Equiniti Annuity Industry Survey 2014

For more information

If you would like more information about any of the content in this survey or you would like to find out more about Equiniti's annuity service offerings please call Equiniti on 01293 560999. A copy of Equiniti's annual annuity brochure is available on our website - www.equiniti.com

About Equiniti Pension Solutions

Equiniti Pension Solutions is a leading business process services provider, delivering pension administration, insurance and payment services to more than 750 schemes and 3 million members in major public and private sector organisations. Equiniti Pension Solutions makes payments totalling over £13 billion per annum to pensioners, dependants and annuitants in over 180 countries worldwide.

Equiniti's pension solutions division provides software and services to a total of 7.3 million members in the UK.

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Introduction

Welcome to the 2014 Annual Annuity Survey conducted by Equiniti.

This year the survey has taken on a more important role in gathering an early insight into the potential impact of the Chancellor's Budget announcement on 19 March 2014. In this announcement, major changes were directed towards the liberalisation of the annuity market.

The survey was conducted in March 2014 and sought the views of professionals throughout the Annuity industry including: product and service providers; retirement planning consultants; employee benefit consultants; regulators and influential bodies.

We are confident that the content of this survey will help inform all those who are currently wrestling with addressing the immediate impact on the annuity market and in anticipating the longer-term ramifications for the retirement sector.

As Managing Director for the Pension Services Division of Equiniti, I see it as my responsibility to ensure that Equiniti anticipates the needs of our clients and of their customers. We are already responding to the immediate requirements for both pensions and annuity administration and are working with our clients to plan the road ahead.

The world of retirement has fundamentally changed. There is, however, confidence that annuities will always have a place in this market.

There is also recognition that the new products, services and guidance regimes need to be established to support an ageing population with increasingly complex retirement decisions to make. Retirement is a journey and no longer an event.

As always, we are grateful to all experts who have shared their views and insights through their responses and extensive supporting comments. Their responses have helped contribute to raising money for Age UK – the UK's largest charity working with and for older people.

The world of retirement has fundamentally changed. There is, however, confidence that annuities will always have a place in this market.

Suzie Rudzitis
Managing Director
Equiniti Pension Solutions

Methodology

The 2014 Annual Annuity Survey was carried out between 27 March and 8 April 2014.

The questions were defined by experts and support team of Equiniti, based on current topics and debates in the industry, most notably arising from the Chancellor's Budget announcements.

This is the fifth consecutive year that Equiniti has carried the survey out since 2010.

For the year 2014 we received over 40 responses from well-renowned annuity professionals and commentators within a two week period.

The results give a good and early overview of the reaction and potential impact of the recent Budget announcements.

We hope our analysis will provide annuity professionals with improved insight into the market whilst raising current opinion and concerns shared by many industry professionals.

These responses were received anonymously and any comments are not attributable to individuals.

Executive Summary

"No one will have to buy an annuity"

"Pension savers will be free to use or invest their pension pot as they wish"

"Pension savers will be free to take some or all of their savings as cash, using a drawdown product or purchasing an annuity"

"Pensioners will have complete freedom to draw down as much or as little of their pension pot as they want, any time they want"

"The Government will guarantee free and impartial face-to-face guidance"

The statements above drawn from the Chancellor's Budget announcement has changed the world of retirement.

Our survey, on the heels of the announcement, show that the experts in the industry recognise this change and are actively wrestling with the immediate day-to-day consequences (cancellations, deferrals, etc). Whilst, starting to get their head around the longer-term implications and opportunities. The fundamentals haven't changed:

- The industry has been slow to encourage alternatives to annuities.
- The customer has been given more choice as to when and how they use their pension savings for which some will spend more because they can, whilst most will apply prudent financial management.
- Annuities in the form of secure guaranteed income for life still have an important place in the market.
- It opens up drawdown and hybrid products as an alternative to lifetime annuities.
- For enhanced annuities, it's better value to those entitled needs to be continuously reinforced.
- The impacts on advice/guidance on top of the Retail Distribution Review (RDR) adds to the confusion as to where a customer goes for support.


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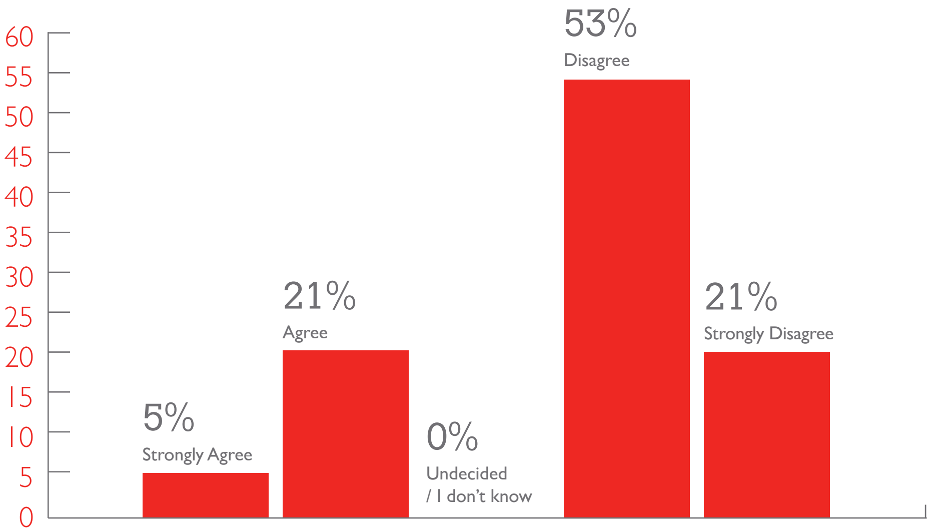
Survey results
Retirement Journey

1

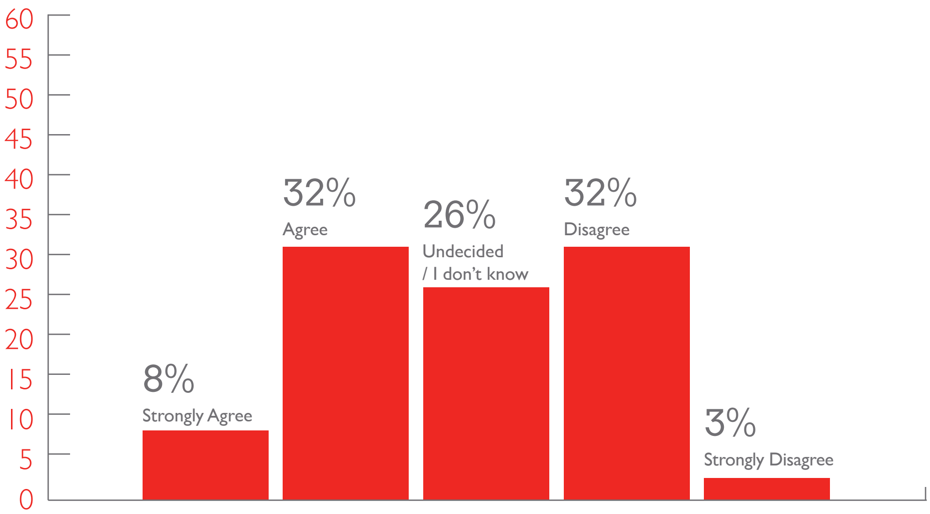
Pre-Budget – ABI data show annuity sales fell by 16% in 2013.

Budget Context - The Chancellor stated “no one will have to buy an annuity”. Market speculation suggests that the annuity market could reduce from £12bn to £4bn as early as 2015.

1.1. This is a genuine sign that annuities are no longer fit for purpose at retirement.



1.2. Lifetime annuities will remain the annuity product chosen by most retirees over the next five years.



While experts believe that annuities remain fit for purpose, over half of these experts believe that they won’t necessarily be chosen by most retirees in the future.

Our surveys over the past four years have consistently shown lifetime annuities as products chosen by most retirees (85+% agreed). This year’s survey shows a major shift to only 40% agreeing with a further 25% unsure of the future.

Despite the expected shift in consumer behaviour, 75% of respondents still feel an annuity is a product fit for purpose.

Whilst the customer is now being offered greater freedom of choice, there are still plenty of situations where the benefit of guaranteed, secure income for life will, and should, lead to an annuity purchase.

Annuity market views:

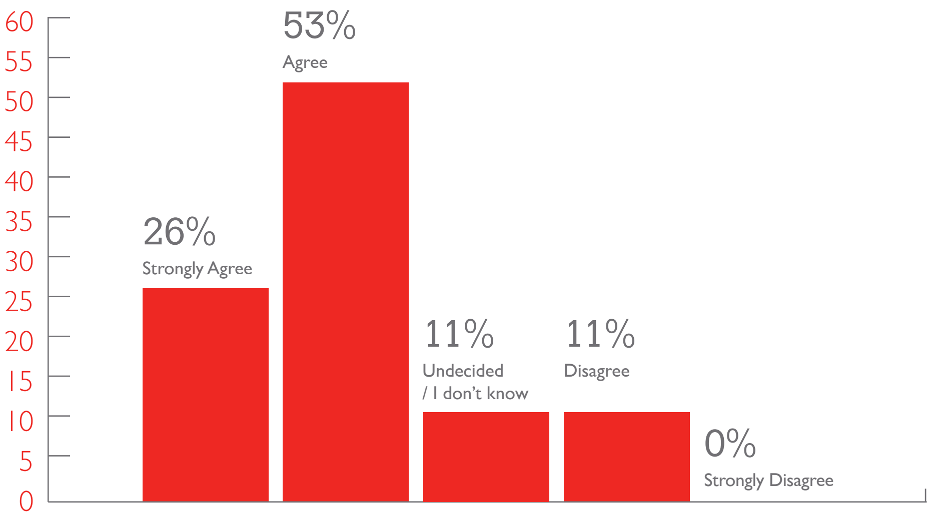
- Annuities will continue to play a role, but not for all pensioners. Those that opt for one will be looking for long-term certainty.
- There are still too many unknowns:
  - the access to advice that retirees will have
  - The regulator's approach to at-retirement advice
  - the extent that retiree decision making is driven by emotion rather than logic
- People should be weaned off guaranteed annuities to investment links
- Most people have regular bills they have to pay each month for the rest of their life. They will buy an annuity to cover these, and then new more flexible drawdown products for the rest of their pension pot.
- Annuities will always have a role, are fit for purpose and are particularly good value in certain circumstances (over 75, enhanced).
- 16 per cent fall in 2013, was a direct result of the pull through of £800-£900m of sales that would ordinarily have been completed in 2013. The pull through resulted from the changes introduced by the gender directive and RDR in December 2012.
- Majority of people will still opt for a portion of their income to be delivered via a 'secure/guaranteed' solution to top up their State Pension. Beyond this personal 'Minimum Income Requirement' if they have excess assets they may seek flexible options for this portion.
- I think the first question depends on the particular purpose. They remain fit for a purpose but retirement needs are broad and individual circumstances can only be covered by a range of products.
- I think it is great that UK pensioners now have a choice, and they can decide whether or not to purchase an annuity. Unfortunately, not everybody will invest their future retirement income wisely. For me this will undoubtedly cause the state some big funding issues, later on down the road.
- I think there will still be a market for Lifetime annuities, albeit a smaller market than currently exists. However, I think the emphasis will shift even more towards drawdown style products.
- The most likely source of annuities will be from funds that are neither small nor large, but in between. Those with small funds are likely to take cash, than those with large funds drawdown.
- Until the full details of the Government's new proposals becomes clear, this statement cannot be verified one way or the other.
- Annuities will continue to be an important product choice for those who need income and value certainty. Others will either choose to take cash or invest in more flexible income options.
- Lifetime annuities will continue to be an important tool for retirees to buy longevity protection. I can foresee retirees deferring this decision in the current low interest environment, but the market is still there.
- Annuities will continue to be the default at retirement product, but not by choice. Too few providers will be willing or able to provide flexible, drawdown based alternatives for members with the smaller pots. There is little incentive for them to do so, since it will be shooting the goose.
- Annuities are insurance against extended longevity and a safe haven for those who are risk adverse. There will always be a place for annuities in a retirement income scenario.
- Some customers will still find a level of guaranteed income attractive but this may not be delivered within a lifetime annuity product.
- The annuity as a product is not a bad one. The problem is that it's being purchased at the wrong time. People need to be purchasing annuities later in retirement.

2

Pre-Budget - Hargreaves Lansdown has reported a 40 per cent increase in demand for drawdown business in 2013.

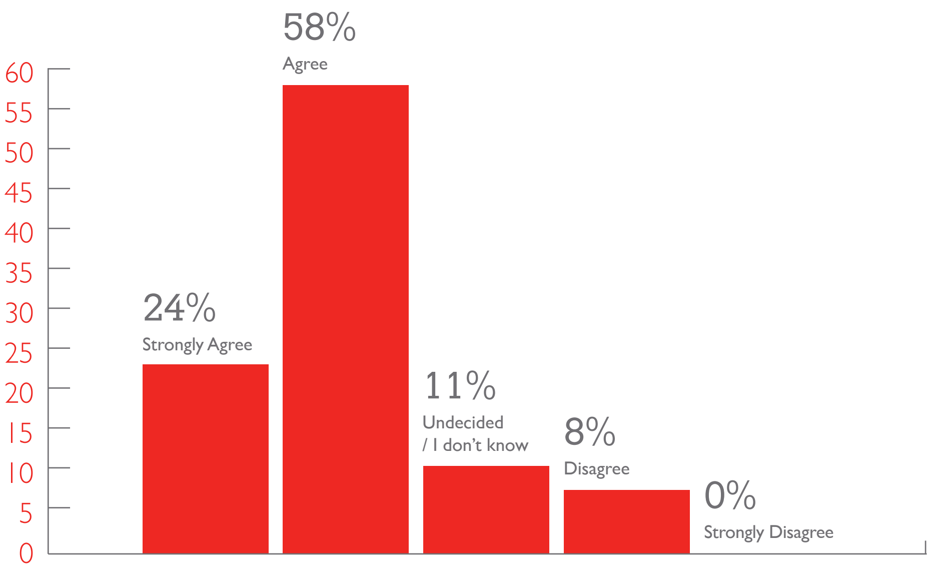
Budget context – Post budget the minimum income requirement for flexible drawdown will be reduced from £20,000 to £12,000 and the capped drawdown limit rises from 120% to 150% of GAD annuity rates.

2.1. Drawdown products should be a compulsory part of the OMO conversation.



There is overwhelming support for Drawdown to be given equal prominence in the OMO discussion.

2.2. Drawdown should be given an equal profile to annuities as alternative retirement products.



Our survey shows that 80% of respondents see an increasing role for drawdown products in retirement.

Drawdown products have historically been the domain of higher net worth individuals, where their attitude to risk can be greater on incremental elements of their income.

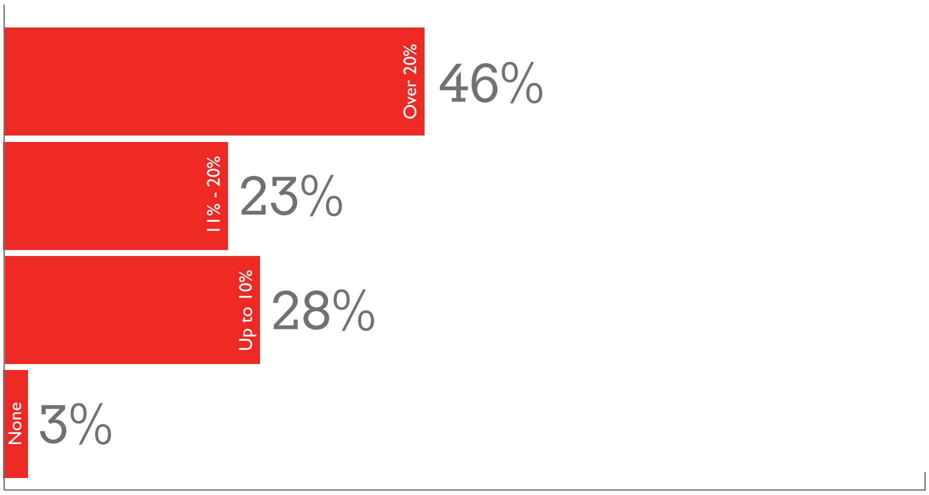
The concern arising from the comments is that a shift to drawdown replacing annuities as the default has as many, but different, risks to the customer, hence an informed choice and decision is as essential as before.

Annuity market views:

- The market for drawdown is set to increase significantly, but like annuities they shouldn't become a default - so consumer guidance should aim to inform and enable people to make the right decisions.
- The existence of drawdown as an option must be clearly communicated, and customers would then be signposted to an adviser if they needed.
- The lack of product awareness is a major challenge that needs to be addressed. Hopefully the provision of free advice will help this.
- It's important to ensure customers are aware of drawdown, but it's more important that customers make plans to meet their minimum monthly outgoings for the rest of their life, and many will need an annuity to guarantee that.
- As with all products, drawdown has its place and should have a greater profile but there are also circumstances where it is not an appropriate product.
- However, they can technically be part of the OMO conversation as OMO is a currency that relates only to lifetime annuities. In the generic guidance all options must be outlined including Trivial Commutation. The pros and cons must be outlined. People should be encouraged to take regulated advice.
- The relative merits of annuities and drawdown need to be tailored to each client, particularly arising from their attitude to risk.
- Since the average pension pot is circa £25,000 these products will remain more appropriate for higher net worth individuals and not the mass market.
- Drawdown is only appropriate for those investors that understand and accept the risks.
- At retirement, advice should include ALL options, including 'take it all and buy a Lamborghini'.
- Ultimately people will require tailored advice to meet their needs. This means for example, that for some - particularly higher net worth customers - drawdown should be given greater prominence than for other customers who may not be able to bear financial market risk.
- The basic drawdown concept needs to be considered by everyone retiring with a pension pot. Alongside annuities and basic drawdown, we also need to see guaranteed drawdown appear as well. Guaranteed drawdown offers both the best of both.

3

Following on from these changes to drawdown limits and minimum income requirements, in your opinion what percentage of people are likely to exhaust their funds?



The survey suggests a high percentage of individuals will exhaust their pension funds. 46% said 1 in 5 will use it all up and 69% said at least 1 in 10 will use it all up.

Prudent savers should make prudent spenders, but this is not always the case. On top of this, the opportunity to spend, poor investment performance and a reliance on the state for basic income and health care (in old age) could exacerbate this issue.

Annuity market views:

- Most people still need a sustainable income in retirement. Although, some will spend the money irresponsibly, most will spend it more cautiously, with an eye on how long it's got to last. It doesn't make much sense to strip money out of a tax advantageous wrapper in order to invest it in a less tax advantageous wrapper.
- People will not actually exhaust funds but convert to annuities when their funds fall below a certain level.
- People will polarise. Whilst many will exhaust their funds by over-spending early on, many others will be too cautious and enjoy a 'smaller' retirement than they really need to.
- There is always the reliance on the state, but those who have saved will be prudent in how they spend in retirement.
- People who are advised and have their investments managed by a professional will do better. Self directed DD will be polarised - some people will take too much and the opposite will occur - some people will be ultra conservative and keep the money in cash funds and end up spending 'too little;.
- People will still take a conservative view and, of course, they will be more likely now, to take advice before committing to a product that will leave them exposed.
- This is not because of a cavalier approach, just from some people living longer than they expected.
- It is highly unlikely that people will exhaust their funds unintentionally, but more likely will suffer unwanted reductions in income if their investments do not fare well. The concern is that customers do not take advice and end up taking too much or too little risk. Or otherwise, not following an investment strategy that is consistent with their goals.
- In the future this figure will change upwards. As more of the compulsory pension savers come along (i.e. those currently being auto-enrolled and too apathetic to opt out), these smaller pots (either below the Triviality Commutation limits, or just above) will see the money as a nest egg to spend at retirement.
- Some will do so deliberately. A few through ignorance. The former are not a concern as they may have other income streams. The latter are a concern.
- Most people will exhaust their funds as no one understands what a sustainable level of income is based on their age, sex, health, investment performance of the underlying fund and the charges that they will incur.

There is a universal concern that many people will exhaust their retirement pots before they die.

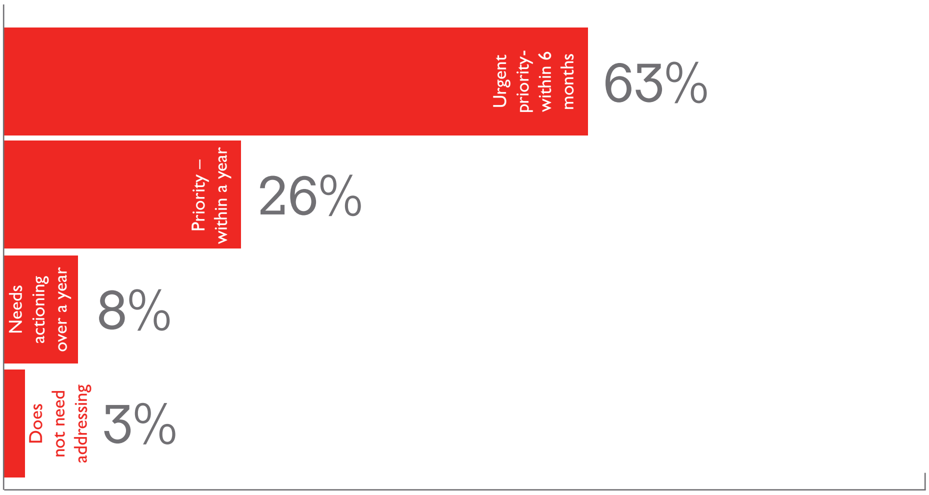
4

Pre-Budget - The FCA thematic review found that the annuity market is ‘disorderly’ and ‘is not working well’ for consumers.

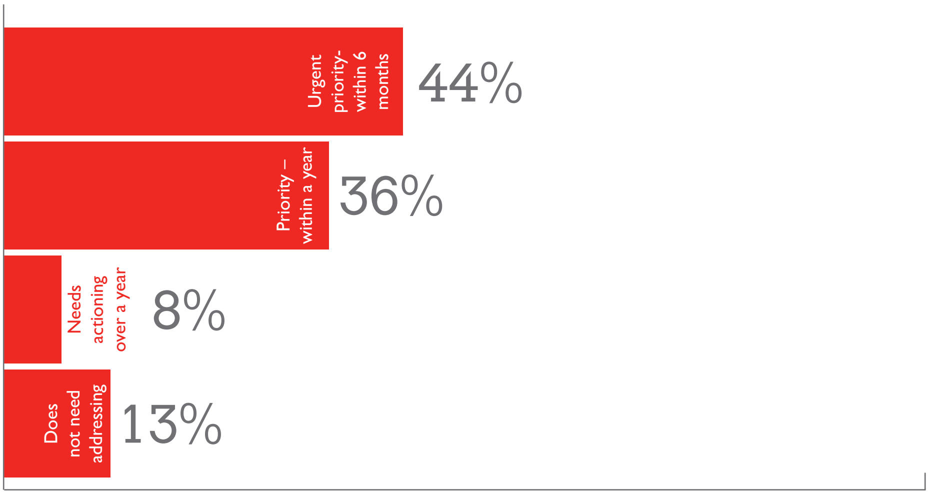
Budget context – The Chancellor’s budget has the potential to completely change how retirement income is received through pension savings.

Rank the following as to which aspects of the market need to improve most:

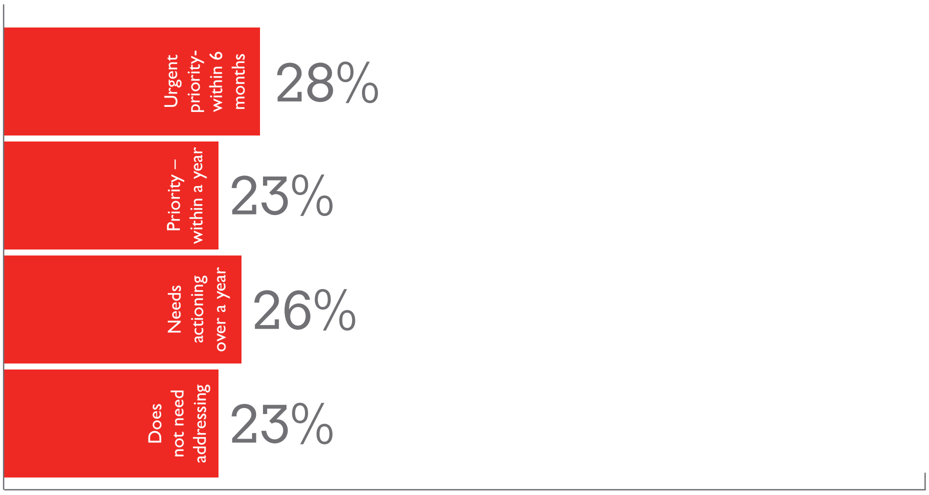
4.1. Pre-retirement information needs improvement



4.2. Retirees need to be given over six months’ notice of retirement options

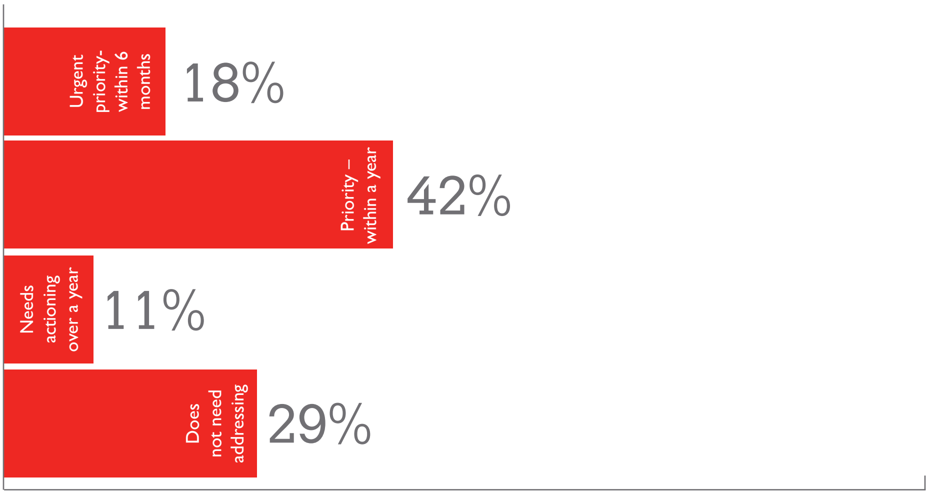


4.3. Free access to retirement advice

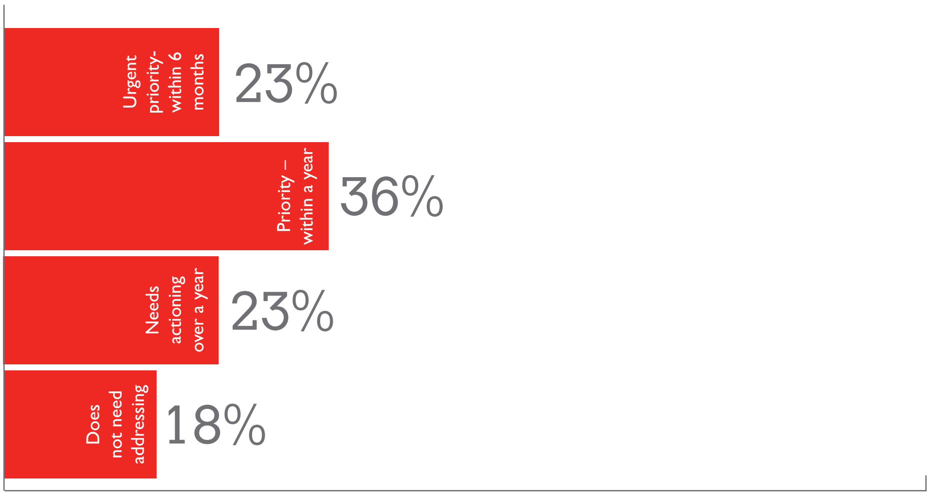


Experts agree there is a need for better communication; for at retirement advice and more time for retirees to consider their option; however, they were split on whether free advice at retirement was needed.

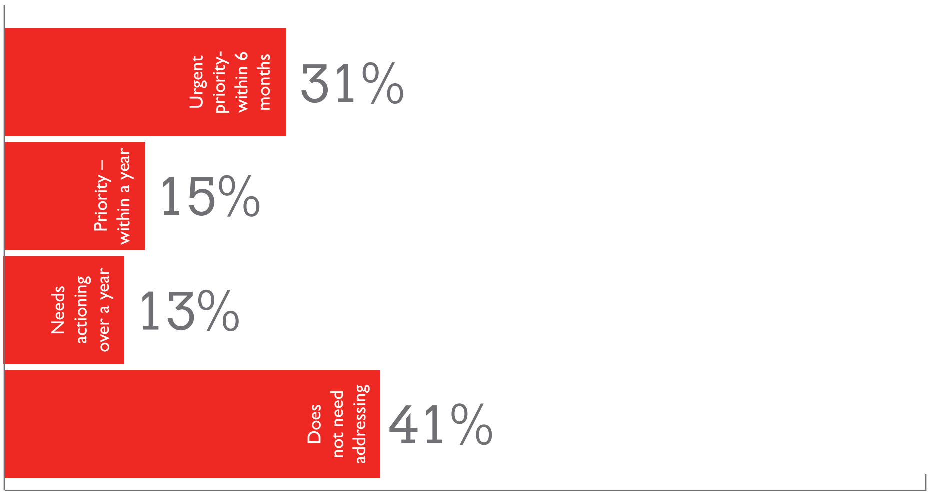
4.4. Annuity product pricing needs to be transparent



4.5. Annuity product features need reviewing



4.6. Annuity providers need to also offer drawdown



Greater pricing transparency and a review of annuity product features are seen as in need of urgent review. Half of the annuity experts also thought that in future, annuity providers will also need to offer drawdown.

There is always a risk in survey that the response to a sequence of questions is biased by the ordering.

However, the survey and the supporting commentary reinforce the need to concentrate on getting the right information, guidance and advice to the customer. 90% of respondees want improved pre-retirement information as a priority.

The concern expressed in some of the comments is that there seems no solution in mind that will have in place face-to-face guidance by April 2015.

Annuity market views:

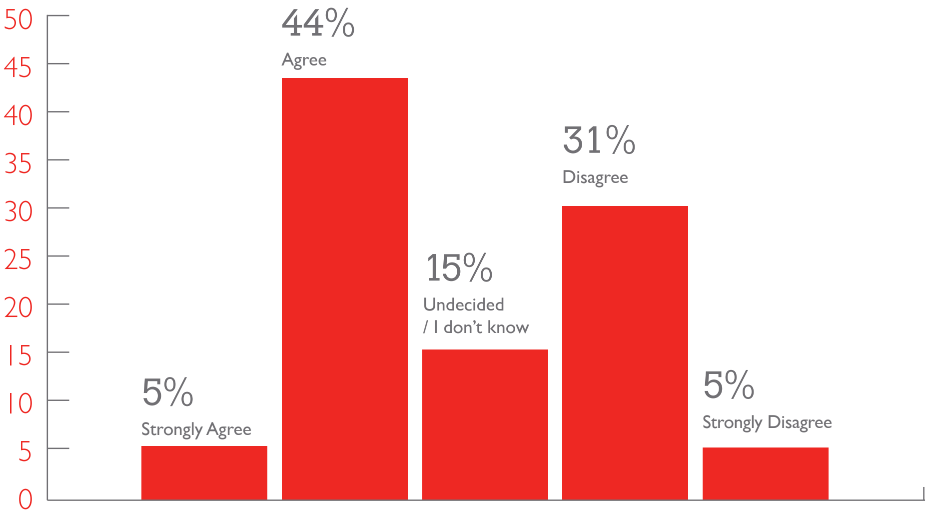
- Access to advice is key. How this can be implemented within 12 months is the key uncertainty.
- Take away 55% tax on money - back option.
- Mostly over a year, as the legislation won't be approved until then so cannot make many material product / tax changes.
- Guidance/advice must be provided by an independent entity - the providers MUST NOT be allowed to offer this service.
- Customers should not be allowed to purchase a retirement income solution directly from the provider they have their pension savings with. They should be allowed to purchase from the company - but only via the external/open market.
- Pricing transparency will be difficult to achieve in a complex area to make this meaningful to a consumer. Maybe providing a range of life expectancy assumptions underpinning the price is an approach to consider. I don't think you can mandate providers of one product to offer another. Should drawdown providers have to offer annuities?
- I think it is important to communicate the benefits of an annuity in terms of its guarantees, particularly to risk-averse clients.
- Annuities and drawdown products are different therefore, an annuity provider doesn't 'need' to offer them unless they have market share or turnover issues.
- Key is quality information at point of retirement, that will guide customers through their options. You often don't know when customers wish to retire, until they contact you, so you can't see how your warm up 6 months in advance is performing. Annuity product is relatively simple and is understood by the majority of customers.
- The first two options need addressing because of the budget changes and those coming into force in April 2015.
- Why should advice be free if it has value?
- Annuity pricing should be more transparent so they can be assessed with other retirement options.
- Annuity providers have a choice as to whether they should offer drawdown, they shouldn't be forced to offer it.
- We need to be realistic about free advice. Nothing is free, somebody will have to pay for it. The HMT consultation talks about guidance and we suspect, that is all a customer will get for 'free'. Customers will still need to seek expert help at retirement and pay for this. We believe the focus should be on ensuring customers have access to affordable, expert help, that will actually get them to a sensible retirement outcome. Rather than giving them free guidance which will inevitably leave them wondering what to do and how to do it.
- Members need clear and uncomplicated advice giving all the options.
- Providers (in the broadest sense) need to provide a more timely service. Members should not need more than 6 months' notice because the process of retirement should take 6 days not 6 months. Better systems, better communication between providers, investment managers and other parties is needed to improve responses.
- Retirees already given significant notice in advance of retirement by better providers.
- Who would pay for the free advice? Not a viable proposal.
- How would a greater customer understanding about the pricing of annuities help?
- Why should an annuity provider need to offer a drawdown product - such products are available from other providers already.
- People need to be engaged about their retirement options 5 to 10 years in advance rather than 6 months. There's no point talking to someone about their income shortfall in retirement when it's too late. You need to be talking to them about it, when they have time to do something to address any problems.

5

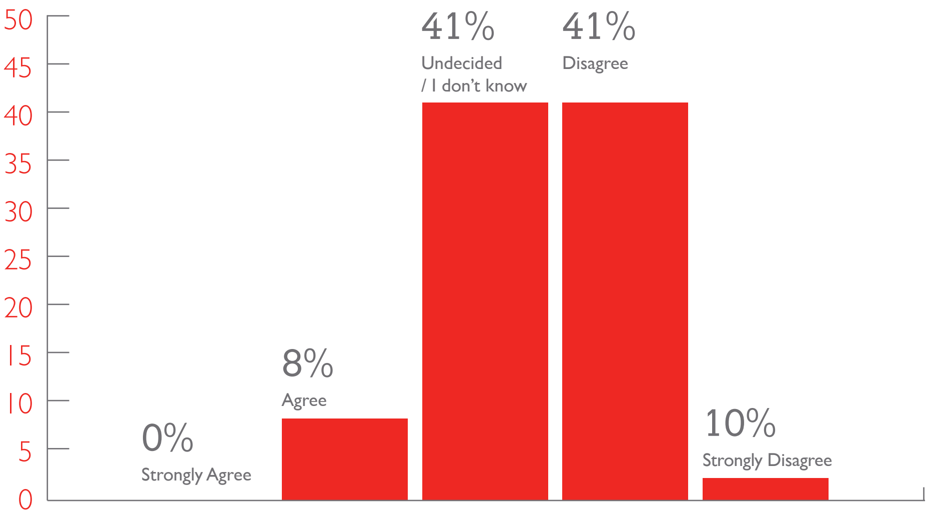
Pre-Budget – Limits have always been imposed as to the maximum income a pensioner can withdraw from a pension.

Budget context - The reduction to £12,000 for flexible drawdown would still mean that someone with DC-only pension savings would still need to annuitise over £150,000 before obtaining further flexibility on drawdown.

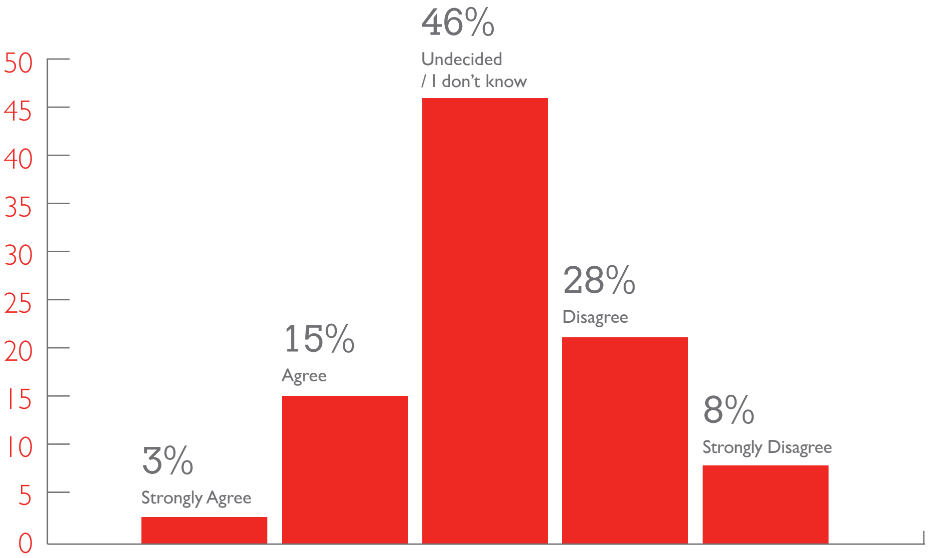
5.1. Talk of people spending their money recklessly is all hype



5.2. The budget's pension proposals will have no impact on the housing market



5.3. There will be a boom in buy-to-let as a result of pension change



Despite the media hype there are no great concerns about retirement savings being directed towards property investment, whether through one's own home or buy-to-let.

This question generated the least certainty as to the knock-on effect of the changes in pensions and annuities, particularly to the housing market. 40-50% of respondees remained undecided. Perhaps at this stage the focus is on the immediate impact on the retirement market, but the comments suggest that there could be wider unforeseen effects from the Budget changes.

Annuity market views:

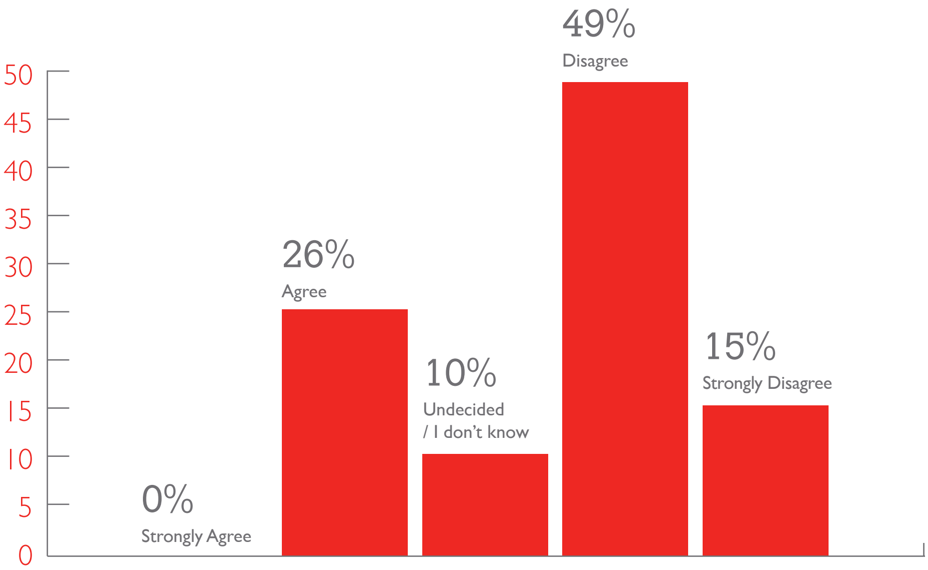
- The comments about buy to let are exaggerated. Most people only have small pots, and those with larger pots will be reluctant to pay 40% tax on their pension savings in return for a yield of 7% on property.
- I'm not sure that a basic rate tax payer will strip all the money out of their pension scheme (and pay higher rate tax in the process) in order to buy-to-let.
- There will be some people that this will appeal to, primarily those that already invest in this way, but it will not become mass market.
- There will be more money in the market and some will inevitably end up in housing. Buy-to-let is a more attractive form of annuitisation for many.
- The knock-on effect to mortgages, equity release, ISA and other financial products is hard to anticipate.
- State Pension + secured income, could be less than £100K.
- Without any doubt the change in legislation will have a huge impact on the UK housing market.
- Just talking to some of my friends and family members - they have already decided investing in a property to let will be one of their first priorities.
- It remains to be seen, however, a number of people with a sufficient after tax pension pot to buy a buy to let outright will see it a as a more attractive option in terms of annual income. The prospect of passing the property on to dependants will appeal.
- Since property can't be included in such products, the only reason why retirees would spend their taxed (at top rate probably) on property would be speculation. As for BT, with rent yields in the 6-7% band , I don't see that being advisory.
- The tax impact of taking money as lump sums to invest in property is pretty horrible and would certainly not offer a decent yield for customers looking for income. However, it's almost certain that some people will go down this route.
- There will always be some people who will take all the money and blow it now. They must be educated, that means a bread-line existence thereafter, and be left to make that choice.
- Given pensions will now provide a more flexible solution for retirement savings, surely this would diminish the appeal of property portfolio as an alternative to pensions. Perhaps a boast in 'buy-to-let' via SIPPS?
- Housing supply is the issue, and if a boom materialises Government will withdraw supply. More importantly if house prices rise due to lack of supply, but rental income does not increase due to lack of affordability, then yields reduce and buy-to-let does not seem so attractive.
- Likely to be more interest in other asset types such as buy-to-let, but whether it will be a boom or not remains to be seen. When you consider the average DC pension pot is only £30k that won't buy you much in the way of property assets!
- This is very difficult to judge. The likely outcomes could differ widely depending on whether an individual receives financial advice or not (guidance would not work). Financial advice would guarantee that sensible options would be taken rather than rash, short term, fickle spending.
- Taking money out of a pension to invest in property will come at a tax cost that would be prohibitive. Again, it depends on whether that person is receiving financial advice.

6

Pre-Budget - People buying an annuity need to be persuaded to look at all their at-retirement options – enhanced annuity, fixed-term annuity, income drawdown, other savings (e.g. ISA), even equity release.

Budget context – Pension savers will be free to take some or all of their savings as cash, using a drawdown product or purchasing an annuity.

6.1 The existing range of annuity products can adequately meet the needs of the UK market for the next five years.



This question which has been repeated in each of our surveys shows another major shift in opinion by our experts. On a ratio of 2:1 respondees consider there are inadequate products in the market. This compares with a 1:1 ratio in our 2013 survey.

Whilst the basic building blocks in retirement products exists today, the commentary encourages greater availability, innovation and in particular hybrid products.

Annuity market views:

- Annuity products will need to evolve to provide extra flexibility. For example, there are only a small number of providers of fixed term products, but people will want these more in the future.
- There is a new world emerging in which new flexible/hybrid products will need to emerge.
- Still need policies that span a gap between low risk annuity and higher risk drawdown.
- Need for a blended product.
- Budget opens up all sorts of new opportunities for products including hybrid annuity products.
- There is always scope for innovation but the majority of the product features exist in products today.
- Yes the annuity products can meet needs of most people but if innovation can bring improved solutions the industry will develop them (after HMT tear up the current rule book that constrains how annuity products must be built).
- With the proviso that more providers offer the full range of annuity products and that providers will have to reduce fees and settle for lower margins.
- A wide range of products exists, the issue is that only a lifetime annuity is offered in the majority of cases.
- The full extent of these changes e.g. tax and IHT impacts, is still unclear so it is too early to sensibly comment on the relevance of annuities as retirement funding vehicles.
- Increased demand will lead to further drawdown products being developed.

There has been a significant shift in opinion this year, with two thirds of experts no longer convinced that existing annuity products adequately meet the needs of the UK market.

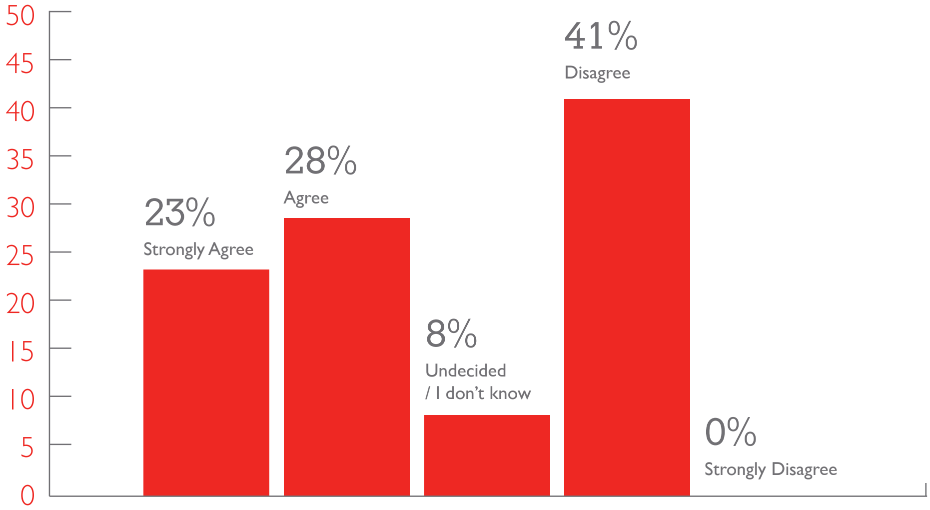
- This is the time for innovation in product offerings. Companies should work harder to provide retirees with flexibility and choice. The old rules are gone, it's an exciting time to be in the pension market.
- There needs to be a lot more flexibility introduced into annuity products, allowing customers to specify variable income payments, phased purchase and other features.
- Annuity providers have one overriding motive - profit. They will need to review the way they take those profits and the levels of profits they can afford to take. In light, of the 'under the bed' retirement option now available to pensioners.
- We are likely to see more asset backed annuities.
- Alongside existing annuity products, the availability of basic and guaranteed drawdown will also adequately meet the needs of the UK market over the next five years. The issue is that basic and guaranteed drawdown are not on a equal footing with annuities as an option.

7

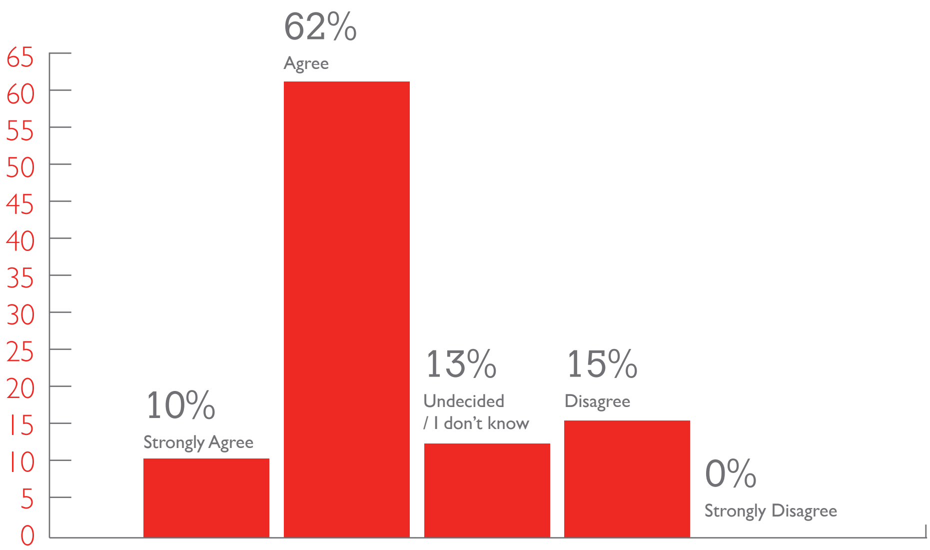
Pre-Budget - Medically underwritten, enhanced and 'personalised' annuities made up 28% of all annuity sales in the fourth quarter of 2013.

Budget context - The Chancellor made no reference to enhanced annuities despite the added value they offer. Some have warned that these may therefore suffer the same fate as standard annuities.

7.1. Enhanced annuities will be impacted as severely as standard annuities.

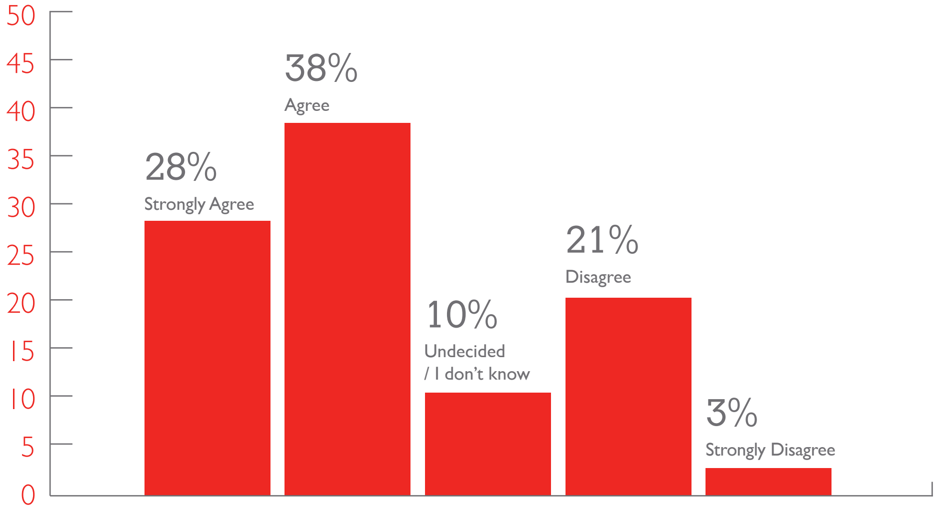


7.2. There should be a move towards underwriting all annuities.



Over half the experts agreed that medically underwritten annuities would be as severely hit by the budget changes as standard annuities. However, there was also the belief that there would also be a move towards universal underwriting of all annuities in the future.

7.3. Adviser charges should no longer differentiate between standard & enhanced annuities.



The survey reinforces the value of enhanced annuities and the desire to move towards routine underwriting (70+% agree) and improved charges (60+% agree).

What is fascinating in the comments is perhaps an unexpected outcome which is, that in the case of severely impaired lives where life expectancy is low, drawdown potentially becomes more attractive to an individual.

Annuity market views:

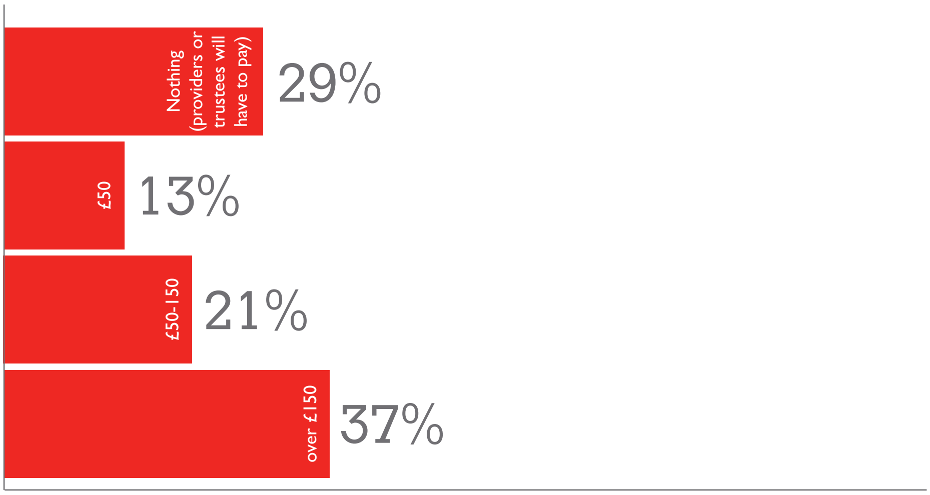
- More clients will defer annuity purchase, and will be encouraged to drawdown from their funds. However, the benefit of mortality cross subsidy increases with ages, as does their aversion to risk and their need for a more stable income. At the same time, the chances that customers qualify for an enhanced annuity increases.
- Level playing field on charging across all products and no-advice and advice propositions
- Enhanced annuities will continue to gain ground for the majority of conditions retirees have, which just trim a few years off lifespan, like blood pressure. Where they will no longer be bought by people with very serious conditions, as they will now go down the drawdown route.
- Enhanced annuities remain a valuable product for those entitled.
- Adviser charge is determined by agreeing the cost of advice between the adviser and their client - that is a matter for them to agree. The provider has no influence over that and should not have.
- Annuities should be discussed in the context of a client's health and lifestyle and life expectancy - then there is no difference between 'standard' and 'enhanced'.
- Individual underwriting would add yet more cost to products which are already under fire for hidden costs.
- Annuities will only be bought by those who expect to live long enough to realise the value of them. Demand for enhanced annuities will effectively fall away as consumers prefer to take cash.
- Enhanced annuities are more labour intensive and this should be reflected in adviser charges.
- Why would I buy an enhanced annuity if I am not likely to live that long? Crazy decision as the residue goes to the provider when I die. Much better to dip into my pot when I need it and leave the rest to my family.
- The whole market is moving towards u/w all cases.
- The level of adviser charges are determined by the service provided rather than the product purchased so your question is misleading.

8

Pre-Budget - There was a 61% increase in people choosing non-advised routes to buy an annuity to date in 2013.

Budget context – The Government will guarantee that everyone with a Defined Contribution pension will be offered free and impartial face-to-face guidance on their financial choices in retirement when they retire.

8.1. In order to provide face-to-face guidance the Government will need to contribute how much per person?



Our survey has a mixed response to assessing the potential cost of face-to-face guidance and who should pay.

The comments supporting these results indicate that a Government levy is to be charged. Regardless of how and at what cost, there is a general view that a solution is not well defined and is unlikely to be in place for next year and, at the end of the day, the customer has to cover the costs somewhere.

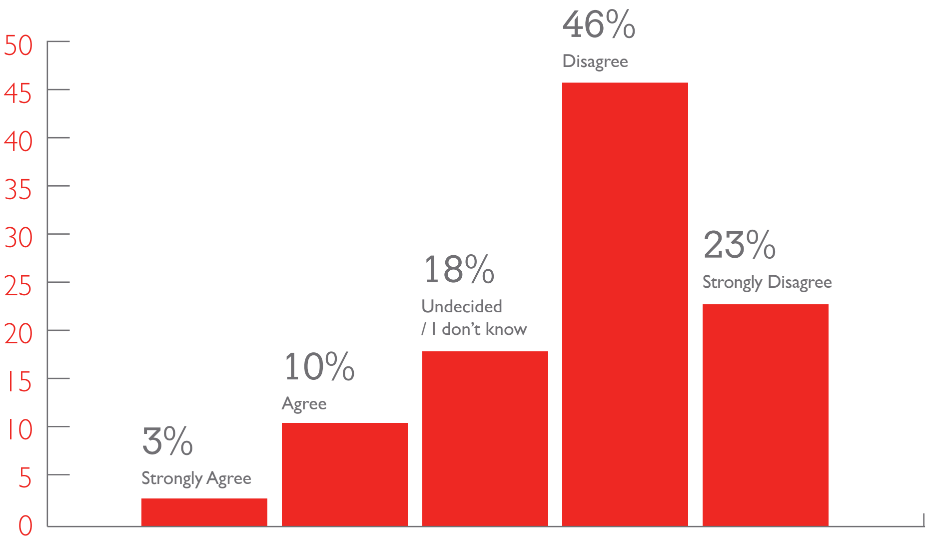
Annuity market views:

- I don't think face-to-face guidance for everyone is practical, or that people will want it. The Budget talked about requiring face to face guidance to be available to everyone, however, there will be plenty of reasons for that not always being the case, for example, online guidance will work as well for many people. I don't see any sense in expecting the government to pay for the advice, unless there is evidence that at the margins some people cannot access it.
- The Budget paper stated that the provision of 'Guidance' will be funded from an industry levy.
- The cost of advice should be built into the charging structure of the pension.
- I hope that they can find/train sufficient people to do this.
- It's the industry that will have to pay for this through a levy, just like MAS and TPAS. We may even have a third free Government advice service to pay for.
- The majority of the costs will have to be covered by the provider or trustee.
- The government have made this statement. Tax incentives already exist for companies to provide their staff with retirement advice - it is underused.
- This isn't going to happens. So it may fall to providers/trustees anyway.
- This advice has to be from accredited independent advisers - how will the provider pay and pass on the £20 million proposed - vouchers?
- It is impossible to say what the cost will be as it has yet to be defined. We doubt it will include execution, so customers will still need to find somebody to do this for them and pay them accordingly.
- I have no idea really, how 'personal' does the advice have to be? How personal will it be for a member with a sub £50K pot.
- I cannot see the Government willingly paying for this. I suspect it may not end up at face-to-face, when the costs are fully understood.
- This is a poorly thought through element of the consultation, that looks to add an unnecessary layer to what already exists in the form of the money advice service, TPAS and financial advice.

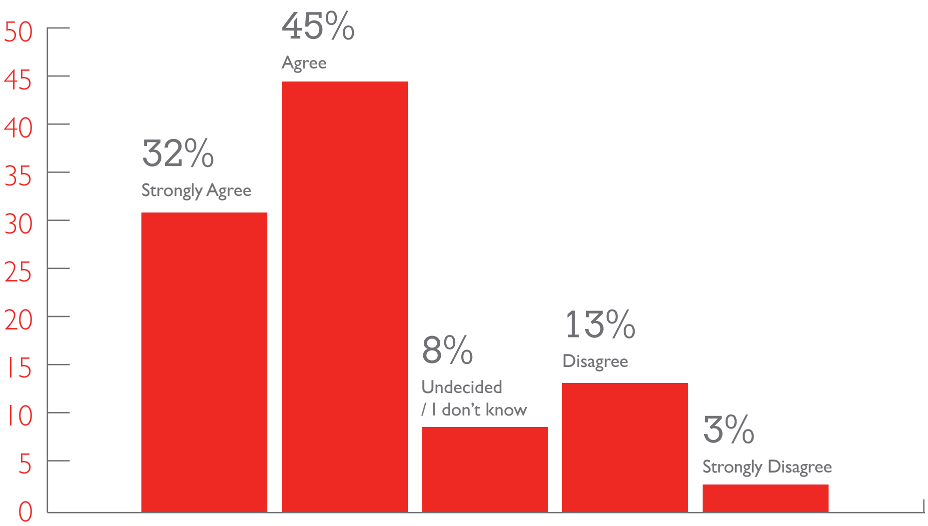
It will be very expensive to provide face-to-face advice for the Government, with over a third of experts saying that it will cost over £150 per retiree. However, almost a third thought that providers will need to cover the cost.

9 With reference to the Government's plans for the provision of face-to-face guidance.

9.1. There are enough advisers capable of providing this advice accurately



9.2. Telephone advice would be more appropriate for many people



Our survey indicates that 70% of respondents feel there is insufficient capability in the market to provide the necessary levels of advice.

75% agree that telephone or other modern communication media could be more cost-effective.

Annuity market views:

- The budget report stated that customers would be given access to face-to-face guidance – It didn't say when or where this guidance would be provided.
- An initial telephone support system would make more sense.
- Most people will benefit from telephone.
- A mix of telephone, skype and web chat. Face to face would mean a huge nationwide field-force, which sounds impractical. We've got to embrace modern technology.
- It's not clear where the responsibility for this will reside.

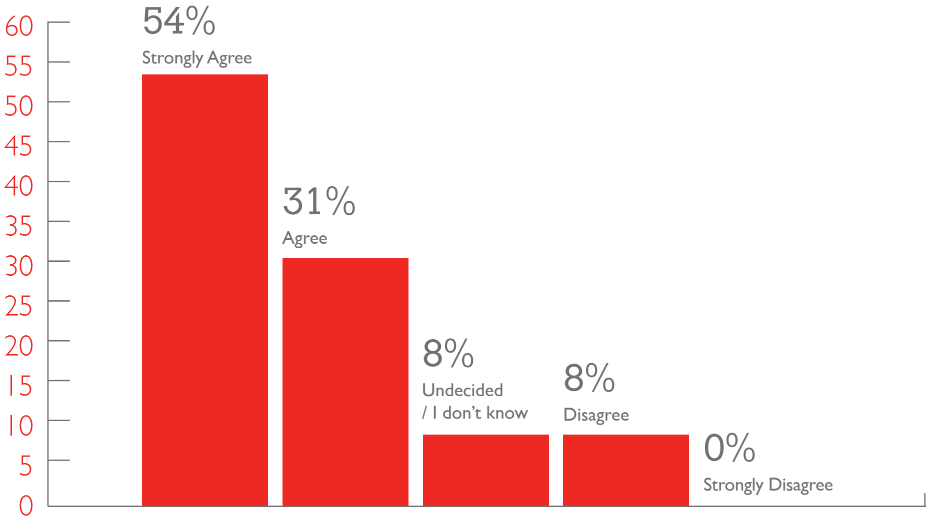
- However, as part of the design of this new national guidance offering - new minimum standards must be developed, to give people confidence the service can be trusted. The providers of the service must also be policed. If we are very imaginative we will develop a third tier of regulation - Advice lite, or non-advised 'plus'. Technology (Digital) should also be an option in addition to Telephone and F2F.
- It is guidance rather than regulated advice. Delivery methods will need to match the preferred basis of consumers.
- An online/mobile app will be more appropriate for most people and more so in the future. All multiple question routes, with revert to expert/personal service where necessary.
- One-off face to face guidance will not be enough. Engagement is required well in advance of retirement.

The majority of experts believe that there is insufficient capability in the market to provide the necessary levels of at retirement advice to all pensioners. However, most also agree that telephone or other modern communication media could be more cost-effective.

10 Pre-Budget - State Retirement Ages are increasing but normal retirement ages for pension schemes & policies remain unchanged.

Budget context – Early retirement age for private pensions to rise from 55 to 57 in 2028, in line with State Pension age.

10.1 An individual's choice about the timing of their retirement should be their first decision taking into account, affordability, extended working, lifestyle before considering the shape of product and the best price for these products.



It's almost surprising that 15% did not agree that the timing of retirement should be the first consideration, 85% did agree.

The comments reinforce this although, as with most decisions of this nature, there are always more factors to take into account than you think, e.g. life expectancy, ill health.

Annuity market views:

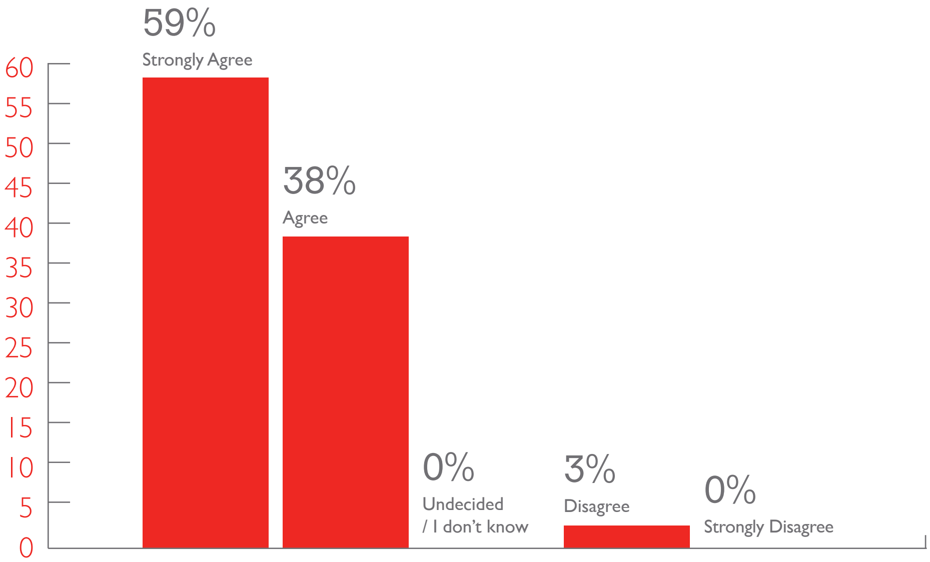
- It's a circular discussion:
  - When do you want to retire
  - What do you need to be able to retire on this date
  - What is the impact of retirement/can you afford to retire/do you have a choice
- I have been saying this for 10 years plus.
- This must come before product selection and provider selection.
- You need to add health to the list too - life expectancy not age is the crucial factor. I also disagree that the retirement age should be increased in line with SRA. If coalition want to trust people with their cash, then trust them and don't set artificial limits on when they can access the money.
- I think the hard demarcation of working vs retired will fall away and there will be different stages to retirement (and retirement income needs) rather than one big bang lifetime irrevocable annuity. A holistic view should be provided by advisers including long term care options.
- Early retirement age should not be raised, this should be an individual's choice, based upon their circumstances and ability to support themselves. Raising (or lowering) the state pension age is entirely appropriate to match changes in longevity.
- Nothing is stopping people from retiring, just stopping access to pension provision. If you want to go at 50, find other ways to fund the bridging period or do not.
- Some retirements are forced - due to ill-health for example.

Universally our experts agreed that the timing of a person's retirement is the most important consideration.

11 Pre-Budget - Small pots and stranded pots need regulation to be simplified to make choice and administration cost-effective.

Budget context – Up to three small pots of up to £10,000 can be taken as lump sums regardless of total wealth (up from two pots of £2,000).

11.1 The impact of the Budget is that we are likely to see an increase in the cashing in of small pots for individuals to use for a multitude of purposes.



97% represents the strongest response to any of the survey questions.

This indicates that the cashing in of lump sums will increase, but not necessarily rise out of control.

Annuity market views:

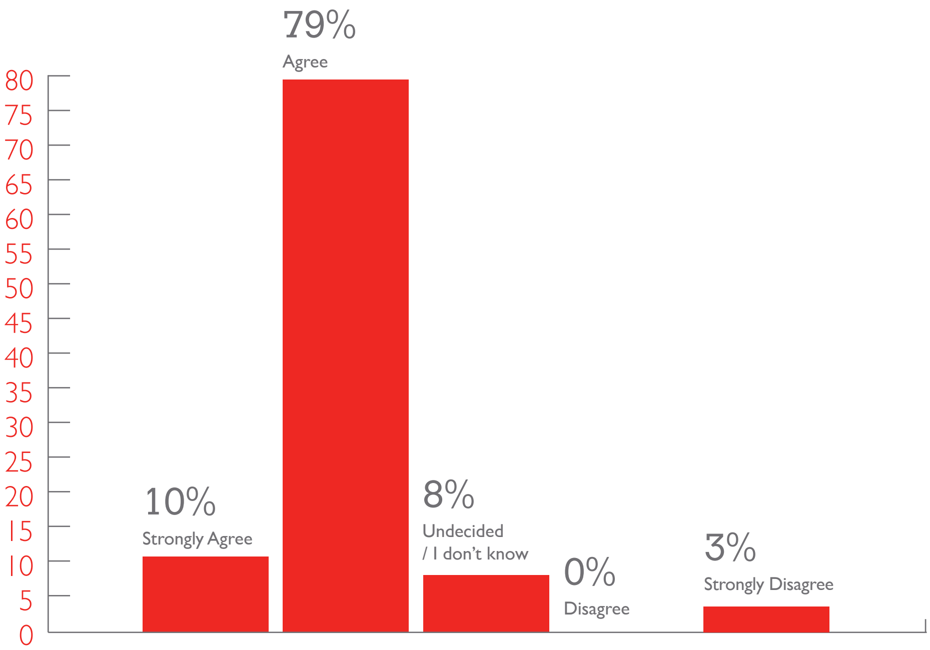
- Pots of less than £10,000 are not efficient nor profitable for providers, advisers or customers.
- Small pots are going to get amalgamated into bigger, worthwhile pots, under 'pot follows member'. This is now even more important post-budget, as otherwise the little pots will just get frittered away by being cashed in – and why not!
- An increase yes, but not an avalanche. The risk to people here is they may make inefficient tax decisions - i.e. draw too much too soon and pay more income tax than they could have done.
- Providing there is sufficient communication around this option.
- People will want their money, and the flexibility to do with it as they will.

Post Budget everyone agreed that the cashing in of 'small pot' lump sums will increase.

12 Pre-Budget - Compulsion and pressure to annuitise pension savings should be removed and an individual should only buy if they have made a choice to buy.

Budget context – Pensioners will have complete freedom to draw down as much or as little of their pension pot as they want, any time they want.

12.1 We can expect more individuals to engage more consciously in making retirement decisions given the breadth of choices available.



Our surveys showed that 90% of respondents feel individuals will up their game in terms of retirement decisions.

This will not happen overnight, but will require time and a continued reinforcement by the Government and the industry.

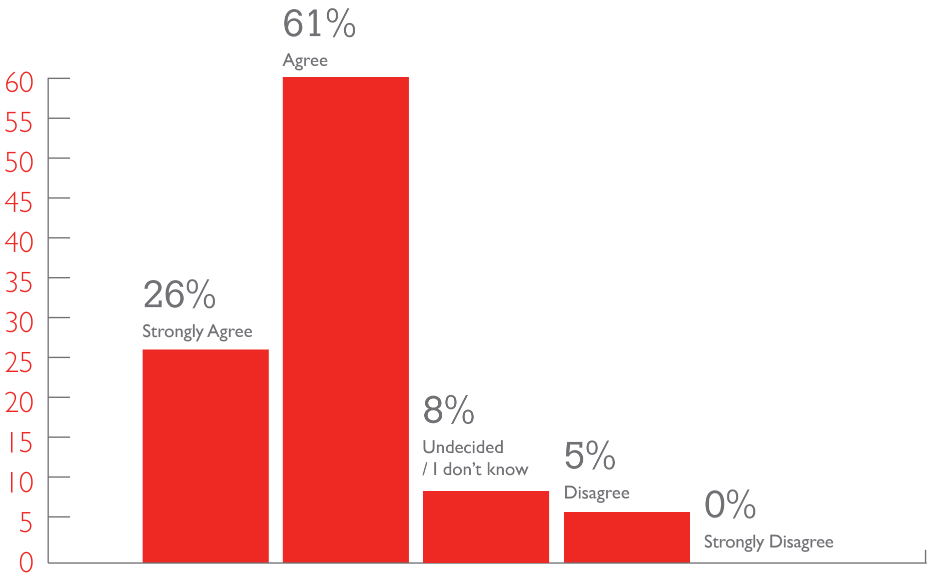
Our experts universally agreed that one indirect result of the Budget is that individuals will up their game in terms of retirement decisions.

13

Pre-Budget - 25% Tax Free Cash is no longer used to buy 'Purchase Life Annuities' to top up the 'Compulsory Purchase Annuities' purchased with the balance.

Budget context – Total pension wealth of up to £30,000 can be taken as a lump sum (up from £18,000).

13.1 As a result of the budget, more pension savings will be withdrawn as lump sums and used for purposes other than retirement income.



Our survey shows that over 85% expect individuals to increasingly withdraw lump sums from their pensions to use for purposes other than for retirement income.

The comments reinforce that there are many circumstances where this offers the individual greater flexibility to manage their cashflow and expenditure requirements.

Annuity market views:

- Pots of less than £10,000 are not efficient nor profitable for providers, advisers or customers.
- Buy to Let will be very popular.
- Or redirected into alternative forms of savings.
- Yes, but we really don't know how many. No data exists on TC so its hard to get context for the current state. Given there is no 'guidance' offer yet, people may be stranded and make poor choices.
- Yes, but this is not necessarily a bad thing. If for example the individual has serious debts to repay, then they may be wise to use their pension pot to pay this debt off, rather than struggling to meet interest repayments on their debts. In some cases more flexibility would be a good thing.
- Will people with pension savings take them as a lump sum? Yes. The purpose will be as a retirement income. That income will meet their spending needs as and when they occur. The cash flow someone faces in retirement, is not level, so the ability to withdraw a lump sum in addition to a regular income as/when it is required will be an excellent outcome of these changes.

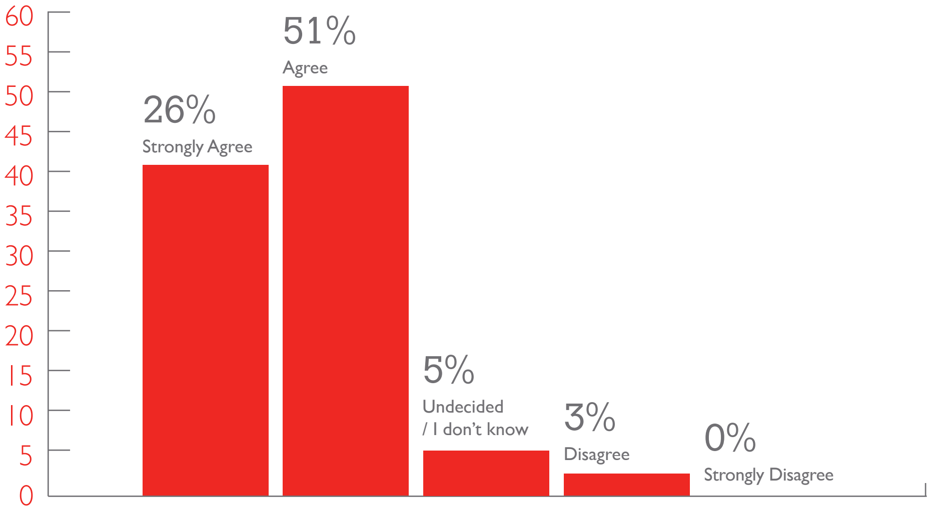
Most experts agreed that going forward many people will withdraw a proportion of their retirement savings as a lump sum for purposes other than retirement planning.

14

Pre-Budget – Retirement income from pension savings is tax efficient on the basis that most pensioners will be in a lower tax brackets than they were whilst working.

Budget context – Retirees will be allowed to access any or all of their retirement funds subject to their marginal tax rate rather than the current 55% charge for full withdrawals.

14.1 Pension savings and retirement income vehicles remain tax efficient following the Budget.



It is good to hear that the proposed changes only reinforce pensions as a tax-efficient vehicle for savings for retirement. 92% agrees with this statement.

The commentary picks up on the added benefits that go beyond those that already existed under previous and current regulatory regimes.

Post Budget, It's good to hear from our panel of experts that the announced changes only reinforce pensions as a tax-efficient vehicle for savings for retirement.

Annuity market views:

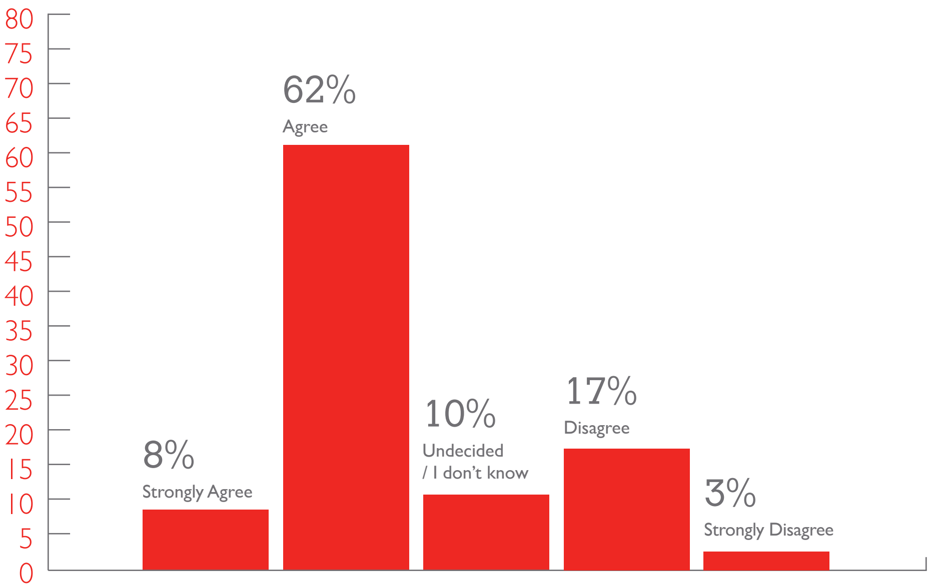
- I think the budget alters the balance between saving via a pension or via an ISA back towards the former as it removes some of the restrictions imposed at retirement.
- The other unknown is currently the future tax treatment of death benefits (both pre and post vesting).
- More flexible drawdown enables pensioners to be more tax efficient, like drawing income right up to the top of the 20% tax band.
- Deferral of taxation on income to later in life, should lead to tax at lower tax brackets.
- It depends on the individuals own income position. It could be tax inefficient to make withdrawals above personal allowance limits and/or nudging people into higher rate tax bands artificially.
- If pensions were tax efficient before, they can only be better now! However, the tighter restrictions on annual and life time allowances removes the tax efficiency benefits for the better off.
- As long as the 75% is not taken as a lump sum.
- Advice/guidance is likely to be needed to help people drawdown their funds in a tax efficient manner.

15

Pre-Budget - Pot-follow-member, benefits the member in terms of consolidated pension savings. This however, places increased pressure on the final employer / trustee to support the employee's retirement decisions.

Budget context - The Government will deliver a new duty on pension providers and trust-based pension schemes to deliver this 'guidance guarantee'.

15.1 Employers / Trustees should be required to provide decumulation services but must be provided with greater guidance and protection for themselves through the Pensions Regulator.



Our survey shows that almost 70% of respondents agree that trustees need greater guidance.

The comments suggest that the answer may not necessarily lie in the employer or trustee having to provide this increased level of support themselves, when independent sources will be more than willing to do so on their behalf.

Annuity market views:

- The guidance should be provided by an unbiased (and hence outsourced) provider.
- Employers should be brave enough to have the conversation with their staff. PMI now offer a qualification for HR staff in this area.
- I expect trustees will find these increased responsibilities hard to accept.
- Agreed, there must be clear rules on guidance and a safe harbour. However, service could be provided (& we believe MUST be provided) by external, impartial, i.e. independent of the scheme and of the provider.
- You might need to include providers, for contract-based pensions.
- The same comments apply for the contract based arena under the FCA.
- MAS, TPAS and financial advisers should provide decumulation services.

Our experts agree that in future trustees must give greater guidance on decumulation for members, and equally they should themselves be given greater clarity on what is required by The Pensions Regulator.

16

This is a free format request. Please provide us with any additional comments relating to the annuity marketplace which you wish to draw to our attention and that of Industry colleagues. Please feel free to provide comments and suggestions on any topics that you feel need to be brought to the wider attention of the marketplace and reflected in future surveys.

Thank you for all the comments to the questions and your additional comments. These suggest topics that could occupy another entire survey.

We will take these into consideration for the future.

- No-one is talking about Solvency II, and the impact this has on the UK insurance industry's ability to provide more flexible annuities that are good value for money. Prudential regulation is having a material effect on delivering good customer outcomes.
- Personally I am very pleased about the changes - although there will be short term pain - in the longer term, clients will get better outcomes if they have the right guidance or advice
- At the heart of the customers plan is:
  - Longevity
  - Capacity for Loss
  - Attitude to risk
  - Personal Minimum Income Requirement.
- If people have to make these assessments and are presented with increasing numbers of options we will find people 'freeze'.
- The guidance / advice offering is the imperative.
- Also, ideologically - people in DB should be afforded exactly the same rights.
- It would be interesting to get feedback in future surveys on what alternatives to annuities have been introduced, and have been successful following the budget 2014. Particularly any alternative products or income vehicles introduced by current annuity providers.
- At last, the consumer has freedom but this also brings responsibility. All retirees must be given a broad range of options to choose from rather than just a lifetime annuity. A lifetime annuity should revert to being seen as an insurance product to insure against living too long. This should be later in retirement when life expectancy is shorter and when ill health ensures that enhanced terms can be achieved.
- There will undoubtedly be a big drop in annuitisation, but for many (especially those with mid-sized pots) it will still remain the best option.
- More information on how tax will be deducted, especially if taking pots results in a higher tax bracket. Will it be done via self assessment? Please could I have a copy of the results?
- Much consideration needs to be given on how to make sure clients get as much helpful and clear advice as possible, with all these changes about.