



Institute
and Faculty
of Actuaries

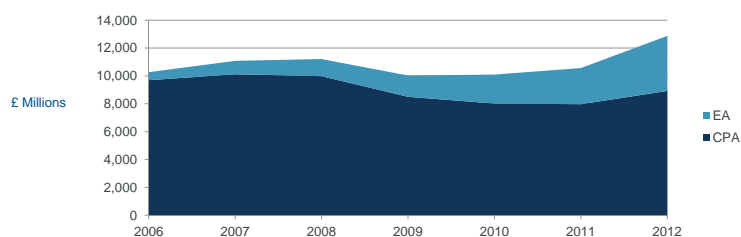
All Annuities, All Underwritten - All Right?

David Dunn, Making Sense of Retirement
Chris Lewis, Milliman

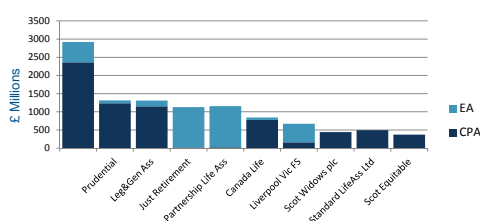
11 November 2013

Individual Annuity Market Background

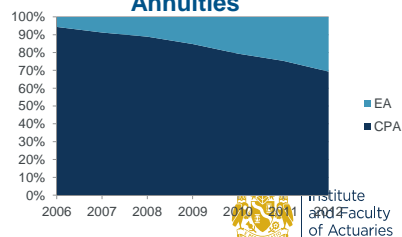
Total Market Size



Sales By Company 2012 (£m)



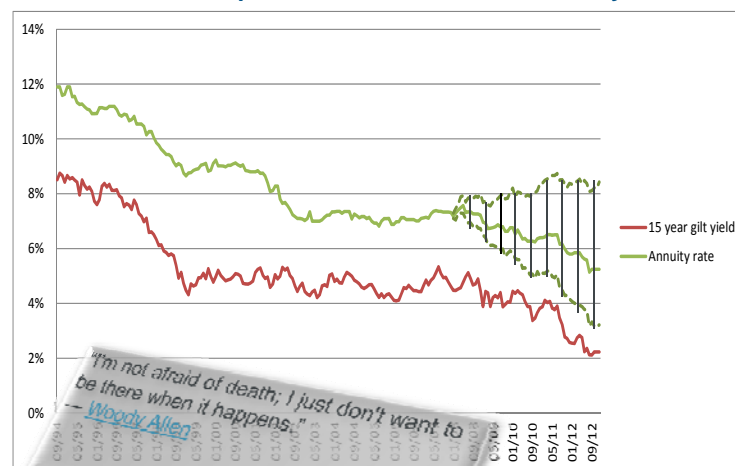
Growth of Enhanced Annuities



Source: FSA Returns - analysis is shown split by Compulsory Purchase Annuities and Enhanced Annuities as shown in companies FSA Returns

Annuity Pricing Trends

Historical Relationship Between Gilt Yields and Annuity Rates



Source: www.williamburrows.com plus Millman



Institute
and Faculty
of Actuaries

Recent Developments

- Gender Neutral Pricing
- ABI Retirement Code
- RDR
- FCA Annuity Review
- Partnership IPO
- Just Retirement planned IPO
- ABI Annuity Window

I've decided to pick my moment to retire very carefully - in about 200 years time. *Brian Clough*

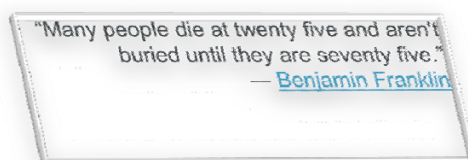


Institute
and Faculty
of Actuaries

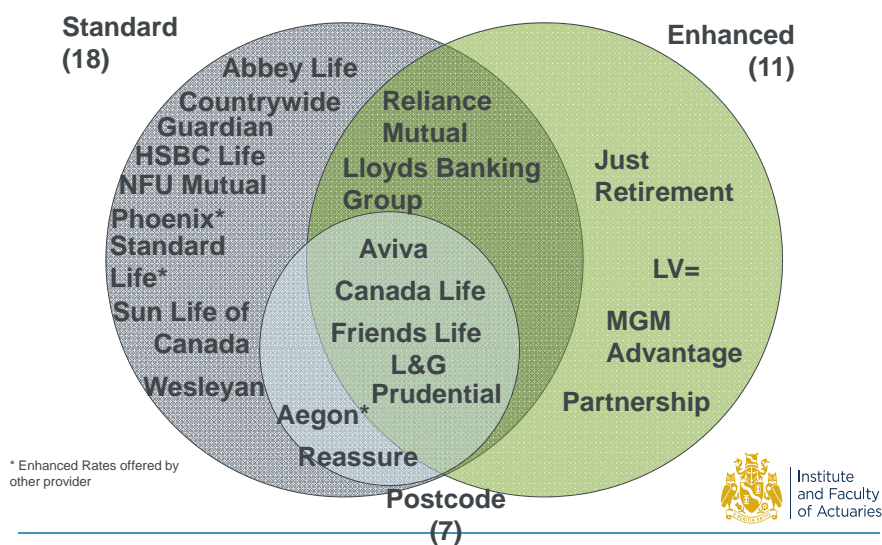
ABI Annuity Window

All rates are based on a 65-year-old, £18,000 purchase price, level annuity, no guarantee period

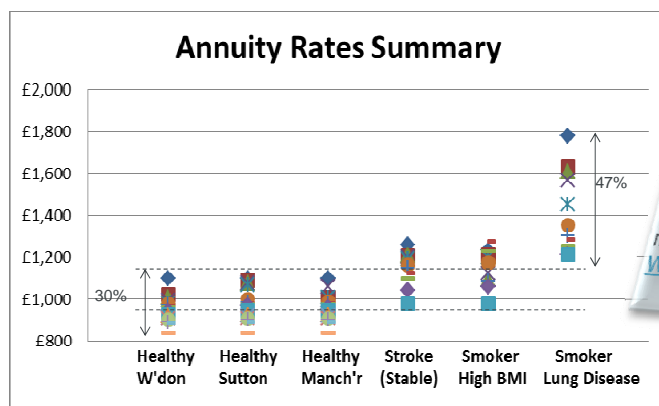
- Three health impaired categories:
 - Had major stroke, speech affected, currently stable
 - Smoked for at least 10 years, high BMI
 - Smoked for at least 10 years, lung disease, severely impaired
- Three locations for healthy lives:
 - Wimbledon
 - Sutton
 - Manchester



Snapshot of Annuity Offerings



Snapshot of Annuity Rates

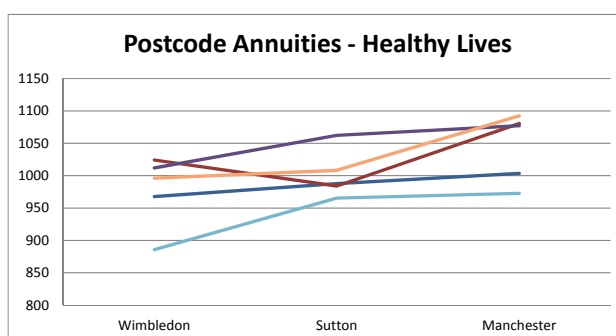


My doctor gave me six months to live, but when I couldn't pay the bill he gave me six months more.
Walter Matthau

Single Life, 65 year old, £18,000 purchase price, level annuity, no guarantee



Snapshot of Postcode Uplifts

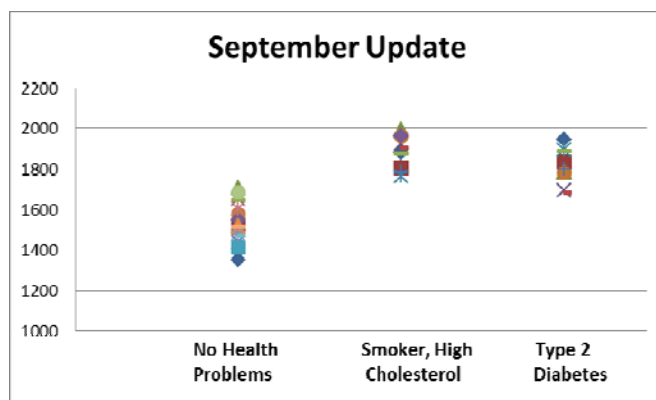


"Buy an annuity cheap, and make your life interesting to yourself and everybody else that watches the speculation."
Charles Dickens

Single Life, 65 year old, £18,000 purchase price, level annuity, no guarantee



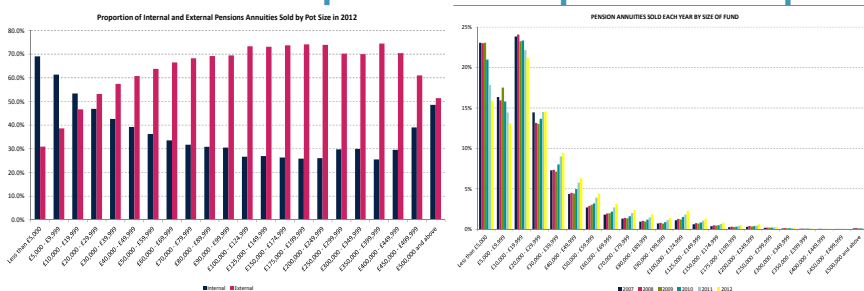
ABI Window - September Update



Single Life, 65 year old, £27,000 purchase price, level annuity, no guarantee



ABI Statistics - Open Market Option Take Up



ABI Retirement Code, Money Advice Service, etc are likely to continue to increase the number of open market options.

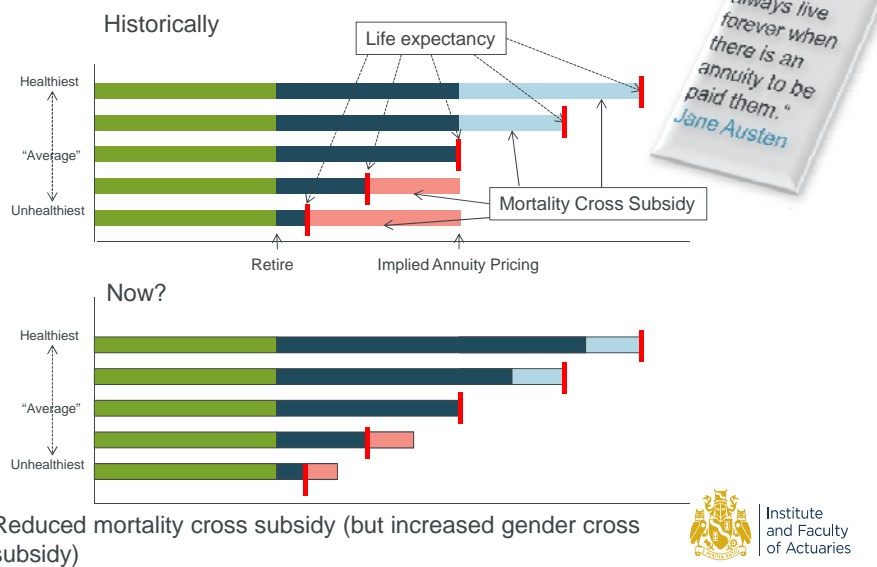
ABI statistics show OMOs are more commonly taken for larger case sizes, as might be expected due to higher levels of advice and financial sophistication.

OMO take up is low for small case sizes (eg under £30k) - but in 2012 around 65% of pots were under £30k. Full advice is more difficult to find at this level, and alternatives to a lifetime annuity are limited.

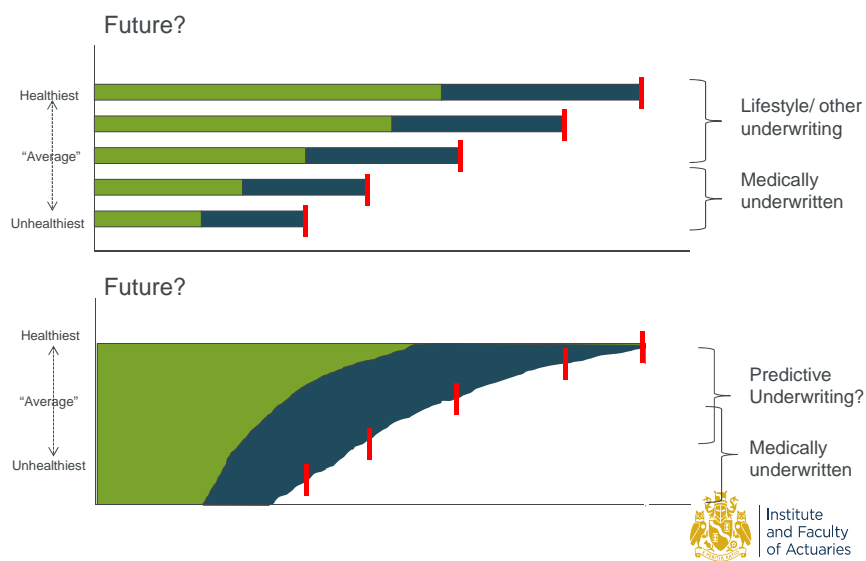


Source: ABI

Possible Outcome?



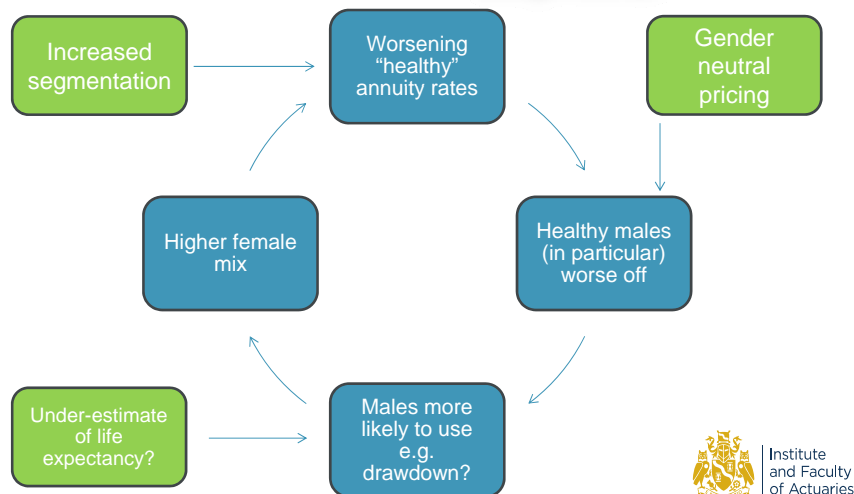
Possible Outcome?



Healthy and Wealthy?

The question isn't at what age I want to retire, it's at what income.

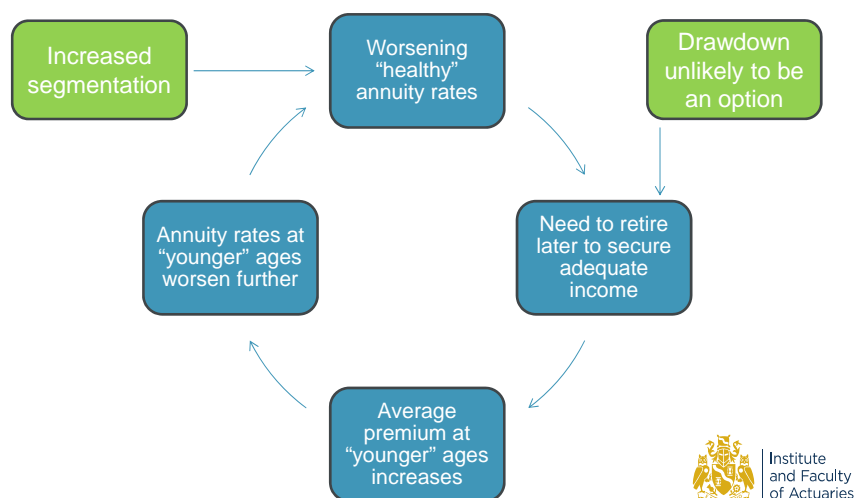
George Foreman



15 November 2013

13

Healthy and Not So Wealthy?



15 November 2013

14



*'... we see patterns of irrationality,
inconsistency and incompetence in the ways
human beings arrive at decision and choice
when faced with uncertainty'*

Against the Gods, Peter L Bernstein



Annuities are not popular products

It's difficult to point to a significant annuity market outside countries where there is an element of compulsion

There were more new Aston Martins sold in the UK than purchased life annuities¹

The reasons for this become clear in focus group research. People often react angrily to the annuity concept and invariably see themselves as 'losers'

Source: 1. ABI Statistics, 2012



Averages and probabilities are confusing for people

Projected life expectancy at 65¹

UK Population	Life expectancy on reaching age 65 in the year shown ²					
	2011	2015	2020	2030	2040	2050
Women	23.8	24.3	24.9	26.00	27.1	28.2
Men	21.1	21.7	22.2	23.4	24.6	25.8

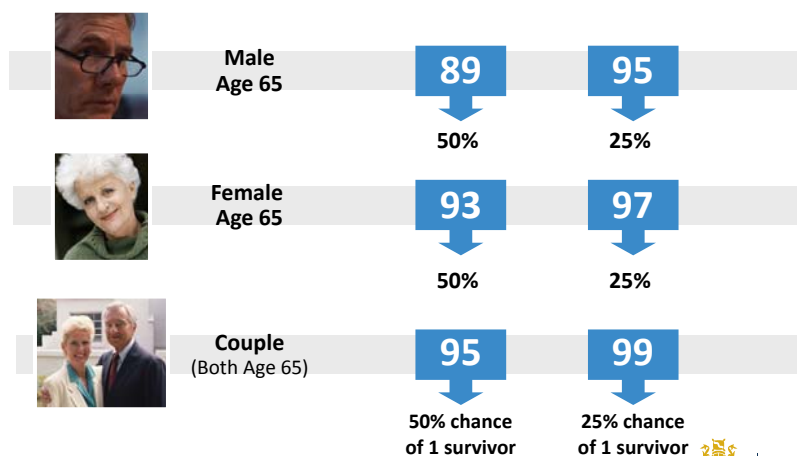
Source: Pension Policy Institute

Notes: 1 ONS cohort expectations of life

2 Based on actual mortality rates and projected calendar year mortality rates from the 2010 based principal population projections



They rarely consider probabilities...

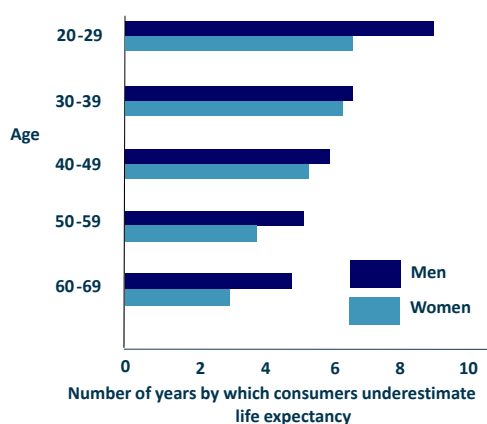


Source: CMI Bureau. Calculated using RMV00 and RFV00 base tables - long cohort improvement basis, August 2010.



There is a tendency to underestimate life expectancy

Individual underestimates of life expectancy by age



Source: O'Brian, Fenn, and Diacon, 2005, self-estimated life expectancy compared with GAD forecast life expectancy

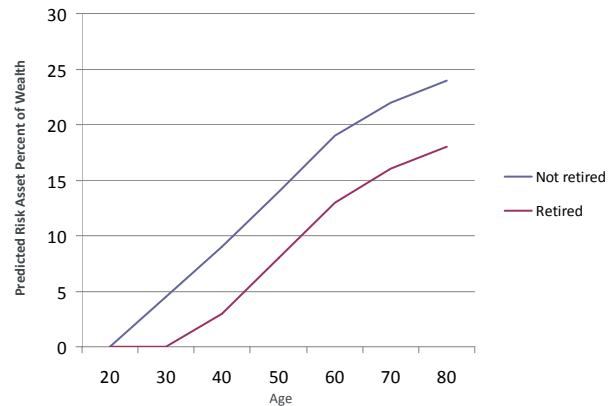


There are other solutions that may prove more popular as healthy lives resist conventional annuities



Retirement in and of itself increases our aversion to risk: Is this why investment linked solutions have failed to gain real momentum?

Retirement does appear to be correlated with an increase in risk aversion

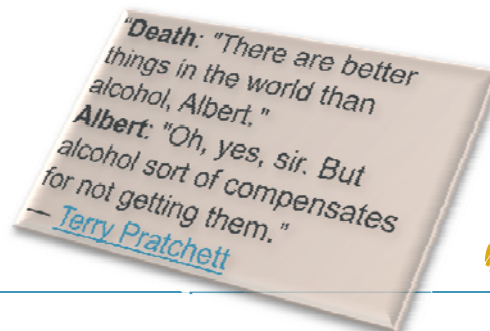


Source: Wang Hui, Hanna Sherman "Does Risk Tolerance Increase With Age?", Financial Counselling and Planning, Vol 8 (2). Published by the USA's Association for Financial Counselling and Planning Education c1997. All rights reserved



Predictive Underwriting?

- Search for alternatives to postcode/ non medical underwriting?
- Increasing sophistication of data analysis and predictive analysis likely to lead to new rating factors
- Big Data



Motor and Home Insurance

- Increased use of sophisticated underwriting criteria can price some consumers out of the market
- Motor insurance
 - young drivers priced out?
 - increasing use of telematics - seen as “fair”
- Home insurance
 - Flood Re - to ensure that flood insurance remains affordable and available to homeowners at high flood risk

I spent a lot of money on booze, birds and fast cars. The rest I just squandered.
George Best

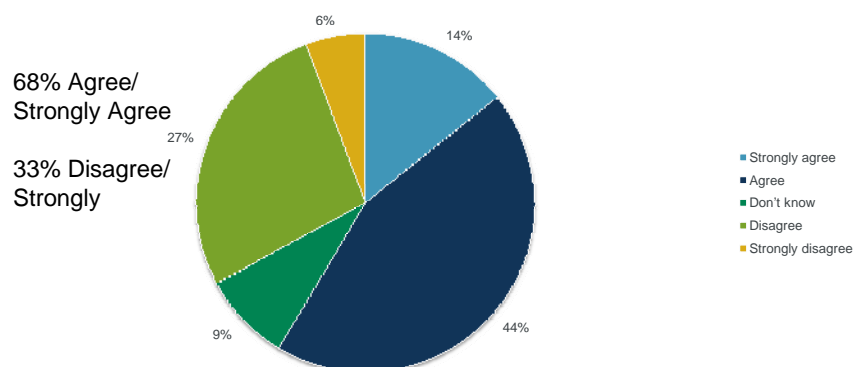


15 November 2013

23

Straw Poll Results (Sept 2013)

Do you think that increasing segmentation of the annuity market is a good thing for insurers?



Straw poll conducted at actuarial seminar Sept 2013 (approx 70 respondents)



15 November 2013

24

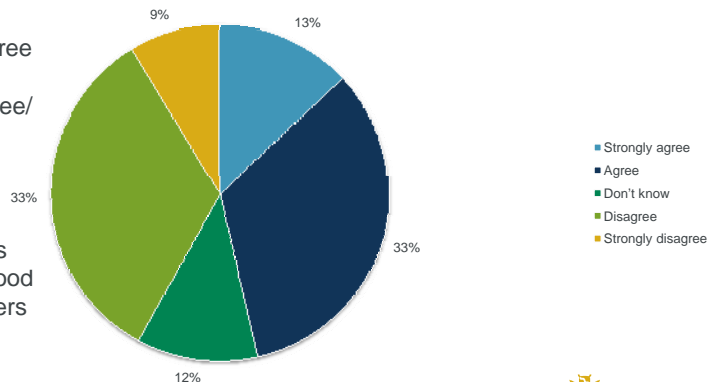
Straw Poll Results (Sept 2013)

Do you think that increasing segmentation of the annuity market is a good thing for consumers?

46% Agree/
Strongly Agree

42% Disagree/
Strongly Disagree

Fewer
respondents
thought it good
for consumers
than for
insurers



Straw poll conducted at actuarial seminar Sept 2013 (approx 70 respondents)



15 November 2013

25

Possible Future Outcomes?

• Insurers

- Must continue to allow appropriately for anti-selection in setting longevity assumptions.
- Search for new underwriting factors?

• Customers

- Increasing segmentation of the market through underwriting will continue
- Increasing sophistication of underwriting/ segmentation
- Lives in poorer health will benefit, healthy lives will lose
- Will healthier lives need to retire later?



Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.

