

Media Release

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Annuity survey highlights an industry polarised and in flux reports Xafinity Paymaster

Results released today from Xafinity Paymaster's inaugural "Annuity Industry Survey 2010" highlighted polarised views from key players in the UK annuity market.

Wide ranging views from annuity industry professionals regarding legislative issues such as NEST, product development and the impact of Solvency II and RDR are included in Xafinity Paymaster's latest survey.

Some highlights of the report include:

- Since the issue of the survey, the government has announced its intentions to take action to scrap compulsory annuitisation. Our survey was split down the middle as to whether the removal of the requirement to annuitise at age 75 would increase the risk of the majority of annuity policyholders "running out of money".
- 37% of respondents agreed whilst 45% disagreed in our survey as to whether the introduction of Solvency II would result in the cost of a lifetime annuity being too expensive for most members of DC arrangements. Some feel prices already reflect this and others see poor value already in a lifetime annuity at retirement.
- 64% of respondents supported the view that the existing range of annuity products along with drawdown and ASP will adequately meet the needs of the UK market for the next five years whilst 22% disagreed. The associated comments delivered a more consistent message to regulators and IFAs that it was less about product range and more about improved quality of advice.
- 59% of respondents generally felt that there would be a modest increase in active annuity providers over the next five years whilst 32% disagreed. Niche annuity providers were viewed as the most vulnerable to Solvency II.
- More than 55% of respondents supported the view that the Government could dramatically improve the annuity landscape and consumer perception if they allowed non utilised pension capital to be included within a deceased annuitant's estate as opposed to being retained by insurer's as "profit"; 39% disagreed as these benefits come at too high a price.

Less contentious results from the survey included: -

- Despite the introduction of a wider range of annuity products, 90% of respondents indicated that lifetime annuities would remain the annuity product chosen by most retirees over the next 5 years.
- 72% agreed that the implementation of RDR proposals, the low levels of annuity pots and the increased availability of internet based information will lead to a decrease in intermediary sales and an increase in execution only business. The

sad reality is that the size of most individual's pension pots will mean that they will not seek advice as they cannot afford to pay for it.

- 72% of respondents agreed that enhanced annuities will follow the path of protection business with more consistent underwriting. Only small pots will limit the cost effectiveness of full underwriting.
- NEST will be pleased that 65% of respondents rejected the statement that read, The small size of pension funds arising from NEST accumulations will mean that the NEST annuity panel is unlikely to include "currently active" annuity providers.
- As well, 67% rejected the view that there will need to be a government supported annuity provider to support the administration of the smaller annuity pots that NEST will create.

Xafinity Paymaster's director of insurance and payroll, Keith Boughton, commented on the mix and divergence of views highlighted in the report:

"The 2010 Xafinity Paymaster Annuity Industry Survey has revealed an underlying need for improved consumer advice when people make decisions regarding the use of their accumulated pension assets.

The last few months have seen the launch of a number of new annuity products from many insurers but annuity industry insiders who responded to the survey have stressed that it is improved advice that is needed not necessarily more products.

Retirement is a considerably more complex issue now than many years ago as a result of increased longevity, long term care considerations, the demise of defined benefit pensions, the increase in semi retirement and the increased transfer of responsibility to the individual.

Whilst the report suggests that there will be an increase in execution only business, the question arises where will the individuals go for self-service advice, whose responsibility is it to provide such advice, and how will this advice be funded?"

ENDS

Notes to journalist:

- A copy of the survey results are attached to this media release
- Photograph of Keith Boughton attached
- Insurance companies, some active and some not active and other influencers that specialise in the annuity space took part in the survey. This is a small group and we've had over a 40% response rate. The report indicates that participants have strong views and sometimes these are quite polarised and interesting.
- Copies of Xafinity Paymaster's annuities brochures
<http://www.xafinity.com/Microsites/Xafinity-Paymaster/Services/Annuity-Payments-and-Administration.aspx>

Background information:

About Xafinity Paymaster

Xafinity Paymaster is a leading business process outsourcer providing pension, payroll and annuity administration for a large number of insurance companies and more than 800 pension arrangements. Xafinity Paymaster delivers large scale financial administration for more than 140 major public and private sector organisations and makes payments totalling over £11 billion per annum to pensioners, dependents and annuitants in 180 countries worldwide.

About Xafinity Paymaster's Insurance and Payroll division:

- Paying 2.2 million pensioners and annuitants including 45,000 residents overseas
- Role in managing 10% of UK deaths
- Administering over 600,000 annuities on behalf of insurance companies.
- UK's leading independent provider of annuity services for insurance companies.

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