

# Pension Freedom

The impact of regulatory change on the  
UK Retirement Market

Mark Flint, 9 September 2015

**SCOR**

# UK Newspaper view of annuities

Millions hit by scandal  
of pensions rip-off  
Daily Express, Aug 2013

Pensioners 'losing  
millions' in annuities  
Times, Dec 2013

Rip-off pension deals cost  
us £230million each year ...  
Mail exposes paltry payouts  
Daily Mail, Feb 2014

Millions of pensioners  
get poor deal, says  
FCA in damning report  
on annuity market  
Guardian, Feb 2014

# Political Dynamite!



**“let me be clear. No one will  
have to buy an annuity”**

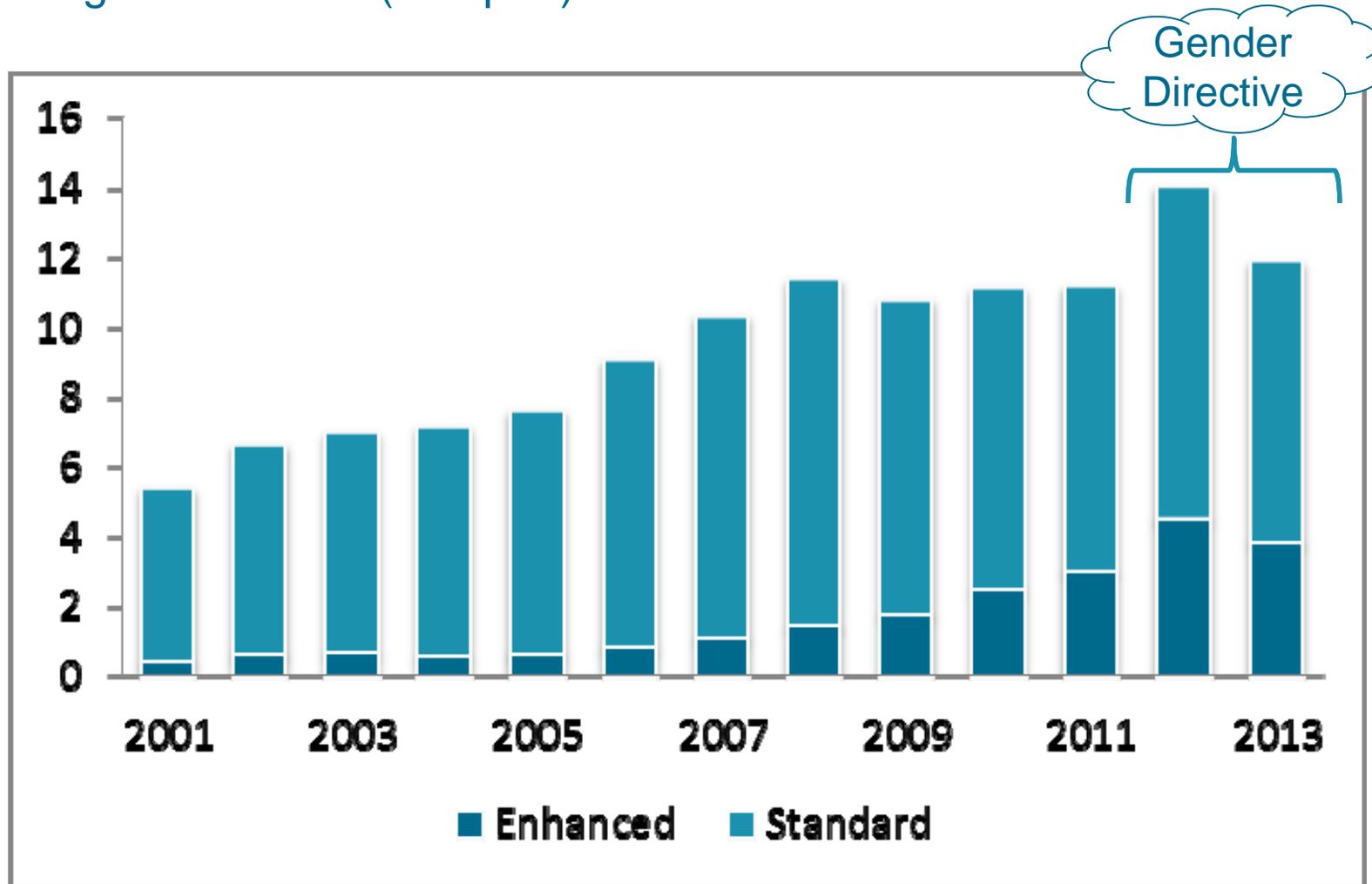
George Osborne, UK Chancellor  
March 2014

# Agenda

1	Personal Pension market before pension freedom
2	The change
3	Initial Outcome
4	Future Prospects

# Before pension freedom: Premium Volumes

Single Premiums (£bn p.a.)



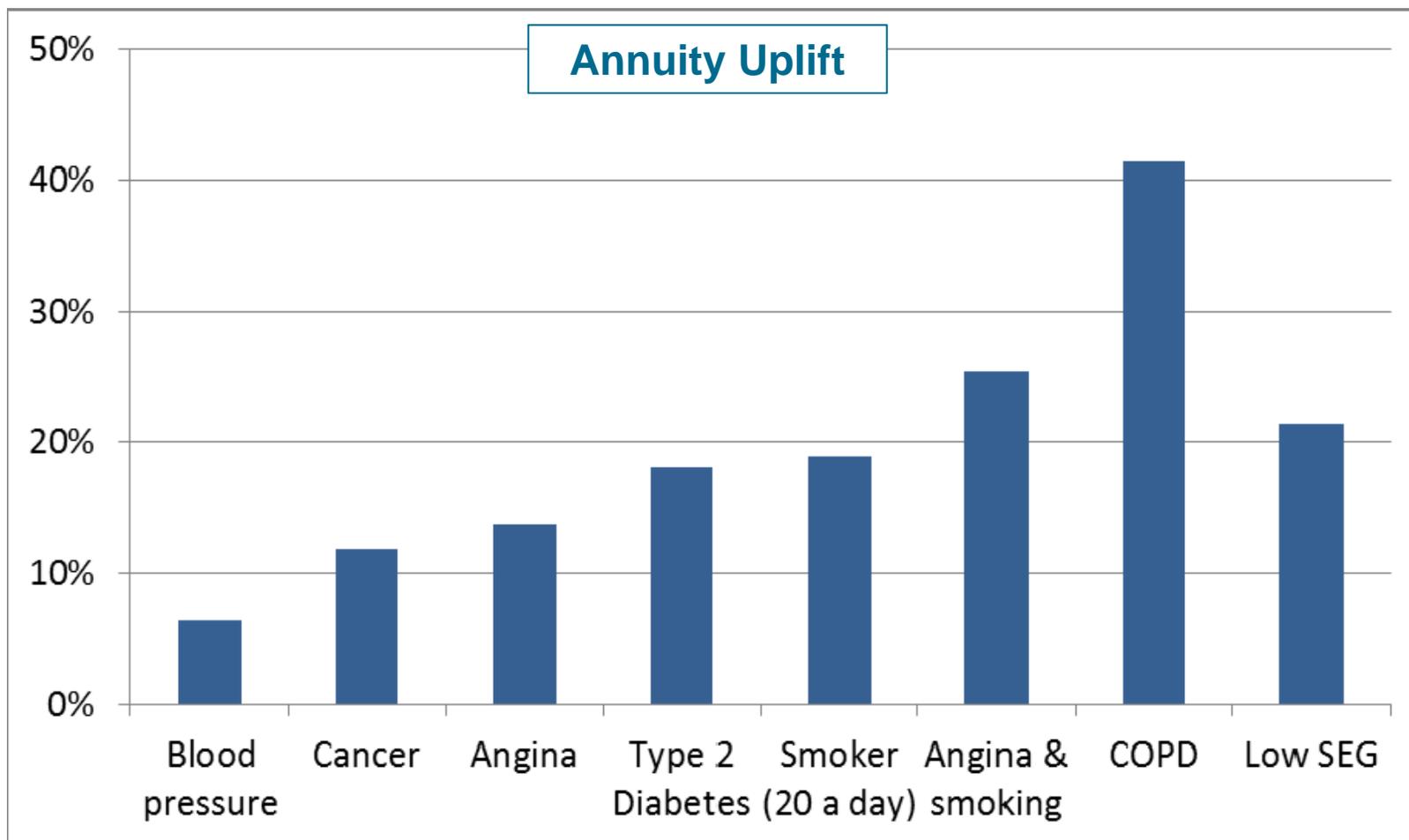
# Before pension freedom: Standard v Enhanced

No enhanced until ~1995

Potential to select against the existing players • • •

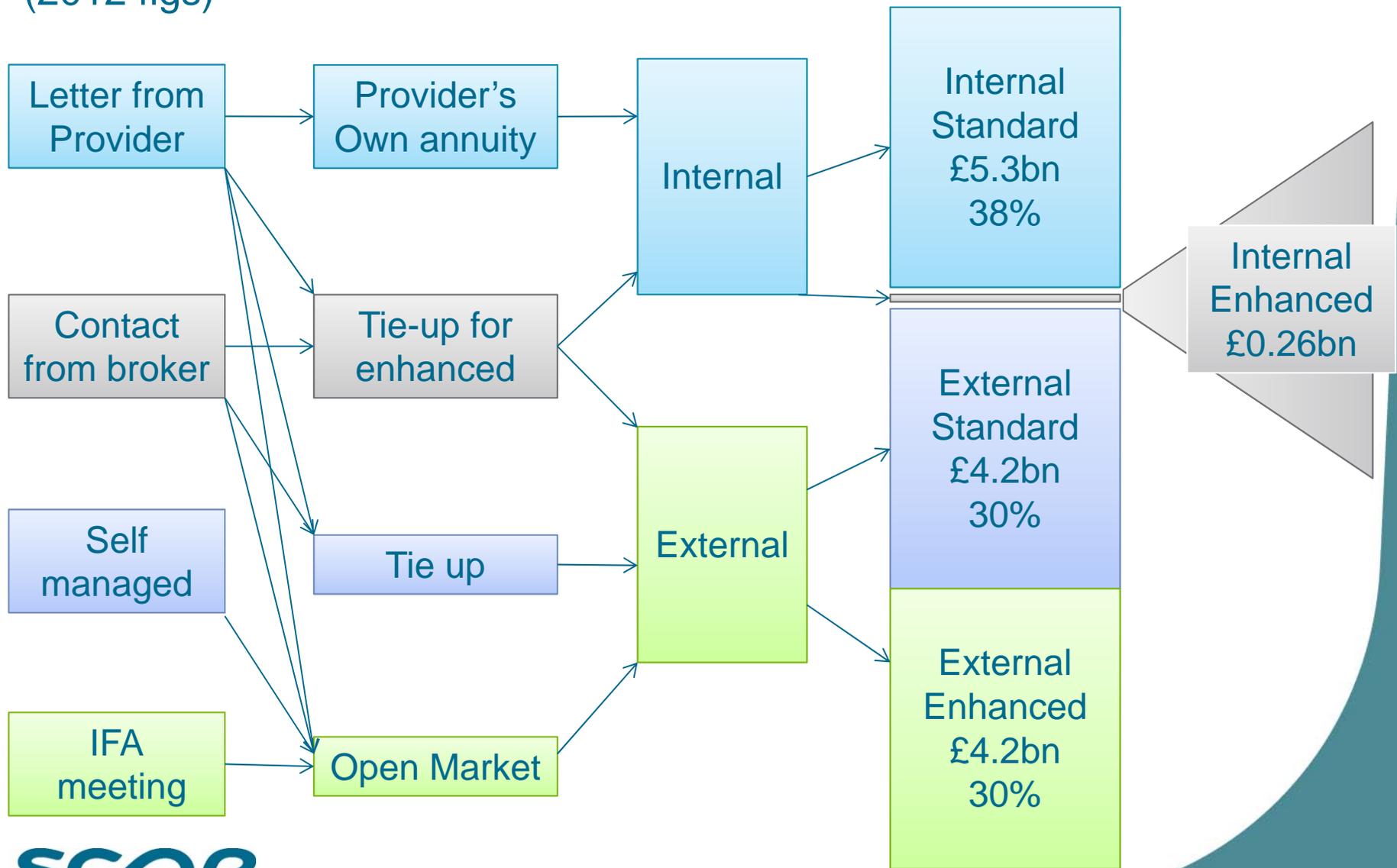


## Before pension freedom: Postcode vs medical



# Before pension freedom: Customer Journey

(2012 figs)



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# Rationale for change

## Political capital

Immediately popular before 2015 election

Accelerates tax receipts for the exchequer

**“Govt to bag extra £880m from pension freedoms”**

*Money marketing, June 2015*

## Conservative Philosophy

More freedom – it is better for people who know what they’re doing!!

## Encourage more private pension provision

Retirement span increasing dramatically

DB shrinking:

Active DB members 3.5 million in 1975 to 1.1 million in 2014 (NAPF survey)

Average total contributions to private sector schemes (ONS 2013): DB 20.6%, DC 9.0%

**Auto-enrolment and pension freedoms** encourage savings

# Technical view of the change

## Personal Pension schemes

Pre April 2015	Post April 2015
25% of savings as tax-free cash	25% of savings as tax-free cash
<b>55% tax rate on cash over and above 25% of savings</b>	<b>marginal income tax rate on cash over and above 25% of savings</b>
drawdown subject to strict limits	allowed to withdraw cash at any pace
encouraged to use Open Market Option	free “Guidance” via Pension Wise

## Defined Benefit schemes ~ £2 trillion

largely unaffected – especially demand for swaps!

# Guidance & Advice

## Guidance (Pension Wise)

**Free** and impartial – general information about products and options

Government sponsored and funded by levy on advisers

Citizens Advice Bureau and TPAS

To expand to cover 50 – 55 year olds

Started April 2015

## Advice

Regulated, personalised and costs money

Greater need due to more complexity

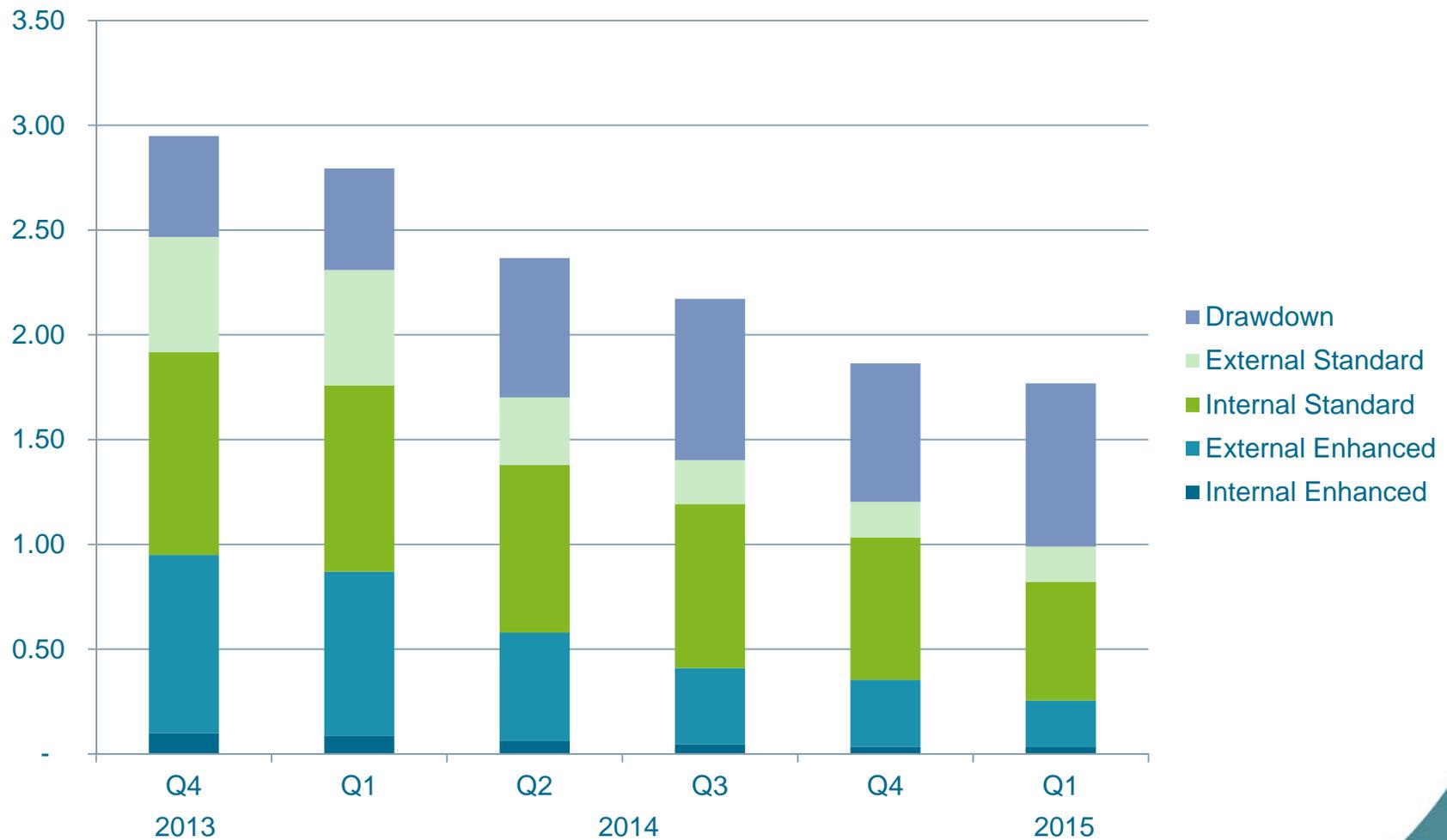
But (2012) 51% of pension pots <£20,000, so charge of £1000+ ~ one year's pension!

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# Initial Outcome: Premium Volumes

Single Premiums (£bn per quarter)



# Initial Outcome: Products & Advice

## Product Development

Not much - tweak drawdown, fixed term annuities, flexibility on cash...

## Guidance

TPAS and Citizens Advice report constructive conversations

Take up low - 18,000 in ten weeks compared to 74,000 annuities sold in Q1,2014.

Concern remains over those who do not access guidance

## Regulated Advice

One or two firms are offering cheaper, simplified advice

Advisers still advising the same people on the same issues

Pensioners sometimes forced to take advice:

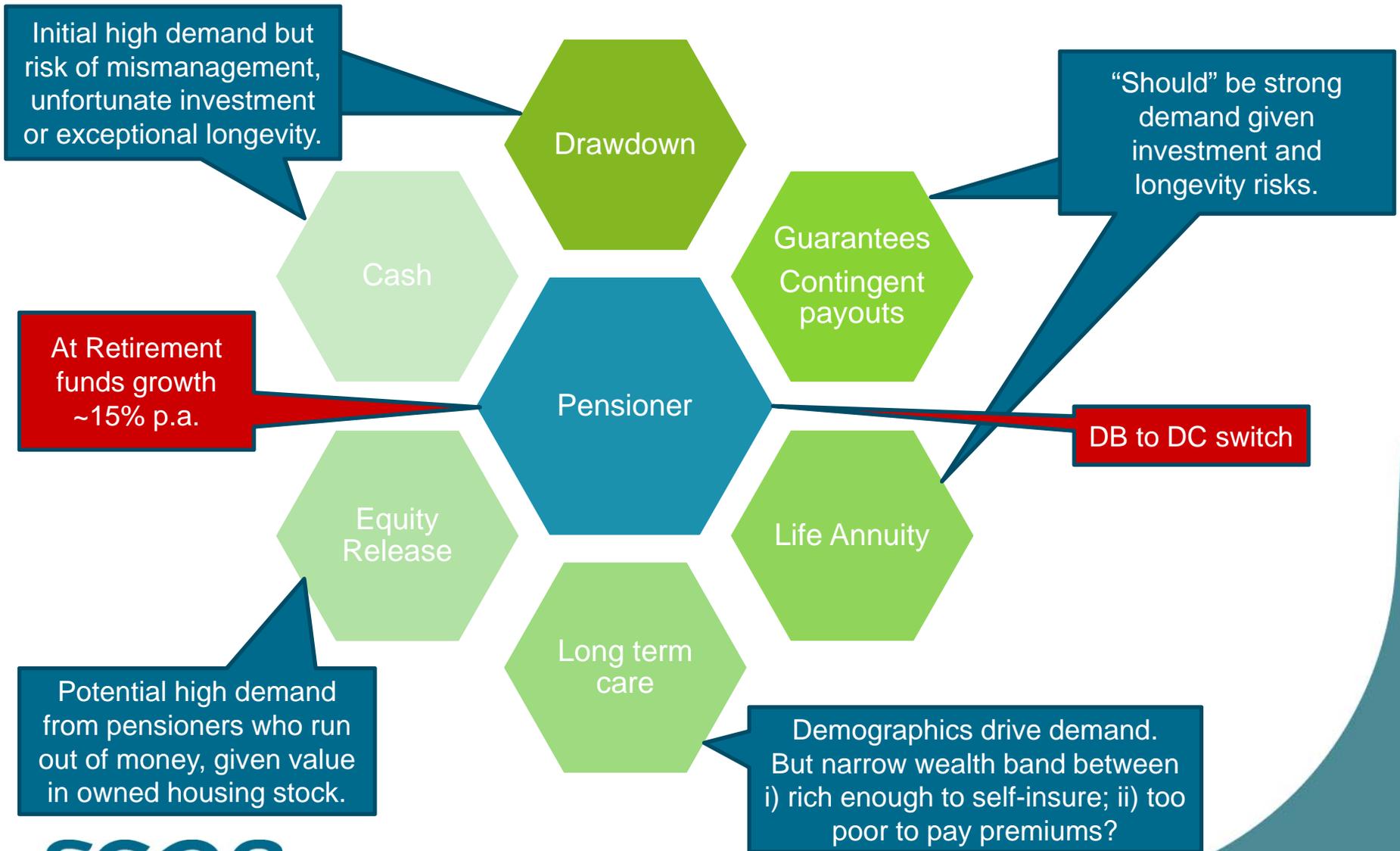
**“Savers accuse pension firms of thwarting new freedoms”**

*Daily Mail, July 2015*

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# Future Prospects



# Summary

- Annuities are viewed as bad value by the media in the UK
- The overwhelming tax incentive to use personal pensions savings to buy an annuity was (effectively) removed from April 2014
- The annuity market has fallen by around 60%, after peaking at over £12bn in 2012, but now appears to be stabilising at the new level
- A large proportion of annuities are still purchased without shopping around
- Personal Pension Savings for those reaching retirement look set to grow steadily and substantially in the next few years
- Although there is significant uncertainty, initial signs are that annuities will continue to play a significant role under the new Pension Freedoms.
- Annuities and other products that enable insurance of longevity risk are likely to be rated by postcode and medical status in future

Thank you for listening  
Any Questions?

Mark Flint, 9 September 2015

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