you won't see](#)

You should know
Some providers (not included in the table) offer individually rated annuities, you can contact them as follows: Prudential - 0845 073 4000, Norwich Union - 0800 056 1643.
These products are not FSA recommendations. Always confirm the product details with the provider or an adviser.
The information on this page was last revised on: 22/01/2009

Your choices
You are : Male
Age when buying an annuity: 50
Smoker/all: All
Pension fund: £25,500
Single/joint life annuity: Single
Guarantee: No guarantee
[Change your choices >](#)

Current selection
Enhanced/impaired life annuities: I don't mind
Restricted availability: I don't mind
[Change your selection >](#)

You may want to
[Email results](#)
[Print results](#)
[Save results](#)





Financial capability

- Advice 'gap'
- Money Guidance pathfinder
 - Northern England
 - Web, telephone, face to face

Further information: *Helping you make the most of your money: a joint action plan for financial capability*. HMTreasury/FSA. July 2008.





Further information

More information:

www.hm-treasury.gov.uk

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THANK YOU!

