



A NEW TAKE ON ANNUITIES

The ABI's new code of conduct on annuities is shortly to come into force, but will it provide the complete solution for the post-RDR consumer? **Edward Murray** investigates...

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A new code of conduct around annuities comes into force on 1 March and although the initiative from the Association of British Insurers (ABI) is welcome, it only represents part of the solution required. The new code will push providers into giving more information to customers around their options at retirement – as outlined in the box opposite – and encourage more people to really investigate the annuity choices available.

This is good news, but there are still too many people missing out on the best option available and making poor decisions around the annuity products they buy.

Not shopping around
During 2012, 800,000 people reached the age of 65, giving some indication of the number of individuals making decisions about their retirement income each year and potentially buying an annuity. However too many are still not shopping around and figures from Partnership Assurance suggest that only 55% of the

annuity market, by volume, is placed through the open market option. As Phil Brown, head of retirement solutions at LV, comments: "Around 40% of people buy the annuity from the provider they had the pension with and many could get a better rate elsewhere." As part of the new annuity code of conduct initiative the ABI will publish annuity rate tables and Stephen Gay, the ABI's director of life, savings and protection says: "For the first time, we will be publishing rates of companies who only offer rates to existing customers as well as companies competing on the open market. Buying an annuity is one of the most important financial decisions people make and shopping around for the right one can make a significant difference to people's retirement income." Whether the ABI is actually the best placed organisation to be publishing such information is up for debate and Brian Steeples, managing director at Turriss Wealth

retail distribution review (RDR) environment is threatening to make access to advice unaffordable for some consumers.

This is particularly true for those with small pension pots and, at the recent Retirement Income Summit, hosted by the International Longevity Centre – UK, 78% of delegates believed that the RDR would result in an advice gap for such individuals.

Whether or not this is borne out in practice remains to be seen but, as Mr Brown comments: "There is a possibility that, following RDR, a lot of people will not get advice that they would benefit from."

In turn, this creates opportunities for the adviser market and Mr Brown adds: "There is absolutely a gap in the market and some firms are already doing this [providing a service to those with smaller pension pots]."

Certainly the advent of online technology will help advisers going down this road and while securing decent volumes will be the crux of such a model, it should certainly be possible to provide affordable and streamlined advice or guided sales process that helps consumers with small pension pots get to the best annuity option for their own particular set of circumstances.

Given that figures from the Department for Work and Pensions estimate there are already more than one million small pension pots in the UK system, with a further 50,000 being created every year, the issue affects a significant number of people.

It's not just about the rate

However, in encouraging people to shop around and look out the best option, it is important the industry does not fall into the trap of making people chase the rate offered above all else.

Rightly, for example, there has been a lot of

Management, believes it may actually pave the way for problems.

He says: "People could construe that as advice or guidance and there are so many options to look at when it comes to annuities that it could create problems. The ABI ought to make it clear that there are different rates, but I do not think it should be quantifying that in any shape or form."

Too much information?

In truth, there is no shortage of best buy tables for annuity rates and, indeed, part of the problem is not so much a lack of information but the glut of poorly directed and inaccessible information around annuities that consumers have to wade through.

This is a point made by the International Longevity Centre – UK. In a report entitled *Advice for All*, published in November last year, it called for a stop to consumers receiving what it referred to as: "volumes of compliant but ultimately overwhelming information".

In addition, it said consumers should receive the key details about their policy on just half a side of A4 paper from their pension provider and that all consumers should have the right to a short conversation about their retirement options.

At a time when so much effort is being invested in making sure people pick the best option available to them around annuities, it is frustrating for many that the new post-

ABI CODE OF CONDUCT EXPLAINED

The code of conduct will require the ABI's members to:

- Provide clear and consistent communications to ensure customers are able to make informed and proactive decisions about retirement income products, and are able to shop around for the most appropriate product;
- Prominently highlight enhanced annuities, and the much higher income they can potentially offer, and inform customers whether they offer these products, and how to find out who does;
- Clearly signpost customers to advice and support, both from regulated advisers and government-backed advice organisations;
- Establish transparency in the annuity market so that customers have a clear picture of how individual providers' product offerings fit in with the wider market.

talk about the ability of impaired or enhanced annuity products to offer individuals a better income in retirement, but for many this is not the main priority as Mr Steeples explains: "If people have a medical condition then they often want to protect their spouse and make sure there is an ongoing income in the event of them dying."

Where the spouse in question is healthy, Mr Steeples says this negates the beneficial impact on the annuity rate offered on a joint life annuity product and is just one example of how wider considerations than just the income must be looked at.

This is a point that Mr Brown also makes: "People have to look at what they are trying to achieve before they look at the product. They need to decide what their key objective is. Most of the decisions cannot be changed once they have been made and that is why advice is so important around annuities."

Ultimately, Mr Brown would like the annuity market to get to a stage where each individual is underwritten at a personal level and he believes technology and dynamic question sets will help the sector follow the lead set by the general and life insurance markets.

The ABI's code of conduct may not deliver these outcomes, but it will encourage consumers to become more inquisitive about their annuity options. This is definitely a step in the right direction and will also create opportunities for advisers seeking to serve better-informed and more inquisitive customers. ☺

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