



Annuity Industry Survey 2011

Xafinity Paymaster

May 2011

Introduction

Welcome to the 2011 annual Annuity Industry Survey conducted by Xafinity Paymaster.

This survey was undertaken in April 2011 and targeted Product and Service providers, Employee Benefit Consultants, Financial Advisors and Annuity Influencers. This is a significant group and we are delighted to report a response rate of 40% which indicates that participants welcome this forum to express their views. As in 2010 the results indicate that these vary greatly and there is disagreement in a number of areas.

The last 12 months has seen a plethora of measures announced to increase retirement flexibility and it is clear that the shape and mechanics of the future market are still to be determined.

The results of this survey show that lifetime annuities are still expected to be the most widely selected annuity product over the next five years. In 2011, 95% of respondents supported this stance up from 90% in 2010.

Despite this, an increasing percentage of respondents believe that the market still requires a greater number and alternative shapes of product to meet the needs of the market over the next five years. Only 52% of respondents, down from 64% believe that the existing range is adequate.

The last 12 months has also seen a growing recognition that the Internet will play an increased role in decumulation of pension fund assets and that execution only business will play the key role in the future. Over 96% of respondents believe that this to be the case, up from 72% in 2010.

The survey also reveals some conflicting views held. These primarily relate to the sources and means of provision of affordable advice to consumers. It is clear that this issue is one that needs greater focus from all those keen to ensure that the UK has a vibrant and efficient decumulation market that provides appropriate and equitable advice for consumers.

As the leading independent annuity administrator in the UK, we have a role to support the provision of services to support new annuity products as well as ensuring there are appropriate means of servicing a growing annuitant population.

I would like to thank all those who gave their time to participate and share their views and insights into the UK annuity market at this particularly interesting time.



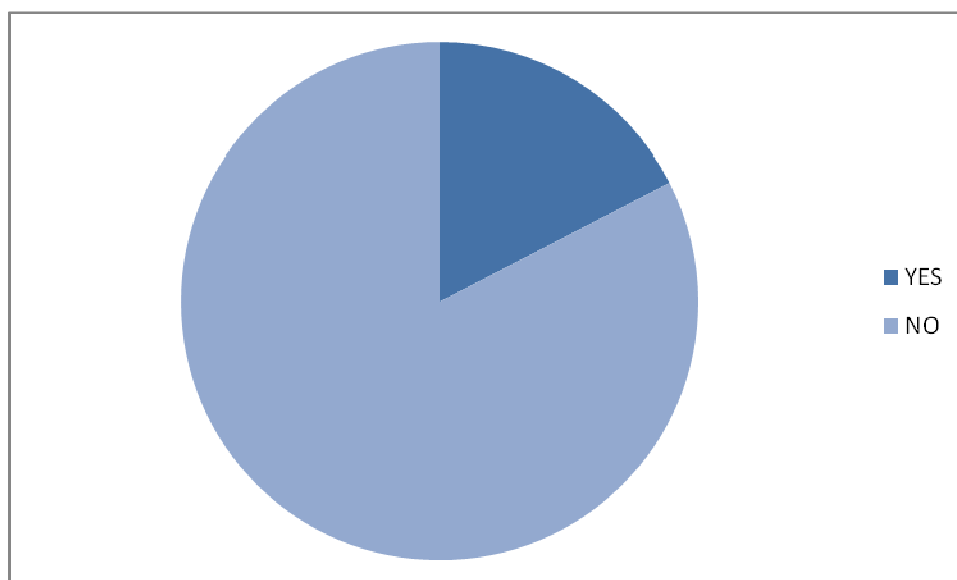
Keith Boughton
Director, Insurance and Payments
Xafinity Paymaster

1. Despite the UK government's efforts to improve retirement flexibility and to make pensions more attractive, has the ECJ ruling re non gender annuity rates effectively destroyed the good that they have done?

Over 80% of respondents felt that the market would soon adapt to the ECJ ruling and that, despite the initial industry reaction, the impact would be relatively short term.

Whilst male annuity rates will deteriorate, the level of this was expected to be small with figures of 1% and 2% quoted by respondents. A strong theme emerged that the ruling would drive more product innovation as providers sought to differentiate from their competitors.

Disappointment was expressed that this ruling would only increase the perception that annuities are poor value.

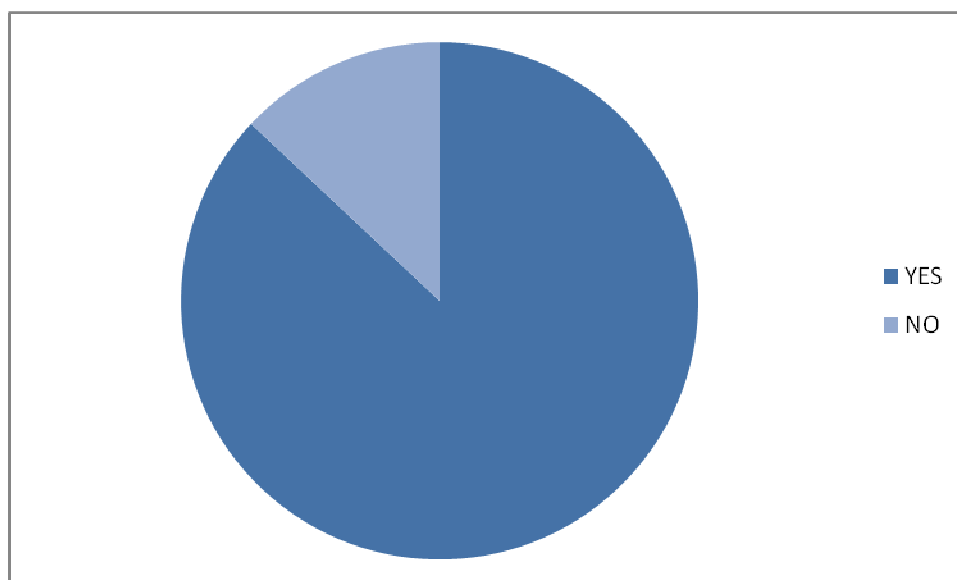


Note: Yes - 17.4%, No - 82.6%

2. Has the hype re abolition of compulsory annuitisation at age 75 been overdone as, in reality, most retirees will not be significantly impacted?

There was a resounding “yes” to this question with almost 90% of respondents stating that the level of noise and comment is inappropriate as the changes will impact a very small percentage of those approaching retirement. Most retirees will continue to purchase annuities as they will have insufficient funds to do anything else. Owners of family businesses who do not want to retire were identified as being beneficiaries of the abolition of compulsory retirement at age 75.

Disappointment was expressed that Industry commentators and product providers have always focussed too heavily on a few wealthy pensioners at the expense of thinking of the mass market.



Note: Yes - 87%, No - 13%

3. Which is the most significant recent change impacting the annuities world?

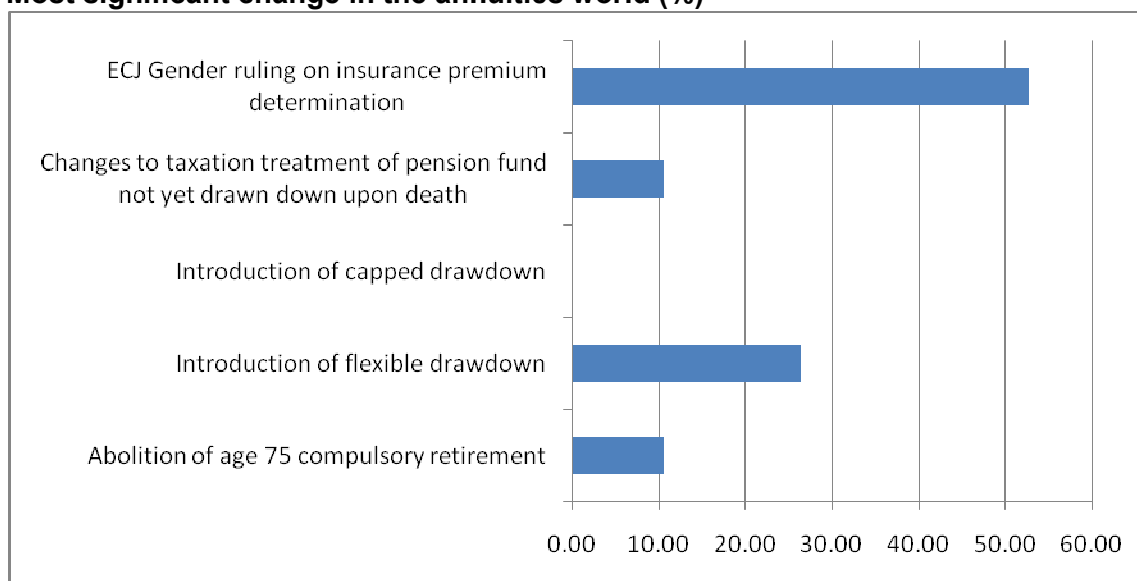
There was little agreement amongst respondents as to the most significant change announced over the last 12 months. Voting was relatively close amongst four of the categories that were put forward with only the introduction of Capped drawdown failing to secure significant support.

The impact of the ECJ gender ruling secured the greatest support on the grounds that this will impact all new annuitants.

The abolition of compulsory retirement at age 75 and the introduction of flexible drawdown attracted support but, confirming the responses to Question 2, the comments noted that the impact of the changes had generally been overdone as relatively few retirees would benefit.

There was general disappointment expressed that the changes to the tax treatment of pension funds not drawn down upon death could have actually been the most significant change and greatly increased the perception of annuities if a less penal tax charge had not been levied.

Most significant change in the annuities world (%)



Note: 52.63%, 10.53%, 0%, 26.32%, 10.53%

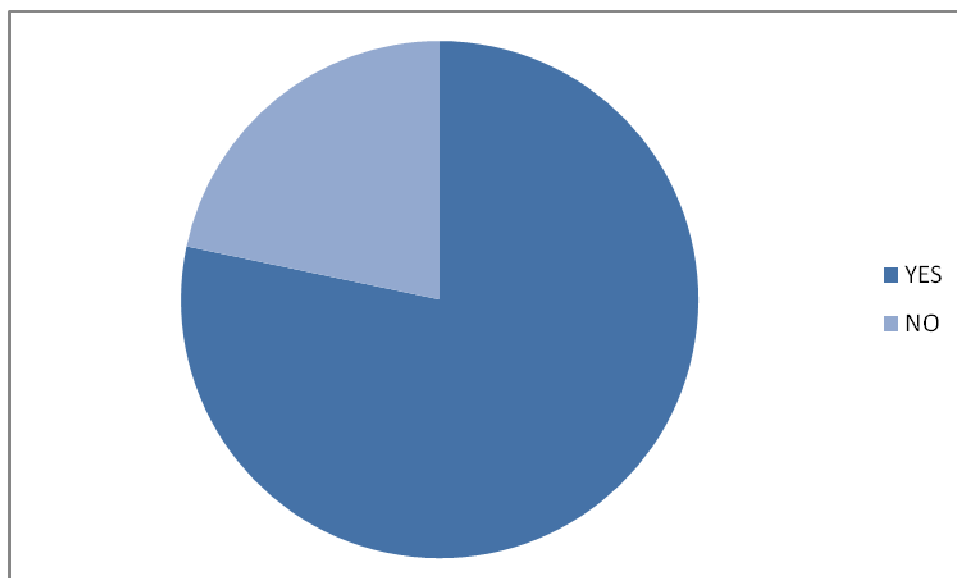
4. Will the various changes planned lead to retirees phasing or blending their selection of retirement products?

For example will they move from drawdown to products with selective guarantees (variable, fixed term, with profits, investment linked,) and then on to lifetime guaranteed annuities?

Almost 80% of respondents believe that this approach is appropriate as a means of helping retirees maximise their retirement funds whilst having regard for the investment risks involved.

Interestingly the balance of respondents also supported the viability of the approach but felt that this would only be taken up by a small number of retirees who received appropriate advice. As a result they had voted “No” due to the small numbers of retirees impacted.

Without exception, all respondents expressed the view that this approach is only suitable for retirees who have sufficient funds to make the approach viable and that unfortunately there will be too few of these.



Note: Yes – 78.3%, No – 21.7%

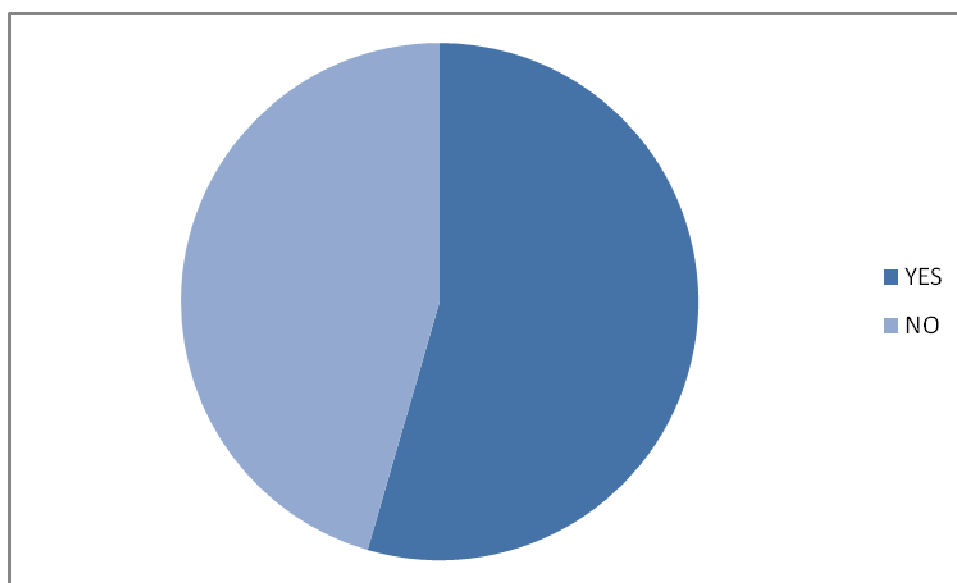
5. Are fixed term annuities which contain an element of equity exposure the next big thing?

Respondents were almost equally split in their responses to this question.

Comments reflected a lot of support for this type of product and a feeling that they should be part of a retiree's portfolio if funds are of a sufficient size and if the retiree has a capacity to take some risk.

The conflict in responses reflected contrasting views as to the impact that this product will have. Some commented that they do not think that it will ever become "mainstream", whereas others said that its impact could be significant and be at the forefront of retirement planning.

There was recognition that a challenge for product manufacturers is the development of a product that is sufficiently attractive to customers at an appropriate price.



Note: Yes – 54.5%, No – 45.5%

6. If it is agreed that retirees need help to determine their retirement product selection or mix where do you think they will go for this?

This question provoked a mixed response and a high number of comments. Everyone recognised that this is a key decision for retirees but views were very mixed as to where retirees will seek advice.

Their existing investment provider secured the greatest support from respondents and this was accepted as being the route that will be taken by those with smaller funds. This view appears to support some of the Industry challenges to increase the use of the Open Market Option (OMO).

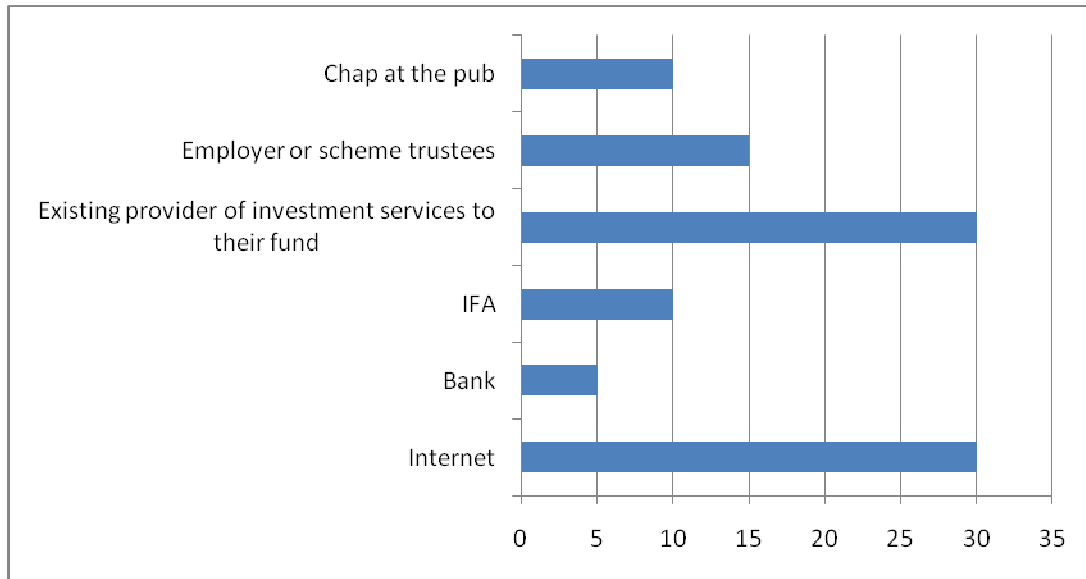
There was recognition that the Internet will be a source of much information and comments made that if it is easy for retirees to transact using this medium then it will attract increased volumes of business. Other retirees will use the Internet for research and then discuss their findings with an advisor or simply transact on a non advisory basis. The use of the Internet and web based specialists will certainly be the focus for retirees with mid range levels of funds.

Employers or scheme trustees would also appear to be a source of help for employees of arrangements when they come to approach retirement and need direction as to the use of their retirement funds. Clearly employers/trustees could then simply redirect members on to another channel but employers/scheme trustees was the third most selected category chosen as the likely initial source of guidance.

Controversially, IFA's only secured the fourth highest number of votes. Whilst many respondents were insistent in saying that all retirees *should* go to an IFA, when it came to saying where retirees *will* actually go, they indicated another source. Comments revealed that a strong belief is that it is only those with larger pension funds or alternative assets who will use an IFA for full advice. This view was supported by comments that the level of IFA fees was an issue and that consumers also had concerns with their confidence in the advice received from IFA's.

Less controversially, the banks received little support from respondents with numerous comments about the public's distrust of banks.

Where are retirees most likely to seek advice?



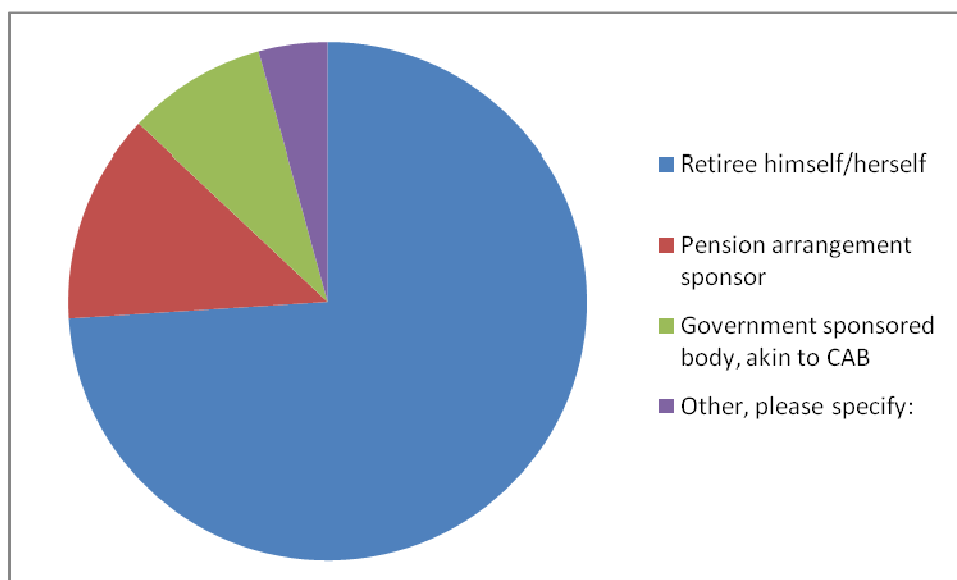
Note: 10%, 15%, 30%, 10%, 5%, 30%

7. Who should meet the costs of retirement advice?

On the face of it the answer to this question was quite clear. Almost 75% of respondents determined that retirees should bear the costs of retirement advice themselves. However, 13% of respondents commented that the pension arrangement sponsor should contribute and almost 9% felt that the Government should establish and fund a body, akin to CAB to help retirees.

A large number of comments suggested that retirees with funds of less than £30k should not have to meet the costs of retirement advice and that this should come from their scheme sponsor or an alternative sponsored organisation.

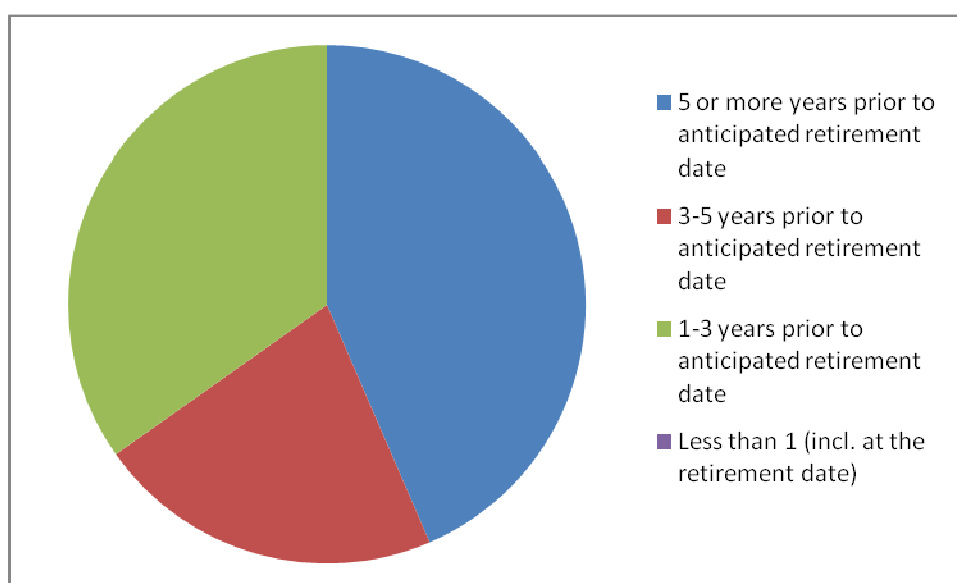
As the vast majority of pension funds still remain at or below the £30k level it would appear that, in a very high number of cases the view is that someone other than the retiree himself should meet the cost.



Note: 73.9%, 13%, 8.7%, 4.3%

8. When should retirees start receiving guidance upon their annuity options?

A mixed response but a general acceptance that retirement financial planning does not start early enough. Whilst a third of respondents felt that this should start 3 years away from a planned retirement date, more than 40% feel that this should start 5 or more years before planned retirement. A number of comments were made that receiving advice ten or more years prior to retirement would be welcome and encourage greater understanding and retirement saving.



Note: 43.5%, 21.7%, 34.8%, 0%

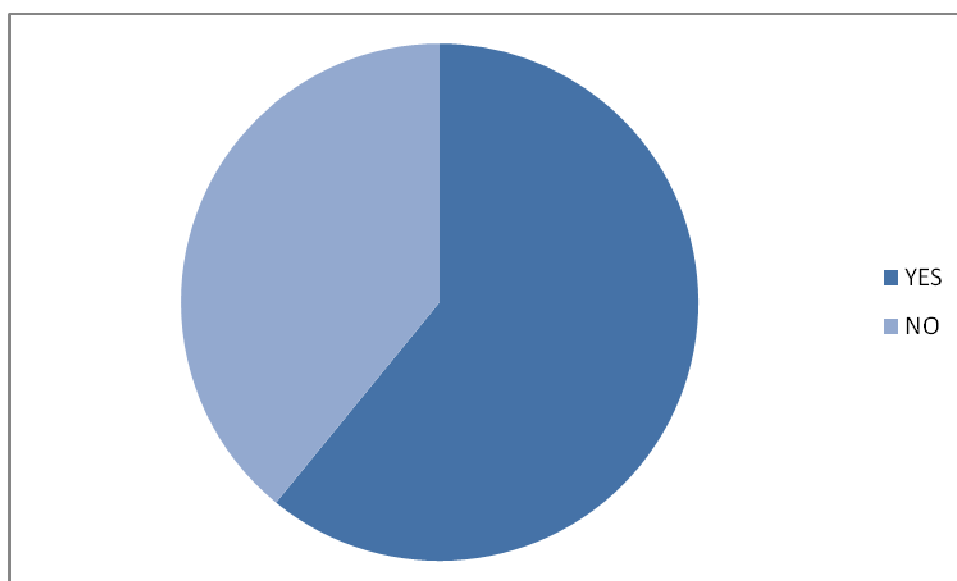
9. Should legislation be enacted to enforce the use of OMO?

The adoption of legislation or the introduction of regulation as proposed by one respondent, gained support from over 60% of the returns.

However a significant number did not support this and viewed it as being too heavy handed and failing to recognise the importance of brand to the consumer. Many retirees will accept a lower annuity from a company that they trust as opposed to receiving a higher amount from an untrusted brand. Some comments were made that OMO is working but an equal number of comments were made that it is not so legislation is required to enforce this.

The cost of gaining advice and the administrative complexities of an external annuity purchase were also cited as being reasons for stagnation in take up of the OMO.

The compulsory provision of alternative illustrations was cited as being the next requisite to improve OMO take up.

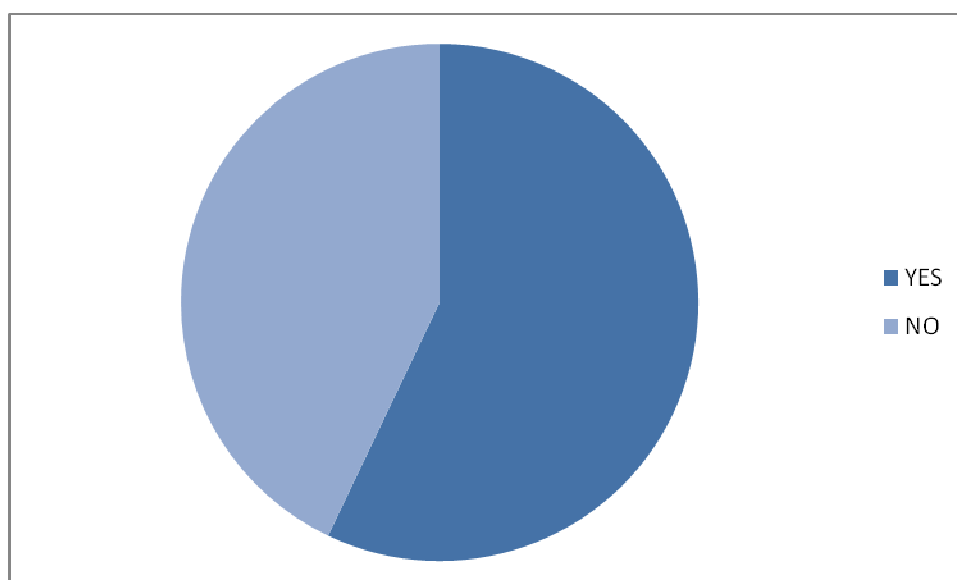


Note: Yes – 60.9%, No – 39.1%

10. For vesting pensions portfolios does the incumbent provider need to offer more than a lifetime annuity to retain customers?

Respondents correctly linked their response to this question with their stance regarding the compulsory use of OMO. However, there was a common view that retirees do need to have access to a wider range of retirement products, whether this is via their existing supplier or whether this is via the OMO route.

The entire question of how a retiree can receive affordable and appropriate guidance to determine the appropriate product choice was again identified as being a key issue for the Industry to address.



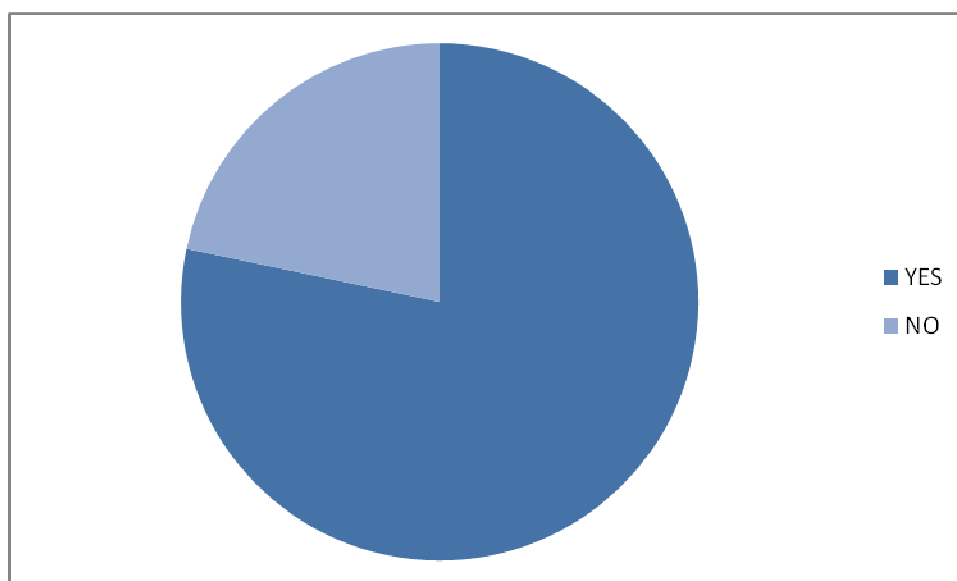
Note: Yes – 57.1%, No – 42.9%

11. NEST has determined that they do not wish to be an annuity provider? Do you feel it is appropriate for NEST to abandon annuitants as soon as the annuity has been purchased through an annuity panel provider?

NEST's stance in not providing annuities secured support from almost 80% of respondents. However comments stressed the need for an efficient framework to connect NEST retirees with competitive annuity providers.

The market competitiveness of the NEST panel was seen as being particularly important in maximising retirement income for retirees with comparatively small levels of accumulated funds. There was an acknowledgement that whilst a competitive private sector is anticipated, if this fails to emerge or ceases to exist then NEST's role should be reviewed.

One respondent suggested that life would be simpler if a National Annuity arising from NEST funds was simply paid alongside State pension benefits.



Note: Yes – 78.3%, No – 21.7%

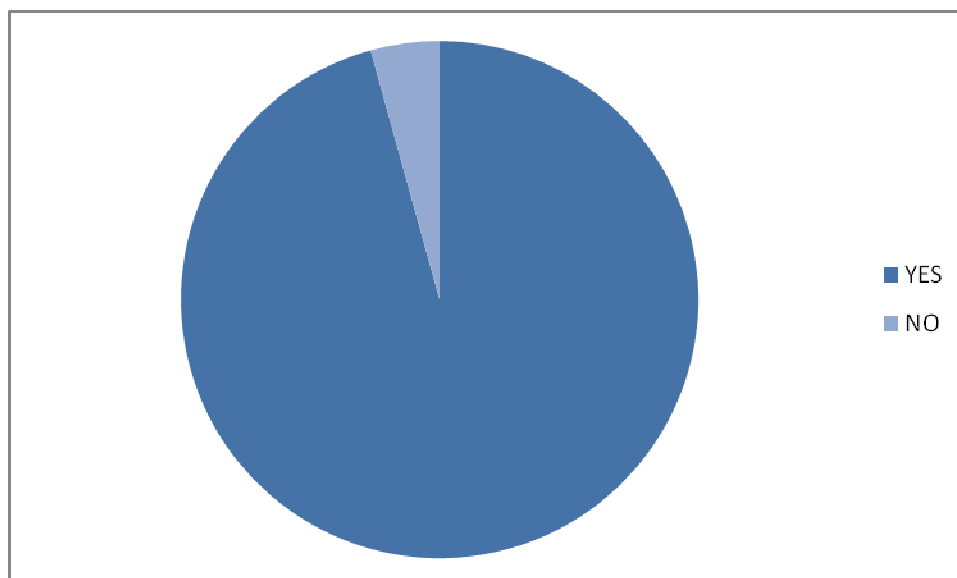
12. Despite the introduction of an increased range of annuity products lifetime annuities will remain the annuity product chosen by most retirees over the next five years?

This question was also asked in 2010. The survey response this year revealed that despite the plethora of recent measures and the development of new products lifetime annuities will remain the annuity product chosen by most retirees over the next five years. Over 95% supported this view compared to 90% in 2010.

Some of the comments given in support of this view were along the same lines as those given in 2010, the lack of fund size and the cost of advice and alternative products.

However, a limited appetite for risk taking, insurance company and IFA inertia were also quoted as reasons for this.

One comment expressed regret that this is the case and that retirees are taking an easy option.



Note: Yes – 95.7%, No – 4.3%

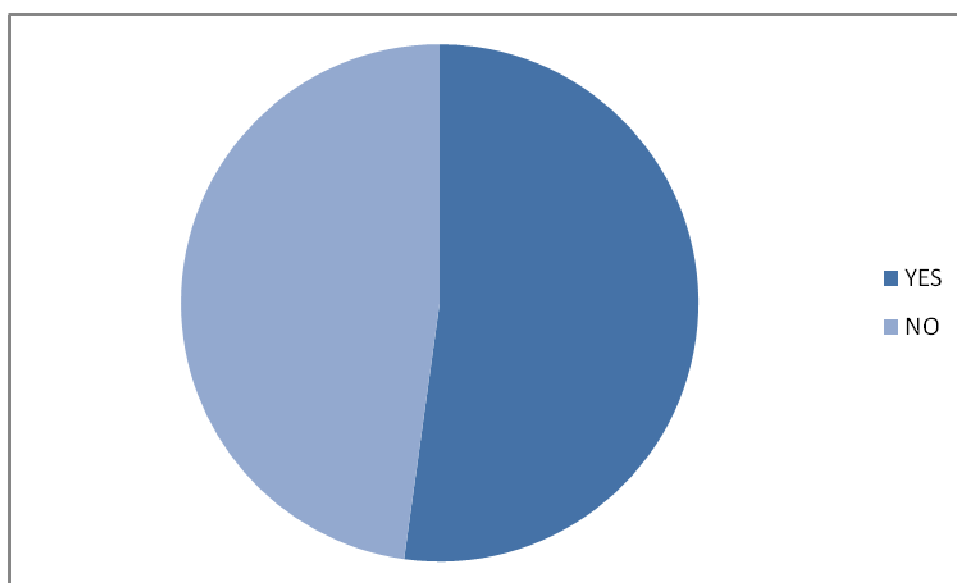
13. The existing range of annuity products will adequately meet the needs of the UK market for the next five years?

This question was also asked in 2010 and whereas in 2010 over 64% of respondents felt this to be the case, this figure dropped to 52% in 2011.

Comments included pleas for care funding annuities, more product initiatives, more innovation and “clever” products enabling retirees to more easily manage a range of in-retirement products, including a fixed term annuity with an element of equity exposure as discussed in Question 5.

Other comments argued that it is not more products that we need but better and more efficient ways of providing advice.

It is clear that there is still considerable dissatisfaction within the Industry and a clear divergence of views as to where the focus should be.



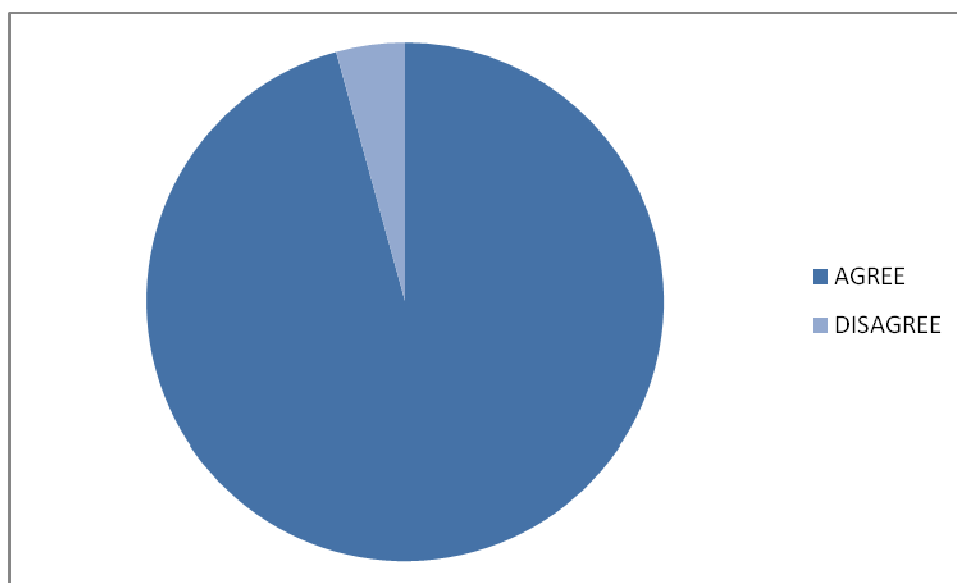
Note: Yes – 52.2%, No – 47.8%

14. 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.

In 2010 just over 72% of respondents felt that there would be a decrease in intermediary sales and an increase in execution only business.

Twelve months on this figure has grown to almost 96% as the consumer market is seen to be segmenting as discussed in Question 6. Execution only is generally viewed by respondents as inevitable for the smaller pension fund pots where the cost of advice and the availability of internet based information makes “self service” or an execution only service commercially attractive.

Respondents commented that IFA’s will decline in number and increasingly target their efforts at retirees with funds of more than £150k where the cost of bespoke advice can be better afforded. A degree of regret was expressed by a number of respondents about this position.



Note: Agree – 95.7%, Disagree – 4.3%

Other Comments

Respondents were also invited to contribute any additional comments that they wished to make regarding the Annuity market. These comments are repeated verbatim and do not necessarily reflect the views of Xafinity Paymaster.

“Sadly the industry has always focused too much on the few wealthy pensioners at the expense of thinking about the mass market.”

“No-one, even and specifically people on lower incomes (who have a lower life expectancy) should not buy an annuity at retirement if they are in good health when every statistic shows that by late 60s the majority of people suffer from something which would entitle them to an enhanced annuity and a higher income at that point.”

“The majority of retirees have relatively small pension pots, so will be largely unaffected. Those individuals with larger (£100k+) funds will have more choice and are likely to be able to better-plan their retirement.”

“Bread & Butter will go direct to provider or scheme adviser, Middle Britain will look for web based specialists and Fat Cat will need advice.”

“Research will be done on the internet. If the ability for them to purchase is simple then a number will purchase or look to get help with advisers via the internet.”

“Make people aware early enough for them to see what pension they are likely to receive and have some time left to make a difference by further savings etc.”

“The OMO should be scrapped for a more wide ranging entitlement to transfer.”

“For NEST to provide annuities would require them to borrow and take on considerably more capital than they need to run the accumulation phase. Since the borrowing would most likely be from the government, this would be tantamount to the government supplying annuities. NEST should not supply annuities whilst there is a competitive private sector able and willing to provide them. The answer may be different if there ceases to be a competitive private sector.”

“IFA's will continue to decline in number and increasingly be targeted at the provision of advice to the wealthy.”

More information

If you would like more information about any of the content in this survey or you would like to find out more about Xafinity Paymaster's annuity service offerings please call or email. A copy of Xafinity Paymaster's annuity brochure is available on our [website](http://www.xafinitypaymaster.com) - www.xafinitypaymaster.com

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About Xafinity Paymaster

Xafinity Paymaster is a leading business process outsourcer providing pension, payroll and annuity administration to more than 750 schemes and 2.9 million members, covering the full spectrum of sizes and arrangements. Xafinity Paymaster supports 130 major public and private sector organisations and makes payments totalling over £11 billion per annum to pensioners, dependants and annuitants in over 180 countries worldwide.



Xafinity was awarded the "Third-Party Administrator of the Year" award at the Professional Pensions UK Pension Awards 2011.

About Xafinity Paymaster's Insurance and Payments division:

- Paying 2.2 million pensioners and annuitants including 45,000 residents overseas
- Niche service provider to insurance companies
- 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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