Cass Business School
City of London

Pensions Institute

ANNUITIES & ACCESSIBILILITY

How the industry can empower
consumers to make rational choices

A Pensions Institute report for insurance companies, financial advisers,
employers, trustees, consumer bodies and policymakers

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March 2006

Annuities & Accessibilility

Published March 2006

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ISSN: 1367-580X

Contents

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List of abbreviations

ABI. . . . . . . *Association of British Insurers*
ASP . . . . . . *Alternatively Secured Pension*
COB . . . . . *Conduct of Business rules*
DB . . . . *Defined Benefit*
DC. . . . . . . *Defined Contribution*
DMO. . . . . *Debt Management Office*
DWP . . . . . *Department for Work and Pensions*
FSA . . . . . . *Financial Services Authority*
GAR . . . . . *Guaranteed annuity rate*
GPP. . . . . . *Group personal pension*
HMRC . . . . *Her Majesty's Revenue & Customs*
NAPF . . . . *National Association of Pension Funds*
NPSS. . . . . *National Pension Savings Scheme*
OMO . . . . *Open market option*

Foreword

This is the third of our series of reports that focus on pensions issues of direct relevance to insurance companies, financial advisers, employers, trustees, consumer bodies and policymakers. Pension annuities are complex financial instruments that are not well understood by the press or consumers. This report sets out to identify barriers to greater efficiency in the pension annuity market and to propose solutions. By 'pension annuity' we refer to immediate individual annuities bought with defined contribution (DC) pension funds at retirement. This excludes the voluntary annuities that consumers purchase with non-pension capital, and the bulk buy-out market, where employers offload defined benefit (DB) liabilities through the purchase of immediate and deferred annuities for scheme members.

There is ample evidence from the National Association of Pension funds (NAPF) and the Pensions Commission, among others, that private sector employers are moving to DC arrangements. During the next decade, the trend from DB to DC in the private sector will accelerate. As our 2005 report 'Pyrrhic Victory?' observed, within five years the vast majority of private sector DB schemes, which link pensions to salary and service, will close to future accrual, forcing employees to rely on replacement DC schemes. In this situation members retain their rights to DB benefits built up to date but rely on DC for future service.

In our October 2004 report 'Delivering DC', we noted that the success of DC pension arrangements relies in equal measure on an efficient accrual stage (contribution levels, asset allocation, charges) and an efficient 'decumulation' or annuity purchase system (choice of structure, features, and rate). Over the next 10-15 years the 'DC-boomers' – the first generation of employees in the private sector that will rely largely on DC – will reach retirement and face decisions about annuity purchase.

The purpose of 'Annuities and Accessibility' is very specific: to stimulate the debate in the DC market with reference to the annuity purchase decision, which is and will remain the most common mechanism consumers use to convert a DC fund to an income stream in retirement. Our focus is mainly on mechanisms for distributing annuities to consumers and ensuring appropriate choices are made. We give less attention to issues around the manufacture of annuities. These have been well covered elsewhere.

This research was sponsored by AEGON UK; Just Retirement; Legal & General; NAPF; and Prudential. We are extremely grateful to these organisations for their support. The sponsors have not sought to influence the conclusions of the report and they may not share the views expressed here. More detail on the sponsors can be found at the back of this report.

I should also stress that the views in the report are those of the authors and respondents and not necessarily those of the Pensions Institute, which itself takes no policy position.

Professor David Blake Director, Pensions Institute
March 2006

Sponsors

This research was sponsored by:

AEGON UK
Just Retirement
Legal & General
NAPF
Prudential

The Pensions Institute is very grateful for their support. The views expressed in this report are not necessarily shared or endorsed by any of these organisations. Furthermore, they have not imposed any conditions or requirements on the contents of the report.

Acknowledgments

Over 50 individuals and organisations took part in our research and we would like to thank the following in particular for the information and observations they provided, which helped us to frame our recommendations. Where we include participants' observations in the text, we do so on an anonymous basis to protect confidentiality and to enable us to 'tell it how it is'.

Age Concern
Alexander Forbes Financial Services
Dr Ros Altmann
Annuity Bureau
Annuity Direct
Aon Consulting
Aspen Annuities
Association of British Insurers
Barnett Waddingham
Building & Civil Engineers Society
Canada Life
Citizens Advice Bureau
Cooperative Insurance Society
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Financial Services Authority
Financial Services Compensation Scheme
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Independence Financial Planning
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Origen Financial Services
The Pensions Regulator
Pinsent Masons
Schroders
Scottish Equitable
Standard Life
Towry Law
Michael Wadsworth
Watson Wyatt
Which?
William Burrows Annuities

Preface

The primary focus of this report is the 'middle market' for annuities – that is, individuals who can afford to save for retirement but for whom sophisticated 'drawdown' arrangements are generally unsuitable. For most people in this market it is necessary to use the DC pension fund for income purposes as soon as earned income stops.

Members of DC pension schemes approaching the point of retirement will usually be offered by their scheme provider the opportunity to convert their fund into retirement income via the purchase of an annuity. However, the rate they are offered may or may not be competitive relative to rates available in the wider marketplace. To protect consumers from the detriment of being forced to accept an uncompetitive rate, legislation requires the pension provider to allow the consumer to purchase an annuity from another insurance company. This right is known as the 'open market option' (OMO) and is the focus of our report. Using the OMO is voluntary on the consumer's part and the provision by insurance companies of OMO rates – as distinct from rates provided solely to their own internal pension customer base – is also voluntary.

Intuitively most consumers understand the importance of shopping around and they apply this commonsense approach to most of their purchases. Yet at present, two in three consumers do not use the OMO for their annuity purchase and it is mainly with the reasons for this apparent 'inertia' that this report is concerned.

Our research objective, therefore, was to examine the current market in terms of distribution, to assess where inefficiencies lie, and suggest possible improvements that could be adopted by insurance companies, financial advisers, and regulators. In most cases we have sought out examples of existing best practice that could be developed on an industry-wide basis, hopefully at minimal cost.

We took consumer needs as our starting point. However, it is apparent that change is most likely to emerge from an informed debate between those insurance companies and financial advisers that have already chosen, or may in future choose, to dedicate resources to the mass annuity market. Importantly, improvements in distribution will only be effective if, at the same time, consideration is given to the behavioural barriers that currently deter people from making rational and informed choices.

The OMO is a mechanism that should ensure consumers achieve the optimal outcome with their annuity purchase. It allows them to take their pension fund away from the existing provider to the insurance company that offers the best deal in terms of the annuity type and rate. The differential between the income offered by the existing pension provider and the top OMO rate can be as much as 30%. Over a retirement of 20 or more years, the 'loss' to the consumer, therefore, can be very significant. While in theory the OMO is available to most people with a DC arrangement, at present it is significantly under-used for reasons that are not well understood. Our report attempts to explain why this is the case and outlines practical ways to coordinate solutions that might overcome both behavioural and distribution barriers.

The annuities experts we spoke to pointed out that for the OMO process to operate efficiently the annuity selection must involve two distinct stages, of which securing a competitive rate is the second. The first stage is to ensure that the individual selects the right type of annuity (conventional vs. enhanced, for example) and the most appropriate features (indexation and a partner's pension, for example). This suggests that a focus on rate alone is misleading and we can illustrate this point through a simple example:

> An individual, who would qualify for an 'enhanced' rate due to lifestyle factors such as smoking and obesity, could lose 20% of the potential income if he or she buys a conventional annuity, even where this is a competitive rate in the open market for the individual's age and fund size. In monetary terms, for a fund worth £100,000, a male aged 65 could purchase a conventional, single life annuity that would pay approximately £6,800 per annum, while an enhanced annuity, depending on the terms, could pay up to £8,500 per annum.

Our recommendations, therefore, focus on mechanisms that will help consumers choose appropriate products as well as maximise the rate for a given product choice.

A key focus of our research was to consider how to improve distribution of the OMO in a way that meets the needs of consumers but which is also sufficiently profitable for insurance companies and, in particular, independent financial advisers (IFAs), the main channel for OMO sales that take account of the entire range of options.

The annuities market is large and is growing rapidly, which indicates that the impact on consumer welfare of any distortions in the market will be increasingly significant. We know, based on 2004 figures provided by the ABI, that about 350,000 people each year are joining the ranks of the many millions of people who rely in retirement on pension annuities either to provide their main private income or to supplement income from other sources, such as occupational pension schemes. Annuity payments – that is the amount insurance companies pay out to annuitants – totalled £7.7bn in 2004.

Since 1994, sales of annuities have almost trebled and the ABI expects the annuity market to double over the next six years. This would raise the value of sales – that is the total amount consumers invest in annuities – from about £7.5bn per annum in 2004 to over £18bn in 2012. These figures include all annuities whether they are purchased directly by individuals (including those purchases made using the OMO) or by a third party on their behalf, such as the trustees of an occupational scheme.

Our research included analysis of distribution channels and consumer information sources. As with our previous reports we also relied on interviews with a wide and representative range of organisations in the pensions and insurance market. Where we include participants' observations we do so on an anonymous basis to protect confidentiality and to enable us to 'tell it how it is'.

Debbie Harrison
Alistair Byrne
David Blake

Key findings

Here we outline the main barriers to efficient distribution of the open market option and provide a brief summary of our recommendations. Further details are in the relevant sections in the main report.

1. Details about the OMO are buried away in pre-retirement literature sent to consumers

Issue: The combination of FSA regulatory requirements for the provision of information and the pension companies' own marketing literature results in information overload for consumers. Reference to the OMO in pre-retirement literature may be buried within this pack and therefore does not attract the consumer's attention.

Recommendation: The 'wake up' information on the OMO required to be sent by providers to all individuals pre-retirement should be clear and direct, explaining the benefits of the open market option in monetary terms. A short, standardised letter on the OMO could be sent separately from the main pack. This is more likely to provoke an active response.

2. Consumers do not know where to look for specialist annuity advice

Issue: Only an independent financial adviser (IFA – also defined as 'whole of market' or WOM adviser) can offer a full annuity service, as the service is predicated on the ability to broke the entire market. The FSA regulates approximately 5000 firms of independent financial advisers that deal with savings and investments, and these range from sole practitioners to the very large national firms and 'networks'.[1] However, fewer than a dozen national firms specialise in annuities and there is no official mechanism for consumers to identify these. The FSA annuity leaflets and website currently provide links to IFA trade bodies. In turn these bodies will help an individual identify local IFA firms, in most cases using a search engine that relies on the consumer's postcode. The firms identified, therefore, may not be annuity specialists and might only sell two or three annuities a year. This means that the advice and service the individual receives may be below the level a specialist could provide for the same level of commission, which is deducted from the fund.

1 FSA Annual Report 2004/05

Recommendation: Specialist annuity advisers should form and promote a trade body along similar lines to the Safe Home Income Plan (SHIP) companies that operate in the equity release market. We suggest that a similar body for annuity specialists would be able to apply stringent entry criteria and a code of conduct and that this organisation should be mentioned on the websites and in the literature of the FSA, Association of British Insurers (ABI), and Department for Work and Pensions (DWP) among others.

3. Comparative tables do not list all annuity rates

Issue: FSA comparative annuity tables for consumers are very helpful but they show only the rates voluntarily provided by approximately 13 leading insurers. Even within this group there is a 15% differential between the top and bottom rates. Advisers suggest that across the whole market – over 100 companies – the differential is up to 30%. The lack of a single public source of annuity rates for all insurance companies hampers consumers from making comparisons between the rate that they are offered by their existing pension provider and other rates available in the OMO market.

Recommendation: All insurance companies that sell annuities, whether in the open market or solely to their own customers, should provide rates regularly to the FSA, so they can be shown in monetary terms in comparative tables.

4. The workplace is an ideal location for annuity advice but the information provided is very variable

Issue: Employees tend to trust employers to provide them with retirement information. Regulations prevent employers from making specific recommendations. Nor do employers have the specialist knowledge or desire to do so.

Recommendation: Employers should be encouraged to provide generic seminars and referrals in the workplace making use of the tax-deductible £150 per annum per employee that became available for pensions advice in November 2004.

5. Trustees of occupational DC schemes do not have to provide the OMO

*Issue:*Trust-based occupational DC schemes are governed by the Pensions Regulator, rather than the FSA. While the Pensions Regulator requires trustees to provide scheme members with information about the OMO, trustees are not obliged to undertake the OMO process and many are unwilling to do so due to concern over mis-selling.

Recommendation: Trustees of occupational DC schemes and employers with contract DC schemes should refer the annuity purchase to specialist advisers. Some trustees and employers already do this on a voluntary basis.

6. The majority of annuities purchased are level rather than indexed

Issue: At present the ABI best practice guidelines suggest that the default annuity quote issued to the pension scheme member should be that of a single life, non-escalating annuity, with a 5-year guarantee. This is consistent with actual purchasing behaviour in the annuity market, where 80% of customers opt for level annuities. The question is whether a level annuity is the best choice for most individuals?

Level annuities may be appropriate where spending is skewed towards the early (active) years of retirement and declines as individuals become older. However, individuals may opt for level annuities not for these rational reasons, but because they do not fully understand the issues at stake. They may be tempted to take the highest short-term income without considering the inflation risk they are taking and the impact of declining purchasing power through time.

Recommendation: We suggest that pre-retirement literature, including that produced by providers and regulators, includes a more direct discussion of the choice between level and indexed annuities. It should discuss in frank terms how the purchasing power of a level annuity will decline through time, but invite the individual to consider their likely spending patterns in retirement, including the potential for increased care and medical costs in later life.

The research in detail

In this section we introduce a range of core issues that inform the annuity debate and suggest possible solutions to problems we identify. Comments from respondents in this research – in particular the insurance companies, specialist advisers (IFA), and independent experts – are shown in *italics*.

Introduction

In recent years there have been important developments in the area of annuity design, while a growing number of insurers now offer enhanced terms for life-shortening 'lifestyle' factors such as smoking and obesity. However, there appears to be little in the way of coordinated research on how best to distribute the OMO in the mass market beyond the provision of generic information.

Key barriers to the OMO

Only one in three consumers use the OMO. Some of those who do not use the OMO may have been offered favourable annuity rates by their pension provider and would have nothing to gain by using the OMO. However, others who could benefit from shopping around will have been prevented or discouraged from doing so by various barriers. Likely barriers include:

- Annuities and the process of annuitisation are complex, as are the rules that apply to the DC pension scheme or plan, which generates the fund used for purchase. What consumers see at the point of sale is an apparently simple conversion of their fund to a guaranteed income for life – an income, which is 'lost' on early death. How the rate is determined and the benefits of pooling of 'lives' within the insurance company's book of annuity business are not well understood. With the exception of wealthier investors with specialist financial advisers, the complexity of the purchase deters consumers from a positive engagement with the OMO.

- With the exception of a minority of firms, IFAs – the main distributors of annuities through the OMO – do not offer a service appropriate for the mass market, and in particular for funds below £50,000, that is, the vast majority at present.

Together these factors prevent many individuals from securing the optimal outcome. The ABI notes that the use of the OMO has actually declined – from more than 37% in the third quarter of 2002 to less than 31% in the equivalent period in 2004.[2]

2 ABI, 'The Pensions Annuity Market: Developing a Middle Market', 2005.

The annuity market is changing rapidly

The annuity market is complex and dynamic. In the short term, average personal pension fund sizes will remain comparatively small – well below £100,000, which is the threshold at which most IFAs will offer a full retirement income planning service. Currently, the average annuity purchase is about £25,000[2], although this average figure disguises a diversity of fund sizes ranging from as little as £1,000 to over £1m. At present if individuals with funds worth less than £50,000 – the vast majority – were to look for an IFA, they would struggle to find a firm prepared to carry out the OMO selection due to low rates of sales commission. Commission is based on the fund size after the 25% tax-free cash lump sum has been taken. Typical commission rates are 1.3-1.5% for conventional annuities, and 1.8%-2.25% for investment-linked and enhanced annuities. Importantly, the commission is built in to product pricing and so the consumer 'pays' for advice whether or not it is provided. This means that while the amount of work involved in the OMO for a conventional or enhanced annuity is broadly the same, irrespective of fund size, the remuneration through the commission system favours larger funds.

> *"The commission is an intrinsic element in annuity pricing. Consumers are paying for advice whether they receive it or not."* Independent Expert

For large DC funds the adviser may give up some of the commission, which would increase the annuity rate. Rates are typically also increased where the adviser takes a fee from the client rather than commission.

In the medium to longer-term, we can expect average fund sizes to grow above the current figure and this will open up the range of appropriate options in the mass market. We can demonstrate this point through a simple example:

> An individual on average earnings of £22,000 who saves 10% per annum for 30 years and invests in a typical balanced fund can expect to build up a fund worth approximately £110,000-120,000 in today's money.

In 2006, the ABI updated its 2001 'Statement of Good Practice on Pension Maturities' to help standardise information provided to consumers and to speed up transfers of funds where the individual uses the OMO. While annuity advisers consider the slow transfers of funds that occur at present a serious problem, an improvement in this area will not in itself attract more consumers to the use of the OMO.

Generic information has a limited use

Our research suggests that much more needs to be done in the area of consumer advice. Generic information is unlikely to be enough by itself and existing material that is available to consumers can be improved. In just one example of the sort of literature available, a government leaflet about personal and stakeholder pensions[3] does not mention annuities until page 23. Until page 23 the implication is that benefits are to be taken directly from the personal pension scheme. Arguably this type of generic information contributes to poor consumer awareness of annuities and the need to take action to turn savings into an appropriate income stream.

3 HM Revenue and Customs' leaflet IR3, 'Personal Pension Schemes'.

The ABI suggests that the solution lies in better financial awareness and argues that this should be incorporated into the FSA's national strategy to raise financial capability. While this is a worthwhile suggestion its impact will only be felt over the very long term. Moreover this approach relies on the contested assumption that if people understand the annuitisation process they will find a suitable adviser and use the OMO. Our research suggests that the solution is not this simple.

> *"Annuities are intrinsically complicated and for an individual to make an informed choice without specialist advice requires a high level of financial understanding and the confidence to see the process through."* IFA

This point cannot be over-stressed. To make a rational choice consumers must understand the nature of their DC pension arrangements and any reasons why making use of the OMO is not beneficial, including features such as a loyalty bonus, an exit penalty, and the availability of a guaranteed annuity rate (GAR). For a layperson this information may not be obvious from the pension documentation.

The choice of annuity type and the range of features offered also require an understanding of key financial concepts. These include the impact of 'lifestyle' factors, about which the individual may be in denial (refusal to acknowledge an unhealthy habit or condition), longevity (most people underestimate this by between four and six years), and the impact of inflation on an income that may last for over 20 years.

There is no learning curve for annuity purchase

The selection of an annuity has been equated to other major consumer purchases, in particular the family home. While it is true that the sums of money involved may be similar – indeed house prices generally are much higher than pension fund sizes at retirement – nevertheless there is a very important difference here.

> *"Most individuals build up a learning curve with property purchase, as they do with cars, holidays, and other 'big ticket' items. The annuity purchase is a one-off transaction, so there is no opportunity to learn through experience."* Insurance Company

The lack of a learning curve adds significantly to the fear factor and the behavioural barriers that prevent people from exploring the annuity market and buying with confidence. It encourages people who might benefit from immediate annuitisation to defer the purchase, despite the fact that statistics from annuity specialists demonstrate that this has generally been a poor decision in recent years and that delay has resulted in loss of income. It also encourages people to take the maximum initial income through a level annuity rather than deferring part of their income through an index-linked product. We suggest, therefore, that behavioural barriers on the part of consumers are complex.

> *"The fact that two-thirds of investors do not use the OMO is a result of something more than inertia. Rather it is a paralysis that is triggered when consumers are faced with a range of complex decisions and are afraid of making a single irrevocable choice that is wrong."*
> Independent Expert

Consumers say annuities are a 'rip-off'; insurers say the market is competitive

Privately funded pensions are the most obvious means to lift people out of poverty in retirement and this helps to explain why annuities – just one of many products sold by insurance companies – receive a disproportionately high level of attention in the consumer press. While other savings, investments, and insurance products do receive negative press it is hard to think of a product that has been criticised over such a prolonged period, as has been the case with annuities in terms of the value for money they offer and the 'loss' of capital on early death.

> *"Put simply, the press and consumers appear to believe that annuities are a rip-off and that capital lost on early death serves only to line the insurance company's pockets. Insurance companies argue with equal force that annuity business is largely unprofitable and that the risks associated with improving longevity are increasing – some would argue to the point of toxicity."* Independent Expert

Insurers do write annuity business and it follows that they see potential for profit in doing so. However, most evidence suggests the open market for annuities is competitive and the best rates in the market offer annuitants reasonable value based on their life expectancy. (See box opposite for details on one relevant study.)

Obviously, a major issue for insurers writing annuity business is the longevity risk they undertake by doing so. If they underestimate the life expectancy of their customers and fail to hedge the risk, the profitability of annuity business may be much less than initially expected. Hedging may also prove to be difficult to achieve. Currently longevity risk has plenty of sellers but very few buyers and a recent conference at Cass Business School concluded it is currently largely a one-way market.[4] With reference to longevity risk, the ABI reports one re-insurer as commenting that since a great deal of human endeavour and money is devoted to extending life, it seems rather foolish to bet against this trend.[5]

4 First International Longevity Risk and Capital Market Solutions Conference, Cass Business School, London, February 2005.

5 ABI, 'The Pension Annuity Market: Further Research into Supply and Constraints', 2005.

Defining successful outcomes

Before proceeding, it is worth setting out what we consider to be the ideal annuity selection process and the criteria for defining an annuity purchase as successful. The ideal annuity selection process is, in effect, a two-stage process:

First, the individual, with the adviser if there is one, should decide on the appropriate type of annuity to be purchased, taking account of eligibility (on health grounds) for enhanced rates, and requirements for features such as indexation and spouses benefits, which will depend on financial circumstances including the availability of other sources of income.

Second, the best rate for the selected product should be obtained, considering any quote from the pension scheme provider as well as rates available in the open market. In reality, with constantly changing rates, it may not be possible to pinpoint the absolute top rate at any point in time, but a rate within, say, 5% of the top should be achievable.

The two-stage nature of the process adds to the complexity. Mechanisms that can deal with the second, price-competition, stage on an efficient, low-cost basis may not provide much help to individuals struggling to work out what to do in the first stage. One-to-one financial advice can deal with both stages, but is costly and not available to all. Nevertheless we can regard a successful outcome as one where both stages are completed, so that the individual selects the product most appropriate for their needs and obtains a competitive rate for that type of product.

Value for Money or 'Money's Worth' of Annuities

Many consumers appear to regard annuities as poor value. However, most research finds annuities offer reasonable value once account has been taken of the life expectancy of annuitants.

A key study for the UK market is Finkelstein and Poterba (2002).

The value for money of an annuity is assessed by comparing the likely value of payments received with the purchase price. As the payments will be made in future they need to be discounted at an appropriate interest rate in order to be comparable with the price paid at the point of purchase. The calculation involves the value of the monthly annuity payment and the expected length of time over which the payments will be made, which in turn is determined by mortality tables. In simple terms, the longer someone lives after purchasing an annuity, the more payments they will receive and the better value the annuity will represent.

An added complication is that annuitants tend to live longer than the general population – something known as adverse selection (i.e., savers tend to be wealthier and therefore healthier than non-savers). As Finkelstein and Poterba put it:

> *"Adverse selection may make annuities look expensive for the typical individual in the population. If the typical annuitant is longer lived than the typical individual in the population and annuities are priced to reflect the longevity of annuitants, then annuities will not be actuarially fair from the standpoint of typical individuals."*

In formal terms, most studies calculate the 'money's worth' of annuities by comparing the expected, discounted present value of the annuity payments to the purchase price. The closer this ratio is to one, the fairer the annuity pricing. In practice, we expect money's worth to be less than one due to the administrative costs of providing the product. The important question is, how much less than one?

Finkelstein and Poterba calculate the following money's worth figures for the UK compulsory (i.e. pension) annuity market.

	Population Mortality	Annuitants Mortality
Male 65	90.0%	96.2%
Female 65	90.4%	94.5%

These figures suggest that once account is taken of adverse selection – that is annuitants living longer than the general population – annuities in the UK are reasonably priced. However, in the context of our report it is worth noting that the calculations were made on the basis of the average of a range of annuity quotes from different providers. Customers purchasing annuities from providers with below average rates would experience less favourable money's worth.

Reference:
Amy Finkelstein and James Poterba (2002)
"Selection Effects in the United Kingdom Individual Annuities Market."
The Economic Journal 112(476): 28-50.

How efficient is the current system?

The insurers we interviewed estimated that 80% of individuals with DC funds are offered a competitive annuity rate by their pension provider. Typically, this is because their pension is with a company that is also a major annuity provider. However, this may not mean that efficient outcomes are secured in 80% of cases because it only refers to the level of income secured when measured against the top open market option rates. At the point of sale, annuities represent a commodity market, where selection is driven purely by price. As noted above, securing a competitive rate is the second stage of the process of making a rational annuity choice. The first stage is to select the annuity type – in particular whether this should be conventional or enhanced – and the features that best meet the individual's requirements, for example an element of inflation linking and a spouse/partner's pension. In some of the 80% of cases, consumers may have been able to do better by purchasing an enhanced annuity from another provider.

Moreover, the correlation between top annuity and top personal pension providers is far from perfect.

> *"A company that sells investments, such as personal pensions, is in a very different business from a major annuity provider, which is in the risk business."* Insurance Company

Certainly several top annuity companies are also leading personal pension providers – including Friends Provident, Legal & General, Norwich Union, Prudential, Scottish Equitable, Scottish Widows, and Standard Life. In addition, other major pension providers, such as Pearl/AMP and Zurich use Prudential's rates as their default option. However Canada Life, GE Life, and Just Retirement, for example, specialise in enhanced annuities and do not necessarily compete in the mass market for personal pensions or even offer these products.

It is clear that at present many individuals rely unwittingly on the assumption that whichever company they chose or was selected for them by their employer to provide the pension fund accrual stage will also offer a competitive annuity – and that this will include enhanced rate options.

> *"Inevitably there will be flaws in a market that relies on 'luck' rather than inherent efficiency through positive selection of two separate companies that respectively excel in personal pensions and in annuities. Top providers in both markets – particularly in the open market for annuities – change frequently, which again indicates that the OMO will continue to be the preferred route for purchase."* IFA

On the basis that a competitive rate is within 5% of the very top rate, we understand from experts in the market that 40% of internal clients could use the OMO to achieve a better rate, while those that would qualify for an enhanced rate may miss out even if they are offered a competitive conventional rate. This implies that there is a significant level of inefficiency in the current market.

Definition of an efficient market

Our research leads us to make several recommendations that we believe would improve the efficiency of the market in terms of distribution and consumer purchasing power. We define efficiency carefully, as we believe this must take full account of the 'buy' and 'sell' sides of the market. In a free market, the manufacture and sale of annuities must be profitable. At the same time we need to take steps to ensure that all consumers are empowered to buy a product that is appropriate in terms of structure, features and price. Our research recognises that in the absence of a compulsory default to the OMO, models of best practice for the buy side (employees, trustees, the self-employed) are of little value unless the requirements of the sell side (insurance companies and advisers) can be met in terms of economies of scale and profitability.

One of the problems here is that commission rates for advisers who sell annuities are comparatively low and we suggest this partly explains advisers' interest in managing drawdown funds into retirement and their lack of interest in small funds. Drawdown, or unsecured pension, is where the individual draws an income directly from the fund, leaving the rest fully invested. On conversion to unsecured pension the adviser, typically, earns an initial 3% commission of the fund size (net of tax-free cash). From year two onwards the adviser would receive an annual, or 'trail', commission of about 0.5-1% of the funds under management. This is of far more value to the adviser than a one-off annuity sale.

> *"Annuities, irrespective of fund size, pay a one-off commission of 1.3-1.5% for the conventional version, and 1.8%-2.25% for investment-linked and enhanced rate products. This compares with a commission of up to 7% for single premium insurance company investment bonds."* IFA

We do not suggest that annuity commission should increase, but rather that distribution should be channelled through specialists that can operate via economies of scale at a profit, with modest levels of commission per case.

Clearly a more efficient market would raise problems of its own – for example we would need to see an increase in the number of competitive insurance companies.

> *"There is a limit to the longevity risk each institution can undertake."* Insurance Company

> *"Historically, at any given time, there have been fewer than a dozen insurers active in the open market, including those that offer enhanced terms."* IFA

Insurers use rate adjustments across a range of fund sizes as a mechanism to control the volume and shape of new business. Effectively the rate operates as an on-off switch and this is manipulated regularly, with rates at the top end of the OMO market reviewed daily.

> *"Generally if an insurance company opts out of the top three rates OMO business flows will slow significantly."* IFA

> *"Insurers target specific fund sizes to balance risk within their annuity book of business. Broadly speaking large funds are associated with health – that is, greater longevity – while smaller funds are associated with a shorter lifespan."* Insurance Company

> *"An insurer that offers the top rate for a fund of £200,000 may not be competitive at £30,000."* IFA

There is unlikely to be a single solution that overcomes distribution and behavioural barriers in the annuity market. However, we believe that a combination of measures would improve efficiency significantly. Our recommendations and suggested issues for further research are set out on the following pages.

Section 1. Details about the OMO are buried away in pre-retirement literature sent to consumers

The current situation

The combination of FSA regulatory requirements for provision of information and pension companies' own marketing literature results in information overload for consumers. Reference to the OMO in pre-retirement literature may be buried within this pack and therefore does not attract the consumer's attention.

At present, regulatory conduct of business rules require companies that sell personal pensions to provide customers with information about the annuity choices they face and the open market option at certain dates in the run up to retirement and in pension key features documents. Companies can meet this requirement by enclosing the FSA leaflet on this subject in their pre-retirement information packs. (*www.fsa.gov.uk/pubs/consumer/pension_choose.pdf*)

It is clear that information overload can be counter-productive and in this context it represents a barrier to use of the OMO. Nevertheless, the regulations require insurance companies and advisers to issue lengthy documents – typically running to 20 pages – in order to meet compliance standards when they inform clients of their choices.

> *"With the best will in the world, we have no choice – we have to provide all of this information. What starts off as a simple and user-friendly document ends up looking like a consumer's worst nightmare after it has been through our compliance system."* IFA

In this environment, it is easy for insurance companies to bury information about the OMO in these packs. Even where the insurer provides a comparatively simple leaflet, the OMO is only mentioned towards the end. The implication is that the consumer will buy from the pension provider and will only look elsewhere if there is a very obvious reason for doing so.

Recommendation

The 'wake up' information on the OMO required to be sent by providers to all individuals pre-retirement should be clear and direct, explaining the benefits of the open market option in monetary terms. A single, short standardised letter on the OMO could be sent separately from the main pack. This is more likely to provoke an active response.

This letter would give examples in monetary terms that highlight the importance of the product type and the features available and would also explain in monetary terms the impact of rate variations. It could, for example, include the top five rates for the default annuity type at the point of publication, although the costs and complexity of administering this may be an issue. The letter should direct individuals to the relevant FSA website and to adviser bodies, including the new specialist organisation outlined below.

We recommend that the FSA consults with the industry and consumer bodies, including its own Consumer Panel, to ensure that the letter is effective and is not overly complicated by regulatory and technical terms.

Section 2. Consumers do not know where to look for specialist annuity advice

The current situation

Only an independent financial adviser (IFA – also defined as 'whole of market' or WOM) can offer a full annuity service. The FSA regulates about 5000 firms of IFAs that give advice on savings and investments and these range from sole practitioners to the very large national firms and 'networks'.

However, fewer than a dozen national firms specialise in annuities and there is no efficient mechanism at present that enables consumers to identify these. The FSA annuity leaflets and website currently provide links to adviser trade bodies, as do many press articles. In turn these bodies will help an individual identify local IFA firms, in most cases using a search engine that relies on postcodes. We do not believe that this is sufficient as it implies an element of luck in the selection of the firm.

> *"The chances of the firm identified through existing trade bodies being a specialist are very slim and rely on luck due to location. Many advisers sell only two or three annuities a year and do not have the experience or systems to broke the market efficiently and in a cost-effective manner."* IFA

This means that in the majority of cases, even where the consumer tries to use the OMO, the advice and service may be sub-optimal compared with the service a specialist could provide for the same level of commission. Indeed we understand from respondents that some potential clients are turned away because the commission, based on the fund size, would not cover the cost of providing a full advisory service. In this case the adviser would charge a fee, but this might offset any increase in the annuity rate achieved.

Typically, therefore, most advisers are prepared to sell annuities through the OMO only where the fund size would generate a commission appropriate for the work involved. This means that for individuals with funds under approximately £50,000 the choices are very limited and it will prove very difficult for the consumer to find an appropriate firm.

> *"Commission for advice is built into the annuity pricing and paradoxically it seems that for many people that there is no effective mechanism for them to receive this."*
> Independent Expert

In the mass market, most individuals are uncertain how to find an appropriate annuity adviser and need a much clearer steer than is offered at present in the generic information provided by regulators, trade associations, and the DWP through their websites and literature. To be told to 'seek independent advice' is a barrier rather than a trigger for action, particularly in the light of the general distrust with which consumers regard advisers and insurance company sales representatives. Even the best literature from pension and annuity providers is based on the implicit assumption that the individual will take the annuity with that company rather than using the OMO. In such literature, the provider represents a friendly, trusted image; the alternative is to go it alone – to find your own adviser and hope for the best. For the risk averse, the unknown will appear an unattractive option.

For those who are not financially sophisticated and who lack confidence in finding a trustworthy and experienced adviser, it is far easier – and appears safer – to accept the annuity of the existing pension provider. The underlying hope – often unsupported by evidence – is that the company that has served well enough during the accrual stage will 'see you right' in retirement.

Recommendation

Specialist annuity advisers should form and promote a trade body along similar lines to the Safe Home Income Plan group of companies that operate in the equity release market (SHIP – www.ship-ltd.org). We believe that a similar body for annuity specialists could operate in competition with other adviser trade bodies. Ideally it would apply stringent entry criteria and a code of conduct to provide a level of self-regulation similar to that operated by SHIP. The trade organisation could be mentioned on the websites and in the literature of the FSA, Association of British Insurers (ABI), and Department for Work and Pensions (DWP), and consumer bodies, such as Which? (formerly known as the Consumers Association) and Citizens Advice Bureaux, among others.

This proposal must be considered very carefully to ensure that such a trade body is not anti-competitive. One problem with our proposal is that understandably, advisers who are not annuity specialists, nevertheless would wish to advise on larger funds that would yield an attractive commission for the annuity purchase or, more likely, for drawdown. Membership requirements for the trade body could act as a benchmark or blueprint for the optimal level of quality and expertise required for advice in the OMO and this would have a positive influence on the market as a whole. However, to avoid this being anti-competitive, non-members would be free to offer advice on annuities and consumers would be free to opt for the non-members where they wish to do so, for example given an ongoing relationship with an IFA. Equally, non-member IFAs could opt to refer the case to a specialist firm.

The FSA does not operate a set of rules that govern introducer arrangements between advisers but a spokesperson said:

> "If an IFA does not have suitable knowledge to make a compliant sale he or she should not make it and [in these cases] could help consumers by introducing them to another firm that can help."

The agreement between the referring and accepting adviser should be well documented so that it is clear where the regulatory responsibility lies and how the commission would be split.

Advisers that offer a swift and competitive annuity service in the mass market are committed to a significant investment in systems and personnel. The reward for their bulk purchasing power is seen in the higher commission rates insurers pay for enhanced distribution channels. We understand that these higher commissions do not affect the annuity rate, as any commission 'uplifts' are paid out of the insurer's profit margin.

There appear to be fewer than a dozen specialist national advisers that achieve the level of service described above and these are mentioned in Appendix 2. Most high street advisers sell very few annuities and the investment in systems and personnel required to provide a streamlined service in the mass market is prohibitive. Some advisers already refer business to specialists on a commission-sharing basis and we regard this as a welcome trend.

In conclusion, the launch of a specialist adviser trade association, which establishes a strict code of conduct, could be a positive step towards providing a coherent body of knowledge and practice and uniting consumers with an appropriate purchasing channel for the OMO.

Section 3. Comparative tables to list all annuity rates

The current situation

FSA comparative annuity tables for consumers are a very welcome innovation and these cover conventional rates and a limited range of additional features, such as enhanced rates for smokers.

However, the tables show only the rates voluntarily provided by approximately 13 leading insurers. There is no requirement for all insurance companies to submit figures. Even across the data voluntarily supplied there can be a 15% differential between the top and bottom rates. Advisers suggest that across the whole market – over 100 companies – the differential is up to 30%.

> *"The lack of a single public source of annuity rates for all insurance companies prevents consumers from identifying the difference between the rate that they are offered by their existing pension provider and the OMO."* IFA

The result of this situation is that at present there is no pressure on less competitive insurers to improve rates or withdraw from the market. While we do not think that in a free market a regulator can force a non-competitive company to withdraw, nevertheless through greater disclosure requirements the regulator can act as a positive influence on the competitiveness of a market. The FSA has used disclosure in other important areas, such as charges in the retail pensions market, with marked success. The FSA also recognises that for disclosure to be an effective mechanism in increasing the competitiveness of a market, the information disclosed must be readily available to and understood by the end user. In a recent consultation document on the impact of broker commissions on retail funds the FSA said:

> Disclosure as a tool is valuable only if the recipient can use it to challenge the behaviour of the provider, and to secure improvements if necessary.[6]

6 FSA, 'CP05/13: Bundled brokerage and soft commission arrangements for retail investment funds', 2005.

There is already a trend whereby insurers that do not wish to operate in the annuity market refer their maturing pension policyholders to a third party. This seems to be an appropriate response that balances the pension provider's concerns about undertaking longevity risk and the need to provide the consumer with a fair deal. A voluntary referral system is far from perfect, however:

> *"A major annuity provider can buy up books of business that include a high proportion of people who can be expected to live shorter lives – for example manual workers. By offering a competitive conventional OMO rate the acquiring insurer may appear to be providing a fair deal but if two-thirds of the book purchased would qualify for enhanced terms, then is this really as good a deal as it first appears?"* IFA

Recommendation

All insurance companies that sell annuities, whether in the open market or solely to their own customers, should provide rates regularly to the FSA, so they can be shown in monetary terms in comparative tables. The range of tables should be increased so that the most common 'lifestyle' issues that qualify for enhanced rates are shown.

If consumers were able to compare their own provider's quote in monetary terms with those of leading insurance companies and to see where on the list of over 100 companies their own appeared, this might encourage them to use the OMO.

> *"It is one thing to see that your provider is not as good as the top player but quite another to see that your provider is number 89 out of 100. Consumers need to see this information in monetary terms, not as a percentage uplift."* IFA

We anticipate that the mandatory posting of rates could work via the FSA's conduct of business (COB) rules, which already impose requirements on annuity providers. With modern web-technology, there appear to be no particular barriers to displaying a wide range of quotes for different products and providing consumers with an easy data-search facility. We accept that at present these quotes would be indicative in many cases rather than 'real time' (currently available) but we feel this would be sufficient information to show the consumer the value of shopping around.

The site could even allow 'click through' facilities to the providers' websites to enable further enquiries to be made. Taking this idea further, once the individual has identified the best provider in terms of type of annuity and the rate, it would be helpful if that provider undertook the task of collecting the funds and issuing the annuity. Although some older consumers do not make use of the web, this particular barrier is rapidly disappearing and the availability of computers in libraries and Citizens Advice Bureaux, among other local sites, will help improve accessibility.

We also recommend that the FSA develops its website further to enable consumers to consider key annuity issues in terms they understand – for example by using analogies with financial products that are better understood, such as common insurance products (risk-pooling) and deposit accounts (capital security but exposure to inflation risk). It is not enough to ask if inflation proofing is important – examples in monetary terms of the impact of inflation over different periods should be provided in the context of increasing longevity.

Equally, lifestyle factors that could influence rates should be listed and explained more clearly – for example obesity should be defined with reference to the weight/height charts used by insurance companies. The site should explain the impact of the mortality cross-subsidy, which is fundamental to the way annuities, as an insurance product, protect individuals from the danger of running out of capital if they experience above average longevity.

Consumer testing will be important to structure the way this information is presented. Some participants in our research argued that concepts like decision trees are not a panacea, as a significant proportion of consumers do not find them helpful or easy to use in the context of a complex decision process.

Section 4. The workplace is an ideal location for annuity advice but the information provided is very variable

The current situation

Employees tend to trust employers to provide them with retirement information. However regulations deter employers from making specific recommendations. Nor do employers have the specialist knowledge or desire to undertake this responsibility. Nevertheless, organisations such as the NAPF and the DWP recognise that the workplace is an excellent environment in which to deliver retirement advice.

> *"Employees trust their employers and advice offered through the workplace far more than they trust external advisers and insurance companies."* Independent Expert

Recommendation

Employers should be encouraged to provide generic seminars and specific advice in the workplace making use of the tax-deductible £150 per annum per employee that became available for pensions advice in November 2004.

At present there are no figures available on the use of this tax break. HM Revenue & Customs (HMRC) suggests the scheme has proved popular but participants suggested otherwise. While providing this amount of advice on an ongoing basis to all employees may be too onerous for many employers, one-off provision at the point of retirement is less of a financial burden on the employer.

In addition, while we believe that it requires an annuity specialist to undertake the actual transactions, it would be a step in the right direction to see generic advice available in a wider range of locations and that this should be delivered personally rather than through written information. The use of retirement seminars in the workplace, at further education colleges, and through Citizens Advice Bureaux and local councils, for example, would improve levels of knowledge and go some way towards demystifying retirement income planning. Again at the end of such seminars, participants would be directed to the FSA website with the links to adviser organisations including the new specialist adviser body.

The NAPF's recent launch of a 'PensionsForce' team of financial advisers able to provide workplace based advice, funded by the government and therefore at no cost to the employer, is one step in the direction of this suggestion. The NAPF Pensions Guides could include 'at retirement' advice as part of their package of services.

Section 5. Trustees of occupational DC schemes do not have to provide the OMO

The current situation

Trust-based occupational DC schemes are governed by the Pensions Regulator rather than the FSA. While the Pensions Regulator requires trustees to provide scheme members with information about the OMO, trustees are not obliged to undertake the OMO process itself and many are unwilling to do so due to concern over mis-selling.

This problem of matching the occupational DC member with the best adviser for the annuity purchase is no different from the points noted above, but we have dealt with it separately because of the issues that arise where trustees are involved in the choice of pension arrangement.

An important issue for workplace schemes is to determine which party should take regulatory responsibility for the OMO annuity purchase. This could be the trustees, where there is a board, or the employer. It could be the trustees' or employer's adviser. It might also fall on a trade union or other employee body, which again may be advised by an independent firm.

At present there is no consistency of practice. Indeed outside of the adviser distribution channels, the market appears to be inefficient in terms of the annuity selection process, largely because of the above-mentioned point, that the prospect of undertaking the level of work involved and the attendant risk of mis-selling claims makes this a wholly unattractive responsibility.

> *"In practice, some trustees offer more help than others and many rely on their advisers, who in turn often settle for 'good' annuity providers without being too explicit about the product specification and comparative rates achievable."* Independent Expert

Recommendation

Trustees of occupational DC schemes and employers with contract DC schemes should refer the annuity purchase to specialist advisers. Some trustees and employers already do this on a voluntary basis.

The NAPF argues that the DC scheme and the annuity selection and purchase is a governance issue and that contract (non-trust based) DC arrangements, such as group personal pensions (GPPs), typically do not have governance structures that can replicate the role of the trustee board in DB or occupational DC schemes. This is why we feel that referral to a specialist adviser is the best solution. Overall we believe that in the current climate, which evidences a strong trend away from trust-based occupational pension schemes, it would not be reasonable to impose further governance requirements on occupational scheme trustees and on employers that implement contract-based DC schemes. Given that some trustees already use the referral system to specialist advisers, our recommendation builds on existing models of good practice.

Section 6. The majority of annuities purchased are level rather than indexed

The current situation

Pension providers are required to contact members pre-retirement and outline to them the choices they face in terms of receiving their benefits. If the member does not respond with a statement of how he or she wishes to proceed, at present the ABI best practice guidelines suggest that the default annuity quote issued to the member should be that of a single life, non-escalating annuity, with a 5-year guarantee. This is consistent with actual purchasing behaviour in the annuity market, where 80% of customers opt for level annuities.

The current situation begs an important question: is a level annuity the best choice for most individuals?

Level annuities may be appropriate where spending is skewed towards the early (active) years of retirement and declines as individuals become older. Furthermore, where the annuity provides an income on top of indexed state benefits, the state pension and the means-tested pension credit, where applicable, may be relied on to provide partial insurance against future inflation.

However, in practice individuals may not select level annuities for these rational reasons, but rather they accept the default level annuity because they do not fully understand the issues at stake. Money illusion may tempt them to take the highest short-term income without considering the impact of declining purchasing power through time. An annuity linked to price inflation provides an initial income of about 30% less than a level annuity.

There is also evidence that people underestimate their life expectancy typically by 4-6 years,[7] which could also lead to them underestimating the potential for inflation to erode their retirement income through time. Individuals may also underestimate the extent to which their income in later life will be spent on care and medical costs as their health declines.

7 C. O'Brien, P. Fenn and S. Diacon, 'How long do people expect to live? Results and implications' Centre for Risk and Insurance Studies Research Report 2005/01, 2005.

Recommendation

We recommend that pre-retirement literature, including that produced by providers and regulators, includes a more direct discussion of the choice between level and indexed annuities. It should discuss in frank terms how the purchasing power of a level annuity will decline through time, but invite the individual to consider their likely spending patterns in retirement, including the potential for increased care and medical costs in later life.

The FSA 'Guide to Annuities and Income Withdrawal' does have a page covering the choice between indexed and level annuities, but it does not cover all of the relevant issues in terms of spending patterns.

Appendix 1: Issues for further research and consultation

In our research phase, we encountered several proposals that might improve the efficiency of the market but which require further consideration.

A1.1 Value-protected and short-term annuities could be promoted as a half-way house for annuity purchase deferment in the mass market

Many of the problems in the annuity market result from the combination of a largely static state and occupational retirement age and significantly increasing longevity. From a financial planning point of view, fixed interest instruments are likely to be unsuitable for investment horizons of 20+ years, particularly when we take into account the reduced value of the mortality cross-subsidy at younger ages (below 70 years).

Annuities, which lock the individual into an income based on gilt yields, were originally based on a much shorter life expectancy and therefore insurers assumed an income stream of approximately 10 years, during which time the individual's capital and the interest from the underlying gilts were paid out, after making an allowance for expenses. In the light of current demographic trends, which mean insurance companies must assume a 20-25 year retirement period, such a structure is restrictive and unlikely to provide attractive incomes. Individuals with substantial funds (some participants suggested a minimum of £250,000 if this is to be the main source of retirement income) may decide that 'drawdown' through unsecured pension and, from age 75, via an alternatively secured pension (ASP) is appropriate. A fund invested in a mix of assets, including a significant proportion of equities, is likely to generate a higher income than gilt-based annuities over the longer-term. However, for those in the lower and middle-income categories, who do not have alternative sources of retirement funding, the costs and risks associated with structures that maintain a high equity exposure into retirement are significant, even where this is achieved through a with profits annuity, which allows annuitants to benefit from the mortality cross subsidy.

The regime for pensions from April 2006 introduces two new types of annuity – the value-protected or 'money-back' version (available up to age 75), and the fixed-period product. At the time of writing, only a small minority of insurers planned to introduce such products.

While both new types of annuity have drawbacks – in particular annuitants would not form part of a mortality pool and therefore would not benefit from the associated cross-subsidy – nevertheless, in the early years of retirement these products might be more attractive than the conventional model.

Value-protected

Under the April 2006 regime, the rules for money-back annuities allow the residual fund on death to be paid to beneficiaries, less a 35% tax charge. The annuity rate will be lower than for conventional products because the annuitant does not participate in the mortality cross-subsidy pool. However, the money back guarantee is psychologically attractive to many people who worry about the loss of inheritance to their dependants should they die shortly after annuitisation. The cost of a single life money back annuity, in terms of a reduction based on conventional annuity rates, ranges from 2.2% (female age 55) to 7.7% (male age 65).[8] It appears that only three providers have said they will enter this market: GE Life, L&G and Prudential.

8 Source: Pensions Management, June 2005.

Fixed period

A fixed-period annuity allows an individual to buy an annuity payment stream running for up to five years. At the end of the period, they have the option of buying another fixed-period annuity, a lifetime annuity, or going into drawdown. This is effectively a form of unsecured pension, like drawdown, and as such suffers from the same disadvantages in terms of investment risk, interest rate risk and loss of mortality cross-subsidy.

A1.2 CAT-marked annuities

The idea of CAT-marking is a relatively simple consumer concept to denote value for money. This has worked well in other areas – for example stakeholder pension schemes have established a benchmark for charges, access, and terms that is widely adopted in the DC market. CAT-marked cash individual savings accounts (ISAs) are also effective.

While the CAT-marking approach, focusing on charges, access and terms, may not be appropriate for the annuities market, some form of official 'seal of approval' could be beneficial in giving consumers confidence in making their purchases. The problem lies in defining the appropriate standards. It would be difficult to 'CAT-mark' annuities based on rates, given the frequency with which annuity rates change. This would require the insurer to guarantee to be within a certain percentage of the top rate but without knowing in advance what that rate will be. With CAT-marked cash ISAs, the interest rate is pegged to the Bank of England base rate, so providers can be confident about the rate they are required to offer the meet the CAT criteria.

A1.3 Pension fund and equity release wraps

This report does not consider the formal use of equity release as a means of supplementing retirement income. However, fruitful research from Legal & General, presented to a meeting of the Actuarial Profession in 2005, highlights the relevance of combining equity release products with retirement income products such as annuities and, possibly, a loan feature.[9]

9 In October 2005 the Actuarial Profession ran its first competition on DC decumulation strategies. For details go to www.actuaries.org.uk.

It is evident that an increasing number of pensioners will wish or may be forced to rely on the equity in their homes to supplement income from annuities and we can see a need for innovative products that operate a more flexible 'equity drawdown' structure than the traditional products, which offer a single transaction. Such products are already available but only from a minority of providers. Historically 'wraps', which allow investors to combine several tax wrappers such as pensions and ISAs, plus portfolios of shares, have been regarded as the province of the wealthier consumer. There appears to be considerable merit in the concept of an account that allows individuals in the mass market to manage their key sources of retirement income in one place.

A1.4 National Savings & Investments annuities

One suggestion proposed at the Actuarial Profession meeting was that National Savings & Investments (NS&I) – the savings body backed by the Treasury - should offer annuities. Certainly this would be an effective distribution channel through high-street Post Office outlets.

The Debt Management Office has made it clear that the government does not wish to increase its exposure to longevity risk – already significant due to state and public sector pensions – and therefore an NS&I product, supported by the DMO, is unlikely to be offered. However, it is possible that NS&I could use its bulk purchasing power to brand a simple range of annuities, using private sector insurers in a similar way to the Pensions Commissions' concept of a National Pension Savings Scheme (NPSS), which would use private sector asset managers.

We suggest that the use of NS&I as a distribution channel might be a useful to sell annuities to those with comparatively small pots who do not have a financial adviser. NS&I's national presence may allow it to benefit from economies of scale in servicing these small accounts in ways that are not available to most advisory firms. However, it is worth noting that at present NS&I has only the remit to raise funds for the government. For NS&I to act as a distribution channel for other investment products, would require an extension of its remit.

Appendix 2: Market Background

A2.1 Annuity Providers

In examining the efficiency of the annuity market it is important to separate the 'manufacturers' or product providers (the insurance companies) from the 'distributors' (the financial advisers). Respondents agreed, and annuity rates confirm, that broadly speaking the main inefficiencies in manufacturing lie in the insurance companies below the top-10.

If we accept that there is a differential of up to 30% between the top three OMO rates and the very lowest offered by insurance companies to existing policyholders then this raises important questions. We suggest the rate differential is due to one or more of the following factors:

- The sub-top 10 insurers are less efficient in their pricing and purchase of instruments to back annuity guarantees
- They choose to use more conservative assumptions, for example about longevity trends and interest rates
- They realise that they can make a significant profit due to the fact that most of their existing pension policyholders will accept an annuity from them without shopping around for a better deal

Companies make an active decision to participate in the OMO market. They price their products to attract business and adjust rates to discourage business when capacity is reached. We understand that for the top three rates, prices are reviewed daily and that within the top five, rates are actively manipulated to generate the required flow of business.

Clearly, in this market the insurance companies' ability to adjust pricing is critical to profitability. If interest rates change, a competitive advantage lies with the companies that adjust their rates most rapidly. Consequently, it is potentially very risky for non-competitive players to be in the open market.

> *"It is not unknown for a company to find itself in pole position just because it hasn't adjusted its rates quickly enough. It certainly wouldn't want or expect a sudden rush of business triggered by computer-driven quotations."* IFA

Conventional annuities

At the time of writing – and we stress the position changes rapidly – specialist advisers said that the following companies are significant players in the OMO market for conventional annuities:

Canada Life
Legal & General
Norwich Union
Prudential
Scottish Equitable

Advisers say that only the top 10 annuity companies are competitive – although more companies are expected to enter the OMO market. The top 10 would also include:

Axa Sun Life
Clerical Medical (although we understand the company is withdrawing from the open market)
Friends Provident
Scottish Widows
Standard Life

To give an idea of the spread of rates, the following annuity rates applied in November 2005. The basis is £100,000 fund purchasing a single life, level annuity with a five-year guarantee for a male age 65, with income monthly in advance (ie the 'benchmark rate', as defined by the ABI):

	Income (£ per annum)
Scottish Equitable	7060
Prudential	7015
Canada Life	6932
Norwich Union	6928
Friends Provident	6926
Legal & General	6898
Scottish Widows	6790
Standard Life	6588
Clerical Medical	6582
Axa Sun Life	6139

Source: Annuity Direct

The differential between the top and bottom rate within this top 10 is about 13%. The first seven fall within 5% of the top rate.

It is important to note how the top annuity providers change over the years, which is why advisers stress that the OMO will remain the most effective mechanism for securing a competitive rate.

> *"In 1998 the top three annuity providers were Royal Life, Sun Life of Canada, and Sun Life. Only one of these is still active in the OMO – Axa Sun Life, and its rates put it at the bottom of the top 10 table."* IFA

Importantly, there are competitive insurance companies that sell annuities only to their members and a good example here is B&CE Insurance (a wholly owned arm of B&CE Benefits Scheme). This is a 'closed' pension and annuity provider, which means that generally it sells only to its own clients. It has 7000 building and construction companies as members and provides benefits to their employees. The average retirement age is 62-63. This workforce is not typical of the UK population as a whole, as it includes a high proportion of manual construction workers and therefore it is dominated by lower socio-economic groups, which experience comparatively short life expectancy. The B&CE annuity is characterised by small funds (many of which will disappear in April 2006 under the new 'triviality rules' for aggregate funds of up to £15,000, which can be taken as cash less a tax charge). B&CE does not offer enhanced / impaired rates.

Enhanced annuities

This market is growing rapidly. At the time of writing the main participants were:

GE Life
Just Retirement
Partnership Assurance
Reliance Mutual

With-profits annuities

Currently this is a small market although it is possible that it will grow if consumers can be persuaded to accept the risk of maintaining an exposure to equities into retirement, while still benefiting from the mortality cross-subsidy. The main providers at the time of writing were:

Legal & General
Liverpool Victoria
Norwich Union
Prudential

Guaranteed annuity rates

GARs can provide an annuity that is up to 40% higher than the OMO. A specialist adviser provided the following list of insurers that offer a GAR on some of their policies. Several of these providers have been taken over or have changed their names:

Abbey Life
Allied Dunbar
AXA Equity & law
Clerical Medical
Friends Provident (UK Provident)
Norwich Union
Scottish Amicable
Scottish Equitable
Scottish Mutual
Scottish Widows
Standard Life
Royal & Sun Alliance

In addition certain self-employed retirement annuity contracts (sold before the introduction of personal pensions in 1987) offer guaranteed annuities enhanced by bonus additions. These include policies by:

Guardian
Legal & General
London Life
NPI
Prudential.

These two lists are not exclusive – each policy should be checked to see what terms apply and the information may be buried in the small print.

A2.2 The key distributors

The main distributors of the OMO are the independent financial advisers that work on a commission and fee basis. Fee-only advisers do not usually offer a competitive OMO service to smaller funds unless the employer pays for it. In general, respondents said that funds below £50,000 are not attractive to advisers, due to low profit margins (commission rates).

The main specialist advisers are in the retail market – annuities are not yet a priority for consultants, most of which accept a fee for a full annuity broking service or sub-contract this service to a specialist annuity adviser. Some occupational DC schemes, and DB schemes with respect to additional voluntary contributions (AVCs), also subcontract to these advisers.

At the time of writing the major annuity adviser specialists included:

Annuity Bureau
Annuity Direct
Bank of Scotland Annuity Service
Bestinvest
Chartwell
David Maclean & Co
Hargreaves Lansdown
Key Retirement Solutions
Origen
Towry Law
William Burrows Annuities

Others include The Exchange and the networks, such as Sesame.

The trend among major annuity advisers is to streamline their services. Several specialist advisers offer three service tiers:

- A full retirement income advisory service for funds of £100,000+, which includes unsecured pension and, from April 2006, ASP.

- An intermediate service for funds of £30-100,000 (or £50,000-100,000). This would include investment linked and impaired products.

- Funds under £30,000 (£50,000 in some cases) would qualify for an execution-only online service offering very basic options.

Appendix 3: Glossary of terms

Alternatively secured pension From April 6 2006, ASP allows individuals to continue to draw an income directly from their pension fund after age 75, with a maximum limit of 75% of the annuity rate supplied by the Government Actuary's Department for a 75 year old. See also unsecured pension.

Annuitant The name given to individuals who purchase an annuity.

Annuity Sold by insurance companies, a conventional annuity provides a guaranteed, taxable income for life in return for the proceeds of a pension arrangement (usually after tax-free cash has been taken). The income is based on the annuitant's age, state of health, and gilt yields, among other factors, gilts being the primary instrument insurance companies buy to generate the guaranteed income stream. See also capital protected annuity, enhanced annuity, impaired life annuity, indexed annuity, and investment-linked annuity.

Annuity rate The amount of guaranteed lifetime income the insurance company will provide in return for the pension fund. Rate tables in the press and in the Financial Services Authority comparative tables often list rates for the annual income per £100,000 of fund transferred to the insurance company.

Association of British Insurers The ABI is the trade body for insurance companies in the UK and as such represents the collective interests of the UK's insurance industry. The association has about 400 member companies.

AVCs Additional voluntary contribution schemes are offered as a supplement to most defined benefit occupational pension schemes. In the private sector most AVCs work on a defined contribution basis, so the fund is used at retirement to purchase an annuity (or, in a minority of cases, for unsecured pension).

Behavioural economics This is the study of how individuals make economic and financial decisions and the implications these decisions have on markets. Conventional economics makes restrictive assumptions about rationality in human behaviour, while behavioural economics looks to psychology research for evidence on how individuals actually behave, including any decision making biases they are subject to.

Capital protected annuity Also known as a money back annuity, this is a new product available from April 6 2006 that returns unused capital on death before age 75, less a 35% tax charge.

Commission In the context of annuity sales, commission refers to the remuneration of the financial adviser, who makes the sale, by the insurance company.

Commutation The process whereby an individual takes part of their pension fund as tax-free cash.

Conduct of Business rules COB rules are the requirements, set by the Financial Services Authority, that relate to the business processes involved in selling and administering insurance and investments, including marketing, sales, consumer literature, and claims handling.

Contract based pension plan A personal pension, for example, is a contract between the individual and the provider (this is also referred to as a 'retail' product, as compared with institutional occupational scheme arrangements). Even where an employer offers a group personal pension this remains a series of individual contracts between employees and the provider. See trust-based scheme.

Conventional annuity See annuity.

Debt Management Office The DMO is part of the Treasury. Its brief is to carry out the Government's debt management policy, minimising financing costs over the long term and taking account of risk. DMO strategy is consistent with the government's objectives with reference to monetary and fiscal policies. In institutional terms, the DMO is legally and constitutionally part of HM Treasury, but as an executive agency, it operates at arm's length from ministers.

Defined contribution DC schemes and plans invest contributions to build up a fund. At retirement the individual can take a tax-free cash lump sum and must use the rest to buy an annuity or to generate an income directly from the fund through unsecured pension and alternatively secured pension. Income from annuities and other arrangements is taxable.

Defined benefit Occupational DB schemes link the employee's pension to salary and service. They are in decline in the private sector.

Department for Work and Pensions The DWP is the government department that runs The Pension Service, among others.

Depolarisation Under June 2005 Financial Services Authority rules, advisers (intermediaries acting for the consumer in the selection of products and provision of advice) are divided as follows: whole of market or independent financial advisers, who are required to search the whole market for the best deals; 'multi-tied advisers', who use a panel of providers. Tied or direct sales advisers sell the products of just one company. Advisers must make clear to customers their status and its implications.

Enhanced annuity An annuity that offers a higher rate than average for the annuitant's age due to 'lifestyle' factors, such as smoking and obesity, which underwriting experience demonstrates indicate a shorter lifespan.

Exit penalty A percentage deduction of the pension fund at retirement that is imposed by the existing pension provider if the individual buys the annuity from a different company. See loyalty bonus.

Financial Services Authority The FSA is the chief regulator of financial services in the UK. It is an independent non-governmental body, given statutory powers by the Financial Services and Markets Act 2000. It is financed by the financial services industry. The FSA's remit includes all types of personal pension and annuities, plus unsecured pension and alternatively secured pension arrangements.

Fixed-term annuity This allows an individual to buy an annuity payment stream running for up to five years. At the end of the period they have the option of buying another fixed term annuity, a lifetime annuity, or going into unsecured pension / alternatively secured pension arrangements. The fixed term annuity effectively is a form of unsecured pension, and as such suffers from the same disadvantages in terms of investment risk, interest rate risk and loss of mortality cross-subsidy.

Government Actuary's Department GAD a government department, is an actuarial consultancy that operates on commercial lines and provides independent professional advice within the public service. GAD sets the income parameters for unsecured pension and alternatively secured pension arrangements in relation to annuity rates.

Group personal pension A GPP, as the name suggests, is a collection of individual personal pensions available to employees. The contract is between the employee and the insurance company and so the GPP is said to be contract-based, as opposed to trust-based, as there is no scheme trustee board acting in the interests of members in the workplace.

Guaranteed annuity rate Older pension contracts, known as retirement annuity contracts (replaced by personal pensions in 1987), may offer a guaranteed annuity rate (GAR) that is much more attractive than prevailing rates. This guarantee is an inherent part of the contract but is lost if the individual uses the open market option.

HMRC Her Majesty's Revenue and Customs is the government department responsible for the taxation regime for pension schemes and plans, among other functions.

Independent financial advisers An IFA, also known as 'whole of market' adviser under FSA depolarisation rules, cannot be tied to one or more providers but must search the entire market for the best type of product and the best terms for each client

Impaired life annuity An annuity that offers a significant increase on the standard rate due to a serious medical condition, such as cancer, that will shorten the annuitant's lifespan.

Indexed annuity An annuity that provides a lifetime income, which rises in line with a predetermined rate or in line with the retail prices index (RPI). See level annuity.

Investment-linked annuity An annuity that links the income to the returns achieved by the underlying investment fund. This is most commonly a with profits fund but it may also be unit linked. If investment returns do not meet the target anticipated by the annuitant, the annuity income will fall.

Level annuity An annuity that pays a fixed income for life, so the income will be adversely affected by the experience of inflation during this period. See indexed annuity.

Lifetime Allowance From April 6 2006 the LTA is the maximum aggregate pension fund an individual can accrue within a tax-approved environment. In 2006-2007 the LTA is £1.5m. Funds over this limit will be subject to a 25% tax, where the excess is taken as taxable income, and a 55% tax where the excess is taken as cash. HMRC offers special transitional arrangements, so that individuals can protect their fund from tax, where this has already reached the LTA or is expected to do so before retirement.

Longevity Anticipated lifespan

Loyalty bonus Some pension contracts award a loyalty bonus if the individual purchases the annuity from the same provider. This works in a similar way to an exit penalty, in that the maximum fund size is only available if the individual stays put.

Mortality experience The actual ages of death of a group of people. Across a population the government measures the number of deaths per 1,000 in relation to age and sex.

Mortality cross-subsidy Insurers pool 'lives' of annuitants. The funds of those who experience a shorter than average lifespan are used to subsidise the incomes of the longer-lived.

National Association of Pension Funds The NAPF is the UK body that provides representation and other services for those involved in the design, operation, advice, and investment of occupational pensions and other retirement provision.

National Savings & Investments NS&I raises funds for the government through the sale of savings and investment products to the public. In 1996, National Savings became an executive agency of the Chancellor of the Exchequer.

National Pension Savings Scheme A national defined contribution scheme proposed by the Pensions Commission in 2005. NPSS, if implemented, would offer a low-cost vehicle for retirement savings and would target those without pension provision.

Occupational defined contribution schemes These are trust-based, defined contribution schemes, so although the value of the retirement income depends on contributions invested, there is a trust board in the workplace that acts on behalf of scheme members. See contract based DC.

Open market option The OMO, defined in the Income and Corporation Taxes Act 1988, confers the right to buy an annuity from an insurance company other than the existing pension provider.

Pensions Commission An independent body set up by the government to review the UK's private pensions system and to advise on whether or not the existing voluntary approach will deliver adequate results. Its second report and recommendations were published in 2005.

Pensions Regulator The regulator was established by the Pensions Act 2004 and opened for business in April 2005. Its remit is to regulate defined benefit and occupational defined contribution schemes and in particular to ensure employers bring their DB schemes to full funding, so they can pay members the promised benefits.

Pension Tax Simplification The tax rules for all pension schemes and plans will change from April 6 2006. See unsecured pension, alternatively secured pension, and capital protected annuity.

Personal pension plan An individual defined contribution plan that allows consumers to invest tax-efficiently for retirement. As with occupational schemes, contributions benefit from full tax relief and the fund grows virtually free of tax. At retirement (minimum age 50, rising to 55 in 2010) the individual can take up to 25% of the personal pension fund as tax-free cash and must use the rest to provide a taxable income, either through the purchase of one or more annuities or through unsecured pension and alternatively secured pension arrangements. See also group personal pension and stakeholder pension scheme.

Stakeholder pension scheme/plan This is a type of personal pension or group personal pension, where the contract meets specific conditions for minimum contributions (£20 per month), fair terms (maximum charge of 1.5% per annum during the first 10 years), and penalty-free exit.

Tax-free cash From April 6 2006 all pension arrangements will be allowed to provide a maximum of 25% of the fund at retirement in the form of a tax-free cash lump sum. The rest of the fund must be used to provide a taxable income, either through the purchase of an annuity, or drawn directly from the fund under unsecured pension and alternatively secured pension arrangements.

Trail commission The commission a financial adviser may receive from year two onwards for unsecured pension and alternatively secured pension arrangements (and other fund management services / products). The commission is based on the pension fund size.

Trust-based pension schemes Under a defined benefit scheme or an occupational defined contribution scheme, members' rights are safeguarded by a trust board in the workplace. See contract-based pension plan.

Triviality commutation From April 6 2006 individuals with total pension funds worth less than 1% of the statutory lifetime allowance will be able to take their funds as cash. The first 25% will be tax-free and the rest will be subject to income tax. In 2006-2007 1% of the lifetime allowance is £15,000.

Unit-linked funds With a unit linked investment the individual buys units in a collective fund, e.g. UK equity fund or managed fund (where the fund manager determines the asset allocation) and the value of those units rises and falls in line with the underlying value of the fund assets.

Unsecured pension The new name for 'income drawdown' from April 6 2006. Here the individual does not buy an annuity with the pension fund at retirement but instead draws an income directly from the pension fund, usually after taking the tax-free cash. There is no minimum income requirement but there is a maximum limit set by the Government Actuary's Department. This is 120% of the annuity rate supplied by the Government Actuary's Department. From age 75 different income and death benefit rules apply under the alternatively secured pension regime.

Whole of market adviser See independent financial adviser.

As people live longer, there will be greater demand for the regular income stream an annuity provides, whether as a single source of income or as part of an overall "at retirement" investment plan.

In this report, the Pensions Institute authors have highlighted a number of key areas where the efficiency of the market for open market annuities can be improved. As the annuity market grows in size, it is critical that consumers are informed and empowered to be able select the right annuity for their personal circumstances. It is clear that access to independent financial advice and employer participation are important factors here – but all parties have a contribution to make.

Annuities are an area where life companies' expertise and financial strength afford them a natural competitive advantage. But there is considerable scope for strong providers to widen the range of annuity products available in the market in order to better meet customer needs. This will become increasingly relevant as longevity trends shape lifestyles and people work longer.

If we in the financial services industry play our part well, we can make a real difference to the financial wellbeing of people in retirement. AEGON UK, is a leading player in financial advice as well as an annuity provider, and we look forward to working alongside other organisations to achieve this aim

Otto Thoresen
Chief Executive
AEGON UK

Launched in August 2004, Just Retirement is now firmly established as a specialist provider of enhanced annuities to those at or in retirement.

Our aim is to provide retirement solutions that not only match an individual's circumstances and needs, but also maximise retirement income, financial security and peace of mind.

As part of our commitment to treating customers fairly, we are strong advocates of the open market option – our own research shows that 54% of people approaching retirement are unaware they can shop around for annuities.

We are also concerned that the pension needs of many – especially those with smaller funds – are being ignored. Building public awareness of the value and concept of enhanced and impaired annuities will be crucial if this issue is to be addressed successfully.

Legal & General has been pleased to sponsor this report.

We also produce a series of four minute vignettes on subjects of topical interest in pensions, aimed at informing professional advisers and other commentators in the pensions environment.

Called "Driven to Retirement by Adrian Boulding", and featuring Adrian's classic Daimler Majestic Major from 1966, they can be downloaded from:
www.landg.com/driventoretirement

The NAPF is pleased to co-sponsor this report, which raises important issues for the way people can get best value for money out of their pension savings.

The shift from defined benefit to defined contribution pensions (and from occupational defined contribution to contract-based DC) is set to continue. Moreover, the creation of a DC-based National Pensions Saving Scheme, or more appropriate alternative, will bring millions more people – many of whom have never saved in a pension before – in to DC pensions. So the UK's annuity market, already the largest in the world, is set to grow rapidly.

Whilst we have yet to see the first DC generation reach retirement it is important that when it does, the right products, and right information and advice are available. This will be especially important if, in a low-cost Post-Pensions Commission world, there is no allowance for advice.

The NAPF-proposed Super Trusts would see the Super Trust as a key provider of generic information and help for consumers on not just the timing of the annuity purchase but also the most appropriate type of and how to get the best value for money.

NAPF looks forward to contributing to the debate.

About the NAPF

The NAPF is the leading voice of workplace pension provision in the UK. Some 10 million working people are currently in NAPF member schemes, while around 5 million pensioners are receiving valuable retirement income from such schemes. NAPF member schemes hold assets of over £750 billion, and account for over one-sixth of investment in the stock market.

PRUDENTIAL

Prudential is pleased to co-sponsor this Report on how the industry can help customers make the right decisions at retirement.

As one of the UK's leading providers of private retirement income, Prudential pays out more than £1 billion to pensioners each year and we're responsible for managing over £29 billion of pension income investments.

The diversity of retirement income provision in the UK is demonstrated by our wide range of retirement income solutions, which include conventional and enhanced annuities, a with-profits annuity backed by the financial strength of the Prudential with-profits fund, and our ground-breaking unit-linked Flexible Lifetime Annuity.

As well as providing annuity quotations to Prudential customers and to Financial Advisers, we have also been selected to provide annuity quotations to the customers of a number of other insurance companies.

For Occupational Scheme trustees we provide Bulk Annuity buy-outs that allow schemes to fully insure their benefit liabilities. We also provide innovative Risk Management products through which trustees can take a structured approach to securing their member's benefits.

We also provide income withdrawal through our Income Drawdown plans and we have recently launched a new lifetime mortgage product. The Property Value Release Plan enables customers to phase the release of equity from their property.

For further information see, www.pru.co.uk/retire

For many people the 'income for life' guarantee provided by an annuity will continue to be a cornerstone of their retirement income. It is therefore important for both consumers and industry that this valuable product receives detailed and informed attention from bodies such as the Pensions Institute.

As the report recognises, the UK has a dynamic annuities market. With seemingly ever increasing longevity making the need for 'lifetime income' ever greater, we expect the pace of change to increase as both annuity providers and annuity advisers respond to changing consumer needs at the point of and during retirement.

At Prudential we look forward to the challenge of meeting the needs of our customers in this important phase of their lives.

About the Pensions Institute

The objectives of the Pensions Institute are to undertake high quality research in all fields related to pensions, to communicate the results of that research to the academic and practitioner community, to establish an international network of pensions researchers from a variety of disciplines, and to provide expert independent advice to the pensions industry and government.

We take a fully multidisciplinary approach. For the first time disciplines such as economics, finance, insurance, and actuarial science through to accounting, corporate governance, law and regulation have been brought together in order to enhance strategic thinking, research and teaching in pensions.

As the first and only UK academic research centre focused entirely on pensions, the Pensions Institute unites some of the world's leading experts in these fields in order to offer an integrated approach to complex problems.

The Pensions Institute undertakes research in a wide range of fields, including:

- **Pension Microeconomics**
  The economics of individual and corporate pension planning, long-term savings and retirement decisions.
- **Pension Fund Management and Performance**
  The investment management and investment performance of occupational and personal pension schemes.
- **Pension Funding and Valuations**
  The actuarial and insurance issues related to pension schemes, including risk management, asset-liability management, funding, scheme design, annuities, and guarantees.
- **Pension Law and Regulation**
  The legal aspects of pension schemes and pension fund management.
- **Pension Accounting, Taxation and Administration**
  The operational aspects of running pension schemes.
- **Marketing**
  The practice and ethics of selling group and individual pension products.
- **Macroeconomics of Pensions**
  The implications of aggregate pension savings and the impact of the size and maturity of pension funds on other sectors of the economy.
- **Public Policy**
  Domestic and EU social policy towards pension provision and other employee benefits in the light of factors such as the Social Chapter of the Maastrict Treaty and the demographic developments in Europe and other countries.

Research disseminated by the Pensions Institute may include views on policy but the Pensions Institute itself takes no institutional policy positions.