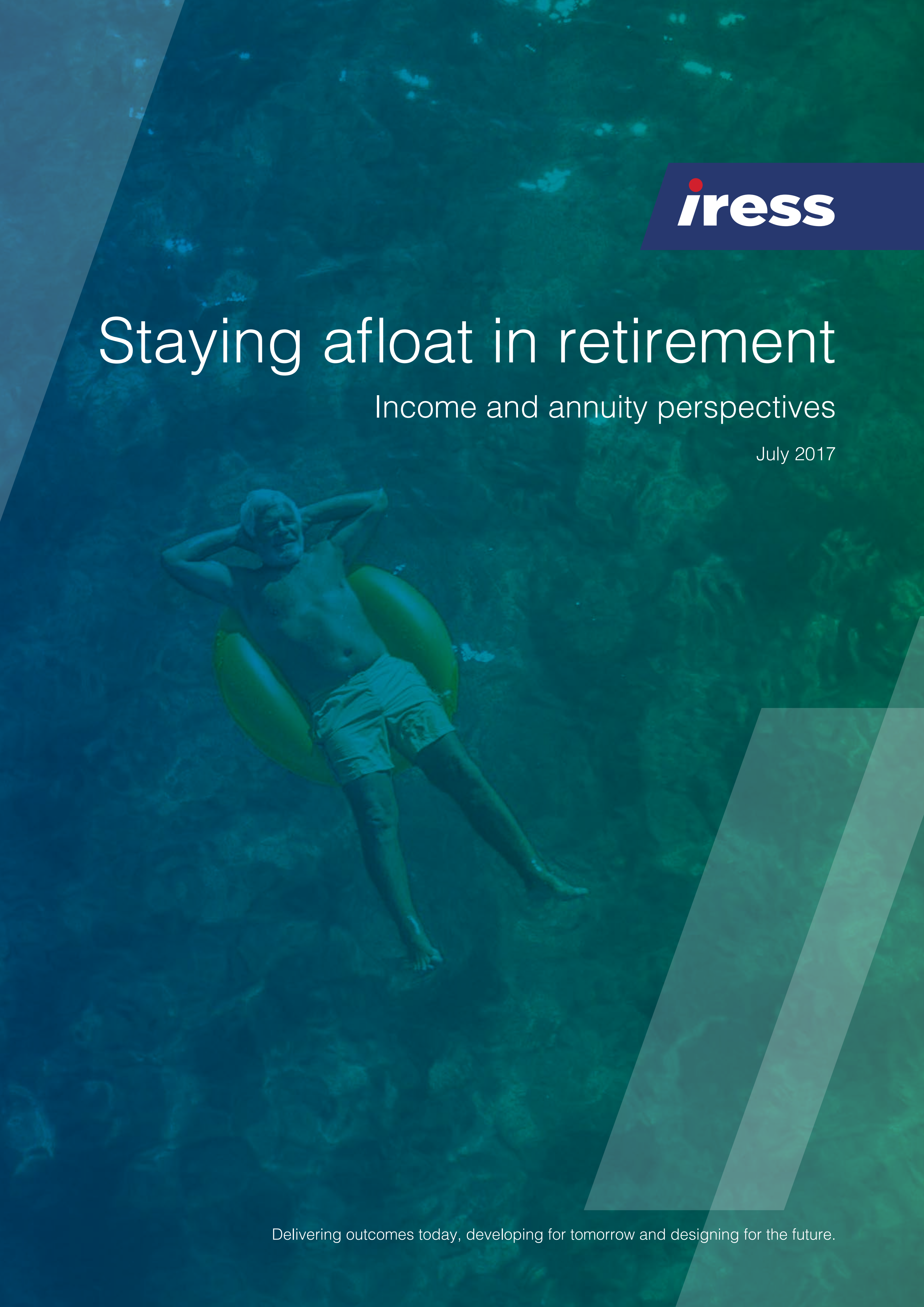


Staying afloat in retirement

Income and annuity perspectives

July 2017

Delivering outcomes today, developing for tomorrow and designing for the future.

Foreword

Welcome to our latest report on the retirement income market. Using both IRESS data and a range of sources from across the industry, we combine insight and analysis to build a picture of a new flexible retirement landscape as it is emerging.

The need for sustainable retirement income remains a core priority and lifetime annuities have a pivotal role to play here. Allowing for seasonal trends and inherent market volatility, there has been an overall rise in the number of annuity quotes generated through The Exchange following a low point at the end of 2015.

However, the reasons for needing sustainable income are changing and it is important to understand that 'sustainable' does not necessarily mean life-long. This is reflected in the number of fixed-term annuity quotes now accounting for 23% of all those produced, compared to 15% at the end of 2015.

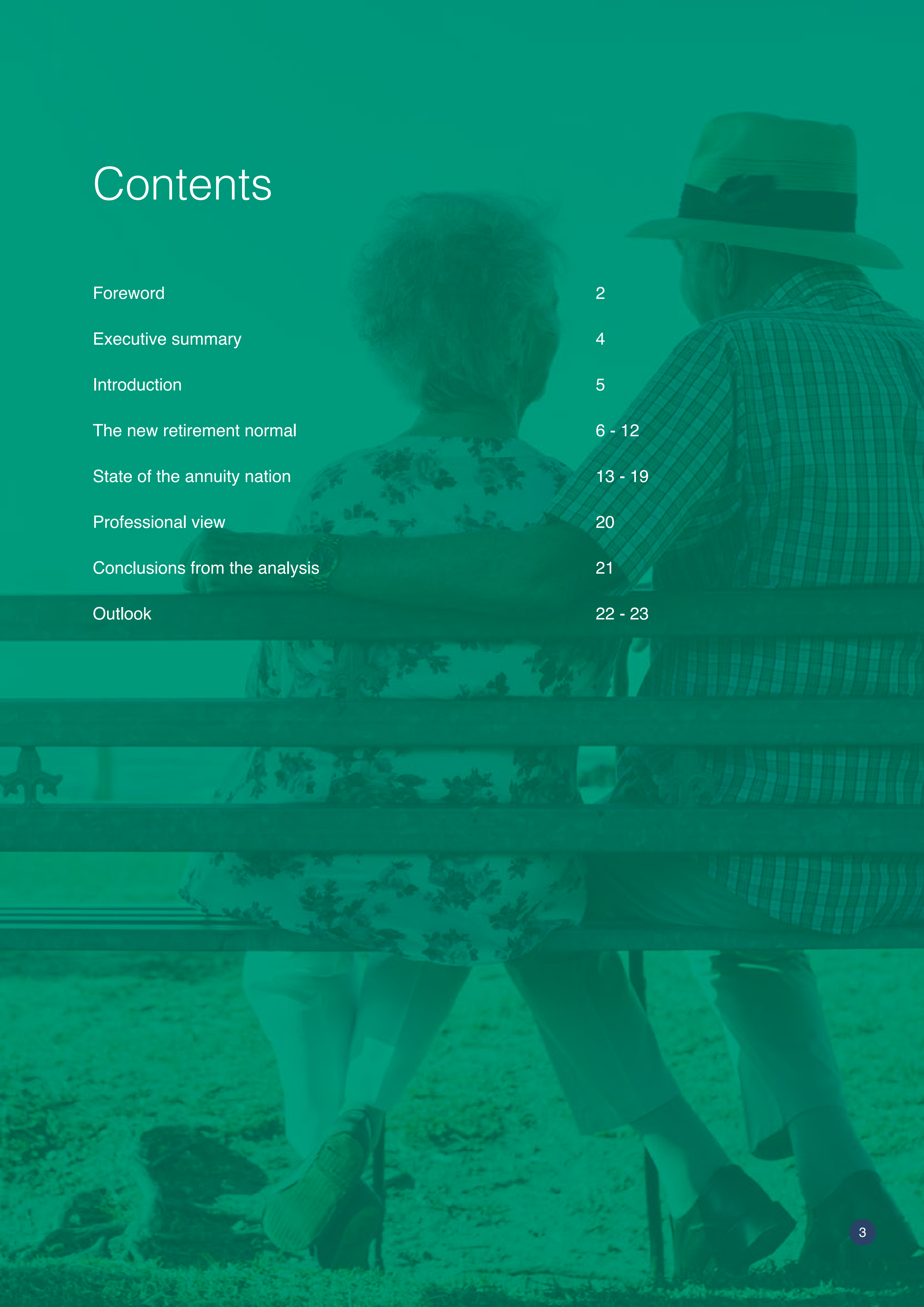
Enhanced annuities also have a significant presence in the market with more than half of all annuity quotes including medical factors. This indicates a greater awareness of enhanced annuities as an option which is positive, but there may be less awareness about the extent of the uplift that can be available for certain conditions. We feel more could be done to raise awareness of enhanced annuities.

Another retirement income product continuing to gain prominence is equity release, which is increasingly being used as part of a retirement income portfolio. IRESS data currently show an average amount of £73,000 being released, from an average property value of £400,000.

Taken together, this paints a picture of more discerning retirees, exploring and testing the various flexible options open to them.

While there are some clear trends in our data, there is also considerable volatility. This is indicative of a market that has effectively been re-set and is re-establishing norms and patterns of behaviour.

Simon Badley
Managing Director, IRESS



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Executive summary

The number of annuity quotes produced using The Exchange increased from a low point in Q4 2015 to a high point in Q1 2017, allowing for a seasonal decline during the second half of 2016.

A key and consistent need for retirees is sustainability of income through what is potentially a multi-phased retirement journey, where specific income requirements will change over time.

Retirees are taking advantage of their stronger financial position than previous generations to support their children and clear outstanding financial commitments. This includes acting as the ‘Bank of Mum and Dad’ and clearing their own debts. The International Longevity Centre estimates that 1.42 million current 35-64 year olds are likely to still be paying their mortgage in retirement.

Fixed-term annuity quotes now account for 23% of all those produced, up from 15% at the end of 2015. This indicates that fixed-term annuities are claiming their space in the market as consumers service fixed-term financial commitments such as mortgages into retirement.

Equity release volumes are up 34%, with 26,783 comparisons in June 2017, compared with 20,041 a year ago, as retirees make use of their largest asset.

Enhanced annuities also form a significant part of the retirement income market with some 55% of all annuity quotes produced including some medical and health information. The combined impact of delaying full annuitisation and considerable work to raise awareness of the benefits of enhanced annuities are likely drivers.

Retirement income is no longer a ‘one-and-done’ decision. Rather it is a series of phases with changing requirements driven by changing personal circumstances. The available products need to adapt and interact to achieve the results needed for a more flexible period of later-life living.

Introduction

Retirement income data from the Financial Conduct Authority (FCA) suggest that consumer behaviour is starting to establish new norms following the extremes we saw in the early days of the pension freedoms. Cash withdrawals have slowed down and sales of both drawdown and annuities appear to be settling. However, these figures do not tell the full story. From the external data available we do not know the age of investors in each case or the exact type of annuity sold. For this level of detail, we must look to IRESS' own data.

It is clear that the way consumers approach retirement income planning has irrevocably changed with new 'stages' of retirement emerging. Retirees are arguably now better off than they were 10 or 15 years ago and it makes sense that they are opting to make the most of this, with spending and financial commitments running up to and in the early stages of retirement. These financial commitments that are increasingly part of the initial retirement period require a consistent, reliable income for a set period of time. Fixed-term annuities are one solution with equity release also gaining ground - a trend that is likely to continue as a generation of interest-only mortgages reach maturity.

Looking ahead a few months and the annuity market will experience yet more change. This will initially result from the FCA's implementation of rules designed to improve customer outcomes and increase competition in the annuity market. The FCA's *policy statement (PS)17/12 Implementing information prompts in the annuity market - Feedback on CP16/37 and final rules* will come into effect on 1 March 2018. As well as highlighting if they could achieve a better income, consumers will receive information on how to shop around. One result of this will be a sharp increase in the amount of annuity quotes generated. This won't necessarily mean that more annuities will be sold but it will hopefully result in consumers being confident that they have secured an annuity which is appropriate for their circumstances and which represents comparatively good value. Financial advice is the best way to be sure of achieving these ends but making shopping around the norm is of great potential benefit to those who opt to go direct.

The second driver of change comes in the form of the FCA's *MS16./1.2 Retirement outcomes review - Interim report.* While it will be up to a year before the final report is published, it is already clear that the themes of improving customer outcomes, encouraging shopping around and driving competition in the retirement income market will feature prominently.

Chris Pitt
Head of Market Analysis, IRESS

The new retirement normal

While it's an accepted fact that the UK retirement income market has been profoundly re-shaped by the pension freedoms introduced in April 2015, its future shape remains unclear. However, there are signs that the market appears to be settling to some extent.

The latest industry figures showing how savers use the funds taken from their pension pots confirm that most now favour the potential of drawdown over the guarantee of annuities – at least in the early stages of retirement.

The most recent data from the Financial Conduct Authority (FCA) show that 145,068 pension pots were accessed in the three months to the end of September 2016. In more than half of these cases (79,916), the full pot was withdrawn as cash, 41,067 pension pots were used to enter into a drawdown contract and 20,538 were used to buy an annuity.

The proportion of pots used to buy an annuity remained stable at 14%, the same as the previous quarter and up from 12% in the corresponding period in 2015. This suggests the market may be settling into a long-term pattern. That pattern has been established during a period of buoyant stock markets and low interest rates however, with the potential for drawdown to become less attractive if we experience a significant equity downturn or interest rate rise.

The 'Bank of Mum and Dad' is open for business

Today's retirees are generally better off than those of the last few decades. As well as providing for their retirement, it creates the opportunity for them to help the younger generation get on the housing ladder. Parents are expected to lend more than £6.5bn to help their children buy properties this year, up from £5bn in 2016 and an amount equivalent to borrowing issued by Yorkshire Building Society (the UK's ninth largest mortgage lender) according to research by L&G and the Centre for Economics and Business Research (Cebr[1]). The challenges of securing a first property mean that more people are taking on mortgages at a later age or for a longer term. The International Longevity Centre (ILC) estimates that 1.42 million people currently aged 35 to 64 will likely still be paying their mortgage in retirement[2], or will have other debt such as credit cards. The ILC also predicts that the amount of mortgage debt held by over 65s will almost double by 2030, to £39.9 billion.

1. https://cebr.com/reports/the-bank-of-mum-and-dad-in-2017-will-help-buy-homes-worth-over-75bn-and-fund-more-than-one-in-four-property-transactions-in-the-uk/
2. http://www.ilcuk.org.uk/index.php/publications/publication_details/lengthening_the_ladder_the_future_of_mortgage_borrowing_in_older_age

The need to ensure that mortgage repayments can be covered will underpin the requirement for security of income over specific periods of time. Take the example of someone retiring at age 65 with a defined contribution pension and five years left on their mortgage term. Encashing the fund in full or using it all for drawdown creates a risk of running out of money or having an income that fluctuates. In contrast, using at least some of the fund for a fixed-term annuity guarantees a minimum level of income while the mortgage is being cleared. After five years the capital left over can then be used for drawdown, a lifetime annuity or for a combination of the two.

Flexibility is your new best friend

Changing personal circumstances and continuing financial demands upon retirees have increased the need for flexibility when it comes to income.

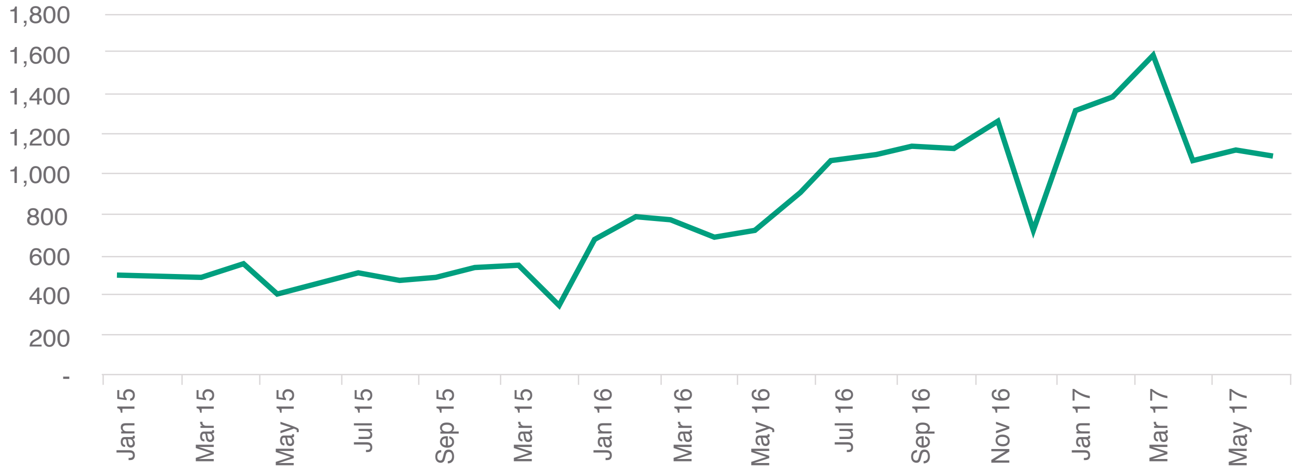
While it may appear incongruous that a fixed-term product should play a key role in facilitating flexible retirement income, that is indeed the case. Where retirees have debt of any kind, fixed-term annuities can provide a guaranteed income for the required period. They are generally free from investment risk, can be free from mortality risk and can have a range of purposes, such as:

- Providing income for a set period of time with capital remaining for other options at a later date
- Using the product as a 'cash out plan' with an income for a fixed period with no maturity value. This enables a higher income for the short term. It also allows funds to be taken out of the pension in a tax efficient manner, by specifying income at a level that leads to total taxable income falling just below a tax band threshold
- Providing an income for 25-30 years, at a similar value to a lifetime annuity but with no mortality risk
- Providing access to tax-free cash and then deferring any other income with no risk to capital

Like all annuities, the number of fixed-term quotes generated fell in the wake of the pension freedoms. Since then, IRESS quote data from The Exchange show levels have been volatile but with a generally upward trend, particularly since mid-2016 (allowing for the usual end of year decline). There was a sharp increase from a low of 720 in December 2016 to 1,303, 1,380 and 1,574 quotes in January, February and March respectively - a level of quote activity not previously seen for this product. This can be partly accounted for by the increasing awareness and acceptance of new and alternative means of retirement income beyond traditional annuities. While levels have dropped back a little since that high to 1,091 in June 2017, it is still more than double the level of activity seen in the run up to the pension freedoms.

The new retirement normal continued

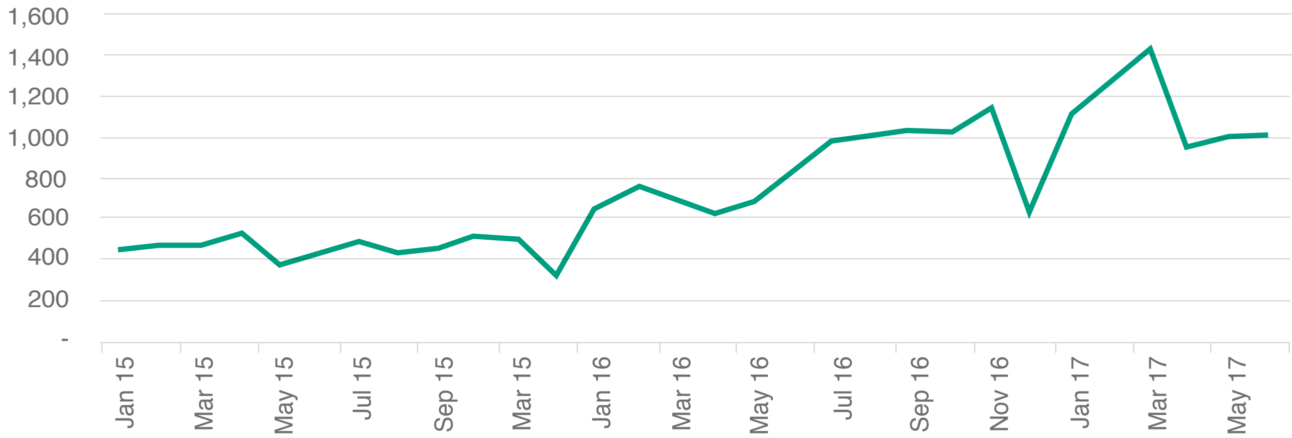
Number of fixed-term annuity quotes per month (all ages)



If we look at quote activity split by age, the data indicates that fixed-term annuity use is dominated by those in the initial stages of retirement.

Number of fixed-term annuity quotes per month (ages 55-69)

Looking only at those aged 55 to 69, and the data follows much the same pattern as that for all ages. This is what we would expect as this age group accounts for 92% of all quotes produced.



Moving on to age 70 and above and monthly numbers are much lower. With this lower volume of quotes comes a greater degree of volatility, but it is underpinned by generally positive movement. With the exceptions of December 2016 and June 2017, more than 100 fixed-term quotes have been generated each month since November 2016. Again, this level of activity is far greater than anything seen prior to the pension freedoms.

Number of fixed-term annuity quotes per month (ages 70+)

Let your home take care of you for a change

Equity release is another potential solution to the issue of meeting changing financial needs, and it's experiencing significant growth. Sales of equity release plans in the first three months of 2017 were 58% higher than in the same period a year earlier, according to Key Retirement Solutions[3], a record increase.

More than one in five plans taken out in Q1 2017 were used to clear mortgage debt. The report expects this to increase, pointing to the FCA's estimate that some 10,000 borrowers a year will reach the end of their interest-only loans by 2020. More than half of all new equity release plans are in the form of drawdown arrangements, suggesting it is often used to top up retirement income at a time of low interest rates.

This potentially means that some homeowners view equity release as a source of income while they either delay annuity purchase (perhaps until they are eligible for an enhanced annuity, or lifetime annuity rates improve) and/or stay invested for longer.

An Equity Release Council paper notes that total homeowner equity in England alone has reached a high of £2.6 trillion.

Of that, £1.8 trillion belongs to over-55 households, and the figure is expected to double within 20 years. The study, 'Equity Release Rebooted',[4] reports that the average worker potentially accumulates twice as much wealth via mortgage capital repayments each year than they contribute to their pension. This suggests that equity release could, in time, have a much greater role to play in the retirement income market. It's unlikely to be a coincidence, therefore, that many companies active in the annuity market also tend to have an equity release proposition.

Moving on to IRESS data, and a total of 26,783 comparisons were produced in June 2017, an increase of 34% from June 2016. While there has been some volatility, movement in the number of comparisons has been largely upwards. Commentators have suggested that this trend will continue, with the market predicted to exceed £3bn in 2018.

3. https://www.keyretirement.co.uk/press-release/interest-only-helps-drive-equity-release-record/
4. http://www.equityreleasecouncil.com/document-library/equity-release-rebooted-white-paper-april-2017

The new retirement normal continued

IRESS data enable us to build a picture of how consumers are potentially using equity release as part of their retirement income plan.

IRESS data from The Exchange

- 26,783 equity release comparisons were produced in June 2017, an increase of 34% from June 2016
- Equity release comparisons are consistently split broadly equally between single and joint life
- The vast majority of quotes are generated in England and Wales (93.70%), with the remainder in Scotland (5.48%) and Northern Ireland (0.81%)
- Average age is 69, indicating that it is typical for equity release to be taken beyond the initial stage of retirement or starting benefits from a pension pot
- Overall, the average property value is £400,000 but with some variation within this. The data highlight significant month on month fluctuation, but the spectrum is between an average of £422,117 (December 2016) and £357,027 (August 2016). The range for Scotland is £222,274 (December 2016) to £189,562 (April 2017) and Northern Ireland is £225,946 (August 2016) and £170,944 (February 2017) but these are based on much smaller samples. The current average for England and Wales is £420,967, Scotland £200,282 and Northern Ireland £208,841
- The average lump sum taken is £73,000 with an average loan to value ratio (LTV) of 19%

All this points to equity release as one element of a wider suite of retirement income options that provides the flexibility to meet changing needs during later life, but while providing a retirement income that remains sustainable. As more savers in defined contribution schemes reach retirement, annuities have a key role to play in underpinning that suite by providing a guaranteed income alongside other sources of funds.

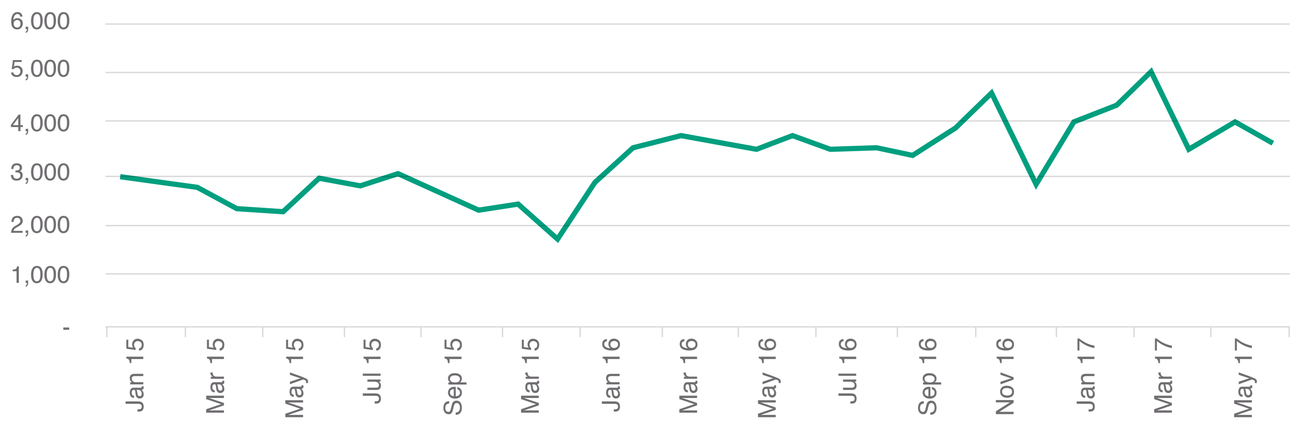
The value of full disclosure

Some people still see enhanced annuities as a specialist offering and not a mainstream option. However, IRESS data show that enhanced annuity quote activity in March 2017 was at its highest level since 2014, following an upward trend since the start of this year. The level of activity has dropped slightly since - which illustrates that this market can be volatile - but we expect the trend of broadly upwards growth to continue.

Average pot size is usually lower for enhanced annuities than for those that don't include any medical or health information. While the average standard annuity pot has ranged from £106,234 to £144,474 since January 2016, the average enhanced pot has moved between £87,757 and £114,002. Currently, the average standard and enhanced annuity pots stand at £144,474 and £96,583 respectively.

Some 55% of annuity quotes have some health or medical information, with this figure broadly consistent over at least the last two years. This suggests that people are embracing enhanced annuities and medical underwriting as awareness among consumers grows.

Number of enhanced annuity quotes per month



However, the importance of full disclosure cannot be overstated. This is highlighted by data demonstrating the uplift in annuity rates resulting from a heart condition:

For a 65-year-old with a £100,000 pension pot (Single life, no guarantee or escalation)

- Healthy: £5,183 annuity p.a.
- Heart attack in 2005, limited symptoms since: £5,498 = 6% uplift
- Heart attack in 2005, some symptoms (chest pain, etc.), on medication: £5,729 = 11% uplift
- Heart attack in 2005, multiple symptoms, follow up surgery: £5,945 = 15% uplift
- Multiple heart attacks, atrial fibrillation, severe symptoms, surgeries and significant impact on daily activities: £7,256 = 40% uplift

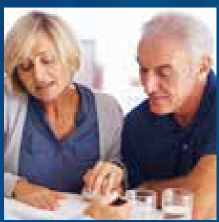
IRESS data from The Exchange. Rates are correct as at 6 June 2017.

The new retirement normal continued

A new retirement case study

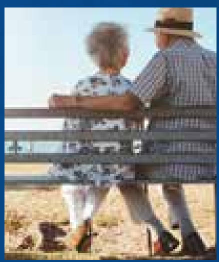
We have already noted that retirement income is no longer a 'one-and-done' decision.
The data demonstrates that, increasingly, retirement consists of phases as illustrated in this case study.

This case study sets out the stages of retirement - and retirement income decision making - that a couple may experience. It assumes that financial advice is taken at each stage to re-evaluate the couple's position and requirements. It is for illustrative purposes only and is not a statement as to the suitability of any specific product for any particular individual.



Age 65

A couple approaching retirement who are supporting their child on to the housing ladder. This is in the form of a loan which may or may not be re-paid. They are still paying their own mortgage and have no plans to downsize. Both are in good health so the annuity rate is quite low. They have decided that the best solution at this point is a fixed-term annuity until the end of the mortgage term.



Age 70

The mortgage is now paid so they move to a drawdown arrangement for the middle phase of retirement. This offers flexibility of income while still having access to the capital. By taking the sustainable withdrawal rate (SWR) of income, there is a better chance of maintaining capital but this is an unknown and there is a risk of running out. It defers final decisions about retirement income which would permanently commit capital.

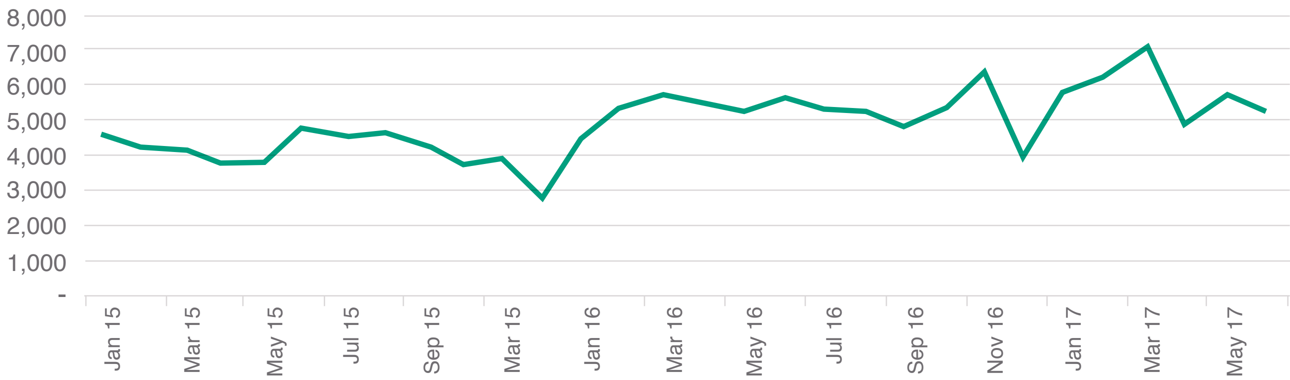
Age 75

Ill health has now become an issue for one of our couple, causing them to reassess their retirement income needs. Certainty of income is now a greater priority than flexibility and enhanced annuity rates are now an option. As the couple have kept their property, they also have the option of equity release which will help fund long-term care should that become necessary.

State of the annuity nation

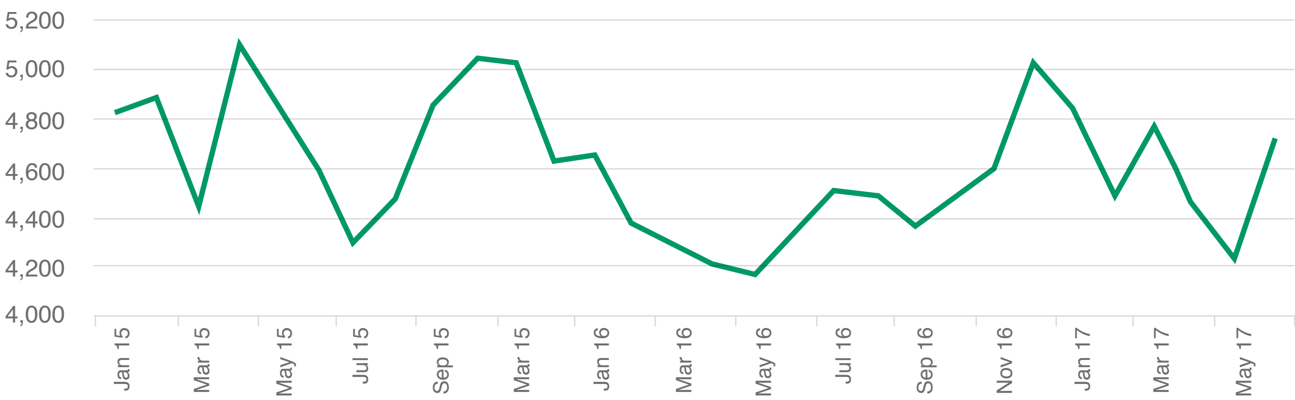
Throughout this report, IRESS data provide insight into the continuing role of annuities in the retirement income process. At the highest level, we can see the ebb and flow of their presence in the immediate wake of pension freedoms. While there are undoubted examples of volatility in the period since the pension freedoms launched, there is evidence of an overall rise in annuity use following their low point in December 2015. This is particularly so during the first three months of this year, where annuity quote activity reached a peak in March. The tendency of quote numbers to fluctuate is evident in the period since then, but the total number of quotes generated each month is consistently over (or just very slightly under) 5,000.

Total number of annuity quotes per month



It is worth noting that this chart covers a relatively narrow range and that therefore the appearance of volatility in annuity rate movement is somewhat deceptive. Taking all annuity options into account, average annuity income from £100,000 is consistently between £4,000 and £5,000 per year with the occasional outlier, the most extreme being April 2015 (£5,098).

Average annuity rate income per £100,000



But we can learn so much more about the social and geographical influences upon how people are accessing their annuity pot. We can learn about the state of the annuity nation.

State of the annuity nation continued

Regional annuity activity data

Taking a purely geographical view gives a sense of annuity pot size trends across our annuity nation. The regions with the highest average annuity pot over the last twelve months are London (£127,857), South East England (£118,079) and Northern Ireland (£114,675). At the other end of the scale, North West England, North East England and Wales recorded the lowest average annuity pots at £94,085, £95,250 and £99,920 respectively.

Average annuity pot by region (01/07/16 - 30/06/17)

By overlaying this data onto a map of the UK a picture emerges of the average size of annuity funds across the United Kingdom.

State of the annuity nation continued

Who lives in our annuity nation?

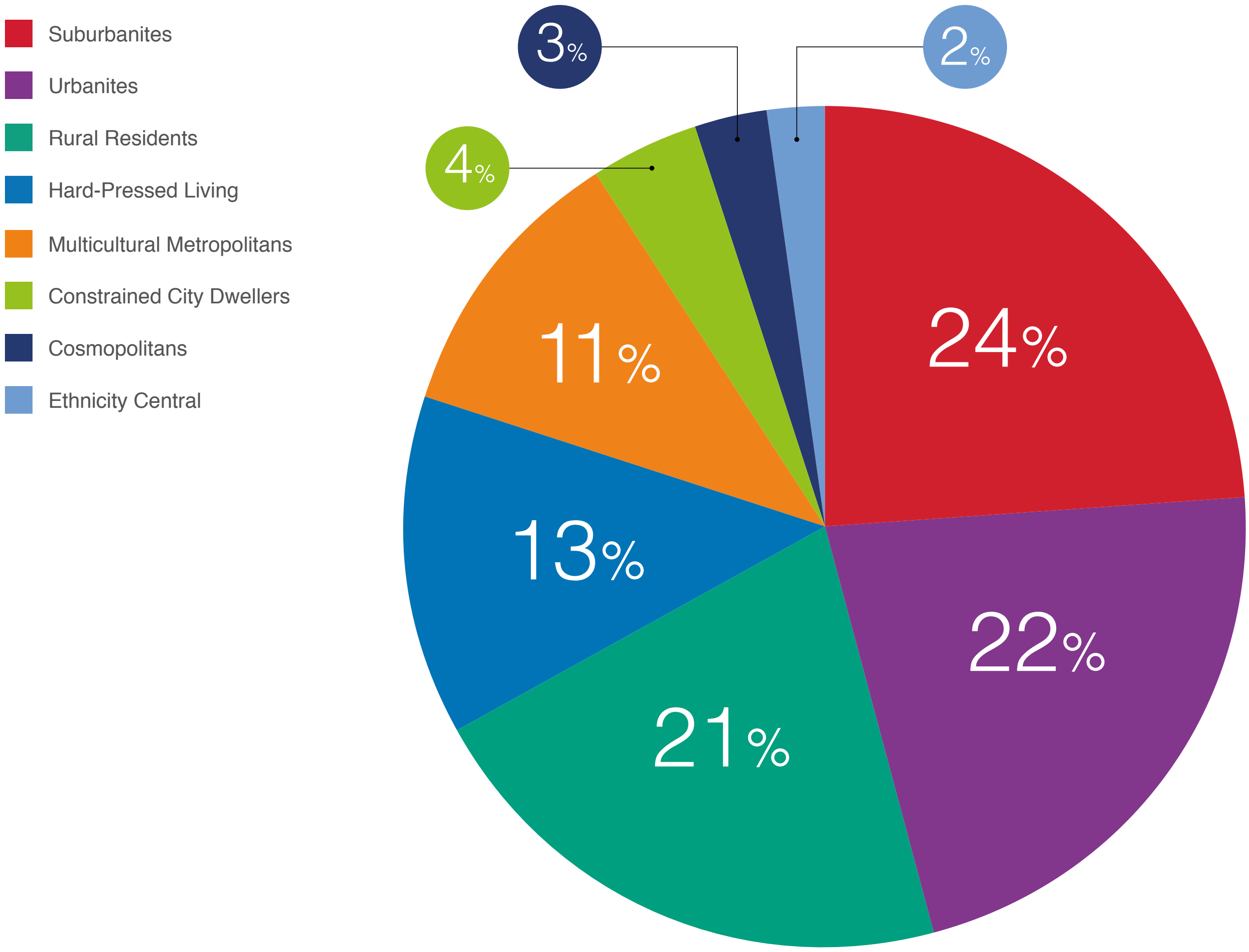
To truly understand a nation, you must understand its people. IRESS does so using data from the Output Area Classification (OAC)[5], a UK open geodemographic built partnership with the Office for National Statistics (ONS) and created using 2011 census data.

Socio-demographic supergroup	Key characteristics
Suburbanites	Own properties in suburbia. Tend to be over retirement age/middle age parents. Well educated with below average unemployment. Lower ethnic mix than national average.
Urbanites	Mainly urban southern England. Private renting common. Average ethnic mix and lower levels of unemployment.
Rural Residents	Rural areas, own large properties and below average unemployment. Tend to be older, married and well educated. Less ethic integration.
Hard-pressed Living	Northern England and Wales mainly. Lower ethnic diversity and renting is common with above average unemployment. More likely to have non-dependent children.
Multicultural metropolitans	Large urban areas with rented terrace homes and high ethnic mix. Generally below traditional retirement age and above average unemployment.
Constrained City Dwellers	Higher level of over 65 year olds who tend to be single/divorced and whose activities may be limited. Lower qualifications and higher unemployment.
Cosmopolitans	Densely populated urban areas with flats and private renting common and high ethnic integration. More younger and/or single adults.
Ethnicity Central	Predominantly central London. Mainly younger adults with children living in rented flats and higher unemployment.

5. http://www.opengeodemographics.com/#OAC-section

Three socio-demographic supergroups dominate here with Suburbanites, Urbanites and Rural Residents accounting for 24%, 22% and 21% respectively of the total number of annuity quotes produced. The bulk of adults at or over traditional retirement age fall into these categories and they also tend to be more financially secure. One other group is worth noting: Constrained City-Dwellers who, while also tending to be over 65, are likely to be in a less secure financial position and are much less present in terms of annuity quote generation.

Number of annuity quotes per socio-demographic supergroup

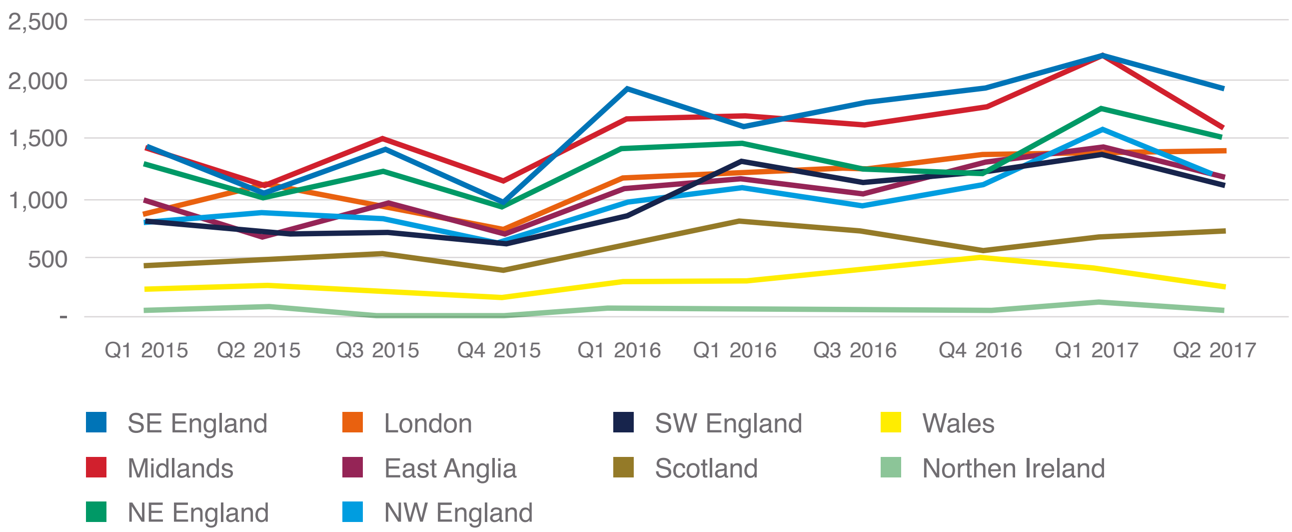


State of the annuity nation continued

As well as understanding the extent to which annuities are being accessed across our annuity nation and on what scale, we can also get a sense of the demand for fixed-term and enhanced options.

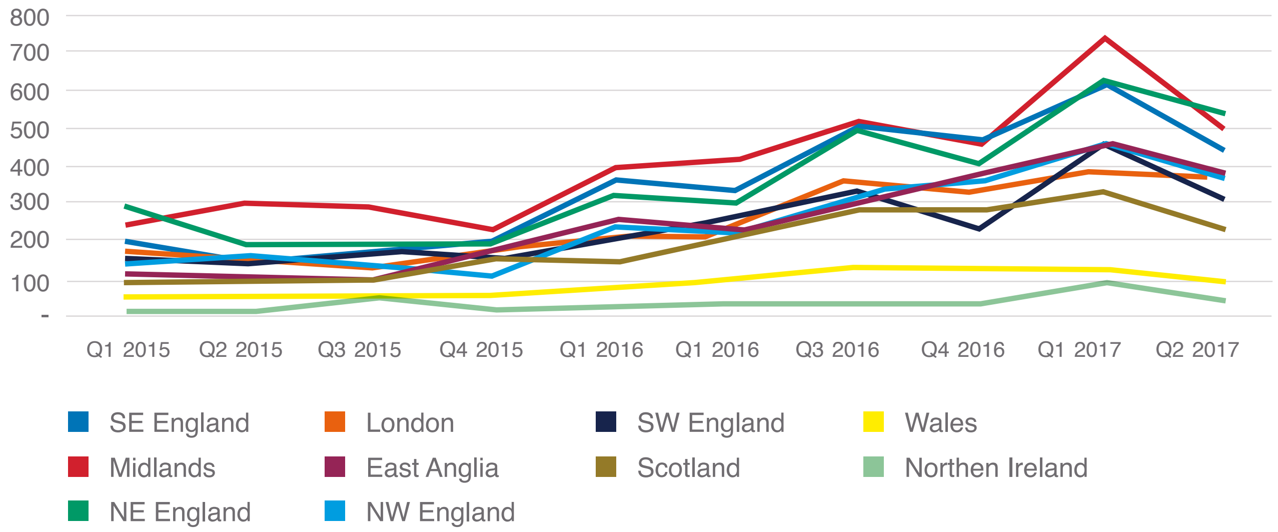
South East England and the Midlands stand out as accounting for the largest volumes of enhanced annuity quotes. Volumes have generally increased across the majority of regions, but with a slight dip in Q2 2017 following a peak in the previous quarter.

Number of enhanced annuity quotes by region



The Midlands, North East England and South East England lead fixed-term annuity quote activity by quite some way. Here too there is a noticeable increase in quote volumes over the period to a peak in Q1 2017, with the differences between the regions becoming more pronounced over time.

Number of fixed-term annuity quotes by region



Professional view

While the introduction of the pension freedoms was reported as spelling the end of the annuity market, the customers we speak to tell us differently.

We believe that:

- just because you can do something (cash in your pension fund), it does not mean that you should; and
- customers value certainty and “an income for the rest of your life” is a very attractive concept for some.

Shopping around is key to getting maximum value from an annuity, but this was an alien concept to many consumers who simply ‘received’ a pension. The concept of “shopping around” was a huge leap forward from that.

Since April 2015, our experience reflects that articulated in this report. Our enquiries on annuities have followed the pattern shown:

Year	2013-14	2014-15	2015-16	2016-17
% of enquiries	1.3%	1.8%	2.6%	1.8%

In terms of volumes, the increases in enquiries are much more significant in numbers as we dealt with 180,500 customers in 2016-17 compared with 78,500 in 2013-14. So that is an increase in actual numbers from 1,020 in 2013-14 to 3,249 in 2016-17.

It is not just about volumes of annuities on which we receive enquiries or how many the market sells. It is about how the market provides customers with the products they need. The report rightly identifies that retirement is no longer “one and done” or financed solely by a pension or a few pensions. It is a much more fluid situation where people choose or are forced to change their work plans and have multiple sources of income and capital to draw on as they reduce or stop work. As the report states, equity release is likely to play an increasing role in retirement income.

Neither “equity release” nor “pensions” have the best brand in the eyes of the public so there is some work to be done.

We do see a role for annuities in the provision of income in retirement and our insight from the customers we speak to indicates they do too, provided you describe it as “an income for life” and not an annuity.

Michelle Cracknell
CEO, The Pensions Advisory Service

Conclusions from the analysis

IRESS annuity data, taken from The Exchange, give us valuable insight into how consumers are approaching retirement income decisions and evaluating their options.

One thing we can deduce is that retirement income is no longer a one-off decision. Far from it. Just as adult life is typified by stages which bring differing demands for income, so now does retirement. That fixed term annuities now account for nearly a quarter of all quotes generated, compared to 15% at the end of 2015, supports this conclusion. The increasing presence of equity release supplementing other income sources, and increased interest in enhanced annuities also speak of the demand for more flexible retirement income options.

That the rate of annuity quotes has generally increased since the beginning of 2016, allowing for seasonal movement and volatility, tells us that consumers appear to be engaging with their retirement income planning – investigating options and making comparisons. This is a long-standing issue in the industry and one which is being addressed to a degree by upcoming regulatory changes. There have already been efforts to increase consumer awareness of the need to, and potential benefits of, shopping around and this seems to be having some effect.

The new requirement to prompt consumers of the benefits of shopping around will hopefully create opportunities for financial advisers and planners, as more and more people will become aware of their options around retirement income and seek professional advice. This would be an excellent outcome.

We conclude that the retirees of today are in a fortunate position with a good retirement fund and more choice than any other generation. They are still part of the baby boomer group so are, in the main, entering retirement with a healthy amount of money. Some may choose to lend money to children or grandchildren to give them a start; some may take the opportunity to clear financial commitments. In any case there is no question that there are resources to provide an ample retirement income. But they are blessed not only with money but with more flexibility than ever before in terms of products and income solutions.

It is entirely positive that retirement income products are now more reflective of how retirement actually is for people. While this is a relatively recent development, IRESS has been clear for some considerable time that retirement is not a cliff edge. The retirement income product landscape matches how people live their retirement more closely than ever before. Long may that particular trend continue.

Outlook

The retirement income market has undergone seismic change and this is likely to continue. With technology and the evolving needs of consumers continuing to drive change, the market can only continue to move forwards and innovate.

Regulation is also a key influence and one thing we know for certain is that in March of 2018 the number of annuity quotes of all kinds will increase dramatically. This is a result of ongoing work by the regulator to improve consumer outcomes when buying a retirement income product.

The FCA's Retirement Income Market Study concluded in March 2015 that the retirement income market was not working well for consumers. A number of actions resulted from this work, including the ongoing redesign of the 'wake-up' packs that are issued to consumers ahead of their selected retirement date and the Pensions Dashboard, a prototype of which is undergoing testing ahead of the scheduled launch in 2019.

One of the main findings was that the tendency of consumers to buy an annuity from their existing provider (rather than shopping around and comparing quotes) was hampering competition in the market. Data showed that a significant proportion of annuity firm business was from their existing customers, rather than those who had saved a pension pot elsewhere. To correct this effect, from March 2018 annuity providers will be required to provide a personalised comparison, showing in annual income, how they could be better off as a result of shopping around. Consumer research carried out as part of the work suggests that this will encourage shopping around across the range of consumer types, including socio-economic groups.

To the same end, providers will also be required to tell consumers how to shop around, including directing them to the Money Advice Service (MAS), which offers a comparison service powered by IRESS. This will undoubtedly lead to increased use of comparison services in general and should also result in increased consumer engagement with financial advisers and planners. The data we report for standard and fixed-term annuities will in all likelihood see a steep increase in 2018. This will not mean that more annuities are being purchased, rather that consumers who would not previously have been making comparisons will be doing so. It's a very positive step as it should mean that, when an annuity is purchased, it's the result of a more fully informed decision and represents the best possible value. It should also give consumers greater confidence in the decisions they have made.

There is an omission from the new rules which we believe will limit their positive impact. The comparison requirements only apply specifically to standard annuities. There is no requirement to compare enhanced annuities in the same manner. Providers are, however, required to include a 'clear and prominent' statement about the availability and potential benefits of enhanced annuities.

This omission is one of several points which will be addressed as part of the FCA's Retirement Outcomes Review, the interim findings of which were recently issued. Among the proposed measures is one to increase consumer awareness of enhanced annuities.

The majority of the proposed measures focus on drawdown, and specifically non-advised drawdown which is a response to the significant growth in that area since the pension freedoms. There are however, a number of suggested remedies to help consumers better understand their options and engage more fully with their retirement income decisions, increasing the likelihood of the positive consumer outcomes we all want to see.

Retirement today is a journey and not a destination. Retirees have more resources and greater opportunities for flexibility than ever before, and they are increasingly taking advantage of these positive developments. The challenge for the industry is to provide products that can adapt and interact to achieve the results needed for a more flexible period of later-life living.

While the FCA acknowledges a lack of innovation in the interim findings of its Retirement Outcomes Review, it does not plan to take any action as it feels the market needs more time to develop. This is a golden opportunity for providers to take positive action before being made to do so.

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