Financial Conduct Authority

Retirement Income Market Data

July – September 2015

Contents

Introduction

The pension reforms have brought about significant changes in the way consumers can access their pensions. We have collected data from retirement income providers so we can track and monitor changes in the market.

We asked a representative sample of pension and retirement income providers to give us data on a quarterly basis. The data analysis in this report reflects data collected for the period July to September 2015. This is the second quarter immediately post implementation of pension reforms and so this may not reflect longer term trends.

We are using this data to help shape the way we regulate this market, and are carrying out an analysis of risk indicators at firm level to inform the way we supervise firms. This data will also inform our planned work looking at retirement outcomes in Q2 2016.

This report is part of our commitment to monitor and assess the impact of the pension reforms which we made in the Retirement Income Market Study[1]. It also follows on from data we collected in the summer to contribute to HM Treasury's consultation on pension transfers and any potential barriers for customers seeking to access the new pension flexibilities[2].

This report covers the data we collected on the pension and retirement income market in the July to September 2015 quarter, including:

- choices made by consumers accessing their pensions
- guaranteed annuity rates – levels taken up and not taken up
- levels of withdrawals for customers making a partial withdrawal
- use of regulated advisers and consumers' stated use of Pension Wise
- whether consumers change providers when accessing their pensions

This is the first publication of our planned quarterly publications of this data. In future, quarterly data will be included in our data bulletins.

1 www.fca.org.uk/news/market-studies/retirement-income-market-study

2 www.fca.org.uk/news/pension-freedoms-data-collection-exercise-analysis-and-findings

1. Executive summary

1.1 The data we collected shows how consumers accessed their pensions in the period from the beginning of July to the end of September 2015. Our sample of firms covers an estimated 95% of defined contribution (DC) contract-based pension schemes assets.

Fully withdrawing money

1.2 In the quarter July to September 2015:

- 178,990 pensions have been accessed by consumers to take an income or fully withdraw their money as cash.
- 120,969 pensions were fully cashed out. This includes customers who accessed their pension before this quarter and chose to fully withdraw in this quarter and customers accessing their pension for the first time in the quarter. Of the pensions that were fully cashed out 88% were small pot pensions (Figure 9)[3]

Consumer choices

1.3 Of the 178,990 pensions that were accessed (Figure 1):

- 60,600 (34%) used Uncrystallised Fund Pension Lump Sum (UFPLS)[4] (both partial and full withdrawals)
- 54,604 (30%) used income drawdown (both partial and full withdrawals)
- 23,385 (13%) were used to purchase an annuity
- 40,401 (23%) were full withdrawals using small pot lump sum payments

1.4 Of the above drawdown and annuity figures, 3,381 were used to purchase 3rd way products[5].

3 We are using the term 'small pots' to capture small pot lump sum payments of £30,000 and below and all other pensions below £30,000 i.e. up to £29,999.99.

4 From April 2015 UFPLS was a new way for consumers to take cash from their existing pension.

5 3rd way products include variable annuities, fixed term annuities, with profits annuities and unit linked annuities. Purchases of these products are also included in drawdown and annuity figures.

Guaranteed Annuity Rates (GARs)

1.5 Fifteen providers in our sample had pension policies with Guaranteed Annuity Rates (GARs). Overall 68% of GARs were not taken up[6]. This figure will include customers who are too young to exercise their GAR. This trend was higher in small pots, where 79% of those with pensions below £30,000 with a GAR did not take them up (Figure 8).

Level of withdrawals

1.6 Customers using drawdown or UFPLS made partial withdrawals in the quarter at the following rates as a percentage of their pension pot after tax free cash:

- Less than 2% 180,321 (71%)
- 2 – 3.99% 32,169 (13%)
- 4 – 5.99% 7,243 (3%)
- 6 – 7.99% 5,862 (2%)
- 8 – 9.99% 4,442 (2%)
- 10% or more 24,396 (10%)

1.7 Customers aged 55-59 made the highest level of withdrawals as a percentage of their pension pot (Figure 10). 27% of these customers took an income of 10% or more of their pot after any tax free cash was deducted. Our data includes regular and ad-hoc withdrawals, existing customers who entered into drawdown historically and customers accessing their pensions for the first time.

Use of regulated advisers and Pension Wise

1.8 Customers' use of regulated advisers differs across each product type and by pension pot size. The highest levels of adviser use were for customers going into drawdown (58%). Across all products and withdrawals, consumers with larger pots were more likely to have used a regulated adviser (Figure 11 - 14).

1.9 We asked firms for details of when advice had been provided at the point that consumers accessed their pension, but some providers only record whether an existing consumer used a regulated adviser when they set up their pension. This is because consumers going into drawdown may be using an option within their existing pension plan and there is not necessarily a new purchase decision or advice at the point of accessing income.

1.10 On average, 17% of consumers told their provider they had used Pension Wise. This increases to 22% of consumers with small pots where use of regulated advice is lower (Figures 11 - 14). Providers are only required to record whether a consumer said they used Pension Wise when consumers are not using a regulated adviser.

6 One life company was unable to provide figures for GARs that were not taken up.

Provider choice

1.11 The majority of consumers accessing their pensions this quarter stayed with their existing pension provider to do so (Figure 15):

- 58% of consumers going into drawdown stayed with their existing provider
- 64% of consumers purchasing annuities stayed with their existing provider

Pension Freedoms

178,990
pensions have been accessed by consumers from July to September 2015

This is a 13% drop from the 204,581 reported in data the FCA collected for April to June 2015*

120,969
pensions were fully cashed out in the quarter

This includes customers who accessed their pension before this quarter and chose to fully withdraw in this quarter and customers accessing their pension for the first time in the quarter. In this quarter 88% of full withdrawals involved pots of less than £30,000

68%
of Guaranteed Annuity Rates (GARs) were not taken up

Of the GARs that were not taken up, 79% were in pots of less than £30,000 and 90% were in pots of less than £10,000

71%
of customers making a partial withdrawal took less than 2% of their pot after tax free cash

Consumers aged 55-59 made the highest level of withdrawals

58% of drawdown
and
37% of annuity customers used a regulated adviser

Customers with larger pension pots were more likely to have taken regulated advice

58% of drawdown
and
64% of annuity customers stayed with their existing pension provider

Consumers going into drawdown may be using an option within their pension and so there is not necessarily a new purchase decision point when accessing their income or fully withdrawing

7 www.fca.org.uk/news/pension-freedoms-data-collection-exercise-analysis-and-findings

2.
Our sample

2.1 We sent our data request to a sample of 95 pension and retirement income providers. We selected the sample from firms with an FCA permission for 'establishing, operating or winding up a personal pension scheme'.

2.2 We included all life insurers who reported pension reserves of more than £2bn on their Annual Insurance Returns[8] and all non-life insurance personal pension operators with more than £500m of assets under administration. This accounted for 71 firms. To ensure we had good coverage, we selected the remaining 24 firms by taking every fifth firm in the remaining population ordered by size of pension assets.

2.3 The 95 firms in our sample are part of 58 firm groups. We sent our data request at a group level and asked all respondents to provide information for all 'FCA regulated legal entities' within the group that are retirement income product manufacturers, pension scheme operators and advisory firms selling products manufactured by the group.

2.4 We removed two firms from our sample after one confirmed they no longer used the permission and the other confirmed they offered a white-labelled pension, for which we collected the data from the originating scheme operator. Two firm groups failed to provide the data in time. We plan to ensure these two are included next quarter. The information in this report is from the remaining 54 firm groups.

2.5 Based on our records, we estimate our sample of firms captures at least 95% of market share by contract-based DC pension assets under administration. We estimate our sample has captured almost the entire individual annuity market by premium and the vast majority of the drawdown market by assets.

2.6 We asked firm groups to provide information on all UK DC Personal & Stakeholder Pension Arrangements and DC Occupational Pension Schemes where they are the pension scheme provider and/or the retirement income provider. We excluded Defined Benefit (DB) pensions, trust-based occupational money purchase pensions where firms are not the trustee and pension assets managed on behalf of third parties e.g. Trustee investment plans (TIPs) and pension investment plans (PIPs).

8 2013 Annual Insurance Returns

3.
Consumer choices

UFPLS was the most common way for consumers to access their pensions (34%) over the quarter with drawdown the most popular product for consumers staying invested. Policies with Guaranteed Annuity Rates (GARs) are not being taken up by two thirds of consumers (68%) which will include those at an age when they are not yet able to exercise their GAR. Small pots dominate across all products, including GARs not taken up.

Numbers of pensions accessed

3.1 178,990 pensions were accessed in the second quarter after the pension freedoms came into force. This is a 13% drop on the figure of 204,581 we reported from our April to June quarter data collection[9].

3.2 The data from one quarter to the next is not directly comparable because of different samples and the way questions were framed. However, we believe the trend of lower numbers of consumers accessing their pensions from the first quarter to the second reflects what has happened in the market and is consistent with the feedback we have had from firms.

Full withdrawals

3.3 We collected data on full withdrawals that took place this quarter. This includes customers who accessed their pension before this period but chose to fully withdraw in this quarter. 120,969 pensions were fully cashed out. Of these, 88% were small pot pensions.[10]

9 Our sample of firms from April to June and from July to September are not exactly the same

10 We are using the term 'small pots' to capture small pot lump sum payments of £30,000 and below and all other pensions below £30,000 i.e. up to £29,999.99

Product choices by consumers accessing their pensions

3.4 Of the 178,990 pensions that were accessed:

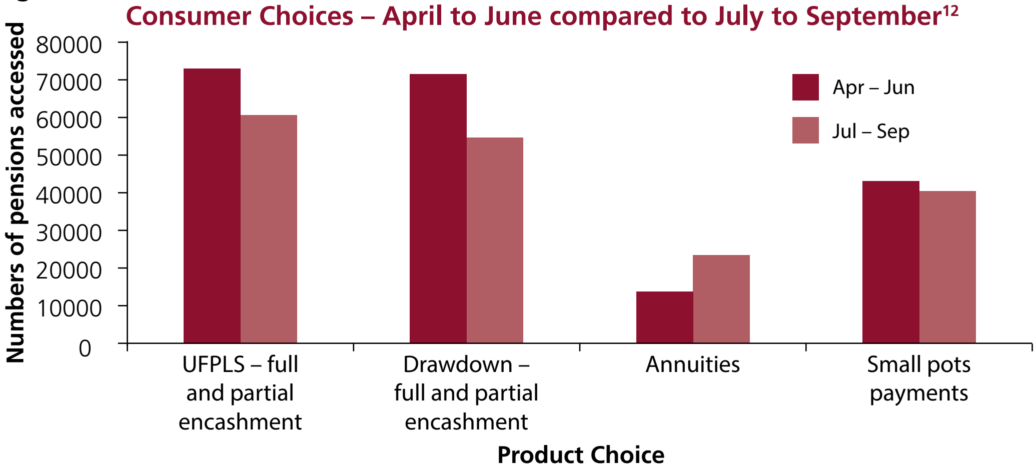
- 60,600 (34%) were accessed using UFPLS (both partial and full withdrawals)
- 54,604 (30%) used income drawdown (both partial and full withdrawals)
- 23,385 (13%) were used to purchase an annuity[11]
- 40,401 (23%) were full withdrawals using small pot lump sum payments

3.5 The data we collected on UFPLS and drawdown this quarter includes consumers who accessed their pensions for the first time and immediately fully withdrew their money. Figures 1-5 therefore include full withdrawals as well as those staying invested in drawdown and after using UFPLS.

3.6 There was a reduction in numbers compared to the April to June quarter (Figure 1) for everything except annuities.

Figure 1

Consumer Choices – April to June compared to July to September[12]



3.7 It should be noted that the number of annuity purchases for the April to June period shown in Figure 1 contains inaccuracies. This is because firms under-reported the number of annuities purchased[13] partly due to firms misinterpreting the way in which we were asking them to report the data in that period, which we have subsequently addressed. As a result, the trend between quarters is unlikely to be as marked as shown in Figure 1.

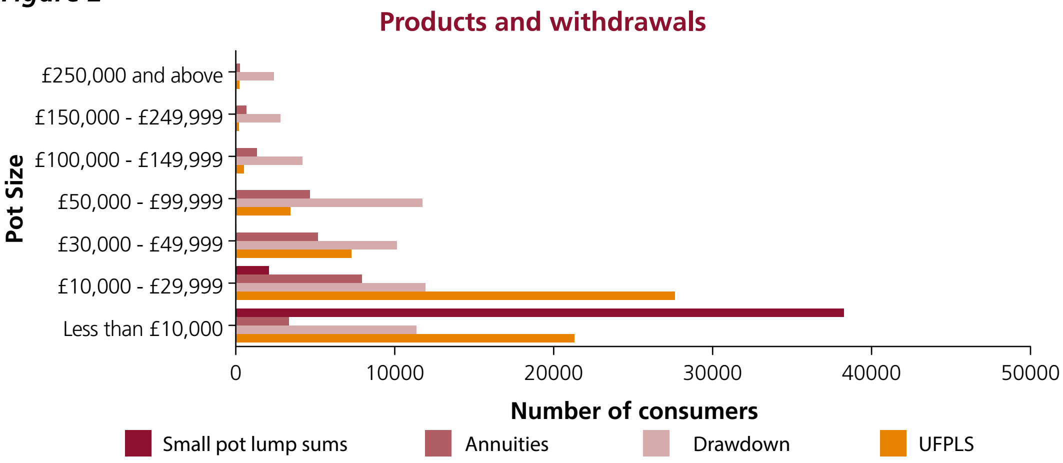
3.8 Figure 2 shows all products chosen and all withdrawals made by consumers from July to September. This highlights the fact that small pots account for 69% of all pensions accessed by consumers in the quarter.

11 Of the drawdown and annuity figures, 3,381 were used to purchase 3rd way products. 3rd way products include variable annuities, fixed term annuities, with profits annuities and unit linked annuities.

12 Upon further analysis of the data collected for April to June, some numbers in Figure 1 are now higher than the figures published in September https://www.fca.org.uk/your-fca/documents/fca-pension-freedoms-data-collection-exercise.

13 Data published by the ABI for April to June 2015 reported annuity purchases of around 17,800 compared to 12,418 which we reported in September https://www.fca.org.uk/your-fca/documents/fca-pension-freedoms-data-collection-exercise

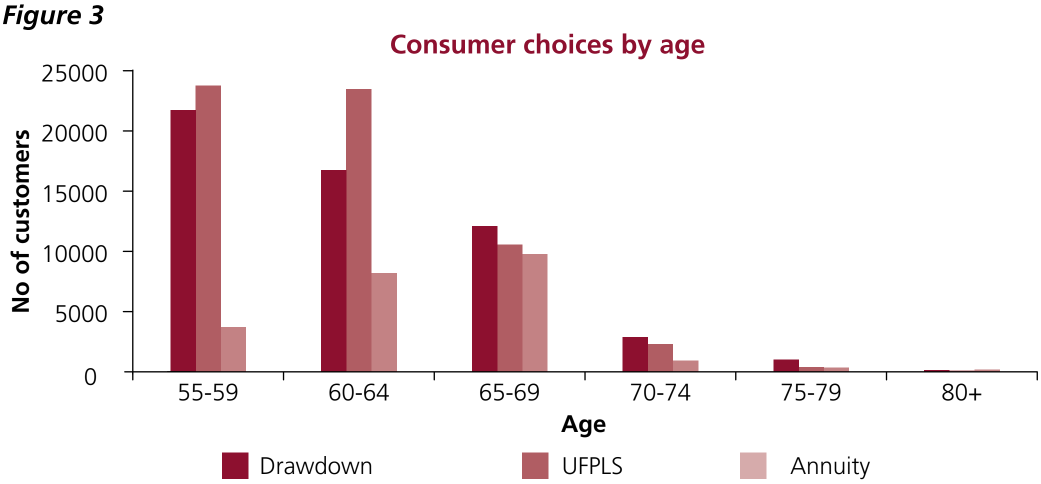
Figure 2



3.9 Our April to June data showed 96% of all UFPLS customers and 25% of drawdown customers took a full withdrawal. This figure significantly increased for drawdown customers with pots of less than £30,000, where 49% fully withdrew last quarter. Based on the April to June data, a significant number of the UFPLS and drawdown figures this quarter are likely to be full withdrawals as well.

3.10 Figure 3 shows 40% of consumers who accessed their pension using drawdown are aged 55-59, compared to 16% for annuities, which are mostly purchased by consumers aged 65-69.

Figure 3



3.11 Figures 4 – 6 show consumer choices by age and pot size for each product and UFPLS.

Figure 4

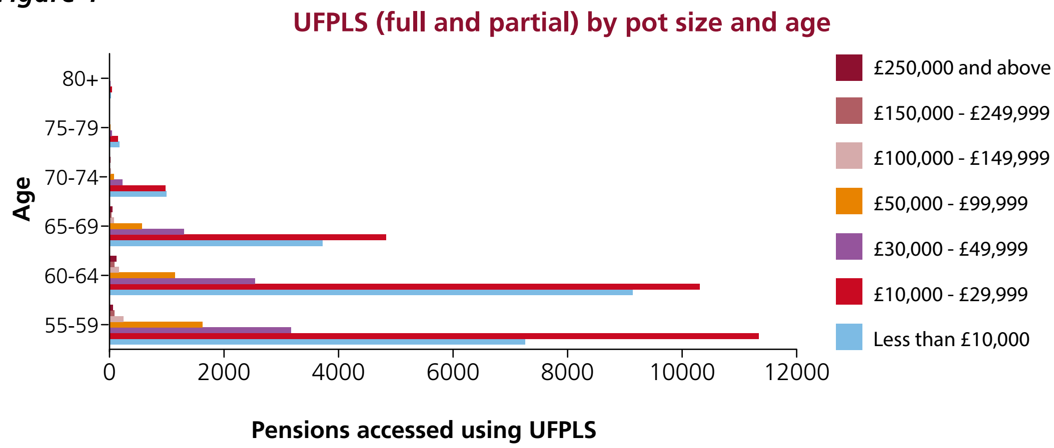


Figure 5

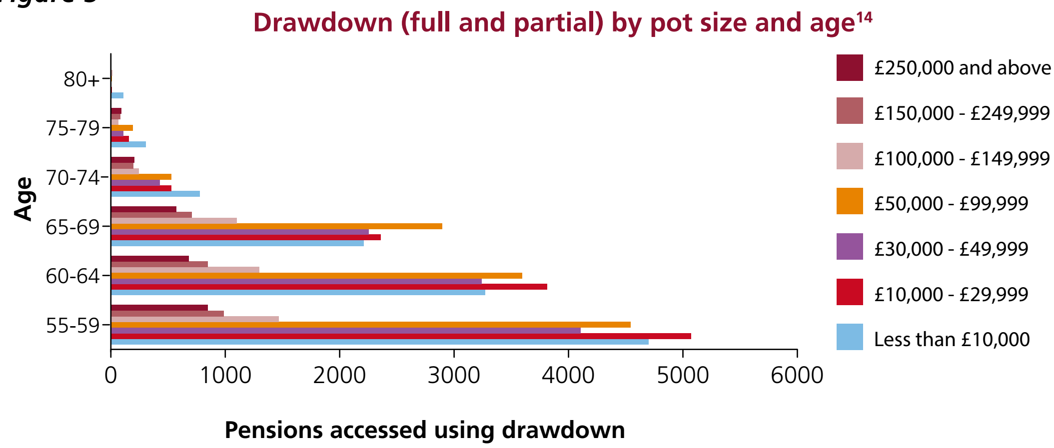
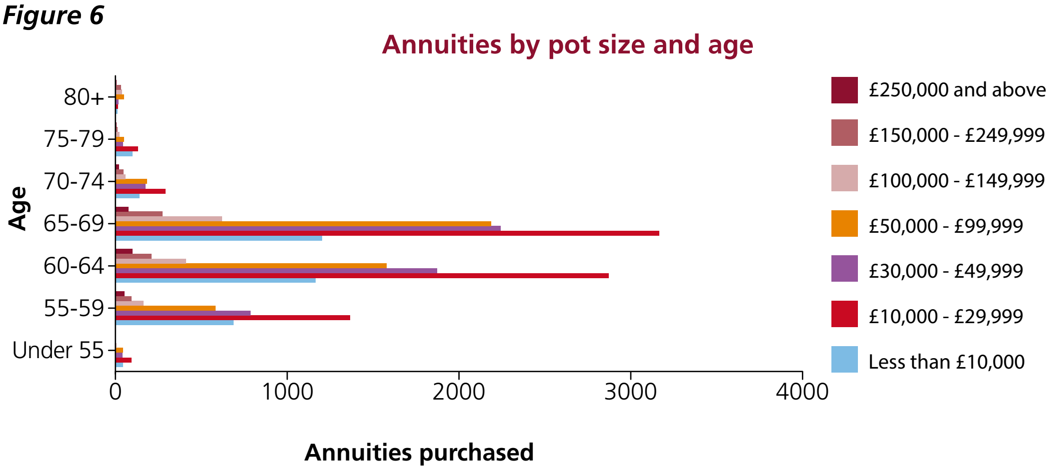


Figure 6

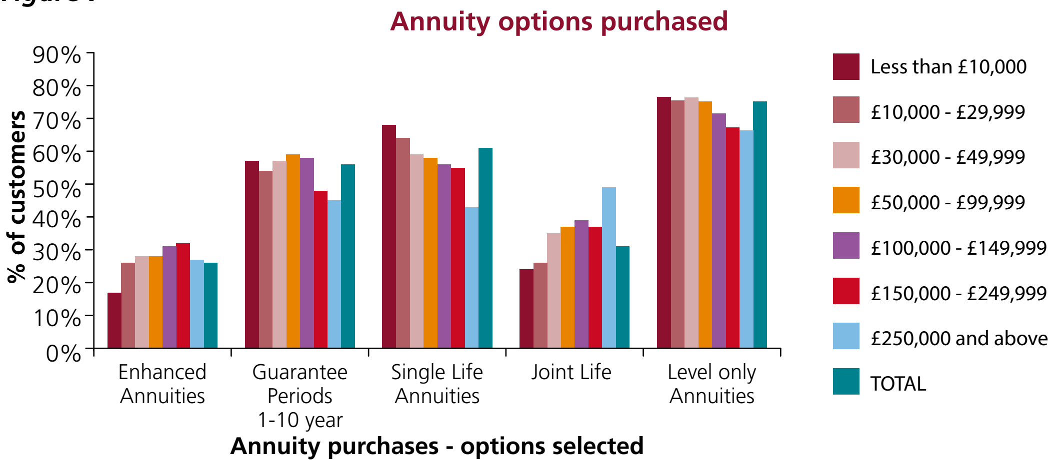


14 Customers under 55 in drawdown e.g. dependents, nominees & successors are included in the 55-59 age band but will be split out as 'under 55' in future reports

Annuity options purchased

3.12 We collected data on the options consumers choose when they enter products. Figure 7 shows the majority of annuities purchased for all pot sizes are non-enhanced, single life, level payment annuities, with a guaranteed payment period of less than 10 years. Customers with smaller pots are more likely to buy non-enhanced, single life, level payment annuities.

Figure 7



Guaranteed Annuity Rates (GARs)

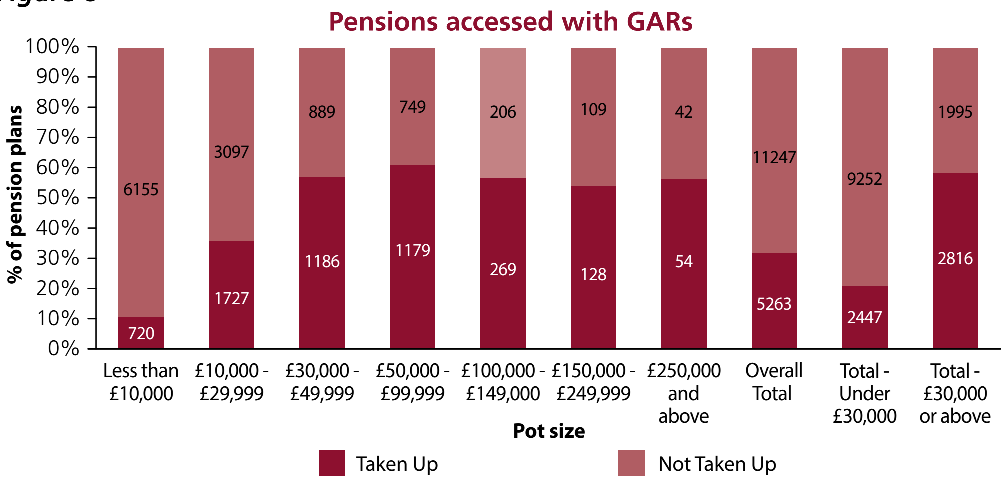
3.13 Fifteen providers in our sample have pension policies with GARs and a total of 1,534,890 policies with GARs exist in accumulation[15]. This represents 6% of all accumulation customers.

3.14 We also collected data on the numbers of consumers accessing pensions with GARs attached to the policy. Figure 8 shows 68% of customers accessing pensions with GARs did not take them up[16] this quarter. This is more common in small pots, where 79% of those with pensions below £30,000 and 90% of pots of less than £10,000 with GARs were not taken up. These figures will include consumers who are too young to exercise their GAR but can access their pension. Figure 8 also highlights 59% of customers with policies £30,000 or above took up their GARs this quarter.

15 By accumulation we mean consumers still saving into their pension and have yet to take an income from it.

16 One life company was unable to provide figures for GARs not taken up. We have not included their numbers of GAR's taken up.

Figure 8



Pensions accessed with GARs
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
% of pension plans
6155
720
3097
1727
889
1186
749
1179
206
269
109
128
42
54
11247
5263
9252
2447
1995
2816
Less than £10,000
£10,000 - £29,999
£30,000 - £49,999
£50,000 - £99,999
£100,000 - £149,000
£150,000 - £249,999
£250,000 and above
Overall Total
Total - Under £30,000
Total - £30,000 or above
Pot size
Taken Up
Not Taken Up

4.
Withdrawals

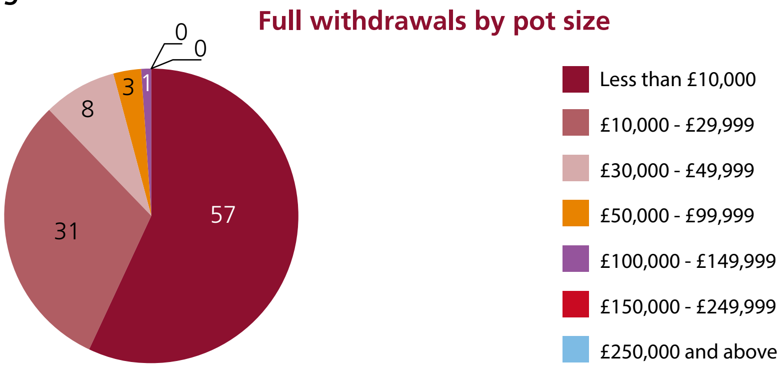
88% of pension pots fully cashed out were below £30,000 and represent 54% of the value of pensions fully withdrawn.

For customers taking a partial income, 71% are taking a withdrawal of less than 2% of their pot in the quarter after tax free cash. A further 10% are taking 10% or more of their pot after tax free cash.

Full withdrawals by pot size

4.1 120,969 pensions were fully cashed out over the quarter and 88% of these pensions were for customers with small pots below £30,000 (Figure 9), which make up 54% of the value of pensions that were fully withdrawn.

Figure 9



Partial withdrawals

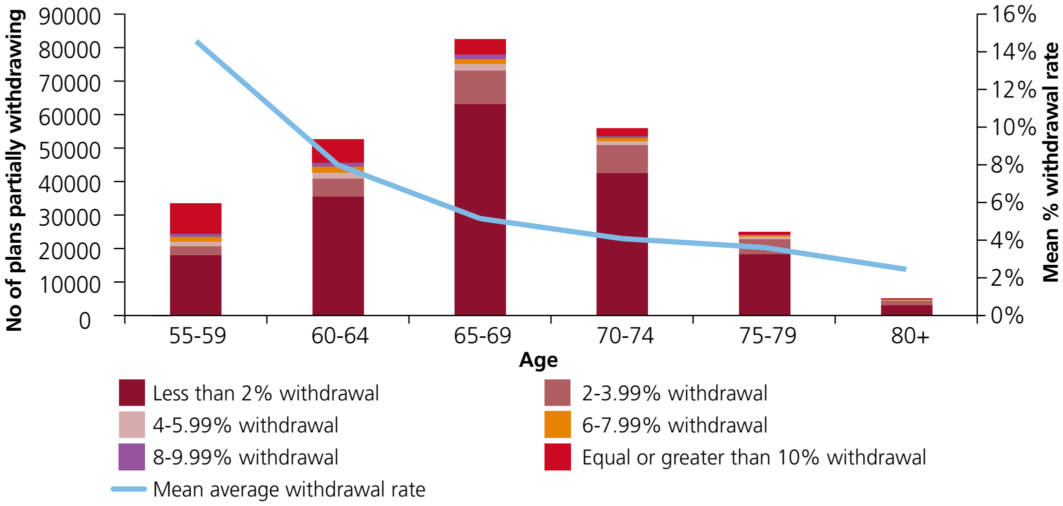
4.2 We asked firms to provide the rate of withdrawal in the quarter for customers making partial withdrawals, excluding money taken as tax free cash. The rate of withdrawal is a calculation showing what percentage of their pension assets the customer is accessing. The mean average rate of withdrawal shows the most common customer behaviour and Figure 10 shows it decreases with age.

4.3 Figure 10 includes both new customers accessing their pensions and existing customers taking an income, some of whom will be capped drawdown customers who are taking income within limits prescribed by the Government Actuary Department (GAD). The data also includes customers taking regular withdrawals (e.g. monthly, quarterly) and customers taking ad-hoc withdrawals. Pensions of all pot sizes are included.

4.4 We asked firms to provide this data for all their customers who took a partial withdrawal in the quarter. This will not include customers who took tax free cash but did not take an income in the quarter, and excludes some off-platform[17] customers making partial withdrawals.

Figure 10

Rate of withdrawal for partial drawdown and UFPLS after tax free cash



4.5 The most common rate of withdrawal over the quarterly period was less than 2%. A significant minority of customers (10%) took a rate of withdrawal of 10% or more of the value of their pot over the quarter.

4.6 Consumers aged 55-59 took the highest rate of withdrawal. 27% of customers aged 55-59 took an income of 10% or more of their pot after any tax free cash was deducted.

17 A 'platform service' is defined in the FCA Handbook www.handbook.fca.org.uk/handbook/glossary/?starts-with=P

5.
Use of regulated advisers and Pension Wise

Most customers accessing their pensions using drawdown have used a regulated adviser (58%). This compares to 37% of customers purchasing an annuity.

Pension Wise use is higher among those with smaller pension pots where take up of regulated advisers is lower. On average 17% of consumers told their provider they had used the Pension Wise service.

5.1 We collected data on whether a customer used a regulated adviser and had told the provider they had used Pension Wise. These options are not mutually exclusive and a customer may have used both. However, providers do not have to record if a customer has used Pension Wise when they use an adviser and on this basis we can view responses in aggregate.

Use of regulated advisers

5.2 For customers entering drawdown, regulated advice may have been provided before the customer accessed their pensions savings e.g. SIPP provider selected by adviser when the customer sets up their pension. We asked firms for details of when advice had been provided at the point that customers accessed their pension. In many cases providers do not capture this. In these cases our data shows the provider has recorded that an existing customer was advised at the point the pension was set up, not necessarily capturing whether the customer was advised when they accessed their pension benefits.

5.3 Customers going into drawdown are the most likely (58%) to have used a regulated adviser (Figure 12), meaning 42% of customers going into drawdown did not use an adviser. While this includes customers fully cashing out via drawdown, it shows that many customers newly entering drawdown to stay invested are not using an adviser.

5.4 37% of annuity purchases were made through a regulated adviser. Across all products and full withdrawals, the larger the customers' pension pots, the more likely they are to have used a regulated adviser (Figures 11 -14).

Use of Pension Wise

5.5 On average, 17% of consumers told their provider they had used the Pension Wise service. This increases to 22% of consumers with small pots where use of regulated advice is lower (Figures 11 -14). The highest stated use of Pension Wise was for full withdrawals, with 23% of customers telling their provider they used Pension Wise (Figure 14).

5.6 However, some providers in our sample were unable to provide data on how many of their customers had told them they had used Pension Wise. This is partly due to the data we asked for being more detailed than that which providers are required by our rules to record. Providers are only required to record whether a customer said they used Pension Wise when consumers are not using a regulated adviser.

Figure 11

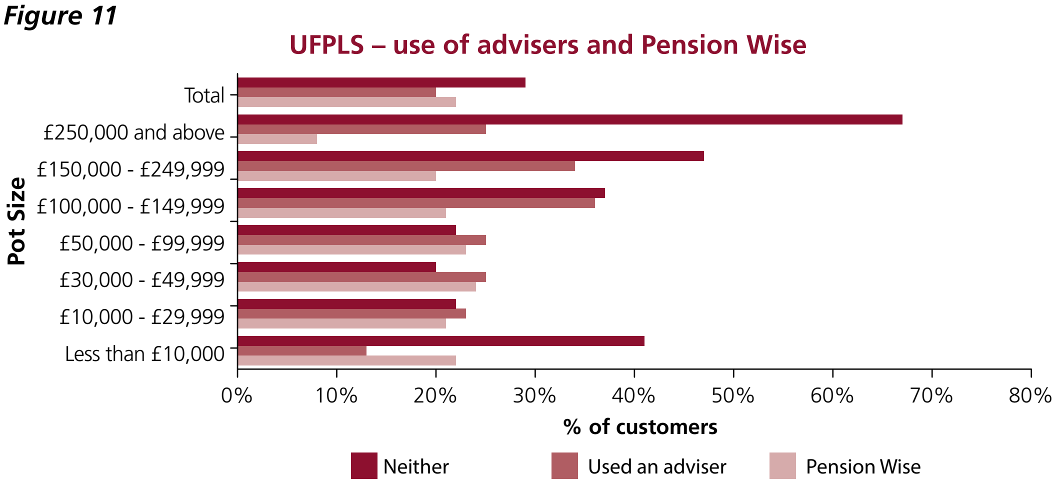


Figure 12

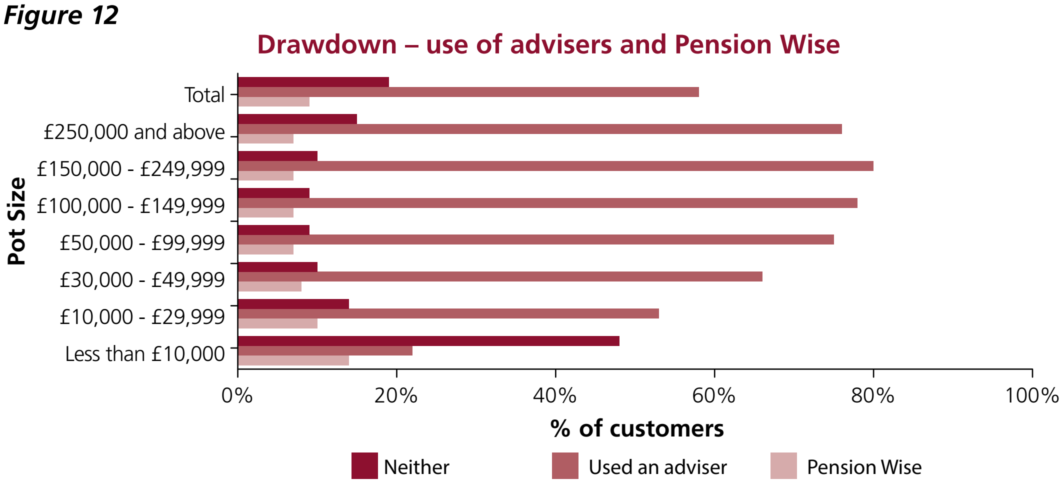


Figure 13

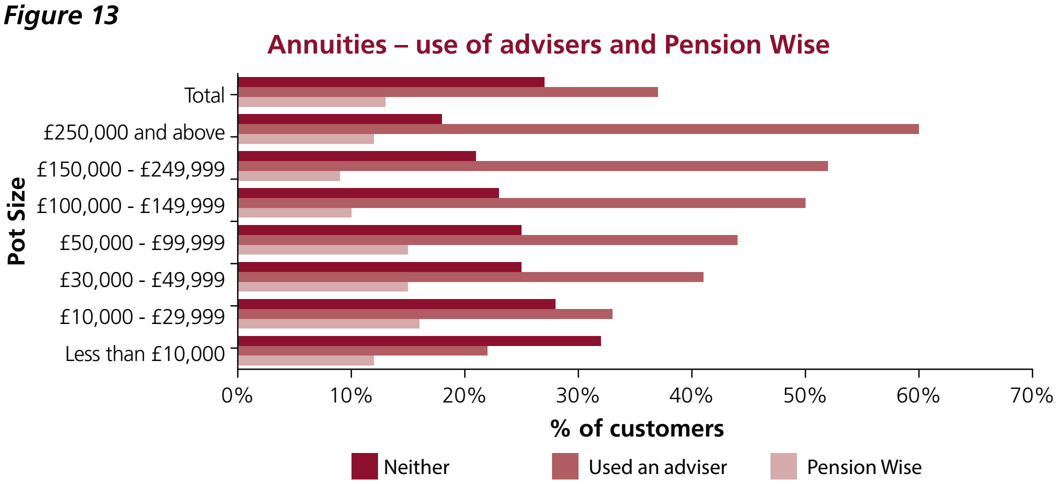
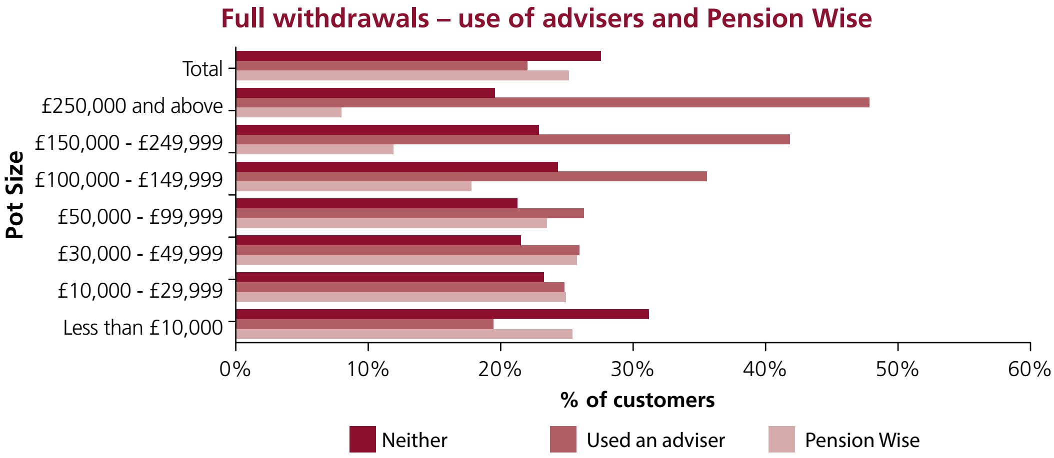


Figure 14


Full withdrawals – use of advisers and Pension Wise
Pot Size
Total
£250,000 and above
£150,000 - £249,999
£100,000 - £149,999
£50,000 - £99,999
£30,000 - £49,999
£10,000 - £29,999
Less than £10,000
0%
10%
20%
30%
40%
50%
60%
% of customers
Neither
Used an adviser
Pension Wise

6.
Provider choice

The majority of customers across all products stayed with their existing pension provider when they accessed their pension. 64% of customers purchasing annuities stayed with their existing provider compared to 58% of customers accessing their pension using drawdown.

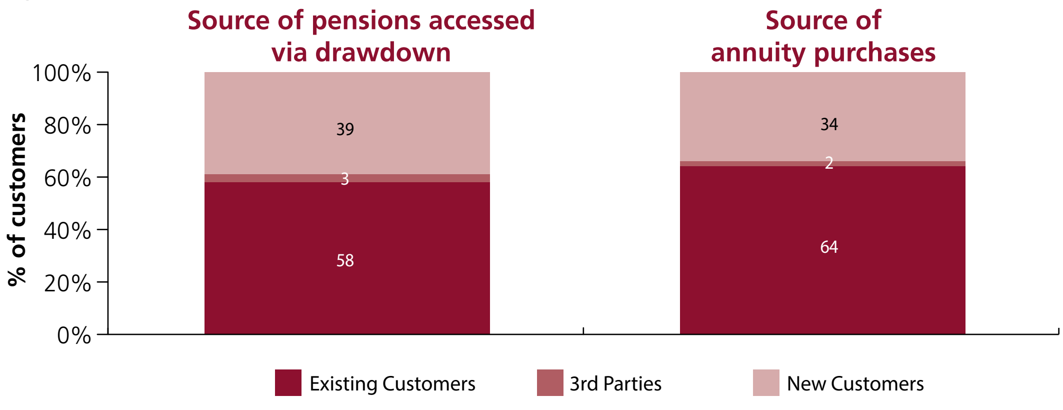
6.1 We asked firms to separate sales into three categories – sales made to their existing pension customers; sales made under the open market option (referred to as new customers in the charts); and sales made under third party arrangements to customers of another pension provider (e.g. where they have an outsourced arrangement with a pension provider to offer retirement income products to their customers). Some firms were unable to separate third party sales from those that were made to new customers. As third party arrangements do not usually involve the customer shopping around, the data we have reported on sales to new customers will overstate the level of shopping around in the market to some degree.

6.2 The majority of customers across all products stayed with their existing pension provider when they accessed their pension. UFPLS is primarily a mechanism for accessing your pension while staying within your existing pension scheme so 100% of UFPLS payments were from the customer's existing pension provider.

6.3 Although drawdown data will include customers who are fully withdrawing, 58% of drawdown customers stayed with their existing provider (Figure 15). This partly reflects the fact that for existing customers in a personal pension, drawdown is often an option taken up within the pension plan and the customer does not have to purchase a new product.

6.4 64% of customers who purchased an annuity in the quarter stayed with their existing provider (Figure 15). However, we consider the 34% of annuity purchases reported as new customers who switched provider will overstate the level of shopping around in the market to some degree for the reasons given above.

Figure 15



Financial Conduct Authority

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