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Retirement income and assets: the implications of ending the effective requirement to annuitise by age 75

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PPI consultation response: removing the requirement to annuitise by age 75

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- The new legislation
- Who could access more flexibly?
- Further impact of legislation
- Impact on low, median and high to very high earners

A more flexible approach to accessing private pension savings…

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From age 55 people with DC savings can:

- Purchase an annuity
- Use Capped Drawdown: Indefinite drawdown, capped at 100% of an equivalent annuity
- Use Flexible Drawdown: unlimited withdrawals with a secure income (MIR) of £20,000pa minimum

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Annuitising will still be the safest option for the vast majority

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- For the majority of people, purchasing an annuity will still be the safest and most appropriate way of accessing their private DC pension savings

Who might be able to use Capped or Flexible Drawdown?

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- New analysis of English Longitudinal Study of Ageing data (adjusted to 2010 levels and UK population totals)
- Focus on people aged 55 to 75 – potentially affected by the change
- Use information on state pensions, DB and DC pensions, both current and when reaching SPA

Who might be able to use Capped or Flexible Drawdown today?

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- For Capped Drawdown, funds over £100,000 used as an indicator
- A range is given reflecting uncertainty in current drawdown estimates
- For Flexible Drawdown and the MIR, not all data is individual, so a range is used
- For potential at SPA, work and savings are assumed to continue until SPA – so figures show the likely maximum numbers

Around 600,000 to 700,000 people aged 55 to 75 in 2010 could use Capped Drawdown

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	Could use Capped Drawdown in 2010	Could use Capped Drawdown by SPA (but not in 2010)	Total who could use Capped Drawdown in 2010 or by their SPA
Numbers of people aged between 55 and 75 who could use Capped Drawdown	600,000 to 700,000	300,000	900,000 to 1 million
Percentage of all people aged 55 to 75 in UK	5%	2%	7%
Percentage of people aged 55 to 75 in the UK with uncrystallised DC pension savings	22% to 26%	11%	33% to 37%

Around 700,000 to 1m people aged 55 to 75 in 2010 could meet the MIR

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	Could meet MIR in 2010	Could meet MIR by SPA (but not in 2010)	Total who could meet MIR in 2010 or by their SPA
Number of people aged between 55 and 75 who could meet MIR	700,000 to 1 million	900,000 to 1.1 million	1.6 million to 2.1 million
Percentage of all people aged 55 to 75 in UK	5% to 8%	7% to 8%	12% to 16%

Around 200,000 people aged 55 to 75 in 2010 could use Flexible Drawdown

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	Could use Flexible Drawdown in 2010	Could use Flexible Drawdown by SPA (but not in 2010)	Total who could use Flexible Drawdown in 2010 or by their SPA
Number of people aged between 55 and 75 who could use Flexible Drawdown	200,000	500,000	700,000
Percentage of all people aged 55 to 75 in UK	2%	4%	5%
Percentage of people aged 55 to 75 in the UK with uncrystallised DC pension savings	7%	19%	26%

How many people in future might be able to use Capped and Flexible Drawdown?

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- Already potential increases in the current population age 55 to 75 *if behaviour does not change*
- Likely to see more with DC savings in future generations as the impact of the DB to DC shift works through
- Auto-enrolment will increase the number of people with DC funds – but it may take many years for these funds to be large enough to be used flexibly

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Will there be a move away from annuitisation?

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Whether the majority of people will continue to annuitise will depend on:

- Individual's attitudes and financial behaviour,
- Market changes, product development and availability,
- Advice and information.

Attitudes and financial behaviour may motivate some people not annuitise

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- The perception that annuities are poor value for money
- Behavioural characteristics, for example: loss aversion, hyperbolic discounting
- People who value the potential for growth over protection from investment and longevity risk

Market developments could influence peoples' decisions

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- A wider variety of drawdown products?
- Providers will play a role in determining individual outcomes from the new legislation
- Annuity rates could be affected by the changes

Potential risks and issues for pension and annuity providers and providers of advice

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- Providers of products and providers of advice and information act as the bridge between people and the products they use to access their savings
- The Government can play an important role in assisting industry to support individuals

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Low earners are unlikely to be directly affected by the legislation

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- For the majority of low earners, annuities will still represent the safest and most appropriate way of accessing pension savings though the changes could impact the annuity market
- People who purchase a lifetime annuity are trading opportunities for protection against longevity and investment risk

The total income an annuity pays out depends on the lifetime of the annuitant

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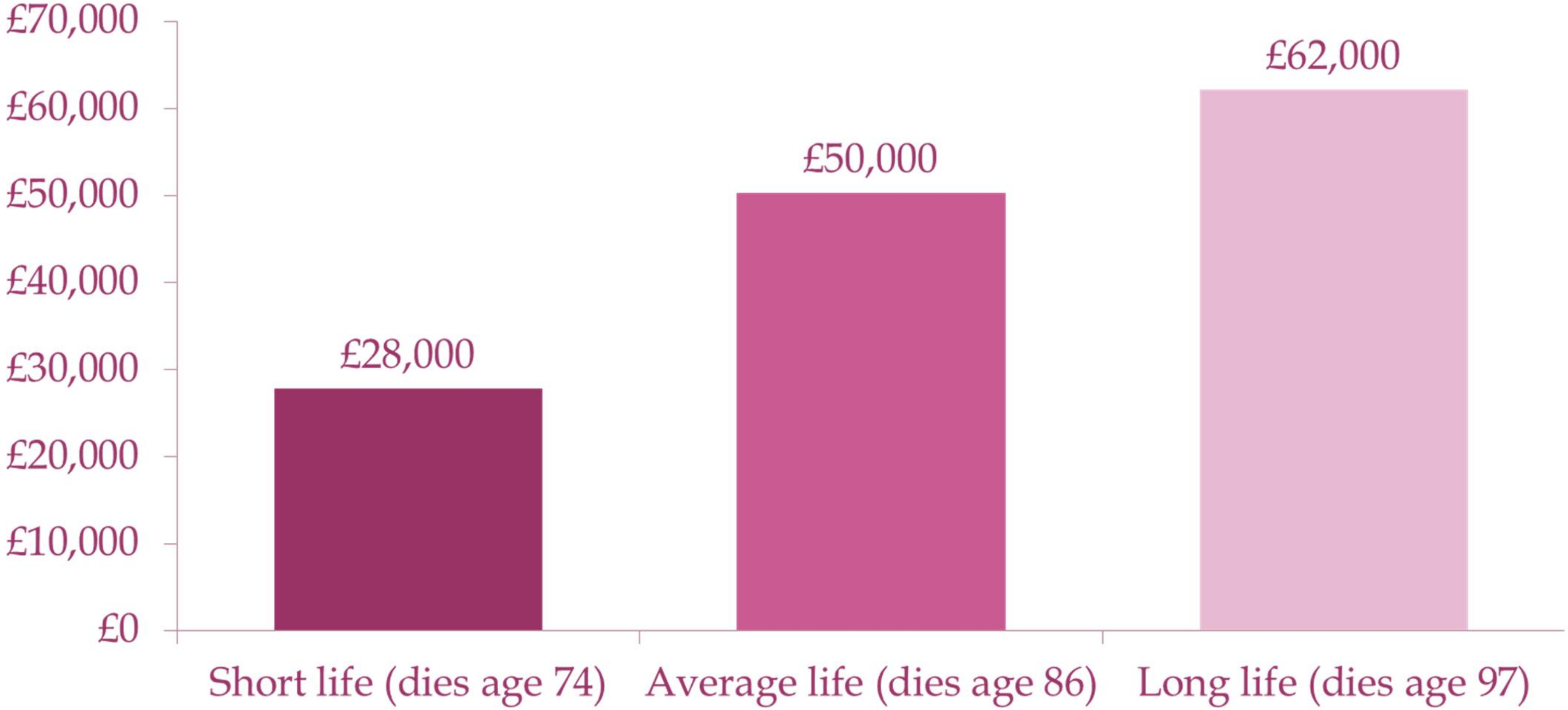
Total income received during retirement from a lifetime level annuity purchased in 2010 with £58,000 under short, average and long lifetime scenarios in present value of benefits



Many median earners will still annuitise, however…

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- Removing the requirement to annuitise could encourage people to use existing retirement income products more flexibly
- Some people may wish to delay purchasing a lifetime annuity

Fixed term annuities can allow people to postpone purchasing a lifetime annuity

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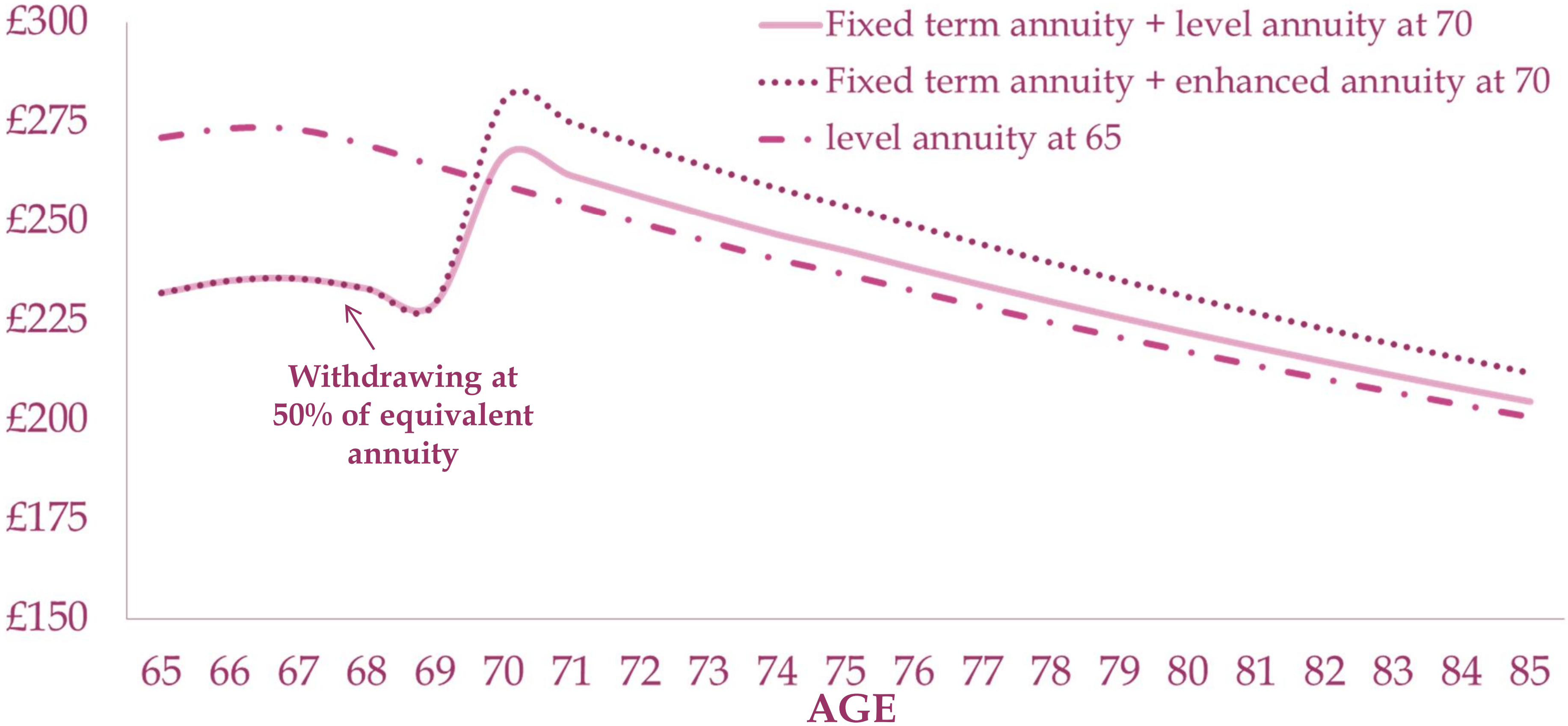
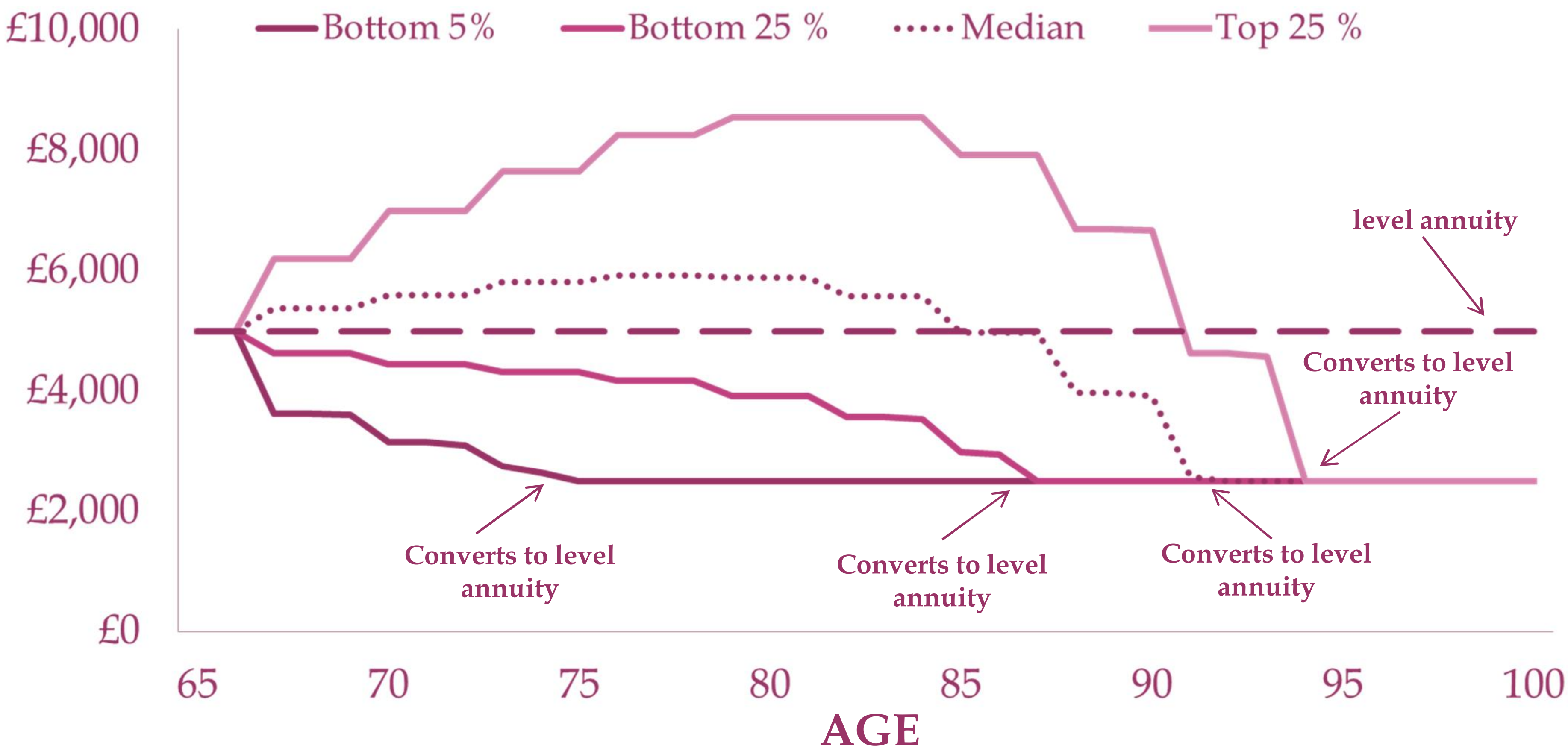
A median earning man's weekly state and private pension income under two fixed term annuity scenarios and a level annuity scenario in 2010 earnings terms (initial pot, £75,000)



Flexible annuities allow for growth, but can also result in fund depletion

The possible range of a median earning man's weekly income from a flexible annuity with withdrawals of 100% of an equivalent annuity (readjusted every 3 years) nominal figures



Withdrawing at less than 100% of an equivalent annuity can mitigate the risk of fund depletion

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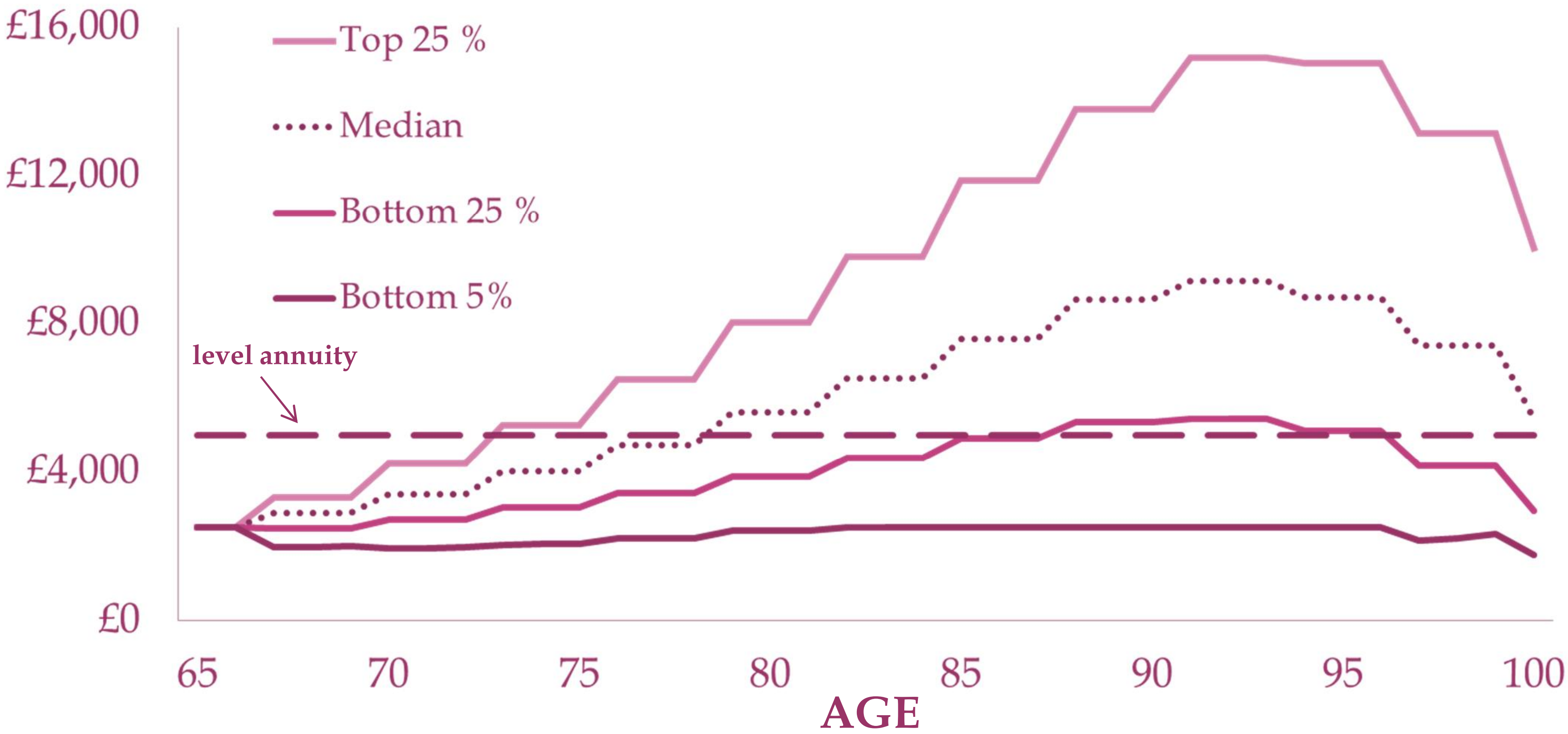
The possible range of a median earning man's weekly income from a flexible annuity with withdrawals of 50% of an equivalent annuity (readjusted every 3 years) nominal figures



High to very high earners are more likely to be able to access the new products

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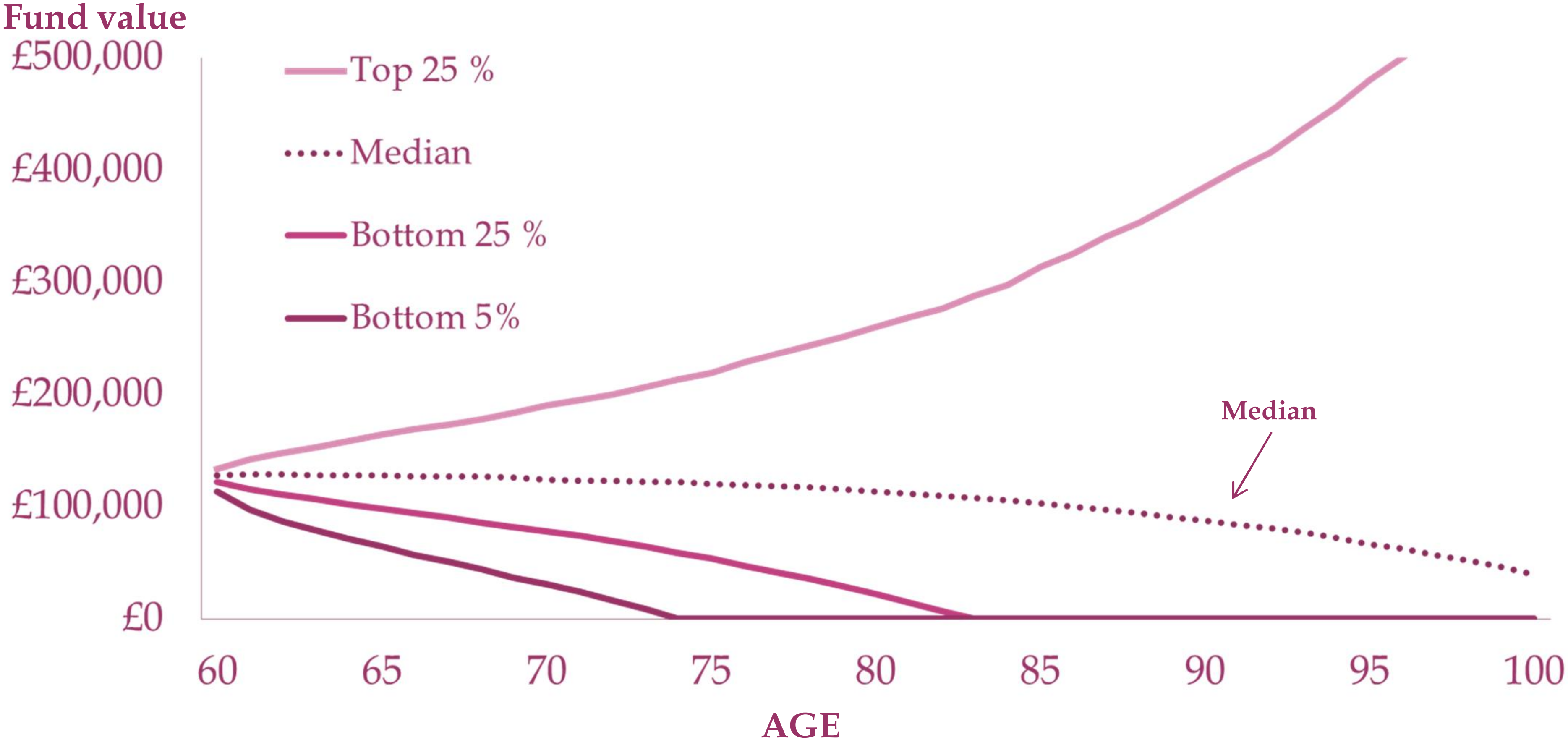
- Some high earners could choose Capped Drawdown over an annuity in future, some could meet the MIR
- Drawdown brings more flexibility, but more risk – stochastic modelling including a ‘long life’ scenario

36% chance of losing fund by age 89 when withdrawing at full annuity value from drawdown

A high earning woman's fund value when invested in Capped Drawdown with withdrawals of 100% of an equivalent annuity, nominal figures



2% chance of losing fund by age 89 when withdrawing at half annuity value from drawdown

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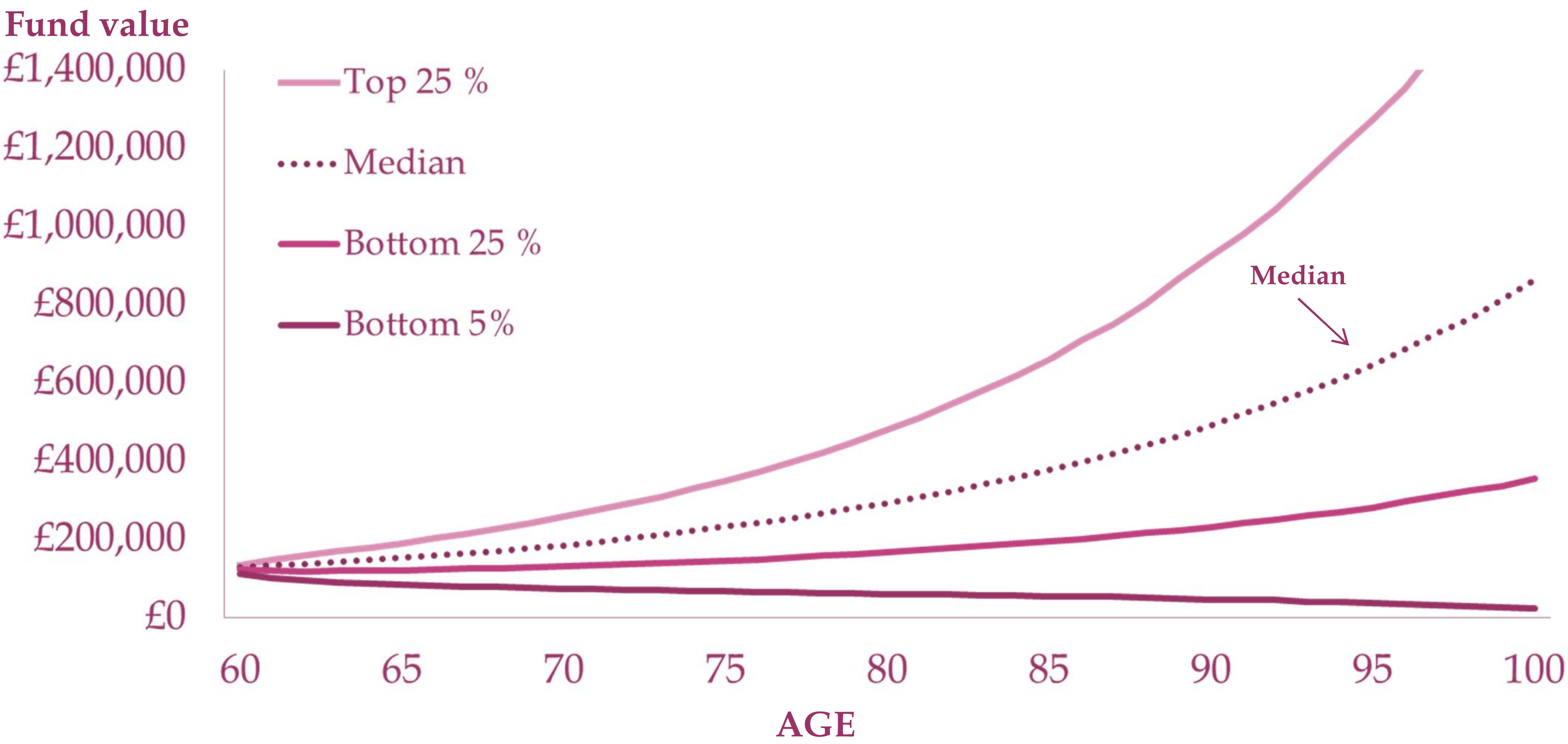
A high earning woman's fund value when invested in Capped Drawdown with withdrawals of 50% of an equivalent annuity, nominal figures



Conclusions (1)

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- For the majority of people, purchasing an annuity will still be the safest and most appropriate way of accessing their private DC pension savings
- A small proportion of people might be able to use Capped or Flexible Drawdown, though more people might be able to use it in future

Conclusions (2)

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- The new policies, in particular Capped Drawdown, could bring more risks for individuals' retirement income
- However for people with other income and assets and high appetites for risk, they provide an opportunity for potential growth and bequest

Conclusions (3)

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- The new policies could impact on the annuity market
- It will be especially important that people are given clear, accessible advice and information about the best option for their particular needs