Pension Annuities:

A review of consumer behaviour

Report prepared for the

Financial Conduct Authority

Jackie Wells

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Introduction and acknowledgements

This report was commissioned by the Financial Conduct Authority (FCA) in May 2013. The work is designed to provide a consumer context to the FCA thematic review of the annuity market and to help inform any further work the FCA may undertake.

The report draws on published research and any material specifically made available for this project. No original research has been carried out for this paper. While the focus is on existing primary research the paper also carries out some secondary analysis and examines other available and relevant literature. The main sources of information are:

- Government and regulator research;
- Research conducted for and published by the pension / annuity industry;
- Consumer body research;
- Academic research; and to a limited extent
- Overseas research and papers.

The author would like to thank FCA team for their support, in particular Emily Pinkerton, who managed the project for the FCA.

Thanks are also due to the firms who contributed data not previously in public domain: Age UK; Legal & General; MGM & Partnership Assurance and to the many other organisations whose research is referenced in or was reviewed for this report. Thanks also to the ABI for permission to publish annuity sales data.

All responsibility for content and errors rests solely with the author.

Executive summary

A focused review of existing research

The purpose of this literature review is to synthesise the conclusions that the FCA can draw from existing research in terms of consumer understanding, behaviour and engagement relating to pension annuity decision-making. As well as informing the FCA's decision-making on further work, this will also provide a consumer context within which the results of the thematic work should be viewed. The focus of the report is on elements of consumer behaviour that relate most closely to FCA regulatory scope, namely the way in which consumers engage with disclosure material, financial advice and other intermediaries. The report focuses on what is known about consumers who arrive at retirement with contract-based defined contribution (DC) pensions (where both the communication with the customer at retirement and the sale of the annuity are regulated by the FCA) as well as those consumers with trust-based DC pensions who purchase an annuity from a life assurance company (where the sale of the annuity, but not the at retirement communication, is regulated by the FCA).

The principal issues which this report considers are:

- How consumers currently engage with the annuity market, in particular their shopping around behaviour;
- The extent to which consumer behaviour might contribute to sub-optimal outcomes;
- Identifying which barriers prevent consumers from achieving better outcomes;
- What research tells us about the solutions that can improve outcomes.

Overall, consumer research is limited in what it can tell us about consumer outcomes, in part because it relies on good consumer recall of events and on achieving accurate responses from consumers. It also captures attitudes and understanding which may be incomplete. Furthermore it does not tend generally to capture all information about annuity transactions, in particular the rate or income that was achieved. However, research does give some insights into the thinking behind consumer decisions, some of the perception of the trade-offs that they are making in buying annuities, the barriers that prevent better outcomes for some and the interventions that seem to have most success in changing consumer attitudes and/or behaviour.

A growing DC pension market will make annuities more important to more consumers

The importance of the annuity market for consumers is shaped by a number of different factors including: employer and industry behaviour; pension policy reforms; and consumers' own responses to both pension saving and the transition to retirement income. To an extent, the scale and shape of the near-term future market has already been set in motion by developments in the broader pension market and, in particular, the recent and projected growth of DC pensions.

While data on pensions are fragmented and incomplete, it is clear that DC pensions are becoming more relevant to more consumers with the on-going shift from defined benefit (DB) to DC pensions in the private sector. 60% of those with accumulated and accumulating pension pots have DC pensions (10.5 million individuals). Approximately, two-thirds of these are members of contract-based DC pensions, although some may also hold benefits in trust-based DC schemes (and in DB schemes). The total number with DC pensions is projected to grow to 16 million within seven years as workplace pension reforms kick in.

Given the relative immaturity of the DC market, it is perhaps not surprising that the majority of those approaching retirement do so with relatively small pension pots. Current data suggest that 50% of those approaching retirement with DC pensions will have total DC wealth (combined pots) of less than £25,000 and that many will have DC wealth that can either be trivially commuted or which few providers will offer annuity rates for on the open market.

Analysis of the importance of DC pensions suggests considerable diversity with DC wealth typically representing 12% of all family wealth near retirement but for some DC wealth playing a much more important role in income and wealth in retirement. For others, DC wealth is much less significant, a factor which may influence behaviour and perhaps lead to greater inertia when it comes to purchasing an annuity.

Looking ahead, DC and annuities will play a more important role in retirement income provision as automatic enrolment kicks in, DB continues to decline in importance outside of the public sector and DC becomes a more important retirement planning component for more people. The Government's proposals for Defined Ambition (DA)and Collective DC (CDC) pensions appear unlikely to bring about any significant shift in the growth of DC pensions and annuities in the short term.

While it seems very likely that the number of annuity sales will increase in coming years, the pipeline is difficult to predict with any certainty due to changing consumer behaviour in the annuity market, changes in economic activity among older people and changes to pension policy.

At least half of annuity buyers appear to get a good rate from shopping around but research does not tell the whole story

Getting the best annuity rate available (for the type of annuity they want) makes sense for consumers since they may need to rely on that income into what could be a lengthy retirement. Shopping around has been encouraged by successive regulatory and industry initiatives and there is evidence of widespread awareness of the right to shop around among annuity buyers, although a small but important minority remain unaware of their rights. However, research also reveals that different consumers engage more or less thoroughly in the shopping around process while some do not shop around even when they are aware of the ability to do so. Shopping around does not always lead to switching (sometimes for good reason) and for some may not lead to the best annuity rate.

Almost half of annuity sales are now placed with external providers, although not all of this is due to consumers shopping around; some is the result of more pension providers placing their default annuities with external providers.

Awareness of the right to shop around is high at 91% of annuity buyers but almost one in ten remain unclear or unaware of the right to shop around for a better rate or different type of annuity. In spite of most being aware of their rights, more than one third of annuity buyers do not shop around (37%). Some of these consumers exhibit signs of inertia, while others may have made a rational decision (for example because they have a guaranteed annuity rate (GAR) with their existing provider). Other reasons for not shopping around include satisfaction with the current provider or having a small pension pot, and, for around a third of this group, the perception that shopping around will be complex or time-consuming. Complexity of both annuities and the shopping around process remain barriers for some annuity buyers. A lack of understanding of the implications of not shopping around is also evident.

Consumer survey responses suggest that the incidence of shopping around has increased following changes to disclosure regulations in 2003 but since 2010 has levelled out at around two-thirds of annuity buyers.

Among those who do shop around, not all are active in getting competitive quotes with around 11% of buyers appearing to choose their annuity provider without this information. Taken together with those who do not shop around at all, almost half of buyers make their decisions with limited or no competitive information.

Just over half of those who shop around (around one-third of all buyers) do so with the help of a financial adviser. The remainder look into the matter themselves, although two-thirds of this group admit to devoting only a limited amount of time to the issue. Among those who shop around and switch, the choice of provider is almost always driven by the rate available. Among those who shop around and don't switch, a combination of the best rate and a good rate allied to comfort with existing provider are the main determinants of provider. Little is known about whether, faced with only a small nominal difference in annuity payments, consumers make an informed choice about the consequences over the lifetime of the annuity.

Those most at risk of poor rate outcome are:

- Those with small pots who may have little choice on the open market or who believe that there is no value in shopping around;
- Those with low levels of financial literacy who do not fully understand the benefits of shopping around or who may find shopping around complex and therefore avoid doing so;
- Those who are eligible for but unaware of the availability of enhanced annuities; and
- Those for whom a quick decision is necessary.

Overall, it appears that around half of all annuity buyers ensure that they get a good or better rate through shopping around, either by switching to an annuity provider offering better rate or staying with their existing provider who offers the best rate of those that they explore. A further 10% shop around but feel that they get a rate from their existing provider that they feel is good enough. What consumer research does not tell us is what proportion of those who do not shop around happen to get the best rate available or whether those that do shop around get the best rate available to them.

Present bias influences consumers' choice of annuity type

Choosing the right type of annuity, whether single or joint-life, escalating or level or choosing a guaranteed period, is a more complex and individual decision than getting the best rate and requires an assessment of the trade-offs being made.. The concern is less whether the right decision has been made or even whether the outcome is optimal but more whether the decision is an informed one. Research available on consumer choice of annuity type reveals that:

- Although prompted awareness of the different options available at retirement appears to be high, in practice, many annuity buyers do not consider alternatives to a level, single life annuity with no guaranteed period.
- The one exception is among married couples where more than half consider a joint life policy and just under half now takes one out and ABI data suggests that the proportion selecting joint life may be on the increase.
- Where joint life policies are not considered or taken out, reasons given include the relatively small amounts being considered, the need to maximise income today or the availability of other household income.
- Most consumers choose or default to a level annuity in spite of a stated preference by many for

inflation protection. When faced with the trade-off between the two options, a bias or need for more money today prevails. Research does not tell us whether consumers are making an informed decision about the impact of inflation on their future income.

- Little information is available on the decisions made to buy or not buy a guaranteed period, although present bias appears to play a part in decisions not to buy.

Many barriers inhibit optimal outcomes in the annuity market

Existing research highlights the following demand-side barriers:

- The existence of human biases or preferences that inhibit good outcomes;
- A lack of financial capability in dealing with complex markets;
- A lack of engagement in pensions at the accumulation phase;
- A lack of clarity on income expectations in retirement and a growing sense of disappointment as retirement approaches;
- A growing sense of uncertainty for individuals over retirement age;
- A lack of understanding of the long term risks associated with different annuity decisions and/or the ability to make value judgements and decisions;
- Low levels of awareness and understanding of retirement options, annuities and the annuitisation process;
- A lack of confidence in shopping around, using information and advice services and a lack of understanding of where to go for advice.

Although we have described these as consumer barriers, some of these are rooted in the consumer response to real or perceived supply-side barriers such as access to advice; complexity of information; the stability of financial institutions.

Information, framing and advice and guidance important in shaping outcomes

Theories of consumer behaviour suggest that the provision of information, the framing of choices and the way in which advice and guidance is delivered are important in shaping outcomes.

In the UK annuity market, research to date has shown that the way in which information is provided at retirement can have some effect on the propensity to shop around and that access to formal advice can influence decisions on the type of annuity as well as giving access to a wider range of providers and rates. Changes to the framing of defaults and new choice architectures available through new providers and new services have yet to be fully tested and the impact of new on-line services, driven in part by the RDR, have yet to be fully researched.

Contents

Table of figures

Abbreviations

ABI –Association of British Insurers

CDC – Collective DC pensions

CPOS –Consumer Purchasing and Outcomes Survey (FSA)

DA – Defined ambition

DB –Defined benefit pension

DC –Defined contribution pension

DRA –Default Retirement Age

DWP –Department for Work and Pensions

ELSA – English Longitudinal Study of Ageing

FCA – Financial Conduct Authority

FSA – Financial Services Authority

GAR – Guaranteed Annuity Rate

HMRC – HM Revenue & Customs

HMT – HM Treasury

IFA –Independent Financial Adviser

IFS – Institute for Fiscal Studies

MAS – Money Advice Service

NAPF – National Association of Pension Funds

NEST – National Employment Savings Trust

NRA – Normal Retirement Age

OMO -Open Market Option

ONS – Office for National Statistics

PADA – Personal Accounts Delivery Authority

PICA – Pension Income Choice Association

PPI – Pensions Policy Institute

RDR –Retail Distribution Review

SPA – State Pension Age

TPAS –The Pensions Advisory Service

TPR –The Pension Regulator

WAS – Wealth & Assets Survey

Glossary

Annuity	In the context of a defined contribution (DC) pension, an annuity is a contract with an insurer to provide a series of payments over the remaining lifetime of the individual (or, in the case of joint-life, over the remaining lifetime of the longest survivor).
Level annuity	Level annuities pay out the same amount each month/year. They have a higher starting rate than escalating annuities, but provide no protection from inflation over the years. The buying power of a level annuity will fall as prices rise
Escalating annuity	Escalating annuities pay out an increasing amount each year. They may increase by a specific percentage increase per year, or an index-linked one (normally in line with the Retail Prices Index (RPI)). Escalating annuities partially or wholly protect income from inflation, but offer a lower starting rate than level annuities.
Conventional annuity	Pension annuities which are not investment-linked (but including enhanced annuities)
Standard annuity	A pension annuity which does not take account of the health and lifestyle of the buyer. Where used in this report, the expression excludes enhanced annuities.
Enhanced annuity	Enhanced annuities are offered to people in poor health or with lifestyle conditions that mean they might die earlier than average. They can provide a higher annuity income than standard annuities for those who qualify.
Guaranteed period	A guarantee period works by providing a guaranteed period over which the annuity will be paid – usually over five or ten years. The annuity will pay over this guaranteed period if the buyer dies during this initial term. However, should they die after the guarantee period ends the annuity will stop paying. Guaranteed periods reduce the amount of initial income paid.
Guaranteed annuity rate	Some pension contracts included a guarantee of annuity rate from the pension provider. In some cases, these guaranteed rates can be higher than prevailing rates offered on the open market or standard internal rates for that pension provider.
Single life annuity	Single-life annuities pay out for the life of the buyer only. They do not provide an on-going income for a partner / dependent.
Joint-life annuity	Joint life annuities pay out until the second party dies. The amount that is paid after the first death can be set at 100% (the same as the initial rate), or 66% or 50%. The starting income is lower than for an equivalent single-life annuity.
Investment-linked annuity	The payouts from investment-linked annuities are linked partly or wholly to the stock market, so the amount they pay varies depending on the success of underlying investments. They start by paying an initial annual sum, which may rise or fall in subsequent years.
Income drawdown	Withdrawal of income from an approved arrangement that provides a taxable income direct from the pension fund, up to a maximum amount set by HM Revenue & Customs (HMRC). The fund continues to be invested and may grow or shrink in value as income is taken.

DB pension	A scheme where the pension scheme rules define the benefits independently of the contributions payable and benefits are not directly related to the investments of the scheme. Some DB schemes provide a pension that is based on the final salary that the member earns with the employer sponsoring the scheme. Others provide benefits based on different formulae.
DA pensions	Defined ambition (DA) pension schemes are a proposal put forward by the Government in 2013. They combine some of the attributes of DB and DC pensions. "The aim of a DA pension would be to create greater certainty for members than is provided by a pure DC pension. It would also seek to ensure less cost volatility for employers than current DB pensions."[1]
DC pension	A pension scheme providing where individual members' benefits are determined by reference to contributions paid into a pension scheme in respect of that member and the investment return on those contributions.
Trust-based DC pension	An occupational DC pension scheme established under a trust by a scheme sponsor (often an employer). Trustees are appointed to act in a fiduciary role for members.
Contract-based DC pension	A DC pension plan which is set up by a financial services provider, typically a life assurance company, under personal pension regulations.
Collective DC pensions	Collective DC pensions are contained in proposals put forward by the Government in 2013. For the employer they have the same benefits as other DC pensions in limiting costs and liabilities. Unlike traditional DC, the benefits for members are not aligned to the contributions made by and for that member and the investment growth on those contributions but notionally by a target income that the scheme assets are intended to deliver.
Protected rights	Protected rights are the part of a pension fund achieved by opting out of the state second pension (S2P) or its predecessor and instead paying into an employer's occupational scheme, a personal pension, or a stakeholder pension
State Pension Age (SPA)	The state retirement pension is currently paid to people who reach the SPA of 65 for men and 60 for women and who fulfil the conditions of the National Insurance contributions. The SPA for men and women is equalised at age 65 in 2018. From December 2018 the State Pension age for both men and women will start to increase to reach 66 by October 2020.It will then increase to 68 for men and women by 2046.
Trivial commutation	If the aggregate of an individual's pension rights totals less than £18,000, trivial commutation rules apply, meaning that the individual's entire pension fund can be taken as a cash lump sum. Twenty-five per cent of this is paid to the individual tax free, the remainder being taxable.
Present bias	'People can have excessive urges for immediate gratification, overvaluing the present over the future. As the consumer can regret such choices later, their preferences are 'time inconsistent'. Present bias can lead to self-control problems such as procrastination.' (FCA 2013)

[1] DWP (2013), Reshaping workplace pensions for future generations, Public consultation November 2013

1. Project context, scope and focus

Contributing to the FCA thematic review of annuities

The FCA's annuities thematic project is a discovery project which assesses the evidence of problems in the market. It will be used to determine whether the FCA should do further work on this area which could involve competition (market study), policy (rule-making) and/or supervision work.

The thematic review consists of three elements:

1. Estimating the extent to which consumers would be better off through shopping around for their annuity rather than annuitising with their pension provider. This involved a survey of annuity providers comparing rates offered to existing pension customers with those offered to new customers accessing their rates through the Open Market Option.
2. Conducting a high-level assessment of profitability for annuity business.
3. Carrying out a review of existing research on consumers' buying behaviour and trends.

The third element forms the basis for this report. The purpose of this literature review is to synthesise and summarise the conclusions that the FCA can draw from existing research in terms of consumer understanding, behaviour and engagement. As well as informing the FCA's decision-making on further work, this will also provide a consumer context within which the results of the thematic work should be viewed.

Focus on existing research

This report examines consumer behaviour as it relates to the purchase of pension annuities. It does not examine the behaviour of either the pensions / life assurance industry itself or that of financial advisers operating in this market. The report focuses on the purchase of pension annuities and, except in the context of understanding overall awareness and purchasing, it does not consider either the wider range of retirement income products or life annuities.

The report is limited to examining published research (principally relating to the UK market) and any material made available specifically for this report. No original research has been carried out for this paper. While the focus is on existing primary research the paper also carries out some secondary analysis and examines other available and relevant literature. The main sources of information are:

- Government and regulator research;
- Research conducted for and published by the pension / annuity industry;
- Consumer body research;
- Academic research; and to a limited extent
- Overseas research and papers.

Focus on consumer behaviour

The focus of the report is on elements of consumer behaviour that relate most closely to FCA regulatory scope, namely the way in which consumers engage with:

- Disclosure material and other information supplied by their contract-based pension and annuity providers;
- Financial advisers and other intermediaries operating in the annuity market.

The principal issues which this report considers are:

- How consumers currently engage with the annuity market, in particular their shopping around behaviour;
- The extent to which that behaviour contributes to sub-optimal outcomes;
- Identifying which barriers prevent consumers from achieving better outcomes;
- What research tells us about the solutions that can improve outcomes.

Focus on poor outcomes for annuity buyers

The literature on consumer outcomes in the annuity market tends to focus on four main causes of potential detriment for consumers[2].

The first of these concerns annuity buyers not getting the best rate at the time that the annuity is purchased, particularly those who qualify for an enhanced annuity[3]. With a large proportion of annuities purchased from existing pension providers, claims of inertia selling have been levelled against the industry. Much of recent Government and regulatory reviews and policy and ABI initiatives in the annuity market have focused on facilitating and encouraging shopping around in order to reduce the scope for poor annuity rate outcomes.

The second area relates to consumers not selecting the type of annuity that will optimise income in retirement, protect a dependent spouse and protect against the effects of inflation. Again, industry practice has been seen to discourage consumers from considering different types of annuities and making an informed choice[4].

The third area of concern focuses on whether annuities represent good value for money for consumers and whether providers are making inappropriate levels of profit. Much of the media attention has suggested annuities are poor value[5]. Research for the DWP has suggested that overall, annuities sold between 1991 and 2004 offered the consumer fair value, allowing for administrative costs and normal profits[6], although other reports have challenged some of the assumptions made in the calculation of 'money's worth' used to make these assertions[7] and others have suggested that the analysis is limited in its scope and does not include an analysis of internal annuity rates.

Finally, some commentators are concerned that consumers suffer poor outcomes simply by buying an annuity when alternative retirement income products can provide greater flexibility, or poor outcomes from buying an annuity at too young an age[8].

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[2] Wells & Gostelow (2011), Annuitisation process and consumer detriment, Financial Services Consumer Panel, available at FSCP website

[3] Oxford Economics (2009), The macroeconomic impact of shopping around for retirement income, available at PICA website

[4] Pensions Institute (2006), Annuities and accessibility : How the industry can empower consumers to make rational choices, available at Pensions Institute website

[5] Daily Telegraph (2013), *Insurers make 'excessive' profits from loyal pensioners,* available at Telegraph website

[6] DWP (2009), Research Report No 563, Money's Worth of Pension Annuities, Edmund Cannon and Ian Tonks

[7] James & Song (2001), Annuities Markets Around the World: Money's Worth and Risk Intermediation, World Bank Pension Research Conference

[8] Blake and Boardman (2010), Spend More Today Safely: Using Behavioural Economics to Improve Retirement

This report is concerned with the first two areas of concern above: poor consumer outcomes in relation to annuity rate and annuity type. In both areas, literature on consumer behaviour and attitudes highlights concerns about the extent to which individuals are making an informed decision about the annuity they purchase and whether initiatives to help overcome barriers to informed decisions are effective.

A failure to shop around can lead to poor outcomes

The central hypothesis explored in this paper is that consumers have the potential to suffer poor outcomes in retirement by failing to make an informed decision at the point at which they purchase their annuity. An informed decision is often associated with the activity of shopping around, comparing quotes, seeking advice and understanding the trade-offs associated with different annuity types.

However, things are not always that simple. As the FCA has noted in its analysis of behavioural economics[9], a biased decision may not always be a mistake. Some may reflect a genuine preference; for example consumers valuing different things in different ways, such as the value of their time in shopping around. When considering consumer outcomes in the annuity market, a number of questions need to be borne in mind:

- Where the value of a DC pot at retirement is less than the minimum that insurers will accept, is staying with an existing provider a poor outcome? Many insurers are reported to set a minimum of £5,000 or £10,000 for purchasing a pension annuity[10]. Where consumers with small pots below these values do not shop around, they may in effect be getting the best or only annuity rate available. Whether that rate is good value for money or the best outcome for them cannot be attributed to consumer behaviour but rather a function of the market and broader pension policy that does not allow for different solutions to emerge.
- Should the judgement on outcomes attach a cost to the time and effort spent shopping around and the actual cost of advice? In some cases, the actual or implied cost may be deemed to be too great for the benefits that can be achieved. The difference between the best rate and that available from an existing provider may feel insignificant to a consumer, particularly if the annuity represents only a small part of pension income. Consequently shopping around may not feel worthwhile. This raises the question as to whether consumers fully recognise the cumulative impact of a small difference in annuity payments. In a later section of this report, we examine whether consumers implicitly attach a cost to shopping around and make judgements about whether it is worth it.
- Some consumers may not benefit from shopping around as the best rate is available from their existing provider. This may be particularly true where the pension contract includes a guaranteed annuity rate (GAR). While the consumer research examined in this paper won't tell us whether the best rate is achieved, it may be that consumers with GAR either assume or know that their rate can't be bettered and, as a result, do not shop around.
- Getting the best rate may not be the only criteria by which consumers judge a good outcome. A focus on rate doesn't put a value on consumers wanting the comfort of a brand / organisation that they know and feel confident in.

Expenditure Decisions, available at Pensions Institute website

[9] FCA (2013), Applying behavioural economics at the Financial Conduct Authority available at FCA website

[10] This is Money website

- Notwithstanding improvements made by the industry in transferring funds between contract-based pensions and annuity providers[11], shopping around may still delay receipt of income due to the time needed to explore alternative options, or consumers may believe that it will delay their payments. For consumers who are dependent on their annuity income to pay bills, the decision not to delay may be rational. However, there remain questions about whether the process of shopping around could be made faster and easier, whether consumers delay thinking about their annuity until too late and whether they have enough notice of the impact of the decisions that they need to take.

In addition to not getting the best rate, those who don't shop around and/or get advice may not get the best type or structure of annuity (as indeed may some of those who do shop around or take advice). Of particular concern are those who are married and may not choose a joint life annuity and those who need, expect or want an escalating income and choose a level annuity. However, choosing a single and a level annuity may not always represent a poor outcome. A number of individual situations and preferences could lead to this being a good outcome: for example where the household cannot meet today's bills easily, a partner has their own retirement provision or where other income is available that provides a hedge against inflation.

Terminology

Throughout this report the expression 'retirement' is used as shorthand for the point at which individuals choose to engage with the annuity market. In reality that point occurs either at the traditional point of full retirement from paid work, before withdrawal from paid work or at some time afterwards. For simplicity, we refer to all of these timings as 'retirement'.

The expression 'default' annuity is used in this report to mean the annuity quote provided by the insurer that has provided the accumulation vehicle. Strictly speaking this is not a default since the absence of any decision by the consumer will result in the pension continuing to accumulate. However, should the consumer wish to take their annuity and not switch to another provider, their existing provider becomes the 'default'.

Report structure

The remainder report has been structured along the following lines:

- Chapter two of the report explores how and why the annuity market has and will continue to become more important for more consumers. The chapter examines the growth in DC pensions and their importance to individuals, as well as charting the recent size of the annuity market.
- The report then examines the behaviour of consumers at the point of purchasing an annuity with a focus on good and poor outcomes in terms of annuity rate. Chapter three looks at shopping around behaviour and the consequences for different consumer groups.
- Chapter four considers the choices that consumers make in respect of different annuity types and the factors that shape those decisions.
- The barriers to good outcomes are explored in more detail in chapter five, with particular emphasis on the barriers to consumers behaving optimally.
- Chapter six explores what existing research tells us about the solutions that can help overcome some of

[11] Origo has established standards for annuity quotes and new business designed to speed up the process for consumers Origo annuity new business standards

these barriers.

Details of the documents reviewed for this report are contained in the references section of this report and appendix one provides some further details of the main research surveys used in the analysis.

2. A growing DC market will make annuities important to more consumers

The importance of the annuity market for consumers is shaped by a number of different factors including: employer and industry behaviour; pension policy reforms; and their own response to both pension saving and the transition to retirement income. To an extent, the near-term future market has already been set in motion by developments in the broader pension market and, in particular, the recent and projected growth of defined contribution (DC) pensions. The key trends highlighted in this section of the report include:

- DC pensions are becoming more important to more consumers with the on-going shift from defined benefit (DB) to DC pensions in the private sector.
- 60% of those with accumulated and accumulating pension pots have DC pensions (10.5 million individuals). Approximately, two-thirds of these are members of contract-based DC pensions, although some may also hold benefits in trust-based DC schemes. The total number with DC pensions is expected to grow to 16 million within seven years as workplace pension reforms kick in.
- Given the relative immaturity of the DC market, it is perhaps not surprising that the majority of those approaching retirement do so with relatively small pension pots. Current data suggest that 50% of those approaching retirement with DC will have total DC wealth (combined pots) of less than £25,000 and that many will have DC wealth that can either be trivially commuted or which few providers will offer annuity rates for on the open market.
- Analysis of the importance of DC pensions suggests considerable diversity with DC wealth typically representing 12% of all family wealth near retirement but for some DC wealth playing a much more important role in income and wealth in retirement. For others, DC wealth is much less significant, a factor which may influence behaviour and perhaps lead to greater inertia when it comes to purchasing an annuity.
- Looking ahead, DC and annuities will play a more important role in retirement income provision as automatic enrolment kicks in, DB continues to decline in importance outside of the public sector and DC becomes a more important retirement planning component for more people.
- While it seems very likely that the number of annuity sales will increase in coming years, the pipeline is difficult to predict with any certainty due to changing consumer behaviour in the annuity market, changes in economic activity among older people and changes to pension policy.

An important and growing role for the FCA

Before examining how consumers engage with the annuity market, it is worth considering what we know about ownership of DC pensions, particularly among those approaching retirement. Membership of pension schemes can be broken down into active membership and deferred membership. Deferred membership exists where, for example, an individual stops contributing, leaves an employer or leaves one scheme to join another. Membership can also be broken down into trust-based occupational pensions which are regulated by The Pensions Regulator (TPR) and contract-based pensions. The Financial Conduct Authority (FCA) supervises the conduct of firms operating and selling contract-based pensions as well as the insured annuity market. Both the contract-based pension market and the annuity market are set to grow in size over the next few years as the trends summarised below begin to work through.

17 million UK adults with accumulated pension rights

According to recent statistics published by the ONS[12], active membership[13] of occupational pension schemes (DB and DC) fell in 2011/2012 to 8.2 million, extending a trend that began shortly after 1967 when membership peaked at 12.2 million. The decline in part reflects a shift away from traditional trust-based occupational schemes towards contract-based workplace pensions. In addition to active membership of occupational pension schemes, ONS estimates suggest that 4.8 million individuals are actively contributing to group personal pension schemes or individual personal pension plans. This suggests that around 14 million adults are active members of either workplace or individual pensions.

In addition, some individuals may have deferred pension rights. The Wealth & Assets survey (WAS)[14] suggests that 8% of the population has some form of retained pension wealth but is not in a current scheme. This would add more than around 3 million to the total number of adults with some accumulated pension wealth, bringing the total to around 17 million.

10.5 million with DC pensions, and rising

While the different data breaking down different types of pension vary a little in their detail, ONS data implies that around 6.3 million adults are active members of DC schemes while analysis by the University of Birmingham[15] suggests that a total of 10.5 million people (or 60% of those with any pension) have DC pension savings. Using various ONS data, the author estimates that two-thirds of these are members of contract-based DC pensions, although the mix may shift under auto-enrolment depending upon the scheme choices made by employers.

The immediate pipeline for annuity business comes from those approaching retirement with DC pensions. Membership of workplace pensions broadly rises with age until the age at which most of the population are able to begin drawing their retirement income (age 55). Analysis of the 2008/10 WAS survey data implies that approximately 3 million adults aged 55+ could choose to annuitise at any time and a further 3.4 million aged 45-55 will follow in due course.

The Government's reform of workplace pensions begun in 2012 will see many more people automatically enrolled into DC pensions, which in time will boost by several million the numbers reaching retirement with a DC pension pot. It is not yet clear how many of the projected 16 million with DC pension savings by 2020[16] will be near retirement but it is clear that the numbers retiring with DC pension savings will continue to rise over the next 10-20 years as the baby boomer generation retire.

The government's latest consultation[17] on Defined Ambition (DA) pensions that combine features of DB and DC and the potential for new forms of DC pensions, in particular Collective DC (CDC), if implemented, could change the pension landscape over the medium to longer term if demand for change is realised.

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[12] ONS (2013), Pension Trends – Chapter 7: Private Pension Scheme Membership, 2013 Edition, Office for National Statistics

[13] Active members exclude those with deferred pensions from previous membership and scheme members who are already drawing their pension.

[14] ONS (2012), Wealth and Assets 2008-10, Chapter 4: Pension Wealth 2008/10, Office for National Statistics

[15] Cox P (2013), Private pension wealth among 55-64 year olds in the UK (paper published by NEST as part of its 2013 forum and available at NEST website

[16] PPI (2012), The changing landscape of pension schemes in the private sector in the UK

[17] DWP (2013), Reshaping workplace pensions for future generations, Public consultation November 2013

However, in the short term they appear unlikely to bring about any significant shift in the growth of DC pensions and annuities.

19 million DC pots

The number of individuals with DC pension savings paints only part of the picture as some individuals will have several different DC pension arrangements or ‘pots’ that could potentially be combined at retirement. Combining pots may provide an individual with greater choice of annuitisation options, particularly where individual pots have a low value and might otherwise be difficult to annuitise on the open market.

The DWP’s consultation on small DC pots[18] suggested that there were no robust data currently available to estimate either the average number of pots or the number of small pots but nevertheless estimated that there are currently in excess of a million dormant pots valued at under £5,000 and that, without change, the number will grow substantially with the Government’s workplace pension reforms. They estimate that there could be around 50 million dormant workplace DC pension pots by 2050, and that over 12 million of these will be under £2,000 (in today’s terms).

Age UK’s survey of the adult population conducted in 2013 found that among those who have any pensions, the average number of pension pots (that people can remember) numbers 1.8 (DB and DC) with surprisingly little variation by age. Around half of those with a pension have just one pot; almost one third has two pots and 20% has three or more. If we apply this average to the 17 million who have any pension we arrive at a total of 31 million pots. If we then assume that 60% are DC[19], this suggests around 19 million DC pots. The number is likely to be larger still as 23% of those with a pension have lost track of their pensions[20].

Having more than one DC pension pot, potentially with different retirement dates, may add to the complexity of the decisions to be made for the individual: whether to take all of the pots at the same time or stagger taking their retirement income; and whether and how to combine their pots. However, if the Government’s plans to ease consolidation are effective, the average number of pots per individual may not rise quite as much as envisaged as a result of auto-enrolment.

Majority approach retirement with DC wealth of <£20,000

The value of DC pensions becomes relevant, for several reasons, as individuals approach retirement. Firstly, the current law allows for some individuals with very small individual pots (<£2000)[21] and low value of pension savings overall (<£18,000) to take their accumulated fund as a lump sum rather than annuitise for a small annual income.

Secondly, those with pots of less than £10,000 that cannot be commuted into a lump sum can find it more difficult to convert it into an annuity on the open market as many firms do not offer rates on small value funds. As a result those with these relatively small pots may not be able to shop around or be able to switch in the same way as someone with a larger pot.

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[18] DWP (2011), Meeting future workplace pension challenges: improving transfers and dealing with small pension pots, available at Gov.uk

[19] As shown above, 60% of people with pensions have DC. While this is clearly not the same as the % of pension pots, it is used here as an approximation.

[20] Age UK (2013), Small pots research

[21] The precise rules are very detailed - see HMRC website

Finally, the value of the pension pot will, in most cases, be the most important factor in driving an individual's income in retirement, although annuity rates, age and choice of type of annuity will also play an important part. The value of DC pension holdings in relation to other pensions and wealth will also feature strongly in the relative importance of the annuity decision. Among those for whom their DC pension is not a substantial part of their wealth, the annuity decision could be less critical than for those for whom it represents a substantial part.

While it is difficult to place accurate estimates on the value of DC pension wealth or individual DC pots, what is clear is that the distribution of DC pension wealth is positively skewed with many small values and few with higher values. Analysis conducted for the FSA by the IFS[22] in 2008 illustrates this with an average value of DC pension wealth[23] among those aged 52-64 of £45,580 but a median closer to £10,000[24] with:

- 25% of those aged 52-64 with DC pensions having DC pension wealth of less than £1,800;
- 25% having pension wealth of between £1,800 and £10,000;
- 25% had between £10,000 and £30,000; and
- 25% worth more than £30,000.

Individual pots will be smaller still.

More recent analysis of WAS data (2006 to 2010) by The University of Birmingham[25] suggests that median value of DC pension wealth for all with DC stood at £16,000 with median values rising with age. However, among the age groups approaching retirement, the median values are higher: £20,000 for those aged 45-54; £25,000 among those aged 55-64; and £29,800 among those aged 65+ who have not yet purchased an annuity. Half of those nearing retirement will have DC pension pots that they will either trivially commute or find that they have difficulty finding alternative providers who are willing to offer them rates.

Recent ABI data reveals average annuity values of just over £34,000 for the first two quarters of 2013 compared to £25,000 in 2008. Average values of those buying an annuity will be inflated (compared to the figures above) by recent stock market growth and by those whose pension pots are very small taking them all as a lump sum trivial commutation. Average annuity values will also be affected by some of those with larger funds taking income drawdown rather than buying an annuity and by some consumers consolidating their DC pots and others not doing so.

Analysis of WAS data also highlights the difference between women and men approaching retirement with women's median values typically around 35%-60% that of men. Women are therefore more likely than men to approach retirement with small pots which, as explored below, may affect the way in which they approach the process of buying an annuity.

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[22] FSA (2008), Asset ownership, portfolios and retirement saving arrangements: past trends and prospects for the future, IFS

[23] DC pension wealth represents the accumulated DC pension wealth of the individual

[24] Median values are the mid-way point and broadly indicate that half of the population has a value below the median and half above.

[25] P Cox (2013), Private pension wealth among 55-64 year olds in the UK, presented at the NEST forum 2013

DC pension wealth typically represents 12% of all wealth

IFS analysis of ELSA[26] conducted in 2012[27] reports that un-annuitised DC pension wealth can be a very significant or a relatively insignificant proportion of wealth for those approaching retirement. The importance of DC pension wealth may shape the behaviour of individuals when it comes to purchasing an annuity.

- Typically (median value), DC pension wealth represents 12% of net family wealth[28] for those aged 52-64 with at least one DC pension pot.
- For 25% of those with at least one DC pot, DC pension wealth represents less than 4% of family wealth, implying that the annuitisation decision could be relatively less important in terms of its contribution to retirement income than for others. This may influence behaviour when annuitising.
- For another 25%, DC pension wealth represents 30% or more of family wealth, implying that for these individuals, annuitisation will be relatively more important.

While the analysis doesn't tell us everything about those for whom the decision is more important, it does highlight the fact that the annuity decision is a very personal one and one that is influenced by a number of different factors.

Looking ahead, DC and annuities likely to be even more important

The combination of a growth in DC pensions, automatic enrolment and a wave of post-war baby boomers hitting retirement all point to a rise in the number of individuals needing to convert their DC pension pot into a retirement income. Barring a shift to alternative products and/or a significant rise in the age at which individuals buy their annuity, the market for annuities is set to become more important in coming years. However, while the numbers looking to buy an annuity may increase, it is less clear whether the average value of DC wealth will increase. Three main factors will influence the value of DC wealth:

- Many of those in DC pensions will have been in them for longer and will have been contributing for them longer which should increase average values.
- Many individuals will have been more recently auto-enrolled into DC pensions and many of this group will be relatively low paid and may have only just started pension savings. In the short to medium term, this could bring down the average value and lead to more individuals commuting their DC pensions or finding themselves with values that do not enable them full access to the open market.
- Stock market performance will influence values in either direction.

The ease with which individuals can aggregate their DC pension wealth will also play an important role in shaping the retirement income process.

As more individuals accumulate DC pensions for longer (and fewer have membership of DB pensions), the importance of DC within household's asset mix is also likely to increase, making the annuity decision more important for more people.

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[26] English Longitudinal Study of Ageing

[27] IFS (2012), Expectations and experience of retirement in Defined Contribution pensions: a study of older people in England

[28] Family wealth includes other pension assets, other net financial assets and net property wealth included in family wealth

Annuity sales trends

ABI data shows that, from a peak of almost 462,000 pension annuity sales in 2009, the number of sales fell to just short of 393,000 in 2011 but rose again to just over 419,000 in 2012. However, the average size pot used to purchase an annuity rose by 43% from just over £23,000 to just over £33,000 over the same period. It is not known how many of these sales arose from consolidated pots and how many were individual pot purchases.

The 2011 decline in the number of sales may be attributed to several causes including consumers delaying retirement due to changes to the state pension age and/or historically low annuity rates. Some observers suggest that those delaying retirement may be losing out, particularly if annuity rates remain low and the improvements individuals gain from being older when annuitising plus potential investment gains don't replace the income not taken[29].

While it seems very likely that the number of annuity sales will increase in coming years as more consumers reach retirement with DC pensions, the pipeline is difficult to predict with any certainty due to changing consumer behaviour, changes in economic activity among older people and changes to the state pension.

The following two sections of this report examine consumer behaviour in relation to the purchase of annuities.

[29] FT August 2013 '*Income warning over annuity delay*' FT.com

3. Getting the best annuity rate – consumer behaviour

Getting the best annuity rate available makes sense for consumers who may need to rely on that income into what could be a lengthy retirement. Shopping around has been encouraged by successive regulatory and industry initiatives and is becoming the norm for annuity buyers, albeit that different consumers engage more or less thoroughly in the process and shopping around does not always lead to switching. The highlights from this chapter include:

- Almost half of annuity sales are now placed with external providers, although not all of this is due to consumers shopping around; some is the result of pension providers placing their default annuities with external providers.
- Awareness of the right to shop around is high at 91% of annuity buyers but one in ten remain unclear or unaware of the right to shop around for a better rate or different type of annuity.
- In spite of most being aware of their rights, more than one third of annuity buyers do not shop around (37%). Some consumers exhibit signs of inertia while others may have made a rational decision. Reasons for not shopping around including satisfaction with the current provider, having a small pension pot or having access to a guaranteed annuity rate (GAR), and, for around a third of this group, the perception that shopping around will be complex or time-consuming.
- The incidence of shopping around appears to have increased following changes to disclosure regulations in 2003 and between then and 2010 but has since levelled out at around two-thirds of annuity buyers.
- Among those who do shop around, not all are active in getting competitive quotes meaning that almost half of buyers either don't shop around or do so with access to limited information.
- Just over half of those who shop around do so with the help of a financial adviser. The remainder look into the matter for themselves, although two-thirds of this group admit to devoting only a limited amount of time to the issue.
- Among those who shop around and switch, the choice of provider is almost always driven by the rate available. Among those who shop around and don't switch, a combination of the best rate or what they perceive to be a good rate allied to comfort with existing provider are the main determinants of provider.
- Little is known about whether, faced with only a small nominal difference in annuity payments, consumers make an informed choice about the consequences over the lifetime of the annuity.
- Those most at risk of poor rate outcome are those with small pots, those with low levels of financial literacy, those who are eligible for but unaware of the availability of enhanced annuities, and those for whom a quick decision is necessary.
- Overall, it appears that around half of all annuity buyers get a good rate through shopping around, either because they switch to a better rate or stay with their existing provider who offers the best rate of those that they explore. A further 10% appear to get a rate from their existing provider that they feel is good enough. Some of these two groups may be able to achieve a better rate still by more active shopping around.
- What consumer research does not tell us is what proportion of those who do not shop around happen to get the best rate available and what proportion get a poor rate, or whether those that do shop around get the best rate available to them.

Shopping around considered critical to getting the best rate

Shopping around for the best annuity rate is considered to be important in delivering good outcomes, particularly for those who are eligible for an enhanced or impaired life annuity; although not all will find a better rate on the open market. In 2009, Oxford Economics and PICA estimated that annuity buyers would collectively benefit to the tune of £13.9 million in a single year by the industry facilitating (and consumers embracing) more effective shopping around. Analysis a year later by Wells & Gostelow for the Financial Services Consumer Panel (FSCP) suggested that on average an annuity buyer could benefit to the tune of £200 p.a. (or 3% uplift) by shopping around for the best rate, and that the annual aggregate difference could range from £8m to £17m.

Several regulatory and industry initiatives have been put in place over the past ten years to facilitate and encourage shopping around. Most notably, the then regulator, the FSA, put in place new rules for contract-based pension providers in 2002 which required them to highlight to consumers the ability to shop around and the potential benefits of doing so[30]. Similarly, The Pension Regulator (TPR) has set out detailed guidance to trustees of occupational DC schemes on how they should meet their obligations to inform scheme members of their rights to shop around. More recently, the ABI has put in place a code of conduct[31] for contract-based pension providers which is designed to reduce the extent to which consumers automatically default to their existing pension provider for their annuity and to encourage shopping around.

Annuity sales data reveals some trends but inconclusive on poor outcomes

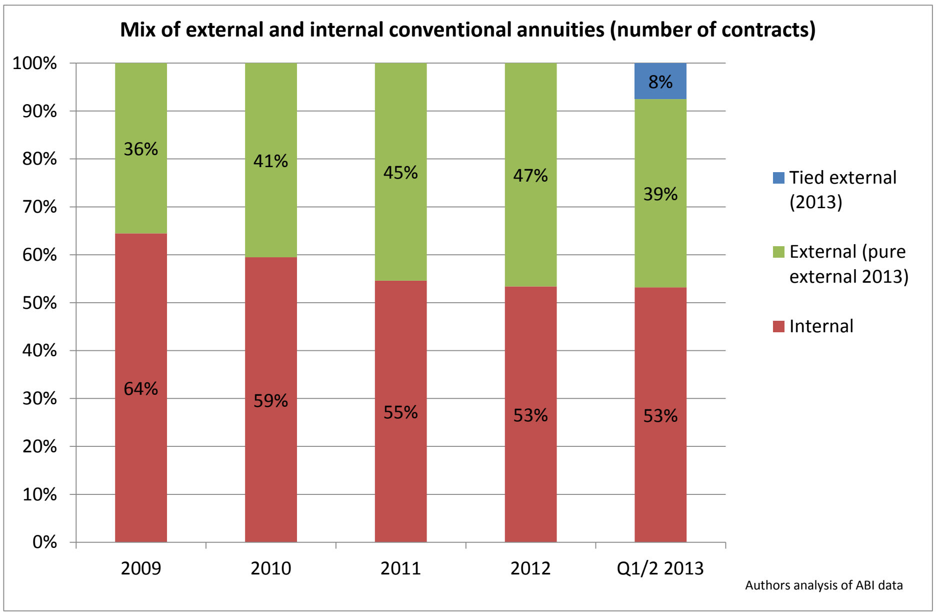
ABI data reveals a number of trends in annuity sales between 2009 and 2012 that could be indicative of changes in consumer behaviour. Figure 1 below reveals an increase in the proportion of annuity sold by companies other than the existing pension provider from one third being external in 2009 to almost a half in 2012 / 2013. Not all of this shift can be attributed to a change in consumer behaviour since some pension providers now source their default annuities from external providers. Data for quarters one and two of 2013 provided by the ABI indicates that 8% of all conventional pension annuity sales[32] (by number of contracts) are 'tied' external annuities where the pension provider has appointed a third party as the 'default' annuity provider. This may still indicate better outcomes than would otherwise have been the case if the pension provider had continued to offer its own internal rates; in particular where the original provider has selected the third party on the basis of good rates for its customer base (although it is unlikely that any one provider would be able to provide the best rates for all of customers).

39% of conventional annuity sales in Q1 and Q2 2013 were pure external annuities where the consumer chose to switch to a different provider; a decision based on their own research, the use of an annuity broker or the advice of an IFA.

Not switching is not in itself an indication of a poor outcome. However, the data do not reveal what proportion of those who purchased the internal rate received a poor rate relative to others on offer. Other workstreams being undertaken by the FCA as part of its thematic review will seek to shed light on this issue.

[30] TPR guidance to trustees at TPR website
[31] Details available at ABI website
[32] Excludes investment-linked annuities but includes enhanced annuities

Figure 1: Mix of external and internal all pension annuity sales.



The mix between internal and external rates varies significantly by whether or not advice is received and whether that advice is independent, whole of market or single tied. In the first two quarters of 2013, 63% of non-advised sales by number of contracts were internal, compared to 19% of those where independent advice was provided[33]; suggesting a strong link between advice and switching activity. 64% of annuities were written on a non-advised basis. However, without information about the different mix of business between advised and non-advised and the rate achieved, it is impossible to say categorically whether this is a strong indication of poor outcomes. Some of the consumer research examined below provides some indications of the different types of consumer seeking advice or researching the market.

The ABI data also reveal an increase in enhanced annuities for those in poor health or smokers from just below 10% of sales in 2009 (when the market was relatively young) to 25% in 2012. Most of the increase has been in external provision of enhanced annuities, although there are signs of more firms offering internal enhanced rates. The growth in the availability of enhanced annuities may, in itself, have encouraged more shopping around.

Awareness of right to shop around remains high

Several research studies have examined consumer awareness of shopping around over the past ten years and have tended to show widespread awareness of the right to shop around. This level of awareness appears to have grown considerably since 2001 according to data referenced in the 2006 HMT review of the annuities market[34]. The reference to a 2001 survey suggested that then, two-thirds of annuitants did not know that they could shop around for an annuity. However, more recent surveys have shown that about one in ten annuity buyers are not clear about their rights and therefore do not even consider shopping around.

[33] ABI data does not separate out advised sales from non-advised sales where a broker is involved

[34] HM Treasury (2006), The Annuities Market

Quantitative research conducted for the FSA in 2003[35] suggested that awareness of the right to shop around was high with the majority of respondents (89% and 88% of recent buyers in two different waves of research) correctly answering *'no'* to the statement 'I have to buy my annuity from the same company who I have my pension with'. However, a significant minority (around one in nine) were less clear about their rights. The research also found that 13% were unaware that different rates could be available.

The most recent study by the ABI[36] suggests that, among recent annuity buyers, 91% claimed to have been aware of the right to shop around, although 5% believed that they had to stay with their existing provider and 4% were unsure about their right to shop around. Published analysis tells us little about the profile of the 9% who remain unclear or unaware of their right to shop around. For this sub-group, the information being provided in advance of the annuity decision is either not read or is ineffective in communicating options. Qualitative research conducted for the Financial Services Consumer Panel (FSCP) in 2013 also found widespread awareness of the option to shop around[37].

According to the ABI 2013 data, among those who did not shop around (37%), 75% stated that they were confident that they fully understood the benefits of shopping around but had chosen to stay for other reasons (explored further below). Given that 24% of those who did not shop around (the same 9% of all buyers referred to above) were unaware or unclear about the option, it suggests that once aware of the option, consumers either take it up or stay knowing that they could have shopped around. 84% of those who did not shop around agree that it is important for others to do so.

Complexity remains a barrier to shopping around for a minority

Although significant numbers state that they did not shop around (37% in the ABI 2013 survey), there are some indications that this lack of activity may nevertheless be an informed choice for some. In a survey in 2011, Age UK[38] found that 20% of annuity buyers had been aware of the right to shop around but had chosen not to do so, although the reasons were not explored. The 2013 FSCP report found that among the small number who did not shop around, this was due in part to the small amounts involved or a fear of the process. However, all participants in the research were aware of the right to shop around. The report highlights several barriers to effective shopping around:

- The difficulty that some find in getting quotes on-line, either because they are unfamiliar with the internet or because they are reluctant to input personal information to achieve the quotes;
- A fear of being drawn into a sales process;
- Confusion about the terminology of the annuity process and a fear of not understanding information provided;
- A lack of understanding of the impact of their decision on future income levels.

ABI reports (2013) that those offered a Guaranteed Annuity Rate (GAR) by their existing provider are also less likely to shop around, although they do not go on to show whether in fact GAR customers do get the

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35 FSA (2003), Purchasing annuities and an examination of the impact of the Open Market Option (IFF Research Ltd), FSA London

36 ABI (2013), Retirement Choices: Baseline to measure effectiveness of the code of conduct, ABI Research Paper No. 34, 2013

37 Optimisa Research (2013), The Annuity Purchasing Process, Financial Services Consumer Panel

38 Age UK (2011), Equity Release omnibus survey, details in appendix one

best rate available.

The 2013 ABI report reveals that the reasons given for not shopping around put satisfaction with / trust in pension provider top of the list (g around are fully understood. A simpler process might change behaviour among this group.

Figure 2 below). Whether or not this judgement is in fact due to inertia and whether it would remain as a reason if information gathering and shopping around were easier is difficult to tell. A further 25% do not shop around because their annuity represents a small part of their retirement income. This group appear to put a higher value on their time than the value that they believe will be delivered from shopping around which could suggest that they do not suffer a poor outcome even if they do not achieve the best rate. For some this view may be compounded by the value of their pot being small. Again, it is difficult to assess whether easing the process of shopping around and switching might change behaviour or whether judgements on the value to be gained from shopping around are fully understood. A simpler process might change behaviour among this group.

Figure 2: Unprompted reasons for not shopping around amongst annuity customers who do not shop around (ABI 2013)

	Annuity purchasers
Unweighted Base	338
Satisfied with pension provider	37%
Trust pension provider	12%
Small part of total retirement income	25%
Did not think time and effort was justified	12%
Easier to stay	11%
Professional adviser recommended to stay with pension	3%
Pension provider has good reputation	3%
Information was complicated and difficult to understand	2%
Did not know you could shop around	5%
Wasn't confident enough to do this	2%
Did not think other companies would offer anything different	3%

Note: Sample = Pre-retirees not intending to shop around; annuity purchasers not shopping around.

Figure 2 also shows that there remains a significant proportion, perhaps as many as a third of those who do not shop around (when reasons are combined), for whom shopping around is believed to be complex (11% who find it easier to stay and 2% who lack confidence) and/or time-consuming (12% in table below) or do not shop around through lack of awareness (5%) or understanding of the process (3%). Changing the process would appear likely to influence behaviour among this group.

However, as shown by those who shop around and then stay with their provider, not shopping around may not be indicative of a poor rate outcome. Arriving at a figure is complex with several factors at play:

- Some, like small pots, might imply that there is limited scope for getting a better deal. ABI 2013 data suggests that around one third of those who do not shop around have pots sizes of less than £10,000. To identify whether these individuals might benefit from shopping around requires further analysis of pricing which is not available from consumer research but is being investigated by the FCA in other workstreams for the thematic review.
- Others, like smoking or poor health might imply that there are benefits to shopping around. The ABI 2013 research does not highlight the incidence of smoking or poor health among those who do not shop around but does reveal that overall, only 66% of those who are smokers are aware of

their potential entitlement to an enhanced or impaired annuity and only 22% considered taking one out, suggesting that there is scope for awareness to be raised, particularly among those who do not shop around.

- In addition, an unknown proportion of the remainder may well be offered the best rate by their existing provider. Analysis of market pricing, rather than consumer research, will help to provide an answer to this unknown.

Shopping around activities split between those who use an adviser and those who DIY

While shopping around has been encouraged by regulatory and industry initiatives, shopping around can mean different things to different annuity buyers with roughly half depending on financial advisers and half engaged in DIY shopping around. According to ABI 2013 data:

- For some it means seeking help from professional advisers (55%);
- For some it means spending considerable time and effort researching different options, speaking to alternative providers and getting multiple quotes (15%);
- For others it may mean simply looking at a few sources of information, getting a couple of indicative quotes or speaking to family and friends before making a decision (30%).

The 2013 FSCP report also points to a several different approaches to shopping around with some more thorough than others. The report also suggests that those using a professional adviser can be further sub-divided into those who immediately delegate to an adviser and those who attempt the DIY route and, after realising that they need help, seek help form an adviser.

While no clear quantitative comparisons can be drawn between the different surveys available on shopping around behaviour, the incidence of consumers shopping around for themselves appears to be increasing. FSA research in 2002[39] found that only a small number had shopped around for themselves and that most who had shopped around had purchased based on an adviser's recommendation. To date, no surveys reveal the incidence of use of on-line, non-advised brokerage services or are able to track the impact of regulatory changes introduced at the start of 2012 (RDR) to the way in which financial advisers operate.

There are no detailed comparisons of outcomes in terms of rates or other differences across the different channels of information or advice used, although ABI 2010 research indicated that those who seek advice or information from a financial adviser feel that doing so encouraged them to consider a wider range of annuity types and providers.

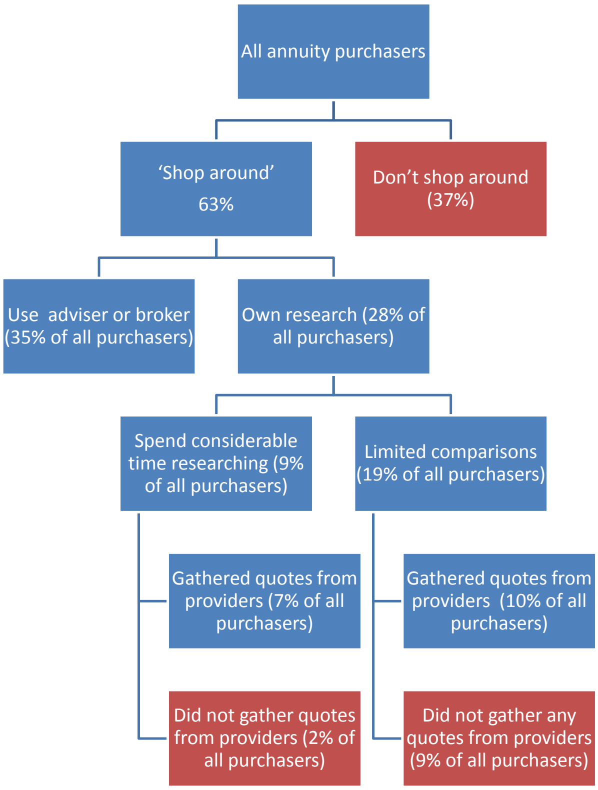
However, for some, shopping around is not all it seems to be

The ABI 2013 survey also highlights some inherent contradictions with 27% of those who shopped around saying elsewhere in the survey that they did not obtain information or advice before purchasing their annuity, while 25% who shopped around say that they have not contacted other providers (either themselves or through a financial adviser). The analysis does not tell us the degree of overlap between these two groups. At the very least, this would seem to point to some confusion in the minds of respondents to the survey. These data perhaps cast some doubt on whether as many of those who claim to shop around do so in a manner which will enable them to make an informed decision. The problem is most

[39] FSA (2002), Consumer understanding of annuities, FSA London

evident among those who say that they spent only a limited time looking into annuities, 49% of whom did not gather any quotes from other providers. In addition, 18% of those who say that they put considerable time and effort into shopping around did not collect quotes. The chart below summarises the incidence and nature of shopping around based on the ABI 2013 data.

Figure 3: Incidence and nature of shopping around



Overall, this suggests that, in addition to the 37% of annuity buyers who do not shop around, a further 11% make their decision without comparing quotes (although they may look at generic comparisons on-line) while just over a third make a decision based on information provided by an adviser or non-advice broker.

Among those who do compare quotes, annuity buyers say that on average they or their adviser collected four quotes; slightly more among those who used an adviser or broker and those who put considerable effort into shopping around and less among those put less time and effort into shopping around. The ABI analysis does not reveal how many make a decision based on just one or two other quotes. Neither is it clear exactly how those who do their own research gather their quotes or whether the number of quotes gathered is enough to avoid a poor outcome.

Published ABI analysis gives us only some insight into how those who do not collect quotes make their decisions, in particular it does not reveal the extent to which buyers rely on generic information or comparisons published on-line or in newspapers or whether they are heavily influenced by family and friends or their existing provider. The reasons given for not shopping around are explored in a later part of this section.

The 2013 FSCP report also finds that for some consumers the complexities of getting quotes can be a barrier to comprehensive shopping around while for others it is a challenge that they embrace or delegate to an adviser or broker.

Information services not widely used

Shopping around behaviour is facilitated by a number of services and media including comparison tables published in newspapers, information provided through organisations such as the Money Advice Service (MAS) and The Pension Advisory Service (TPAS) as well as commercial web-sites, execution-only annuity brokers and financial advisers. Information and advice may be sought out by individuals reaching retirement or made available through the workplace.

The ABI 2013 survey reveals that while a significant proportion who shopped around did not use an adviser, only a small minority consult other services such as MAS (6%) and TPAS (3%) while 7% claimed to use on-line services. NEST research[40] also stresses the importance of a range of influencers in making retirement decisions including both formal and informal sources of information and advice.

Indications of an increase in shopping around behaviour but little change in switching behaviour

Shopping around and switching behaviour has been measured in a number of surveys in the past 10 years, starting with an ABI survey in 2002 and most recently as part of the ABI's 2013 baseline survey[41]. Although the quantitative surveys differ a little in sampling and methodology, and different surveys measure shopping around in slightly different ways, Figure 4 below summarises the differences in shopping around and switching over time. While the results should be treated with some caution, they suggest a significant increase in shopping around between 2003 and 2010 following the introduction of the FSA's new disclosure rules but a slight reduction in the percentage shopping around in recent years.

Figure 4: Comparison of recent surveys

	% of recent annuitants shopping around	% buying from an external annuity provider after shopping around	% reverting to their original provider after shopping around	% of annuitants buying from their existing provider without shopping around
ABI 2002	48%	33%	15%	52%
FSA 2003 wave one	48%	20%	28%	52%
FSA 2003 wave two	59%	22%	37%	41%
ABI 2010	67%	32%	35%	33%
Age UK 2011 (small sample	45%			55%
Age UK 2012	70%			30%
IFS 2012		22% who know, 32% including DK		
ABI 2013	63%	31% (includes 1% who DK)	31%	37%

Source: author's analysis of surveys

[40] Nest's research into retirement decisions, presented at the 2013 NEST forum, available at NEST website

[41] All surveys are summarised in appendix one.

The table also reveals that, in spite of an apparent increase in shopping around, there has been no real change in the proportions saying that they stay with their existing pension provider or switching to a different provider. This somewhat contradicts the trend shown in ABI data in Figure 1 above.

A lack of switching in itself is not an indication of poor outcomes. Internal rates may be the best available, particularly where guaranteed annuity rates are available or where a customer has a small pot and has little choice on the open market. Internal rates may also have been improved by very poor internal annuity rates being withdrawn from the market and more competitive external providers appointed. It is not clear from existing research whether consumers are aware of the provider of their annuities where it is not the existing pension provider. However, there remains a concern about whether the third of annuity buyers who do not shop around achieve poor outcomes in terms of rates.

Shopping around can improve rate outcomes

Among those who report shopping around (63% in 2013 ABI survey), unsurprisingly by far the biggest drivers are getting the best rate, getting a better choice of annuity, maximising their income or checking that their current provider is competitive. Only 2% shop around because they are unhappy with their pension provider. One in four are influenced to shop around by the advice of others, whether financial advisers or family, friends or colleagues.

While there has been very little detailed analysis of whether shopping around does yield more income, IFS analysis of ELSA data in 2012 found that those who purchase an annuity from an external provider appear to get a better rate than those who do not (17% higher). However the analysis is heavily caveated due to relatively small sample sizes and the significant gaps in the data that prevent the data being used to generalise for all annuity purchases.

The vast majority of those who switch choose their provider on the basis of annuity rate

ABI 2013 research found that 98% of those who end up switching (31%) chose based on a better offer or higher rate or they took what their adviser recommended, without explicitly stating that it was a better rate. 5% chose an annuity that better suited their needs and 4% switched because they were not satisfied with their pension provider. It seems reasonable to suggest that most of those who switch achieve a good outcome, although some may have selected what they believed to be the best rate without having compared all rates.

Those who shop around but don't switch choose on rate, satisfaction with existing provider or ease

The ABI's 2013 survey data reveals that those who shop around but do not switch (31%) do so to check that their current provider is broadly in line with the market. The majority (estimated by the author at more than 80%) say that they stay with their existing provider because they have been offered a better (more than 50%) or 'good enough' rate or because they wanted their annuity sorting out quickly. All appear, on surface at least, to be rational reasons for staying. However, questions remain about whether some (particularly those who stay because rates are 'good enough') have the information necessary to make a fully informed view or whether there remain barriers to those customers switching. In particular, it is not clear whether those who choose a slightly lower rate are aware of or fully understand the impact of an apparently small nominal difference over the whole period of retirement.

Other reasons given for staying include satisfaction or reputation of their existing provider 9%. 8% said that it was easier to stay and 3% said that it would be too much hassle to move, suggesting that a combination of consumer inertia and complexity of switching process remain barriers for some. Like those who stay because the rate is 'good enough', a small proportion (3%) do not switch because they do not feel that the small difference in rates merits the effort and time involved.

FSCP 2013 qualitative research confirms that the decision to stay with an existing provider after shopping around is often due to the value placed on the existing relationship but can also be due to the existing provider offering the best rate or a rate that appears not to justify shopping around further or switching.

Overall, around half of buyers appear to get a better rate from shopping around

Looking at the cohort of annuity buyers surveyed by the ABI in 2013, around 46% appear to get a good or better rate through shopping around (made up of 98% of the 30% who switch provider and 50% of the 31% who shop around but do not switch). A further 10% of all buyers appear to get what they feel is a good enough rate from shopping around (30% of the 31% who shop around but do not switch). What this type of research cannot tell us is what proportion of those who do not shop around get the best or close to best rate, which leaves us unable to describe what proportion in total achieve a sub-optimal outcome in terms of annuity rate. Neither does it tell us whether those who switched or stayed for a better rate, did so on the basis of complete information or whether they could have done better still with more information.

Confidence and satisfaction with purchase

Little is known about the appropriateness of annuity decisions or the degree of satisfaction that buyers of annuities have with either the annuity itself either at point of purchase or later in retirement. The limited research available suggests that:

- Those who had retired were ill-informed about retirement options and annuities, in spite of having been through the process. This was particularly true of those who had chosen the default annuity offered by their pension provider. (PADA 2008[42])
- However, those who had purchased an annuity in 2002 had generally achieved a comfortable retirement and were happy with their lot (FSA 2002). Some were accessing other savings and investments to boost their income and some were considering part-time work. Inflation was of concern to some. The picture may look a little different today.
- Most felt that they had moved through the retirement process with ease. Those with DC pensions also found the process relatively easy and felt that they had few decisions to make; perhaps highlighting that many had failed to recognise that there were in fact a number of key decisions to be made. There was some disappointment among those who had retired and purchased an annuity about how little it had bought with those concerns higher among those with few other savings and investments. (ABI 2009)
- However, nearly one in five of those who had purchased an annuity found the process complex and a further third found it easy only after speaking to an adviser. Younger annuity owners appear to have found the process more complex than those aged 70+; a result which could reflect the recency of the process but also the move away from defaulting to current provider towards shopping around. (Age UK 2012)

The ABI's 2013 survey found that:

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[42] PADA (2008), Awareness, knowledge and attitudes regarding the retirement process for PADA's target audience

- 89% annuity purchasers were very or quite confident that they made the right decision (that their annuity fully meets their needs and circumstances) with one in ten not confident .
- The report does not indicate why 11% were not confident in their decision, although we might infer from the data above that these were concentrated among those who did not shop around, use an adviser or who purchased a traditional annuity.
- 95% of those who purchased an investment-linked annuity were confident in their decision, as were 92% who bought enhanced/impaired annuities who chose a guaranteed period of value protection.
- 84% of those who did not shop around and stayed with their existing provider were confident that they had made the right decision compared to 93% of those who shopped around but then reverted to their existing provider.
- Neither does the report answer the question of what they would have chosen to do differently (it is possible that some respondents would have answered 'not confident' in any circumstances if they do not feel that any annuity option fully meet their needs).

2013 qualitative research for the FSCP also found that most of those who had purchased an annuity 'expressed satisfaction at having completed the process' and that none believed that they had suffered financial detriment, whether or not they had shopped around or switched.

The impression formed from these surveys is that although the majority report a satisfactory outcome (although this may be the result of post-purchase rationalisation) and find their way through the process, a minority:

- Find the process uncomfortable;
- Either fail to understand the process or find the process easy because they simply default;
- Fail to understand that they could have achieved a better rate if they shop around;
- Lack confidence in their decision.

Furthermore, for those who do find their way through the process and achieve a better rate, there remain some barriers to a thorough analysis of rates and the selection of the best rate available.

Different outcomes for different groups

Research among annuity buyers consistently shows that some types of consumer or types of pension are more or less exposed to the risk of poor rate outcomes.

The strongest factor shaping shopping around highlighted by the ABI in 2013 was size of pension pot used to purchase an annuity, with those with smaller pots considerably less likely to shop around than larger pots. As noted above, those with the smallest pots may not do so because there are (or they believe that there are) no companies offering external rates for them. Shopping around is also influenced by:

- The propensity that individuals have for shopping around in other markets. Those with more experience or a tendency to want to shop around for other products, in particular, insurance, are more likely to feel able to shop around for an annuity (ABI 2013).
- The number of pots an individual is annuitising with those with three or more pots much more likely to shop around than those with one or two (ABI 2013).
- IFS found that the importance of the DC pension as a percentage of the household's total wealth influences switching behaviour. By implication, if the DC pension is a less important part of a household's wealth, the individual is less likely to shop around. However, ABI data, using different measures of importance (e.g. statements about whether or not the annuity is their main source of

income), found little correlation between shopping around and the importance of the annuity and research by L&G[43] found that the more affluent shopped around. These data are not necessarily contradictory. The propensity to shop around might work in different ways depending firstly on level of affluence and secondly on importance of the pension in terms of overall wealth.

- A poor level of numeracy appears to inhibit shopping around as does a lack of confidence or experience in using the internet (IFS 2012). ABI (2013) also suggested that levels of financial confidence affect shopping around behaviour. 40% of those with low financial confidence[44] do not shop around compared to 20% of those with high financial confidence.
- The ABI found that married buyers were more likely to shop around than single buyers. Those who have been through the process before were also found to be more likely to shop around.
- Those retiring early or purchasing on a set retirement date are less likely to shop around than those who have deferred retirement, perhaps because replacing earned income is more imperative and shopping around is seen to delay receipt of annuity income.
- The FSA's 2003 survey found that women were less likely to shop around than men but more recent surveys have not described differences in their analysis of buying behaviour.
- The 2013 ABI survey suggests that 40% of those eligible for an enhanced or impaired life annuity are unaware of the existence of such annuities and may therefore miss out on a better rate.

IFS analysis did not find any statistically significant difference in propensity to shop around between those in good and those in poor health. Age UK research found that one in ten of those with an annuity found out after they had purchased that certain medical conditions could have led to an enhanced annuity. 27% did not realise at all.

[43] L&G (2012), Direct to Customer Annuities Solutions research

[44] The ABI defined low financial confidence as those who agree with the statements: 'Financial issues are best left to the experts – you generally rely on the advice of financial advisers, friends or relatives about which products are best for you'.

4. Getting the best type of annuity

Choosing the right type of annuity, whether single v joint-life, escalating v level or choosing a guaranteed period, is a more personal decision than getting the best rate and requires an assessment of the trade-offs being made. In many cases, only hindsight will determine whether the decision was right. The concern is therefore less whether the right decision has been made but more whether the decision is an informed one. Research available on consumer choice of annuity type reveals that:

- Although prompted awareness of the different options available at retirement appears to be high, in practice, many annuity buyers do not consider alternatives to a level, single life annuity.
- The one exception is among married couples where more than half consider a joint life policy and just under half now takes one out. ABI data suggests that the proportion selecting joint life were on the increase until 2012 when the proportion fell.
- Where joint life policies are not considered or taken out, reasons given include the relatively small amounts being considered, the need to maximise income today or the availability of other sources of household income.
- Most consumers choose or default to a level annuity in spite of a stated preference by many for inflation protection. When faced with the trade-off between the two options, a bias or need for more money today prevails.
- Little information is available on the decisions made to buy or not buy a guaranteed period.

Buying the right type of annuity also important

Much of the concern about the workings of the annuity market has focused on the type of annuity purchased. Commentary from academics (Pensions Institute 2006) and consumer bodies (FSCP)45 have expressed concern principally about:

- The propensity to purchase a single life annuity when there is a spouse who may be left with an inadequate income on the death of the annuity buyer based upon a bias for taking more money today rather than tomorrow (described by the FCA in 2013 as present bias).
- The use of level annuities that do not protect against inflation, again, influenced by a present bias.
- The use of guaranteed periods as a substitute for a joint-life annuity (Which?[46]) or concerns that the decision to purchase a guarantee can be made based on an overestimation of the probability of dying young and behaviour which is characterised by loss aversion (and the use of the capital sum as the reference point for that decision)[47]. The bequest motive is also seen to play a part in decisions about guaranteed periods[48].

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[45] FSCP (2010), foreword to Wells & Gostelow report 'Annuitisation process and consumer detriment an initial investigation of issues'

[46] Which? website

[47] Cannon & Tonks (2008), Annuity Markets, p204

[48] Shlomo Benartzi, Alessandro Previtero, and Richard H. Thaler (2011), Annuitization Puzzles, published in Journal of Economic Perspectives—Volume 25, Number 4—Fall 2011—Pages 143–164

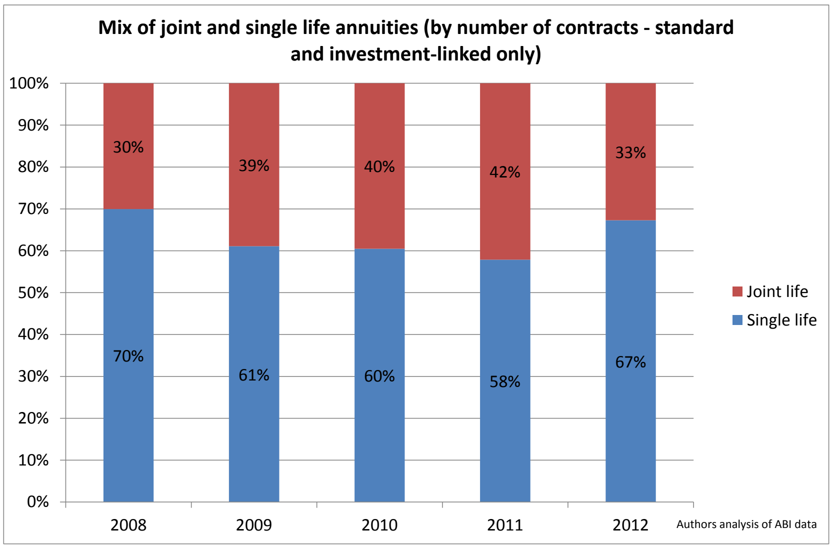
All of these options reduce the amount of annuity payable in month one but, for some buyers, may generate as much or more lifetime income than a single life level annuity. However, that outcome is very dependent upon the longevity of the annuity buyer. Those who die at a younger age may not realise the benefit (in pure financial terms) from the purchase of an escalating annuity; those who purchase a joint life annuity and whose partner does not outlive them will not realise the financial benefit from that decision (but will have benefited from the protection afforded); those who choose a guaranteed period but outlive the period will receive less than they would have done without that benefit. These are all uncertainties that increase the complexity of the decision for annuity buyers and may lead to annuity buyers not making an informed choice about annuity type.

ABI data reveals a mixed picture in purchase of joint life annuities and a decline in inflation protection

Analysis of ABI sales data (Figure 5 below) reveals an increase in the proportion of joint life annuities between 2008 and 2011 but a subsequent fall in 2012. The earlier rise may be due to greater awareness of the benefits of a joint-life annuity and/or a shift in the proportion of annuity buyers being in a domestic partnership. The subsequent fall is believed to be due in part to the withdrawal of the requirement to purchase a joint-life annuity with protected rights funds[49]. If correct, the fall supports the view that consumers have a preference for maximising their immediate income over longer term benefits.

Without knowing what proportion of buyers has a partner, it is difficult to say categorically from these data alone whether the upward trend represents better outcomes for consumers.

Figure 5: Proportion of annuity sales single v joint life and standard v investment linked 2008-201150



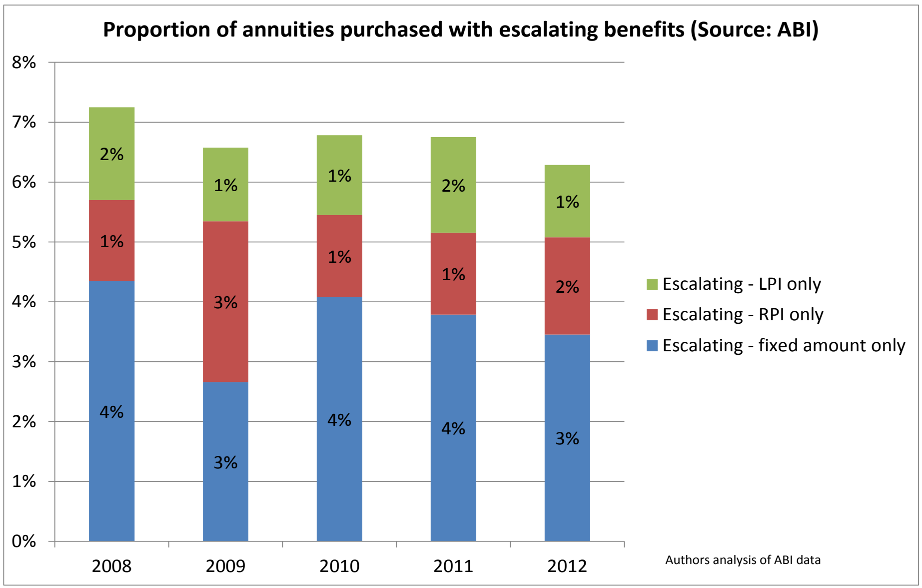
ABI data (Figure 6) also reveals a slight fall in the proportion of standard annuities that incorporate any form of escalation over the period 2008-2012, suggesting that fewer consumers with annuities are prepared to pay the price for inflation protection. The economic climate, pressure on the incomes from higher energy costs, low interest rates and challenging investment conditions may be contributing to this

[49] The requirement to purchase a joint-life annuity with protected rights funds was removed in April 2012 (although some rights may still be subject to scheme rules that restrict the use of protected rights funds)

[50] Analysis excludes enhanced annuities and 2012 data not available

decline in inflation protection and a growing need for immediate income.

Figure 6: Proportion of standard annuities with escalating benefits (by number of contracts, excludes enhanced and investment-linked annuities)



ABI does not provide a robust data set for the use of a guaranteed period.

High levels of awareness of different annuity types

One of the critical decisions that DC pension holders will have to make, having made the decision that an annuity is right for them, is the shape and structure of their annuity. Awareness and understanding of the different types helps consumers weigh up the different risks and benefits in a more informed way, whether or not they are using a financial adviser to help with the decision and is particularly important for those buying without advice.

Qualitative surveys among those approaching retirement have either found low levels of awareness and understanding of different types of annuity (FSA 2002, DWP 2008[51], PADA 2008) or a reasonable understanding of the different types but a poor understanding of the trade-offs that are made by choosing different annuity types (ABI 2004). The 2013 FSCP study revealed good levels of awareness and understanding of the benefits afforded by different annuity types but a strong preference among many to stick with a level, single life annuity which would yield the highest immediate income.

Quantitative surveys have tended to confirm low levels of spontaneous awareness but much higher levels of prompted awareness (ABI 2009). The ABI 2013 survey found high levels of prompted awareness among both those who had been sent their wake-up pack and those who had recently purchased their annuity. Survey respondents were not tested on their claimed knowledge of these annuity types which, when combined with findings from qualitative research, might cast some doubt on whether awareness can be translated as understanding.

[51] DWP (2008), Information needs at retirement: Qualitative research focusing on annuitisation decisions, Research Report No 515

Figure 7: Awareness of annuity types (ABI, 2013)

	Pre-retirement	*Annuity purchasers*
	% NET Aware	*% NET Aware*
Unweighted base	*500*	*1000*
Guarantee period	76%	86%
Joint Life	81%	84%
Guaranteed Annuity Rate	75%	79%
Single Life	70%	76%
Level	73%	75%
Escalating (Inflation Linked)	66%	74%
Enhanced/Impaired	65%	72%
Investment-linked	65%	67%

Note: Sample = All pre-retirees (500) and annuity purchasers (1000). Prompted with annuity name and short description.

Source: ABI 2013

Although awareness may be high, many annuity buyers do not consider alternative types of annuity

Several research studies in the past ten years found that many annuity buyers do not even consider alternatives to the default level, single life annuity (FSA 2003, ABI 2009 and 2013). The most common reason given for not considering a different type of annuity included:

- The small size of the pension pot, where presumably most did not want to consider options that would further reduce an already small income.
- A focus on the highest immediate monthly income rather than any consideration of longer term effects.
- A desire and need for inflation protection but unwillingness to sacrifice income today for income tomorrow that may never be realised.

All of these reasons exhibit a strong present bias while some also demonstrate a tendency to overestimate the probability of dying young. Many expressed concern that they would not live long enough to benefit. Other reasons for not considering a joint life annuity included the financial independence of the spouse and the availability of other assets.

More recently, the FSCP study found that many respondents considered the alternative types of annuity available but expressed a preference for maximising initial income over future protection.

There is little to suggest that shopping around makes a significant difference to the type of annuity purchased. In the ABI 2013 survey, only 5% of those who switched provider claimed to do so because it gave them a more relevant annuity for their needs.

A survey by Partnership in 2013 (details in appendix), describes how some arrived at their decisions (all of these customers had shopped around and switched from their pension provider):

- Married / co-habiting customers who bought a single life annuity tended to do so because their partner is provided for in other ways, although a significant minority did not know why they purchased a single life or were not advised by their adviser (or could not recall being advised) of the option of a joint life annuity.

- Customers who did not buy escalating annuities (the majority) tended to do so because they wanted to maximise their income today or were unhappy about taking a lower income for so long before the benefits of escalation kicked in. A significant minority either did not know why they did not buy an escalating annuity or were not advised by their adviser (or could not recall being advised) of the option.
- Among those customers who did not choose a guaranteed period (the minority), most made the decision because they were financially secure or wanted a larger starting income. Again, a significant minority either did not know about guaranteed periods or their adviser did not mention it.

Further analysis of the 2013 ABI survey, reveals that 87% of those entitled to a joint-life policy are aware of them and just under half end up buying one. Although the ABI trend data shown at the start of this section is inconclusive on its own, there is some sense from the available consumer research that more of those in a partnership are buying joint-life annuities than in the past. The research suggests that many who do not buy a joint-life annuity make a conscious decision based on the level of income available to the partner or the household as a whole or partners having their own provision. This view is endorsed by the FSCP 2013 study.

The ABI 2013 survey does not report on the choices between level and escalating annuities or the use of investment linked annuities but the FSCP study again suggests that consumers have a preference for higher initial income and are put off an escalating income by the impact on early years. For some this decision is based on a lack of fear of inflation whereas others believe that they will need less income later in life or have other ways of supplementing their later life income.

Given the difficult judgements at play in the decision on type of annuity, it is difficult to say whether those choosing more money today over more money tomorrow are experiencing poor outcomes as a result of their behaviour. Although it is clear that many would like more protection against inflation and for their partners, they are not all able or prepared to pay the price for this in terms of a reduction in immediate income.

5. Consumer barriers to good outcomes

This section focuses on consumer barriers to good annuity outcomes. Existing research highlights the following demand-side barriers:

- The existence of human biases that inhibit good outcomes;
- A lack of financial capability in dealing with complex markets;
- A lack of engagement in pensions at the accumulation phase;
- A lack of clarity on income expectations in retirement and a growing sense of disappointment as retirement approaches;
- A growing sense of uncertainty for individuals over retirement age;
- Low levels of awareness and understanding of retirement options, annuities and the annuitisation process;
- A lack of understanding of the long term risks associated with different annuity decisions and/or the ability to make value judgements and decisions;
- Difficulties in understanding disclosure material and quotes;
- Limited awareness of or access to advice and guidance.

Although we have described these as consumer barriers, some of these are rooted in the consumer response to real or perceived supply-side barriers such as access to advice; complexity of information; the stability of financial institutions.

Human biases, complex markets and a lack of financial capability hinder good outcomes

The analysis above highlights a number of human biases and preferences that could be considered to be barriers to good outcomes for annuity buyers. Behavioural economics theory argues that many consumers fail to make informed decisions in the annuity market and that people fail to optimise their welfare in retirement by making the 'best' annuity decision.

Specific barriers to getting the best annuity rate include:

- Complexity – while the product itself can be thought of as relatively simple, the choices to be made when purchasing an annuity are not simple and the decision can be a scary one for some people, particularly for those for whom the accumulation phase has been one of default choices.
- Fear that the annuity provider may collapse and that one's pension pot may disappear. Some may feel that their current pension provider is a safer option than choosing an unknown or new annuity provider.
- Inertia which can lead to people defaulting to what they believe to be the most common option or the easiest option. This may in part explain why consumers fail to exercise their right to shop around.
- A reluctance to spend time on shopping around or an assumption that the benefits gained from shopping around are less valuable than the time spent shopping around (or other costs of shopping around)

Specific barriers to choosing the right annuity type include:

- Most consumers struggle to assess risk and uncertainty in relation to retirement income (Brown[52] and FCA[53]). In the UK complexity, the difficulties in finding out about products, allied to low levels of financial literacy may be a barrier to consumers finding the best deal rather than a barrier to annuitisation itself.
- The perception that annuities are a gamble, rather than seeing them as insurance. In the UK, where the default option is an annuity this trade-off tends to work more clearly in relation to decisions between different annuity types, in particular the decision between level and increasing annuities.
- A tendency towards the present rather than the future. This tendency results in people over-valuing money today and undervaluing money tomorrow. In the UK it can result in buyers placing a higher value on a level income, that yields more today but is worth less tomorrow, than an increasing income that may yield more over the whole retirement period, a joint life against a single life annuity, or for taking the maximum amount of tax-free cash from pensions (and often spending that money).
- A tendency to over-estimate low probability events and under-estimate high probability events which affects attitudes towards personal longevity and to people underestimating how long they will live. Many will overstate the probability of dying young (a low probability event) which increases the perception of annuities as poor value products and increases the tendency to take as much as possible up-front.
- An aversion to loss. During the accumulation phase, DC pension customers are focused on their wealth rather than the income it can generate. Annuities can present consumers with the feeling that they are ‘losing’ their pension pot and in many markets this prevents them buying an annuity. In the UK market it can lead to the desire for a guaranteed period over non-guaranteed as this reduces the perceived loss. Taking as much as possible up front by taking the tax free lump sum and taking a level income also reduce the sense of loss.

Lack of early engagement in pensions may limit shopping around

Early findings from research underway in Australia[54] suggests that engagement and numeracy may be key determinants of consistent and more rational decision making at retirement. While not all of the features of the Australian market apply in the UK, it is the case that engagement with pension accumulation remains relatively low and, with auto-enrolment, may prove to be lower still for many. UK research has consistently showed that consumers lack engagement with their long-term financial planning.

Research by the NAPF and Pensions Institute[55] suggests that the structure and nature of the accumulation phase of workplace pensions leads to a very large proportion of members leading a ‘default’ life during their membership of the accumulation phase. This leaves them ill-equipped to make an active decision on annuities when the reach the decumulation phase. The weak position of the member is exacerbated by the voluntary nature of the help afforded by the employer, trustees or provider of the scheme. The report asserts that members find it difficult to assess information and find suitable advice and therefore may not

[52] Brown J (2011), Rational and behavioural perspectives on the role of annuities in retirement planning, Working paper 13537, NBER
[53] FCA (2013), Applying behavioural economics at the Financial Conduct Authority available at FCA website
[54] Preliminary presentation at the NEST forum of a paper ‘Engagement: A partial solution to the annuity puzzle’
[55] NAPF and PI (2012), Treating DC scheme members fairly in retirement

purchase the most suitable annuity.

Qualitative research conducted for PADA in 2008 which focused on lower social grades and lower financial capability identified two distinct typologies in relation to pension planning:

- The first group who were indifferent to the detail of their pension provision
- The second who were cynical and lacked confidence in their pension being worth anything.

The report suggests that these attitudes, allied to perceived complexity of pension communications, discouraged engagement with pension planning and was leaving many ill-prepared for making retirement income decisions.

ABI research in 2009 found that many delay thinking about retirement until retirement or the date at which their pension provider writes to them is almost upon them. Most started thinking about retirement between two months and two years before their selected or normal retirement date. Age UK's 2013 research found that most individuals switch on to the subject at a point very close to their retirement. These are unlikely to be ideal conditions for making informed decisions at retirement.

Lack of clarity on income expectations may lead to consumers not recognising the importance of shopping around

Many with DC pensions have little or no idea of how much they can expect their income to be as they approach retirement, making retirement planning even more complex and uncertain. Some research also highlights the significant gap between income expectations and reality, although some find estimates to be more accurate as individuals approach retirement suggesting that they begin to read and digest the information about projected pension income from their pension schemes or providers.

IFS analysis in 2012 revealed that one third of those approaching retirement are unable to anticipate what their future retirement income might be, 46% can provide a range and 22% can give a precise figure. Those nearer retirement were more likely to be able to give a precise figure. However, the analysis highlighted important gaps for those with DC pensions. Those who were able to report an expected income in retirement appeared to provide optimistic estimates of their retirement income. IFS calculated that typically they would need to increase their fund value by 77% to achieve the income that they expect to receive. Men would need to see 55% growth and women 155% growth to achieve the income they expect and more still if they expect to take a tax-free lump sum. This suggests that either DC pension providers /schemes are not communicating clearly what individuals should expect by way of income or individuals are simply not taking these figures on board. For many, these expectations might be expected to frame their attitudes to the income they can eventually expect to receive at retirement.

Growing uncertainty over retirement age makes planning annuity purchase difficult

Traditionally, the link between retirement or state pension age (SPA) and purchasing an annuity were considered to be strong. However, changing legislation, job patterns, and retirement patterns are likely to have weakened the link between retirement and annuitisation, with individuals able to take their annuity at any time following their 55th birthday whether they remain in paid work or not. There is also greater flexibility around phasing retirement with the ability to annuitise different DC pension pots at different times or indeed to annuitise part of a DC pension pot.

Analysis of ELSA data by IFS in 2012 suggests a continued spike in annuity activity around state pension age: ages 60 or 61 (just over 40% of women with DC pensions who annuitise) for women and 65 or 66 for men (around 35%). However, the majority do not annuitise at or around SPA. The most recent ABI survey of recent annuitants confirms this with 79% taking their annuity between the ages of 60 and 69. A comparison with ABI data from 2002 published by HMT in 2006 reveals very little change in the age at which people are annuitising with 81% then taking their annuity between the ages of 60 and 69, although there may be some shift between these two ages.

Further analysis reveals strong links between annuity purchase and leaving paid work. However, only 40% of annuity purchases were made on the event of a transition from paid work to not working; i.e. the traditional retirement pattern. 26% of annuity purchases were made by those who had left paid work some time before the purchase and around 44% were made as individuals changed job but remained working. Uncertainty about when and how individuals are going to retire from the workforce present difficulties to both individuals and providers in terms of knowing when to begin retirement planning in earnest.

Lack of awareness of retirement income options may limit choices

Overall, the research summarised below suggests that there remain significant gaps in understanding about the range of options available to individuals as they approach retirement. Many individuals are likely to arrive at retirement with inadequate awareness of the options open to them and may, as a result, may find themselves either rushed into a decision or defaulting to the easiest option open to them.

Several surveys conducted in the past 10 years (FSA 2002, ABI 2004 and 2009, PADA 2008, Aegon 2011, ABI 2013) confirm that while some understand that their DC pension pot will be converted into an income, many lack clarity on:

- The process by which this happens and the parties involved;
- Sources of advice and information;
- The options available, in particular alternatives to annuities;
- How much they could take as cash;
- How to purchase / consolidate pots.

However, more recent surveys suggest that awareness and understanding may be improving (DWP 2008, ABI 2009), although the 2013 ABI survey found that not all of those approaching their chosen retirement date[56] or even all of those who had recently purchased an annuity were aware of the full range of options available to them at their retirement date.

The 2013 survey also found significant levels of discomfort with understanding of retirement options with 26% uncomfortable with their understanding of retirement options, rising to 40% among those with lower levels of overall financial confidence; and 20% not confident that they can make an informed decision about their retirement options. The survey did not validate whether those who felt comfortable with their understanding did indeed have a good understanding and it is therefore possible that the percentage with a poor understanding could be higher.

[56] Members of contract based pensions who had been sent a wake-up letter

Low awareness and understanding of annuities pre-retirement may lead to poor outcomes for some

In a world where those approaching retirement have to make active decisions about where and how to maximise their retirement income, individuals accumulating a DC pension pot would ideally be aware of the role that annuities could play in delivering their retirement income in advance of their needing to generate a retirement income. Earlier awareness could contribute to preventing a sense of panic when decisions have to be made and reduce inertia.

Awareness and understanding of annuities among UK consumers, in particular DC pension holders have been researched on a number of occasions over the past 10 years, although studies have varied in their scale, nature and sampling, making comparisons over time difficult. Overall, the research available suggests that, over the past 10 years, there may have been some improvement in overall awareness of annuities, particularly among those with DC pensions; although this conclusion is slightly tenuous given the differences between the surveys. The two main quantitative surveys summarised below suggest that levels of understanding of annuities among recent buyers may have changed little since the introduction of new rules in 2002, although the rules may have improved understanding from earlier levels.

In 2003, the FSA conducted research to test the impact of their new rules on the information to be sent from DC pension providers to who had recently purchased an annuity (the rules do not apply to Occupational Pensions and their members). The research suggested that:

- Before the introduction of the new wake-up pack that providers were required to send to those approaching retirement (2002), 62% claimed to have a basic or detailed knowledge of annuities. However, when prompted about the characteristics of annuities, the researchers assessed that only 46% had a basic or good understanding.
- After the introduction of the pack (2003), 71% claimed to have a basic or detailed knowledge of annuities. This fell to 55% once the researchers had assessed the accuracy of understanding.
- Men felt that they had a better understanding than women and those with larger funds had a better understanding than those with small pots.

Bearing in mind that most respondents in the survey had already purchased their annuity, the survey suggested a very significant lack of understanding even among those who had been through the annuitisation process. Unfortunately, the data were not analysed by whether or not the consumer had exercised their open market option and so it is not possible to link the higher levels of awareness and understanding with outcomes.

Research by the ABI in 2009[57] reported that among DC policyholders nearing retirement (excluding occupational pension members) who were asked to read the wake-up pack before the interview, 74% claimed to have a basic or good understanding of annuities before they read the pack. However, 38% of those who claimed to have a good understanding of annuities were unable to name any particular type of annuity, again suggesting that self-reported understanding may not be as good as consumers believe it to be.

Growing awareness of annuities may have been fuelled in part by media attention on annuities and annuity rates but also by the growing numbers annuitising and improvements in the information supplied to DC

[57] ABI (2009), Pre-retirement wake-up packs, ABI Research Paper No. 18, 2009

consumers as regulatory and industry initiatives have kicked in. However, there appears to be some way to go to improve understanding of annuities, particularly among those with lower levels of financial capability.

Overall, surveys suggest that there is considerable uncertainty about the different types of annuity available and the options available to consumers. Whilst this may not matter if consumers seek advice or set out to inform themselves more fully at the point of purchase, it is likely that a lack of understanding could prevent some consumers from optimising their annuity income.

Lack of understanding of the risks associated with retirement may reduce the chances of selecting the right type of annuity

One of the reasons that consumers may not engage fully with decisions at retirement may be a lack of understanding of the risks that they will face in retirement. Research is consistent in showing that individuals find it difficult to engage with long term risk scenarios; generally understate their longevity; underestimate the effects of inflation (however much they are concerned about it); and generally refuse to consider their later life income needs:

- Individuals are uncertain about life expectancy and its effects on retirement income (FSA 2002) and while some anticipate living beyond 90, many underestimate their life expectancy (ABI 2004) and there is a tendency to emphasise short rather than longer term retirement prospects (PADA 2008). Few expected to live beyond 90 when in fact 18% of men and 29% of women might expect to. Many are unaware of the number of years that they may need to finance in retirement (IFS 2012) and fear of the pension pot dying with the individual led participants to believe that they should take the maximum lump sum and income early on to make sure that they got value for money from their savings;
- Awareness or interest in care costs in later life was very limited (FSA 2002) and few had considered their income or wealth needs to cope with long term care in later life (ABI 2004);
- Many were complacent about the effects of inflation suggesting that it is impossible to predict; that it would stay low or assuming that their pension will deal with it (FSA 2002). More recent research (PADA 2008) found that respondents were aware of the effects of inflation: it was their biggest long term concern and they felt helpless in protecting themselves against it. However, many expected to need less money later in retirement.

With this mind-set, it is perhaps not surprising that when choosing an annuity, maximising immediate income is a priority over longer term concerns. A lack of awareness and understanding of risks may also contribute to some consumers not shopping around because they fail to understand the benefits of doing so.

Difficulties in understanding disclosure material and quotes can hinder good outcomes

Several research studies have found that some annuity buyers are either intimidated by the quantity of information provided or struggle to understand the contents.

The FSA's CPOS study in 2008 found that 50% of annuity buyers feel bombarded by too much information while other felt that there wasn't enough information available that they could trust. This finding was also found to be the case for some annuity buyers in the recent qualitative research conducted by the ABI (2013) in parallel to the quantitative survey. It suggested that some found the quantity of information and content overwhelming, with complaints about the number of pages, the number of times it took to get the information they wanted – particularly where the customer wanted to change the assumptions on which quotes provided.

The ABI 2013 research also found that levels of readership and understanding vary considerably with one quarter only glancing through not reading at all, most because they had not had time to read, had put off reading or planned to seek advice. Among those who did not read pack in full, 12% struggled with the complexity of information it contains. The survey found that significant minorities (around one in six annuity buyers) did not find the pre-retirement information sent by providers easy to understand or any clearer about their retirement options or where to get more information. Those with low financial confidence were more likely to find the written information difficult to understand or not to have read it.

Qualitative research conducted in parallel suggested that annuity buyers found the quotes provided difficult to compare, in part because of lack of standardisation and because of a lack of guidance on which types of annuity would be appropriate for different consumers.

Limited awareness of, or access to, advice and guidance prevents some achieving good outcomes

Annuity decisions made at or near retirement can be influenced by access to information and financial advice. In this section of the report we examine whether those approaching retirement generally have access to financial advice or anticipate getting advice as they near retirement.

ABI research conducted in 2004 found a general lack of awareness of where to get financial advice about retirement income and strong levels of mistrust of advice and advisers. Although IFAs were seen as the best choice, there remained lingering concerns that advice would not be independent. Many wanted to be able to approach an independent bureau and some were willing to do their own research through the internet. ABI 2009 qualitative research also highlighted poor experience of financial advice during working life as one of the barriers to planning ahead for retirement.

The same survey suggested that a significant proportion of those approaching retirement with a contract based DC pension were unaware of financial advisers as a source of advice at retirement (49%, dropping to 34% of those with a larger fund) while only 10% would consider approaching the (then) regulator the FSA[58] and only 8% were aware of The Pensions Advisory Service helpline. Furthermore, only 7% thought that their employer would be a source of information and support at retirement.

Age UK research conducted in 2011 found that one in five of those aged 55-64 would trust an IFA the most to give them financial advice. A further third don't know or would not trust anyone for advice and do not seek it. The remainder would largely trust friends and family.

ABI research conducted in 2013 found that nearly two-thirds of pre-retirees (who had been sent a wake-up pack) did not spontaneously mention access to financial advice as a source of information on annuities. When prompted, 67% of pre-retirees say that they intend to speak to their current provider and 52% intend to seek professional financial advice. Among annuity buyers who did not seek advice, a number of reasons are given for not seeking professional advice, as shown in Figure 8 below. It appears that many feel able to manage without advisers because they are already knowledgeable on the subject or know where to look for information. Some are put off by the cost or perceived hassle of using an adviser or simply do not trust in professional advice. Some feel that the size of their pot does not justify advice. A small but perhaps

[58] The survey pre-dated the existence of the Money Advice Service.

important minority feel that the best option is to remain with their current provider.

Figure 8: Unprompted reasons for not consulting a financial adviser – annuity purchasers (ABI 2013)

Small pension fund	21%
Confident I know what to do	17%
Knowledgeable enough	15%
Professional advice too expensive	13%
Happy with current pension provider	10%
Sufficient amount of available information to make a decision	9%
Too much hassle	7%
Friends or family help	7%
Don't trust financial advisers	6%
Confident to research and make a decision	5%
Employer help	3%

Source: ABI retirement choices: Baseline to measure effectiveness of the code of conduct

Note: Sample = Annuity purchasers that did not use a financial adviser (600). Reasons mentioned <3% not shown.

The surveys suggest that awareness of financial advice, pre-retirement usage of financial advice and anticipated usage of financial advice at retirement, even among those with a DC pension, are low. Many expect to rely on informal sources of advice and information or simply do not know where to go for help.

It is possible that access to advice is more widely available to those with higher value investments in general and potentially those with larger pension funds (although there may not be a strong correlation as it is quite possible for someone with significant other wealth to have a small DC pension pot and vice versa).

6. Solutions for improving outcomes

This section focuses on what research can tell us about the solutions that can work best to improve outcomes for annuity buyers. Theories of consumer behaviour suggest that the provision of information, the framing of choices and the way in which advice and guidance is delivered are important in shaping outcomes.

In the UK annuity market, research to date has shown that the way in which information is provided at retirement can have some effect on the propensity to shop around and that access to formal advice can influence decisions on the type of annuity as well as giving access to a wider range of providers and rates. Changes to the framing of defaults and new choice architectures available through new providers and new services have yet to be fully tested through research and the impact of new on-line services and RDR have yet to be researched.

Economic theory suggests that information asymmetry lies at the heart of many market failures. Behavioural economic theory suggests that consumers are susceptible to the framing of information, a fact that the historical lack of shopping around in the annuity market is attributed to by some. The FCA (2013) has noted however that where biases exist, providing information alone may not solve the problem since consumers may lack the ability to interpret and use the information. In addition to the provision of appropriate and timely information, other generic solutions highlighted by the FCA include:

- changing the choice environment, for example by requiring consumers to make an active decision rather than offering a 'default' or standard offering (the new ABI code of conduct makes some changes to this including removing the ability of providers to include an application form in the information pack sent to consumers);
- changing the rules on distribution, for example by requiring products to be only sold through certain channels;
- controlling products themselves, for example by requiring all products to contain certain terms and conditions.

In the sections below, we explore what existing research tells us about the impact of different solutions applied to the annuity market in the UK. To date not all of these solutions have been tested and so research is not available for each one.

Improving the timing, quality and quantity of information provided and choice defaults

Over the course of the past 10 years, significant changes have been made to the way in which information is provided to those approaching retirement with a DC pension. Although the right to shop around for an annuity has been in existence for many years, in 2002 the FSA introduced new rules requiring providers of contract based pensions to send a wake-up pack informing consumers of the right to shop around. New guidelines were developed by the ABI in 2008 and in 2012 a new code of conduct was developed by the ABI which weakens the default choice and seeks to encourage more shopping around.

The FSA's 2003 research suggested that the revised wake-up pack appeared to have a positive effect on the proportion shopping around. 59% of those interviewed in wave two after the changed had been made shopped around compared to 48% in wave one before the changes. However the effect on switching was less marked with 22% switching provider in wave two compared to 20%. The effect was more noticeable on those who shopped around but did not switch (37% compared to 28%).

ABI quantitative research in 2009 suggested that reading the revised wake-up pack could lead to an increase in shopping around activity. Among those aware of the OMO and who read the pack:

- 26% indicated that the pack made them shop around for an annuity when they would not otherwise have done so;
- A further 25% were nudged into shopping around by the pack when they had been thinking of it anyway;
- 39% would have shopped around anyway; and
- Only 11% were not encouraged to shop around.

Analysis by IFS in 2012 of annuity behaviour also suggests an increase in the percentage buying externally in the period 2008 – 2011 compared to earlier periods starting 2002 (28% compared to 20% who stated that they had bought externally), perhaps confirming that changes to information provision have had a positive effect on shopping around behaviour.

There is some indication that consumers who spend time reading their wake-up packs and other information sent by their providers have much higher levels of awareness of the different options available to them. By way of example, the ABI (2013) found that 91% who had read the wake-up pack in full claimed to be aware of joint-life annuities compared to 67% of the small number who had not read the wake-up pack. Similarly 80% of those who had read in full were aware of enhanced annuities compared to 56% of those who did not read the pack.

The ABI has now started to test whether its revised code of conduct is having an effect on consumers.

Discussions with provider may help some through the process

ABI research in 2013 explored the effect of telephone discussions between those buying annuities and their existing pension provider. While only a small proportion of annuity buyers did contact their provider by phone (estimated at fewer than 20%), 86% of recent annuity buyers felt that their provider had made it clear where and how they could get more information and 84% felt that they had been made more aware of their options through the call.

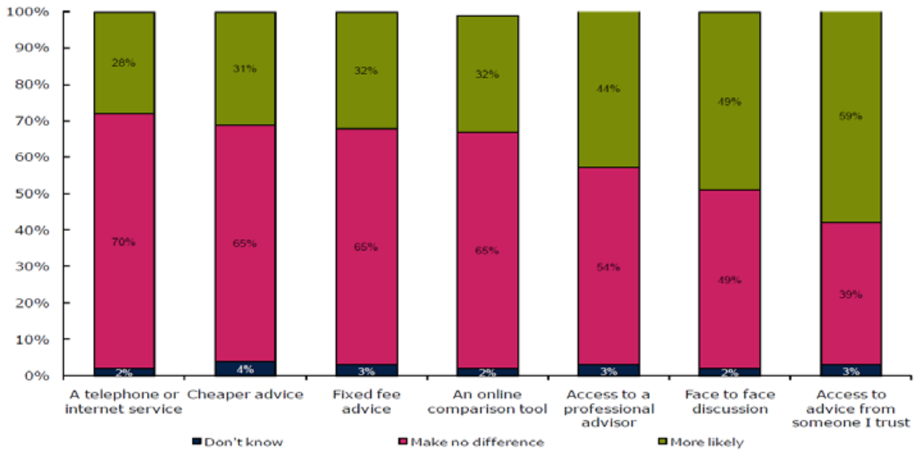
Changing the choice architecture may change behaviour

As a new player in the DC pension market, NEST is faced with soon having many thousands of members reaching retirement, many with relatively small pension pots. Its research into consumer decision making at retirement has led it to develop a new architecture for annuity choice that provides guidance and product comparisons from a selected panel of annuity providers. The panel operates to remove the default and 'force' consumers to make an active choice of annuity. The prototype is reported to have researched well but as yet has not been tested through live cases. Other players in the DC market have also adopted a similar approach to NEST in developing panels and new ways of presenting annuity choices.

Facilitating advice or guidance may help those who do not currently shop around as well as those who do

The ABI's 2010 research suggested that access to advice, a face-to-face discussion or on-line information were thought most likely to help those who did not shop around do so (Figure 9 below).

Figure 9: Strategies suggested that could encourage use of the OMO (ABI 2010[59])



Note: Sample = 222 (all who did not shop around)

By definition, those who seek professional advice are engaged in shopping around. The ABI's 2013 research suggests that 44% of those who seek some form of advice or information before buying their annuity consider other providers because of the involvement of a professional financial adviser; more than any other individual source. However, by definition, 56% of those who seek advice and information are guided in their choice by other influences. Advisers are also seen to be the most influential medium in encouraging consumers to consider other types of annuity.

The 2013 FSCP research points to a need for several improvements to ease the process for consumer and to help more achieve better annuity rates, most notably:

- clearer guidance to consumers on how best to shop around;
- improvements to the way in which on-line comparison sites operate including instilling in consumers confidence in how the information they provide will be used;
- better information on the availability and cost of advice;
- more prominent promotion of the benefits of taking advice.

[59] ABI (2010), annuity purchasing behaviour: Results of customer research. ABI research paper no 23, 2010

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Appendix one – summary of key surveys

Project Sponsor	Title	Date published	Sample (qual or quant)	Key objectives / research themes
ABI	Annuities, the consumer experience.	2002	Quantitative 500 interviews with people who had bought an annuity in past five years 100 interviews with people who had retired in past five years but had yet to purchase an annuity	• Access to and use of advice • Whether used the OMO and whether purchased from another provider • Type of annuity purchased • Interest in different annuity options
ABI	Pre-retirement wake-up packs, ABI Research Paper No. 18, 2009	2009	Quantitative 1606 'cold' interviews with DC policyholders (not occupational) who had been sent a wake-up pack 503 'warm' interviews with DC policyholders (not occupational) who were asked to read the wake-up pack before the interview	• To test whether the wake-up packs helped consumers: • Understand annuities • Understand the benefits of shopping around • Understand where to access financial advice
ABI	Annuity purchasing behaviour, ABI research paper no 23, 2010	2010	Quantitative 750 interviews with recent purchasers of annuities (within 6 months of the research) Parallel qualitative sample	• Understand shopping around behaviour • Annuity purchasing process • Awareness and understanding of options
ABI	Retirement Choices: baseline to measure the effectiveness of the code of conduct	2013	Quantitative (small qual) 500 interviews with DC policyholders (not occupational) who had not yet reached their retirement date but had been sent a wake-up pack between 1st Sept and 9th Nov 2012. 1000 interviews with those who had recently purchased an annuity between 1st Sept and 9th Nov 2012	To collect a benchmark of customer awareness, understanding and intentions in relation to pre-retirement decision making To benchmark customers' awareness, understanding and behaviour when securing a retirement income among post-retirement customers Quantifying the role of provider communications and other information sources on customer considerations, both pre and post retirement

Project Sponsor	Title	Date published	Sample (qual or quant)	Key objectives / research themes
Age UK	Equity Release omnibus survey	2011	Quantitative 1249 GB adults aged 55+	Ownership of assets How often review assets Sources of advice Whether have an annuity Understanding of annuities Use of the OMO Attitudes to financial planning
Age UK	Small pots research	2013	Quantitative 2312 adults aged 18+ in UK	Ownership of pensions Number of pension pots Whether keep track of pensions Whether know how to track old pensions Attitude to financial planning for retirement
ONS	English Longitudinal Study of Ageing	Longitudinal 2002 onwards	Quantitative The survey sample is drawn from respondents to the Health Survey for England (HSE) - a study conducted jointly by the Department of Epidemiology and Public Health, UCL, and the National Centre for Social Research, on behalf of the Department of Health. Around 12,000 respondents from three separate years of the HSE survey were recruited to provide a representative sample of the English population aged 50 and over. Achieved sample in wave 4 8,218	The survey data are designed to be used for the investigation of a broad set of topics relevant to understanding the ageing process. These include: health trajectories, disability and healthy life expectancy; the determinants of economic position in older age; the links between economic position, physical health, cognition and mental health; the nature and timing of retirement and post-retirement labour market activity; household and family structure, social networks and social supports; patterns, determinants and consequences of social, civic and cultural participation; predictors of well-being.

Project Sponsor	Title	Date published	Sample (qual or quant)	Key objectives / research themes
ONS	Wealth & Assets	Longitudinal survey 2006 onwards	Quantitative The Wealth and Assets Survey (WAS) is a longitudinal survey that interviewed across Great Britain; England, Wales and Scotland (excluding North of the Caledonian Canal and the Isles of Scilly). Respondents to wave one (July 2006 – June 2008) of the survey were invited to take part in a follow up interview two years later (July 2008 – June 2010) to identify whether their circumstances had changed. Interviews in waves one and two were conducted using Computer Assisted Personal Interviewing (CAPI). Wave one achieved approximately 30,000 household interviews; wave two achieved approximately 20,000 household interviews.	The WAS aims to address gaps identified in data about the economic well-being of households by gathering information on, among others, level of assets, savings and debt; saving for retirement; how wealth is distributed among households or individuals; and factors that affect financial planning.
FSA	Consumer understanding of annuities	Sept. 2002	Qualitative 36 depth interviews with individuals with a DC pension: Those less than 50 years of age Consumers aged 50 and over and nearing retirement Those who had purchased an annuity within the past 24 months	Assess consumer understanding of pension annuities Assess understanding of annuity options Determine the annuity decision actually made
FSA	Purchasing annuities and an examination of the impact of the Open Market Option	Nov 2003	Quantitative (with small qual) Wave 1 : 500 DC policyholders (not occupational) who purchased an annuity between March and May 2002 (before the introduction of new rules) Wave 2: 500 DC policyholders who purchased an annuity between February and April 2003 (after the introduction of new rules)	Level of understanding of annuities and the options available The impact of the wake-up letter in terms of understanding of annuities, the use of independent advice, exercising the open market option and consideration of the type of annuity purchased.

Project Sponsor	Title	Date published	Sample (qual or quant)	Key objectives / research themes
FSA	Consumer purchasing and outcomes survey (CPOS), CR76	July 2008	460 purchasers of decumulation products (withing past 12 months of survey which was conducted in 2007)	The survey was designed to explore: the nature, number and adequacy of information and advice sources financial customers use during their search for a suitable product; whether customers are provided with key information that, under FSA rules, they should receive from a regulated adviser about their service and costs; whether customers receive details about the key features of any product they are recommended or purchase and the extent to which these details are read and are clear and simple to understand; the factors involved in deciding what to buy, including the role of advisers and the influence of the product information received, the time taken to decide and the reasons for deciding not to buy; and aspects of the post-sales experience, including the extent to which customers feel the purchased product suits their needs, information and advice received and used, and other post-sales outcomes including complaints and arrears on mortgage payments.
Legal & General	Direct to Customer Annuities Solutions	Nov 2012	Qualitative research among L&G Annuities Solutions customers	Understanding the attitudes, drivers and information sources of customers Understanding the customer journey Usage of and attitudes to L&G's on-line service
Optimisa Research (FSCP)	The Annuity Purchasing Process	July 2013	Qualitative research among recent annuity buyers (24 interviews)	Illuminate the challenges faced by consumers in finding the best annuity product for their needs; their ability and willingness to shop around, to take advice and to understand the financial and consumer protection implications of their decisions.

Project Sponsor	Title	Date published	Sample (qual or quant)	Key objectives / research themes
PADA	Awareness, knowledge and attitudes regarding the retirement process for PADA's target audience	2008	Qualitative 14 focus groups 10 paired depth interviews Sample emphasised: C1, C2, D and E social grades Lower levels of financial capability Mix of those many years from retirement, those a few years from retirement and those recently retired	Gauge awareness, views and levels of knowledge of 'decumulation' Understand what choices and considerations people make in terms of their income leading to and upon reaching retirement Identify the stage at which people begin to consider and make arrangements to activate their income in retirement Explore use and experience of retirement products (e.g. annuities) and providers Discuss what factors influence their decision-making around decumulation Identify what support, guidance and information people require and utilise to make appropriate choices at retirement, and Gauge at what stages in decision-making this support is needed
Partnership	Annuity Product Suitability Research	May 2013	Quantitative research among 211 Partnership annuity customers.	Reasons for taking out an annuity Role of financial advisers Reasons for annuity selection Whether annuity selection remains appropriate through retirement Satisfaction with decision Attitudes to Partnership

Appendix two – about the author

Jackie Wells is an independent strategy and policy consultant with 30 years' experience working in financial services markets with providers, related Government departments and regulators, as well as think-tanks, trade organisations, professional and consumer bodies. Jackie has a keen interest in the role of market initiatives and social and regulatory policy in shaping consumer financial behaviour and the shape and behaviour of the financial services industry.

Jackie has previously worked in the consulting teams at Deloitte and Bacon & Woodrow and for life and pension companies in marketing and strategic planning roles. She is also a lay member of the CII's Professional Standards Board and an associate fellow of ILC-UK.