PENSIONS POLICY INSTITUTE

Shopping around for annuities: The changing market. A PPI Round Table

The Pensions Policy Institute (PPI) hosted a round table on Thursday 30th September 2021 to present the key findings from the PPI research Shopping Around for Annuities: The Changing Market and to discuss their implications for pensions policy in the UK. The research was undertaken by Dr Mark Baker, Senior Policy Researcher, PPI, with sponsorship from Canada Life and Retirement Line.

The research is published under *Briefing Note Number 127 - Shopping around for annuities: the changing market*. This Briefing Note is free to download from the PPI website.[1]

Chair's welcome

Ruston Smith, Non-executive chair of the Tesco pension fund and a PPI governor, chaired the round table. He welcomed everyone to the event, outlined the role of the Pensions Policy Institute, then went on to introduce the Briefing Note and Mark Barker to present the key findings.

Dr Mark Baker is **Senior Policy Researcher** at the **Pension Policy Institute** and is author of *Briefing Note Number 127 - Shopping around for annuities: the changing market*.

Presentation of the findings of the research

Dr Mark Baker presented the key findings from the research:

The current state of the market

The impact of the introduction of Pension Freedoms in 2015 has been to greatly reduce the number of annuities purchased, with a significant increase in the number of drawdown products and cash withdrawals.

The average pot size used to purchase an annuity has risen from £37,000 in 2014 before the introduction of pension freedoms to £71,000 in 2020, while the average pot size used for drawdown has remained largely unchanged.

The combined value of annuity purchases in the UK looks to have stabilised by 2019, with atypical behaviour in 2020 as a result of the COVID-19 pandemic.

1 https://www.pensionspolicyinstitute.org.uk/sponsor-research/research-reports/2021/2021-09-30-briefing-note-number-127-shopping-around-for-annuities-the-changing-market/

The impact of shopping around

People are shopping around, to a degree. Around 50% of people purchase an annuity from an external provider implying that there is a certain amount of shopping around. However, it does not follow that this indicates engagement in all these individuals as some may be directed to a provider with little engagement where their provider does not offer annuities to the market.

Price differences between annuity providers has narrowed for annuity quotes on equivalent criteria between providers. However, they may still vary by up to 16% between the best and worst prices on the market. This could result in a difference of around £7,000 over a consumer's lifetime and across the market £130m 'lost' in the first year.

The reducing price gap (which had been in excess of 20% four years ago) may be explained by the reduction in the number of providers in the market, which should facilitate price comparisons and the ability of a consumer to shop around.

For those purchasing an annuity, 44% of purchasers take no advice at all and fewer people shop around for annuities than any other financial product.

Consumer motives and behaviours

There are low levels of trust in financial service providers. Consumers have low levels of engagement with their pensions during accumulation, however over this period pensions savers may increase their trust of their particular provider.

Survival pessimism and prioritisation of more immediate concerns lead to reduced engagement with pension products and annuities most particularly.

Industry prompts currently have little effect upon behaviour. This could be improved with more specific and targeted interventions.

Response from the sponsors

Ruston Smith then introduced **Nick Flynn,** Annuities Sales Director at Canada Life, to respond to the findings.

Nick Flynn reflected on the current state of the annuity market and how the COVID-19 pandemic has impacted the market. This includes the challenges of providing a service to consumers without face-to-face conversations and the potential for an increased market in the coming year as people come off furlough.

Ruston Smith then introduced **Mark Ormston**, Director of Propositions and Corporate Partnerships at Retirement Line, to respond to the findings.

Mark Ormston reflected upon pension freedoms and the still evolving implications this has for the retirement products market: how sales figures for draw down are skewed by those accessing their pension pot purely to access their tax free lump sum, and how this may flow into longer term trends as a result of inertia; how products have evolved to include the greater personalisation of annuity offerings and tailoring of products such as enhanced annuities. This can lead to greater challenges of making comparisons and a desire to see an 'average' annuity rate that is taken.

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Policy discussion under the Chatham House Rule

Ruston Smith opened up the floor to questions and discussion from the audience, this portion of the meeting was held under the Chatham House Rule. Topics discussed in the question and answer session included:

Availability and challenges of advice and guidance

- Only two sources: financial advisor or broker. Access to these has an associated cost and other barriers which deter consumers.
- The path of least resistance is preferred by consumers, so consumers may find the act of taking an advisor a barrier.
- The place of trustees to appoint an annuity broker, and how the choice of the broker may result in different outcomes for scheme members.
- The time / age of engagement, availability, access and place in the market of PensionWise.
- The potential need to repeatedly input the same complex (often medical) information when shopping around and obtaining guidance before purchase is a barrier.

Guaranteed Annuity Rates

- Guaranteed Annuity Rates (GARs) could impact as much as one quarter of current annuity sales, around half of those consumers who stay with their current provider rather than shop around.
- Less than half of people with GARs may take them up, generally taking a full cash withdrawal of a small pot.
- Very few GARs can be beaten even after considering any medical underwriting.

Appropriate data and drawing conclusions

- There is limited data upon the number and impact of Guaranteed Annuity Rates upon the market. Some of the data sources do not seem to agree.
- It is hard to assess those who do shop around when outcome data only is considered – the implication of GARs and default providers will skew the data and make conclusions harder to draw.
- The difficulty in assessing the amount of money that consumers miss as the missed price is not generally available and may be only a small fraction of the entire pricing range.

Industry engagement with consumers

- The cost of compliance with FCA rules, PS17/12, is it money well spent given limitations to consumer impact?
- Tinkering with letters and prompts are only likely to have a very limited impact.
- The information in prompts may be available too late – it may then come across as hassle, and then people may not value the information.
- Since freedom and choice there is a market for annuity sales after retirement. Need to keep engaging, the use of pathways, that may prompt people to move from a drawdown approach to an annuity at an older age. If prompts to shop around are challenging at younger ages this may get even harder at even older ages.
- Lots of information on scam warnings, but nothing on 'value' warnings.

Consumer trust

- Given the financial strength / robustness of the financial institutions, how can this be brought to consumers so they can trust them?
- Regulation and regulators may be strong, but people will continue to ask questions.
- Having a household name does engender significant trust and creates brand loyalty.

Behavioural impacts

- Research is being undertaken to understand how big an impact (e.g. 10%) is needed to prompt people to overcome the inertia and transfer rather than take a path of least resistance.
- Engaging messages are based upon more tangible pounds and pence, not percentages.
- Does the treatment upon death of annuities and other products have an influence on the market?
- People when prompted to get alternative quotes in any market, e.g. construction / roofing, typically will not shop around.

The place of annuity purchases in the market

- We consider the efficiency of the market purely by price, there are other parts of the process to consider, such as the effort to obtain quotes.
- Enhanced annuities (any annuity individually underwritten) take a considerable part of the annuity market and whether they would be more appropriate than a standard annuity for all consumers.
- People may not be expecting to need to purchase an annuity with a pension pot – this is not how a consumer may have interpreted a personal pension when they started saving.
- The interaction of private pension from a Defined Contribution pension pot in the context of Defined Benefit entitlements, State Pension entitlements, all lifetime savings, and other state benefits.
- The impact of pension freedoms is still new – we have not got to the stage where purchase of annuities at older ages is yet a feature of the market.

Closing remarks

Ruston Smith then invited the speakers to make closing remarks and closed the meeting.

A Pensions Policy Institute Briefing Note

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