

“Budget 2014 flexibilities for pension savers could still leave a role for improved annuity products” says Pensions Policy Institute

The Pensions Policy Institute (PPI) is today publishing the briefing note *Freedom and Choice in Pensions: comparing international retirement systems and the role of annuitisation*.

The note is being launched at an exclusive event for PPI Supporting Members, hosted by The People’s Pension, where Treasury Minister, David Gauke MP, will be outlining the Government’s proposals for how savers access their Defined Contribution (DC) pension pots at retirement, as announced at Budget 2014.

The briefing note finds that, while the demand for annuities is expected to fall in the short-term as a result of the new freedoms and flexibilities being announced, improved annuity products may still prove to be an attractive retirement income solution for some groups in future.

Mel Duffield, PPI Deputy Director, said “Since the Budget announcement there has been a lot of uncertainty about the outlook for the UK annuities market, with the Treasury figures suggesting that take-up of annuities amongst retirees with DC pension pots could fall from around 75% now to 50% post-April 2015. Other commentators have made more pessimistic predictions.”

The PPI’s review of international retirement systems highlights a number of factors that affect the demand for annuities across different countries which will be relevant to how the market develops in the UK. These include underlying cultural attitudes and the appetite for a secure and guaranteed source of income in retirement; the structure, variety and perceived value of other retirement income products on offer in the market; the timing and framing of the decisions about how to allocate pension savings; and the perceived attractiveness of the annuity rates on offer.

Mel Duffield added “In Switzerland, where unlimited access to private pension saving is allowed and annuity rates are seen as good value, around 80% of DC savings are still put into lifetime annuities at retirement. And in Denmark, where decisions in some voluntary pension saving vehicles on how to allocate savings are taken well ahead of retirement, around 85% of voluntary pension savings are being allocated to either lifetime or fixed-term annuities.

“In other countries, such as Australia, Canada and the US, lifetime annuities play only a small or negligible role in the market. However there are growing concerns in these countries that retirees are not well enough informed about their retirement needs and are running down their pension savings too quickly.”

The PPI briefing note also argues that the industry and employers have a pivotal role to play in designing simple, understandable, and good value for money products that savers can use to access their DC savings at and during retirement.

The analysis suggests that innovations in the market, for example annuities that can also provide elements of insurance for health, disability or long-term care needs during retirement, and deferred annuities that can be combined with income drawdown products to provide insurance against very long life, could provide features that consumers value as the industry responds to the new flexibilities in the Budget.

The PPI is also announcing today the launch of a major new research series on *Transitions to Retirement*. This research stream will run throughout 2014-15 and will explore the complexity of decision making at retirement and the scope for innovation in retirement income solutions and drawdown products in the UK.

The consortium of confirmed research sponsors includes Age UK, Fidelity, the Investment Management Association (IMA), Partnership, The Pensions Advisory Service (TPAS), The Pensions Regulator (TPR), and The People's Pension.

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Notes for editors

1. The Pensions Policy Institute (PPI) is an educational research charity, which provides non-political, independent comment and analysis on policy on pensions and retirement income provision in the UK. Its aim is to improve the information and understanding about pensions policy and retirement income provision through research and analysis, discussion and publication. Further information on the PPI is available on our website www.pensionspolicyinstitute.org.uk.
2. The PPI Supporting Members Event on Freedom and Choice is being hosted by The People's Pension at One Great George Street, Westminster, on Monday 12th May. The PPI runs two to three exclusive events for Supporting Members each year, with the previous event in December 2013 covering the Government's Defined Ambition proposals.
3. For further information on the PPI Supporting Members Scheme, please contact Danielle Baker, PPI Fundraising and Membership Manager on 020 7848 3744 or via email to: danielle@pensionspolicyinstitute.org.uk.