

# Reform of the UK's decumulation market

# Why consider international lessons?

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- Growing interest in the decumulation market
  - UK's FCA – obstacles to competition working effectively for consumers
  - Murray review in AUS – limited choice for managing risks
- This market could gain in prominence here given
  - Increasing role of capital in retirement incomes
  - A gap in income replacement
  - Rising longevity

# The (pre-reform) market

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- The UK has a large annuity market
  - In 2012, 420,000 new annuities were taken out and there were 6.3 million pension annuity policies in payment
  - Annuities sold in 2012 had a premium value of £14 bn, c.f. £1.2 bn for income drawdown
  - Average (mean) annuity in 2013 was bought by a pension fund of £35,600, but the median was around £20,000 (so half buy an annuity with less)

## The (pre-reform) market

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- Around  $\frac{2}{3}$  (68%) bought a single-life annuity and  $\frac{1}{3}$  (32%) bought a joint-life annuity
- 87% bought a level annuity, 6% an escalating annuity and 7% an investment-linked annuity
- Just over  $\frac{1}{4}$  (26%) were enhanced (medically underwritten)
- Between 2003 and 2012 the number of people switching provider at retirement increased from 31% to 47%

# The (pre-reform) market

## – But, declining yields

**Table 10.1. Savings required to produce different levels of annual income in retirement at age 65: December 2009 and March 2013**

United Kingdom

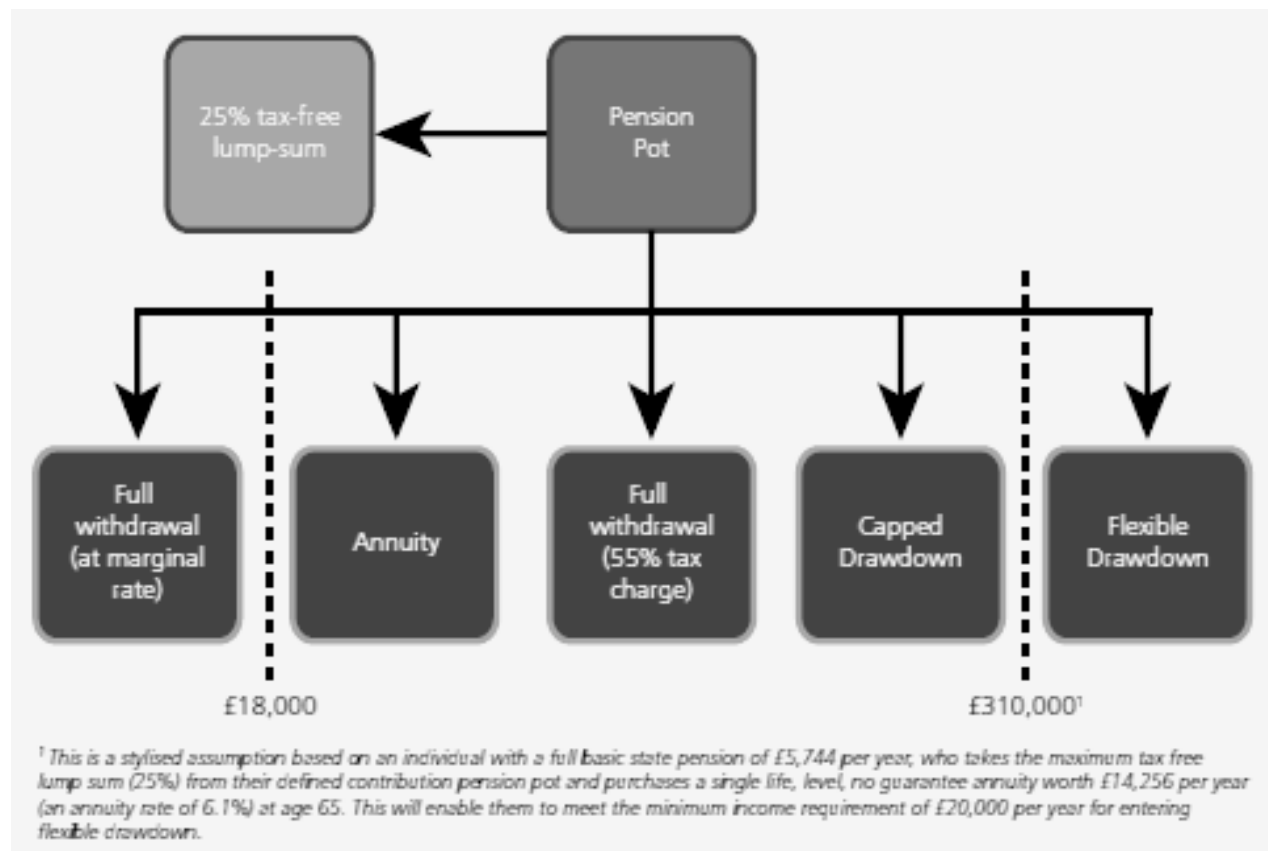
	£ pounds				
Annual income	£5,000	£10,000	£15,000	£20,000	£25,000
Saving of men at 65 in 2009	118,000	236,100	354,100	472,100	590,200
Saving of women at 65 in 2009	133,500	267,100	400,600	534,200	667,700
Saving for men and women in 2013	152,800	305,600	458,300	611,100	763,900

**Table notes:**

1. Calculations for 2013 are based on best available single life inflation-linked annuity rates quoted by the The Money Advice Service.
2. Annuity rates for 2009 are based on those used within the financial assumptions of the Wealth and Assets (WAS) survey.
3. The information shown here is not classed as National Statistics.

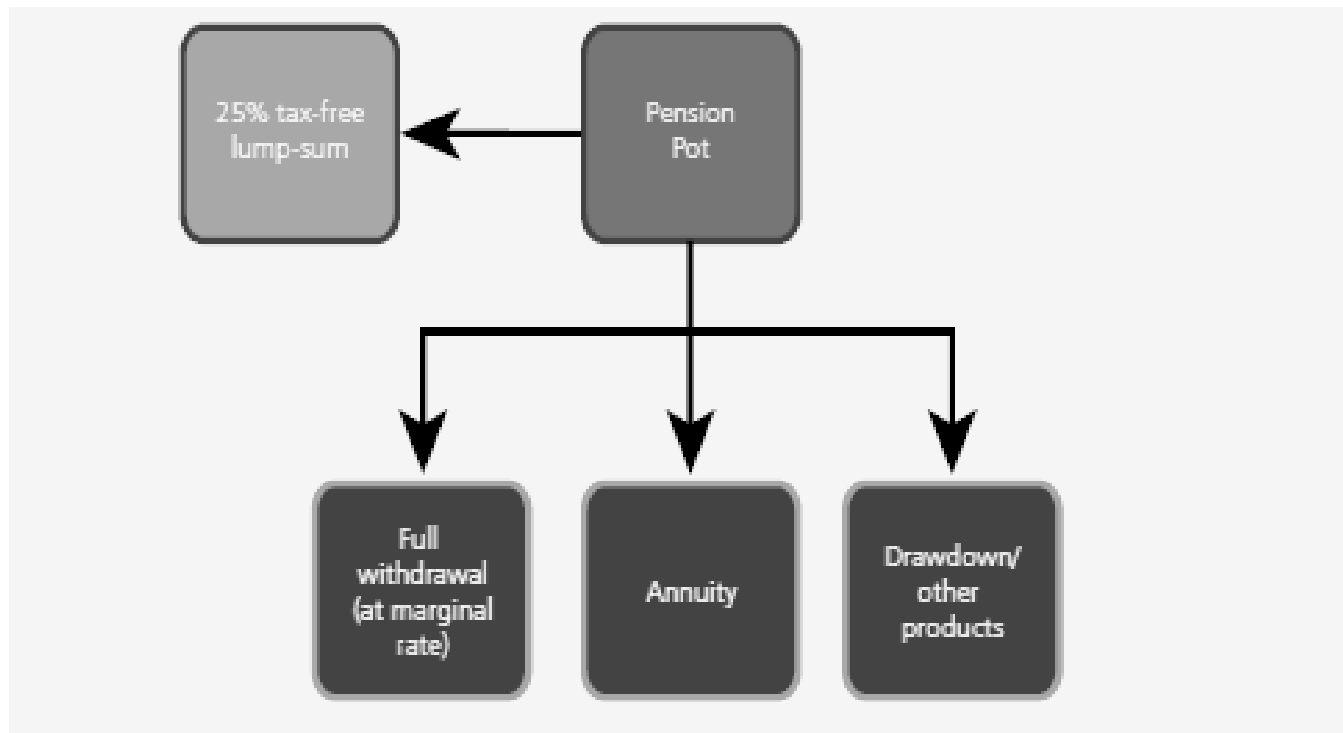
# Liberalisation of the market

- Before Budget 2014



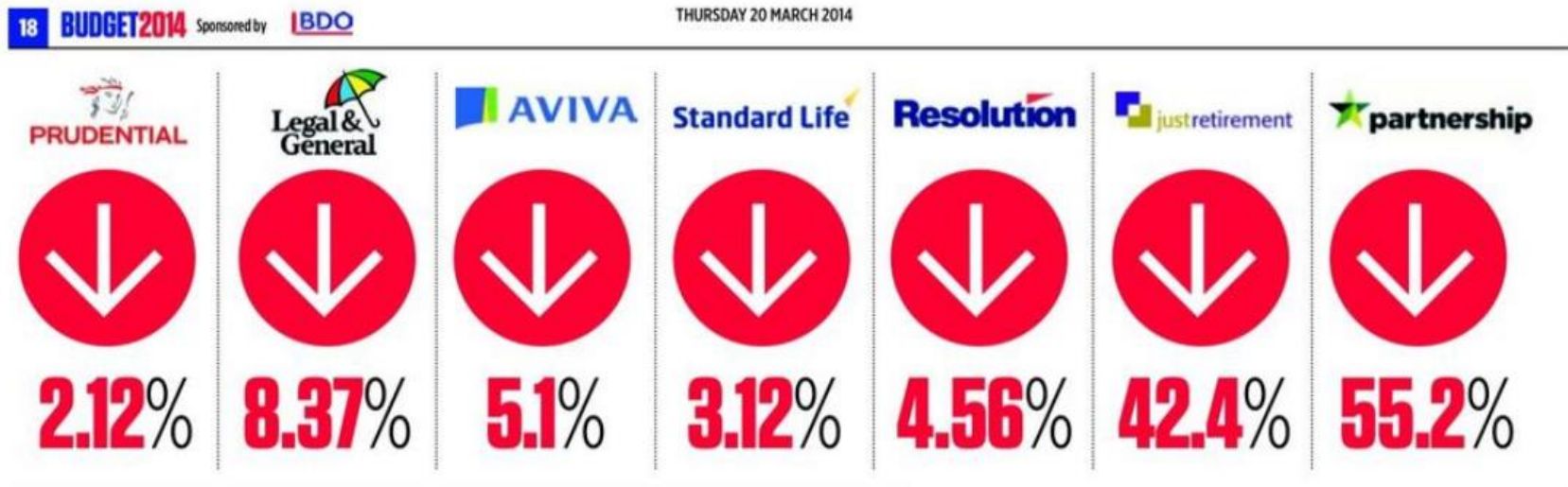
# Liberalisation of the market

- After Budget 2014



# Liberalisation of the market

- The day after





# Changes in annuity and drawdown sales

	Q2 2014	Q2 2013	% change
Annuity sales – no.	46,368	89,896	-48%
Annuity sales – £bn.	£1.8bn	£3.1bn	-42%
Average fund size	£38,600	£34,500	12%
Income drawdown sales – no.	9,498	6,132	55%
Income drawdown sales – £bn.	£669m	£487	37%
Average fund size	£70,500	£77,700	-10%
Drawdown value as % of annuity sales	37%	16%	

Source: ABI

# Trends in enhanced annuities

	Q2 2014	Q2 2013
% of annuities bought from existing provider	55%	49%
% enhanced annuities out of total annuities	29%	25%
% enhanced annuities bought externally	59%	47%
% enhanced annuities bought internally	8%	7%

Source: ABI

# Guidance guarantee

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- Tailored to individual's personal circumstances
- Will not recommend specific products or providers. Annuities not right for everyone
- Financial Conduct Authority to have responsibility for setting standards for guidance and monitoring compliance
- Providers under a duty to ensure people are aware of right to impartial guidance and signpost them to the service

# Implementation

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- Outstanding question of how to build engagement – little can be achieved in a single session of guidance
- Industry working to get things up and running for April 2015. But possible that not all providers will offer flexibilities from then and charges may increase
- Impact of reforms will grow as numbers of people retiring grows and single tier pension reforms phased in

Thank you for your time.

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