PENSIONS POLICY INSTITUTE

PPI

Freedom and Choice in Pensions

PPI Supporting Members Event

Monday 12 May 2014

Event kindly hosted by: the people's pension

PENSIONS POLICY INSTITUTE
PPI

Welcome from the Chair

Chris Curry, Director of the PPI

Tweet: @PPI_Research
#PensionsFreedom

PENSIONS POLICY INSTITUTE
PPI

David Gauke, MP

Exchequer Secretary to the Treasury

Patrick Heath-Lay

Chief Executive of B&CE, provider of The People's Pension

PENSIONS POLICY INSTITUTE
PPI

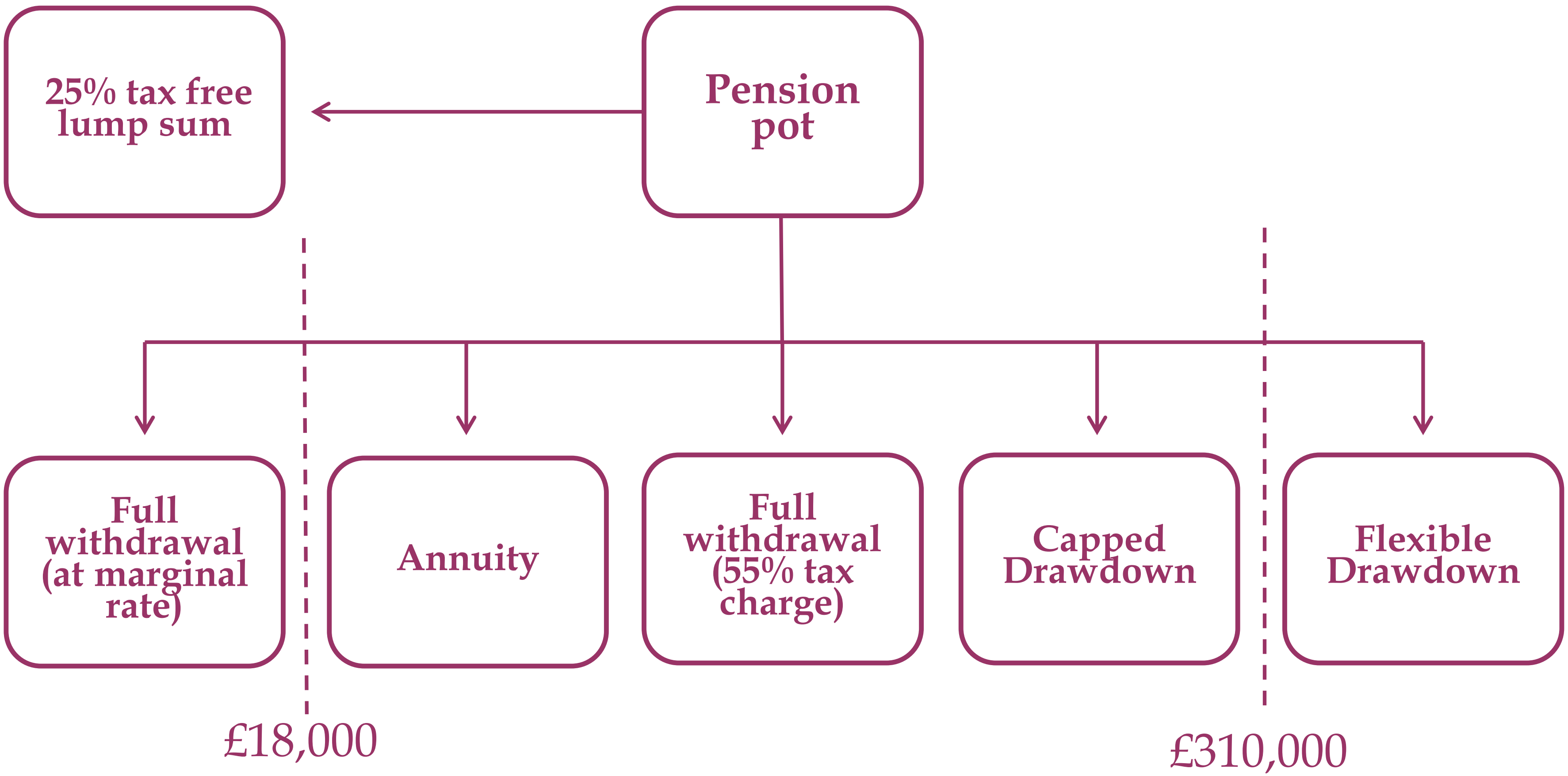
Mel Duffield

Deputy Director of the PPI

Freedom and Choice in Pensions: comparing international retirement systems and the role of annuitisation

Current tax system for accessing defined contribution pensions at retirement

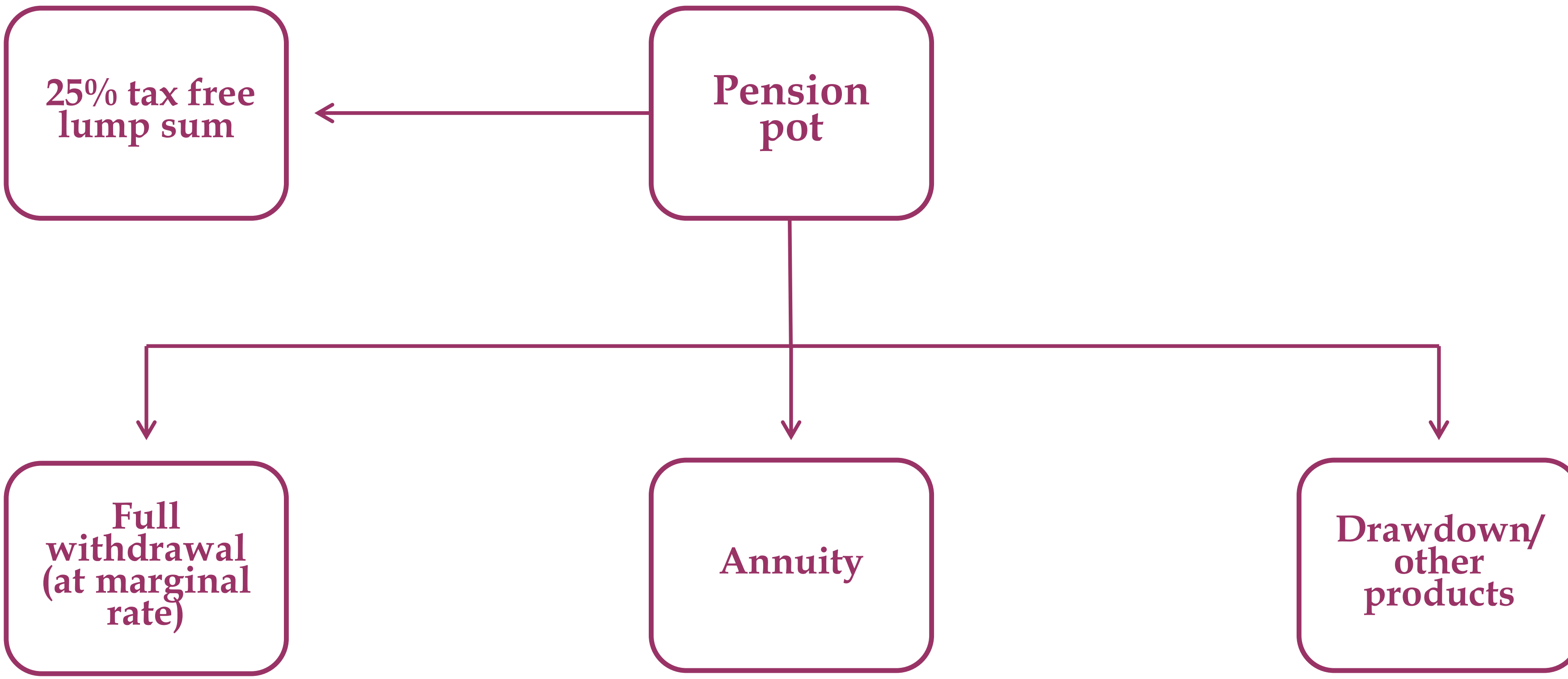
PENSIONS POLICY INSTITUTE
PPI



Source: Chart recreated from HM Treasury (2014) *Freedom and choice in pensions* Cm 8835 p. 21 Diagram 3.A

Future tax system for accessing defined contribution pensions at retirement

PENSIONS POLICY INSTITUTE
PPI



Source: Chart recreated from HM Treasury (2014) *Freedom and choice in pensions* Cm 8835 p. 21 Diagram 3.A

Around 75% of DC savers currently purchase a lifetime annuity

PENSIONS POLICY INSTITUTE PPI

- **In practice annuitisation still acts as a strong default because of the limitations of income drawdown**
- **Annuities:**

Pros	**Cons**
"Secure" income for life	Cannot leave as bequest (except for joint annuities or guarantee elements)
Protects against longevity risk	Low investment returns
No requirement for ongoing advice	Locked-in: Vulnerable to annuity market changes and the potential for low market rates at retirement
Can include protection from inflation risk, or income for dependents (at a cost)	Vulnerable to choosing the wrong type of annuity for needs or not getting the best rate

In practice, many would have already been under the trivial commutation limits

PENSIONS POLICY INSTITUTE
PPI

PPI modelling of DC pot sizes under automatic-enrolment (to be published next week)

	Individuals with a DC pot from automatic enrolment only	Individuals with a DC pot from automatic enrolment and existing DC and/or DB pots
% under £18k	91%	44%
% under £30k	99%	56%

How might the Budget changes impact the annuity market and retirement incomes?

PENSIONS POLICY INSTITUTE
PPI

- Fewer people might annuitise
- Providers could develop new range of innovative investment and insurance products
- Annuity markets and annuity rates may be negatively affected
- More pensioners could receive investment returns and leave bequests
- More pensioners could be at risk of running savings down before death

Switzerland – high level of annuitisation (80%)

PENSIONS POLICY INSTITUTE
PPI

- Highest level of annuitisation – 80% of DC assets – with no restrictions on accessing DC savings
- Cultural attitudes – financially conservative
- Generally schemes offer an annuity – above market rates set by Government (= future solvency risks for employers)
- Annuities perceived as a “good deal” by savers

Denmark – medium level of annuitisation (50%)

PENSIONS POLICY INSTITUTE
PPI

- Many annuity decisions made during the savings process – allocate savings in advance
- DC assets - 50% lifetime annuities, 35% fixed-term annuities, 15% lump sums
- Relatively high level of annuitisation - linked to restrictions, financial conservatism, or because decisions are made well in advance of retirement?

Australia/Canada/USA – lower levels of annuitisation (<10%)

PENSIONS POLICY INSTITUTE
PPI

- Small or under-developed markets
- Lower annuity rates and less perception that annuities a "good deal"
- Greater variety of alternative products including drawdown
- Concerns amongst policy-makers about the low level of understanding of needs in retirement and longevity risks
- Predicted risk of running down assets

Features in countries with different annuitisation levels

PENSIONS POLICY INSTITUTE
PPI

		Restrictions on accessing DC savings	Flexibility of annuity products	Variety of other products: e.g. drawdown	High annuity rates/ MWRs	Annuities perceived as a "good deal"	State pension	Means-tested pension
High annuitisation	Switzerland (80%)				●	●	●	●
	Chile (70%)	●	●	●	●	●		●
	Singapore (not available)	●			●	●		
Medium annuitisation	Israel (not available)	●	●	●	●	●	●	
	Denmark (50%)	●	●		not available	not available	●	●
	Ireland 30%	●		●			●	●
Low annuitisation	Australia (2-10%)			●				●
	Canada (not available)	●		●				●
	USA (<2% pensioner income)		●	●			●	

Where might future demand for annuities come from in the UK?

PENSIONS POLICY INSTITUTE
PPI

- Those who are risk-averse/conservative
- Those who perceive they get a good rate (e.g. enhanced annuities?)

Annuities could be made more attractive to consumers by:

- Building in other guarantees or insurances (e.g. bequests/disability/care-costs)?
- Encouraging deferred/long-tail or partial annuitisation?
- Nudging long-term decision-making during working life?

Next Steps

PENSIONS POLICY INSTITUTE
PPI

- PPI Transitions to Retirement Research Series – 2014-2015
- Complexity of decision-making at retirement; retirement income product innovation; and glide-path strategies
- Consortium of sponsors including: Age UK, Fidelity, IMA, Partnership, TPAS, TPR and The People's Pension

PENSIONS POLICY INSTITUTE

PPI

Panel Session 1: The implications for pre- and post-retirement product design and innovation

Nigel Barlow, Partnership
Maddi Forrester, AXA Investment Managers
Hugh Nolan, JLT
Darren Philp, The People's Pension

Chaired by Chris Curry

PENSIONS POLICY INSTITUTE

PPI

Panel Session 2: Providing support and guidance for members post April 2015

Michelle Cracknell, TPAS
Alan Higham, Fidelity
Kerstin Parker, HM Treasury
Alex Roy, FCA

Chaired by Alan Woods

PENSIONS POLICY INSTITUTE
PPI

Panel Session 3:

The changing retirement landscape and wider challenges for the industry

Helen Forrest, NAPF
David Hutchins, Chair of the IMA DC Committee
Barry O-Dwyer, ABI Long Term Savings and Life Insurance Committee

Chaired by Alan Woods

Closing Remarks

Chris Curry, Director of the PPI

Event kindly hosted by: