

Consultation on Annuity Rate Transparency

A response to the ABI

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Executive Summary

The NAPF welcomes the ABI's consultation on annuity rate transparency as part of the Code of Conduct on Retirement Choices.

The NAPF has previously called for greater transparency on the annuity prices available to scheme members and encourages the ABI to independently validate the information presented to scheme members through the proposed survey and provider profile by building on the current OMO stakeholder group and inviting to this group annuity brokers and advisers who observe first-hand annuity prices in the market.

The NAPF strongly believes that retention rates should be published in provider profiles. These rates should be accompanied by additional quantitative and qualitative information that allows scheme members and stakeholders to understand the possible reasons for higher retention rates wherever they may exist.

The NAPF encourages the ABI to produce and publish information that meets the objectives of the Code, increasing transparency in the annuities market and allowing pension scheme members to make well-informed decisions on their retirement income.

Introduction

1. The National Association of Pension Funds (NAPF) is the leading voice of workplace pensions in the UK. We speak for 1,300 pension schemes with some 15 million members and assets of around £900 billion. NAPF members also include over 400 businesses providing essential services to the pensions industry.
2. The NAPF welcomes the ABI's consultation on annuity rate transparency as it relates to the Code of Conduct on Retirement Choices. It is important that this information is tied in with the Code and that all ABI members are required to provide the information requested on a regular basis. The information collected and provided should be clear, accurate and consumer friendly.
3. In February 2012 the NAPF and the Pensions Institute published research we had commissioned on the accessibility and transparency of the annuities market. The report looked into whether people with Defined Contribution (DC) pensions were treated fairly in retirement. The research found that there was a disconnect in the member's journey between accumulation and decumulation, where each annual cohort of pensioners was losing out between £500 million to £1 billion in lifetime income – an amount that has the potential to multiply as more and more people start saving in DC pensions as a result of auto-enrolment. The research also found that, among other things, there was a lack of transparency of prices in the annuity market and that with retention rates of 80-90%, providers have little incentive to encourage their clients to shop around for annuities.

4. Recent research co-funded by the NAPF and ESRC, and conducted by the Institute for Fiscal Studies (IFS), shows that 28% of individuals bought an annuity from an external provider between 2008-2009 and 2010-2011. According to this research, those with access to the internet and/or email are twice as likely to buy an annuity externally as those who do not have access to these services. These findings show the potential importance of the internet in supporting people, including older adults, in exploring their options around annuities and clarifying their likely retirement income.

Answers to Specific Questions

Do you agree with the proposal for presenting rates?

5. The NAPF agrees with the proposal to present rates every two months on a consumer friendly webpage. We recommend a central cross-industry website or consumer driven website, which gives scheme members approaching retirement knowledge about the products available in the annuity market and through individual providers, and advises them of the rates they can expect for such products when they are shopping around for their annuity. The information must be presented in a user-friendly format in order for it to serve its purpose of supporting scheme members in understanding and conducting further research on the decumulation process. It is critical that scheme members looking for an annuity are signposted to those who can help them find the best annuity rate for their circumstances. The organisations involved in the decumulation process should have links to any sites providing the survey information on their webpages.
6. Members are more likely to benefit from the provision of real rates compared to notional ones as suggested in the consultation and the NAPF would encourage the ABI to work towards a system that allows for the production and publication of such information in the future in partnership with consumer facing organisations like the Pension Advisory Service (TPAS) and/or the Money Advice Service.
7. The publication of information on each ABI provider is welcome, particularly as this will allow members and stakeholders to better understand differences in the services offered by providers, the range of annuity options available, and where to find experts on certain options (including rates based on health and lifestyle choices). Provider information should be presented such that the provider is unable to market their services, but is only providing factual information on the services that it offers in the annuity market.

What rates will be collected?

8. It is important that the variables that influence annuity rates and that the hypothetical customer profiles being constructed by the ABI for the purpose of this survey change every time this information is sought from providers to ensure that the notional rates provided are not compromised and remain competitive.
9. The ABI should provide definitions for the variables that correspond to the notional rates, including postcodes, as this would increase members' and stakeholders' understanding of how these variables influence the calculation of annuity rates, and would lead to greater transparency.

The definitions should highlight which variables are most important to look out for when shopping around for annuity rates.

What about rates that don't fall into these categories?

10. As this tool is intended to help scheme members who have yet to buy an annuity, providers should have a duty to list all the pension products they currently offer (including Guaranteed Annuity Rates where these could be offered to an individual customer). Definitions and differences between external and internal rates should be clearly stated where they apply to particular providers. Where the products and services change on offer, provider profiles should be adjusted accordingly.

Do you agree with these risks and our approach to mitigating them?

11. In light of research conducted on the accessibility of information on annuities and the concerns raised by experts around this issue, the industry needs to bring in tools that allow for greater disclosure of information on annuities being made available to scheme members and stakeholders than has traditionally been the case.

Do you have any suggestions on how we can independently validate the customer profiles we are using for the survey?

12. The ABI should build on the OMO stakeholder group that currently exists and form a similar group which includes, for example, annuity brokers and advisers who observe first hand annuity prices in the market. This group can help independently validate the customer profiles used in the survey and make recommendations where any concerns about the tool and its use by members and/or stakeholders may arise. The tool should be improved on a regular basis to ensure that it is meeting the objective of increasing consumer knowledge and understanding of annuities and the annuity market.

Is there other information you believe should be published, and what would the purpose of publishing it be?

13. The NAPF encourages the ABI to conduct consumer research on a regular basis on the use and effectiveness of the information provided through the survey and made available to the public. Qualitative as well as quantitative research would be useful in generating a better understanding of the needs of scheme members looking to decumulate their pension pots and the provisions made available by the industry that they find, or could be made much more easily accessible.
14. The publication of this research would increase transparency in the purpose of the survey and the work being pursued for the benefit of scheme members under the ABI's Code of Conduct on retirement Choices.
15. The NAPF would welcome the opportunity to work with the ABI to develop and disseminate such consumer research, building on the research we have published on this to date, including the *Treating DC Scheme Members Fairly in Retirement?* report that highlights a number of the major concerns experts and members have about transparency in the annuities market.

Do you have any other comments on the proposal?

16. The NAPF believes that retention rates should be published by the ABI as this information is essential to increasing transparency on the impact of the mandatory Code and the Open Market Option.
17. We acknowledge the concerns raised by the ABI around the publication of retention rates. However, it is incorrect to assume that this information would not be useful for scheme members and stakeholders, particularly if it is published with additional qualitative or quantitative information that explains the possible reasons for higher retention rates and includes disclaimers where appropriate.
18. The NAPF strongly believes that retention rates need to be published in order to achieve transparency in the annuities market and that withholding such information will impede the ability to monitor the effectiveness of the Code, continuing to raise concerns about disclosure and communication to scheme members who are in the process of purchasing an annuity.

Further information

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