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# The future of the individual annuity market

Karen Brolly and Sean James  
Hymans Robertson





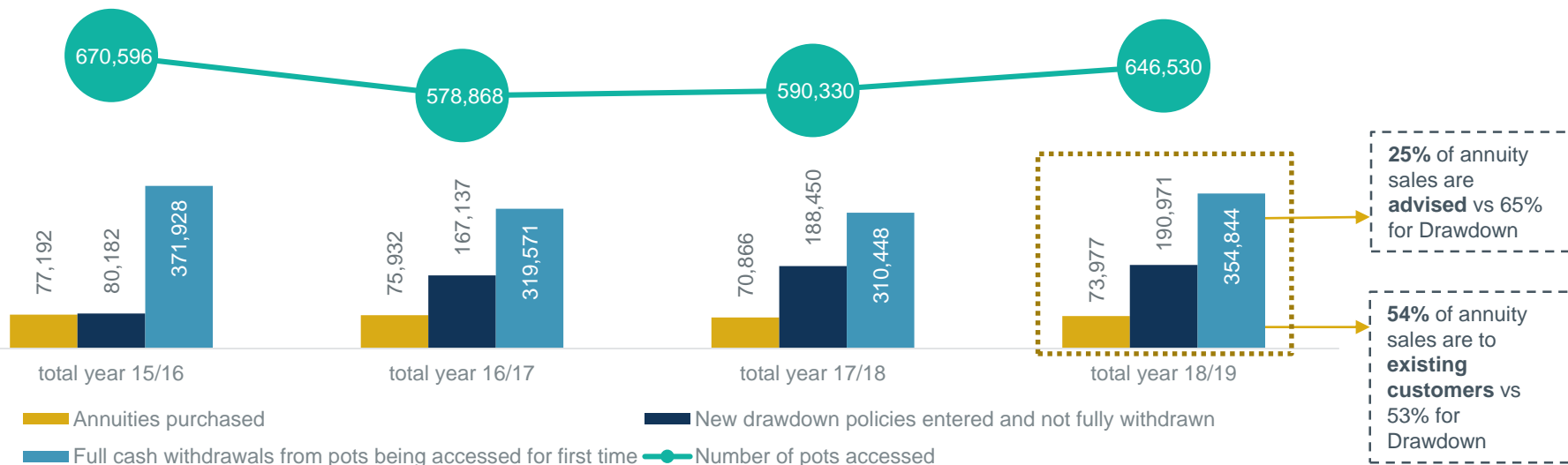
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# Retirement market since pension freedoms

21 November 2019



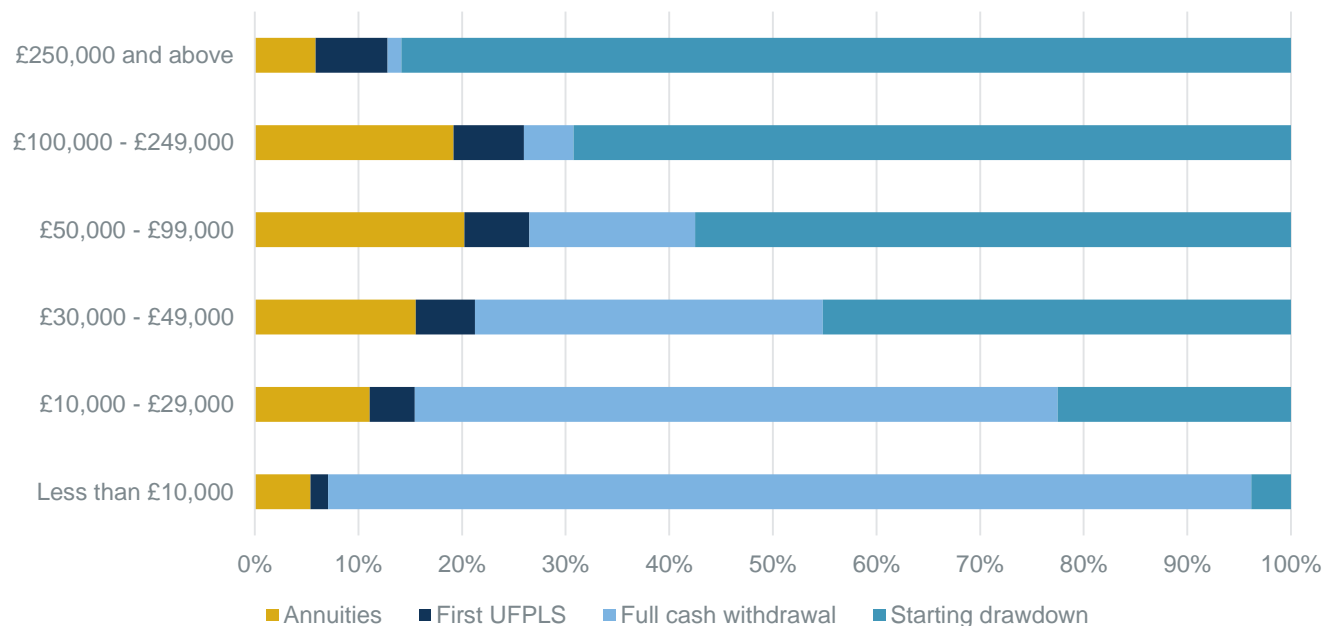
# Annuity sales since 2015



Annuities continue to be bought by customers



# How pots have been accessed



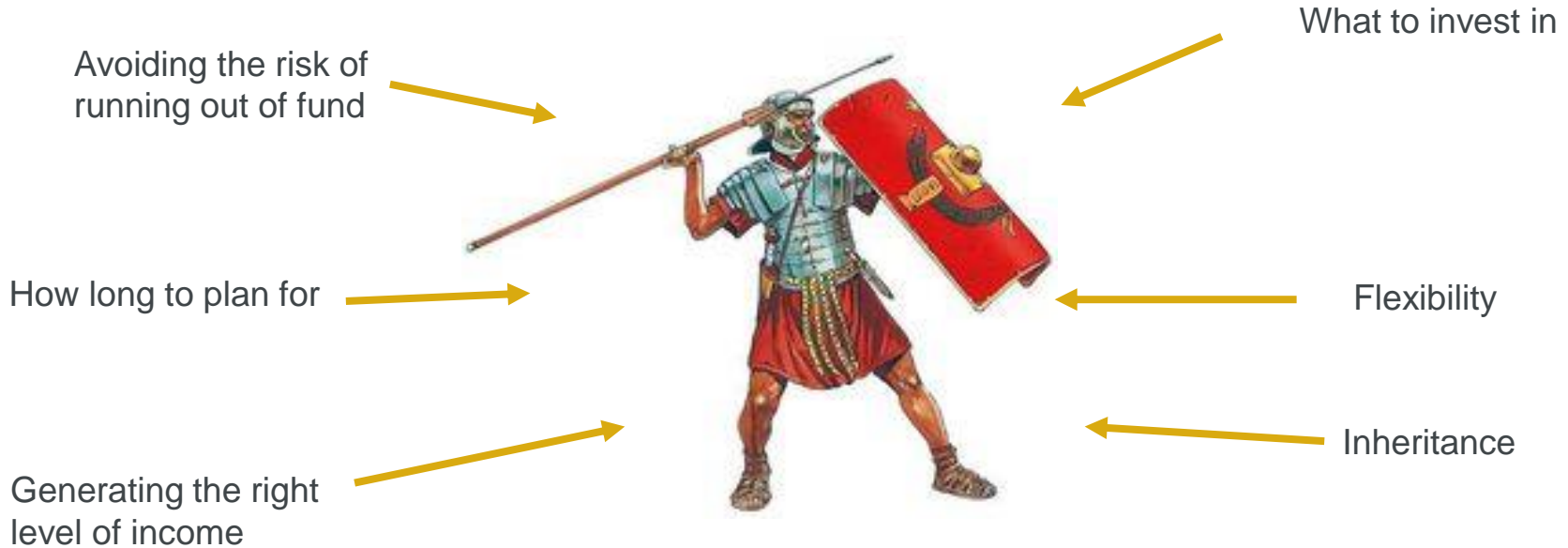
Composition of product purchases made between October 2018 and March 2019

Annuities play an important part for medium sized pots



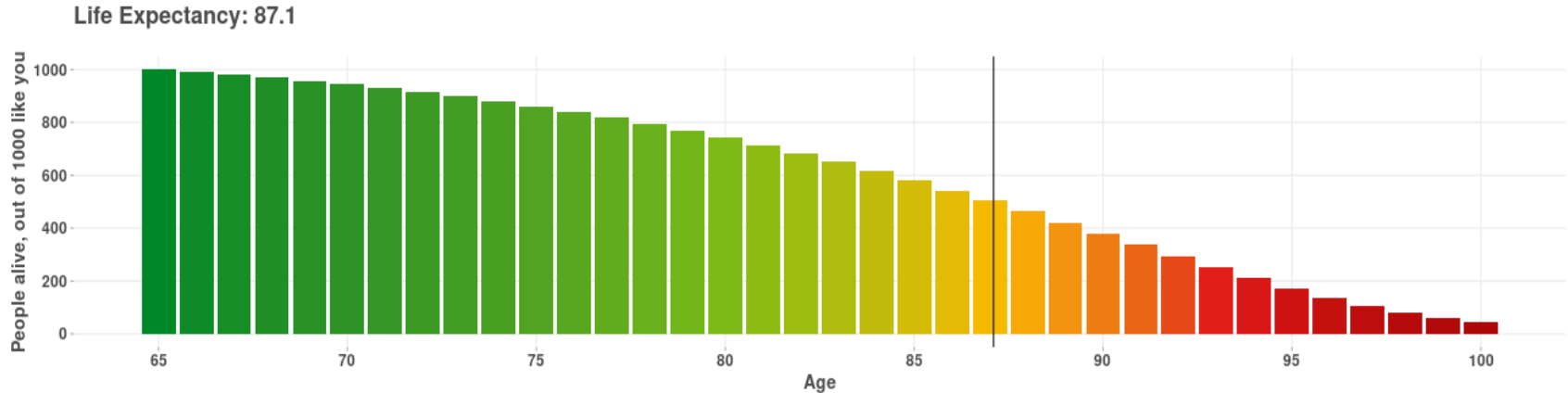
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# Current trends – what do retirees want?



# Variability of life expectancy

Life Expectancy Pot Projection Objective Likelihood Suggested Income Assumptions



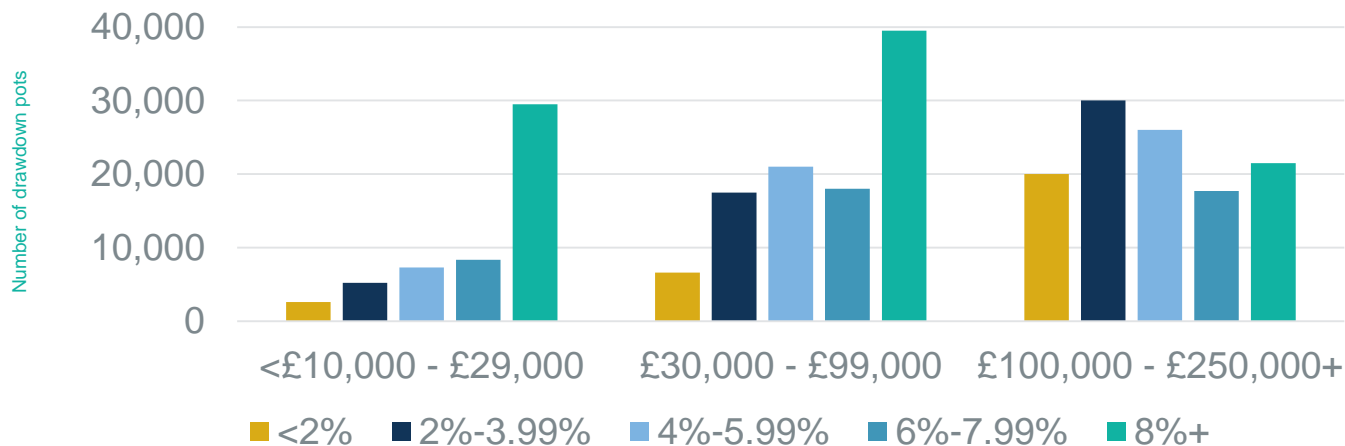
This chart illustrates the uncertainty surrounding the client's age at their time of death. If we were to start with a group of 1000 people (all with the same age, gender, postcode and health status as the client) the vertical bars represent the number of people in that group that are expected to still be alive at each age.

Longevity risk sits with individuals – not easy to manage



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# Regular withdrawal rates by pots size



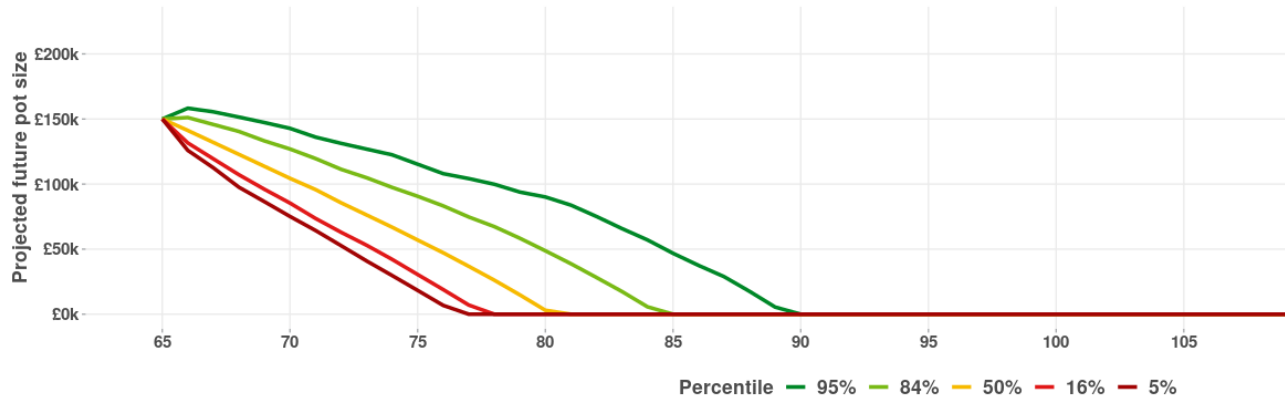
Withdrawal rate since Pension Freedoms has averaged c. 6%



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# Drawdown with 8% withdrawals

Life Expectancy   Pot Projection   Objective Likelihood   Suggested Income   Assumptions



Plot percentiles:

95th    84th    50th (median)    16th    5th

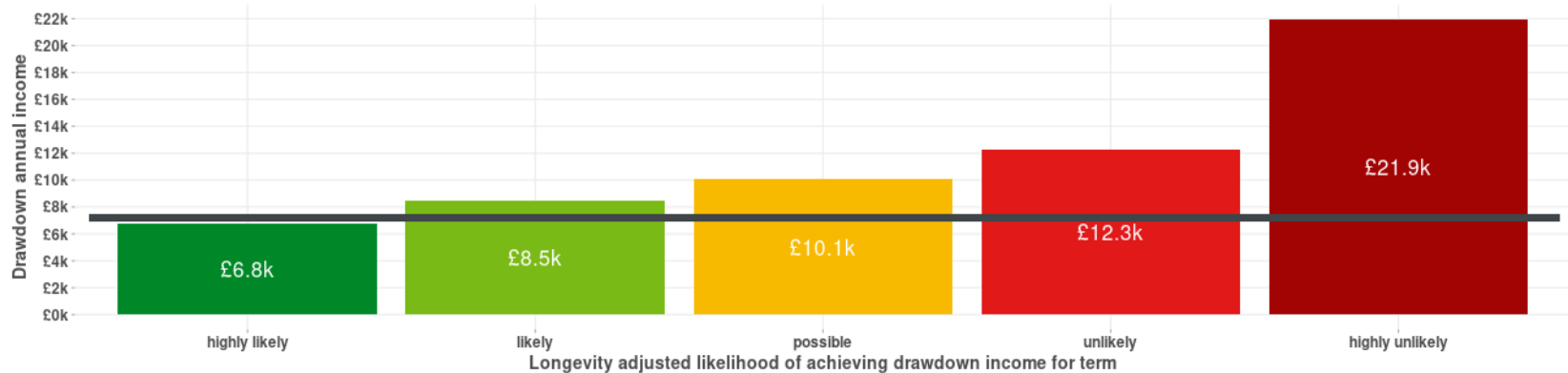


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# Drawdown with cautious investment vs annuity

Life Expectancy   Pot Projection   Objective Likelihood   Suggested Income   Assumptions



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# A role for deferred annuities?

# Deferred annuities – definitions

- The deferred annuity is a contract that is purchased by an individual, at retirement, but does not pay until the annuitant survives to a pre-specified age.
- Regarded as insurance against living longer or into the tails of the life expectancy, so using the term ‘tail annuity’.



# CASS research

DOCTORAL THESIS

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## The impact of behavioral factors on annuitisation decisions and decumulation strategies

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Prof. Stephen THOMAS

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# Deferred annuity – product idea

- Long term deferred annuity which is more like an insurance for long living.
- Relatively small part of pot at retirement is used to pay for the income stream which won't kick in until age 90 (say).
- If the individual doesn't survive until this age, then doesn't receive anything.



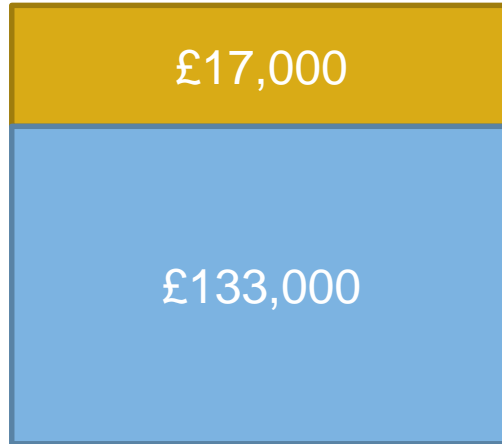
# Potential costs

Deferral Age				
Age	65	80	85	90
65	£150,000	£54,500	£33,000	£17,000



# Revised retirement plan

- Retirement pot of £150,000 – now split between drawdown and tail annuity



# Impact on overall retirement plan

Life Expectancy   Pot Projection   Objective Likelihood   Suggested Income   Assumptions



Plus a guaranteed £7.5k from age 90



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# Challenges for deferred annuities

# Acknowledging the difficulties



Sourcing assets



Capital intensive



Sourcing of reinsurance



Matching Adjustment



Member optionality



Consumer understanding

For illustrative purposes only.

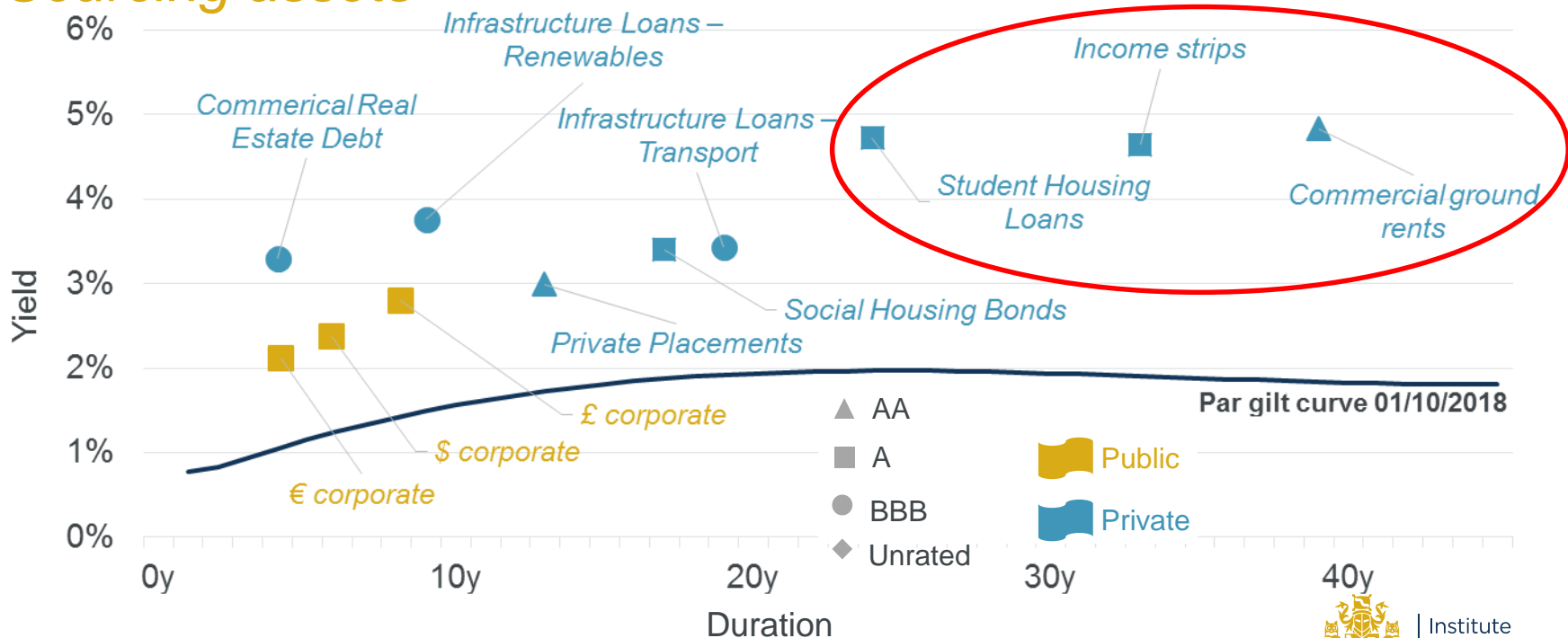


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# Challenge #1

## Sourcing assets

Chart is for illustrative purposes only



Source: Hymans Robertson research, October 2018.

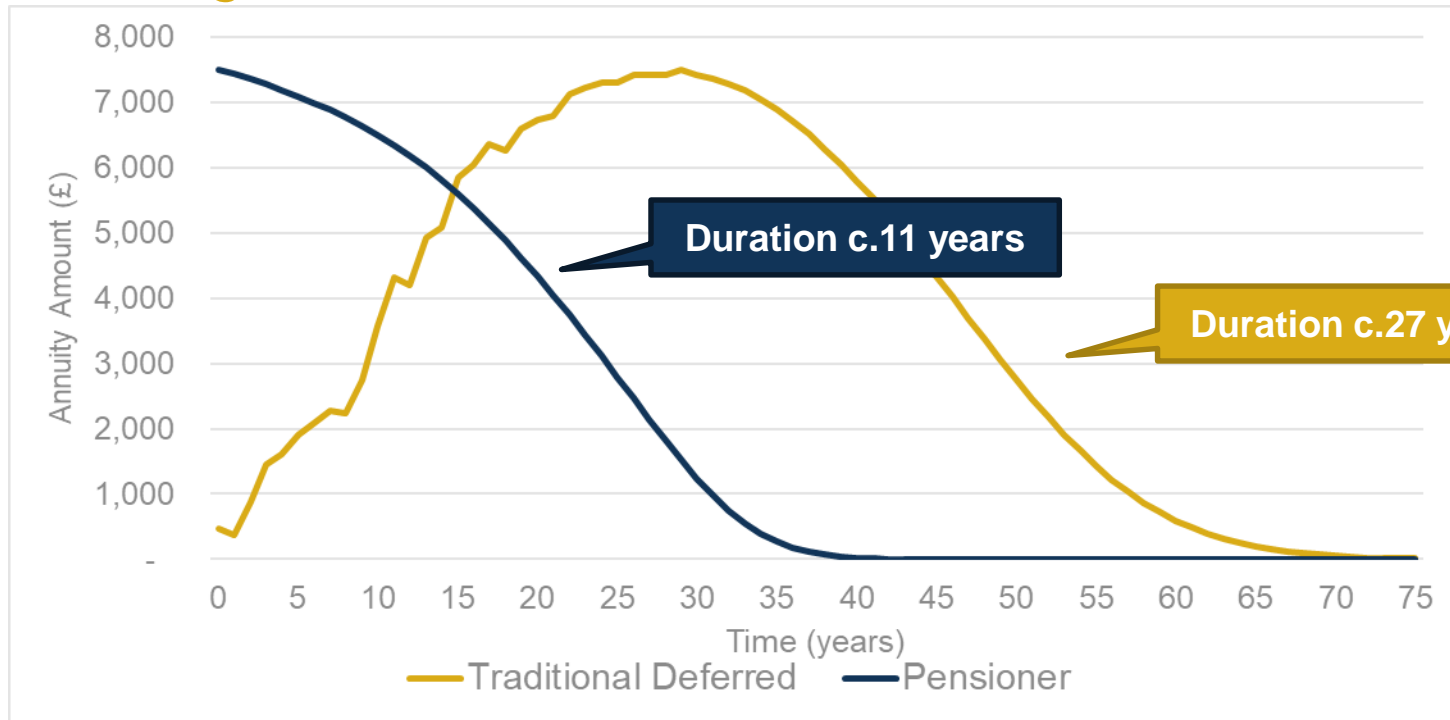


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# Challenge #1

## Sourcing assets

Chart is for illustrative purposes only

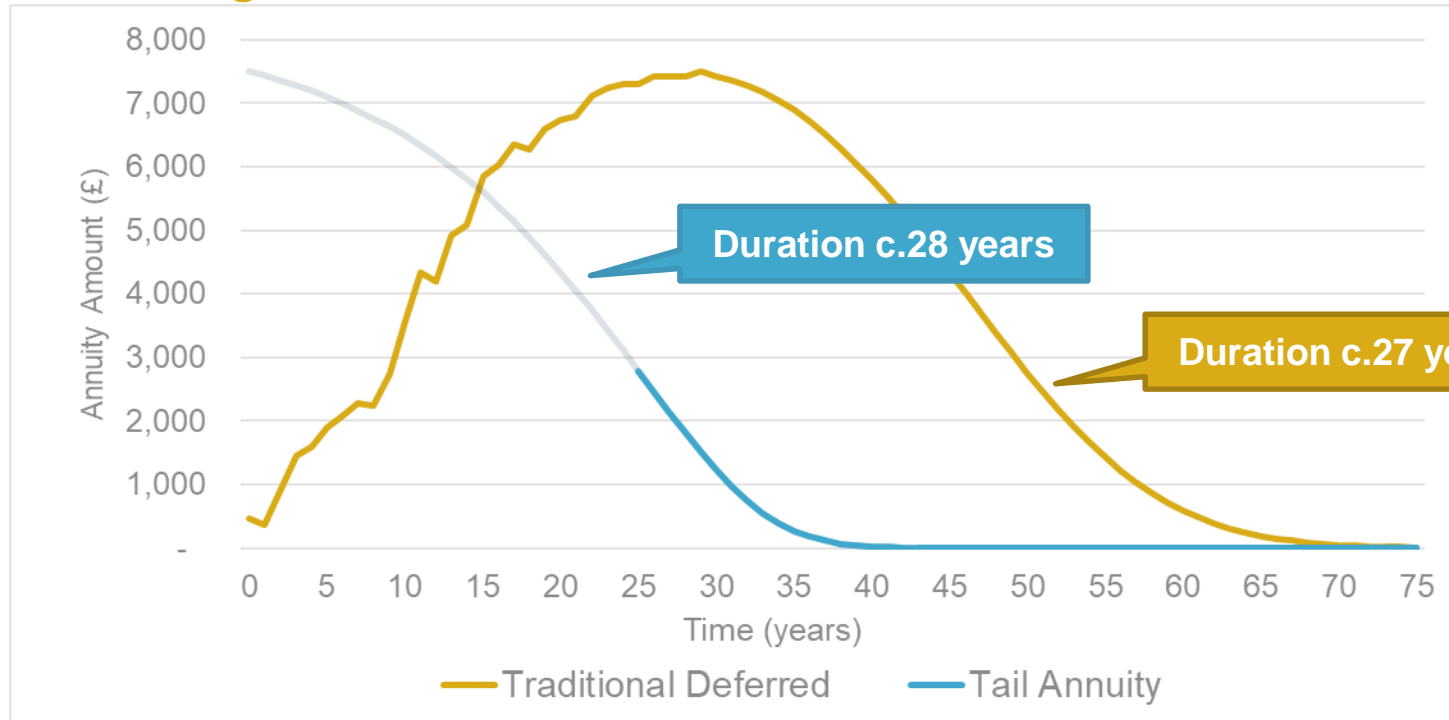


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# Challenge #1

## Sourcing assets

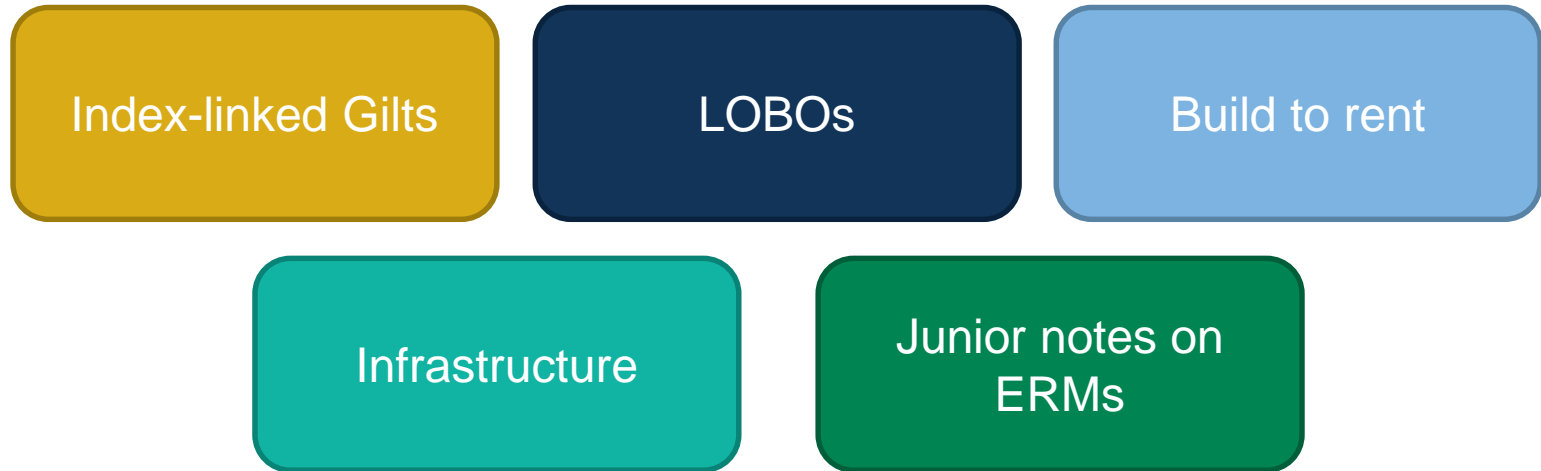
Chart is for illustrative purposes only



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# Challenge #1

## *Sourcing assets*



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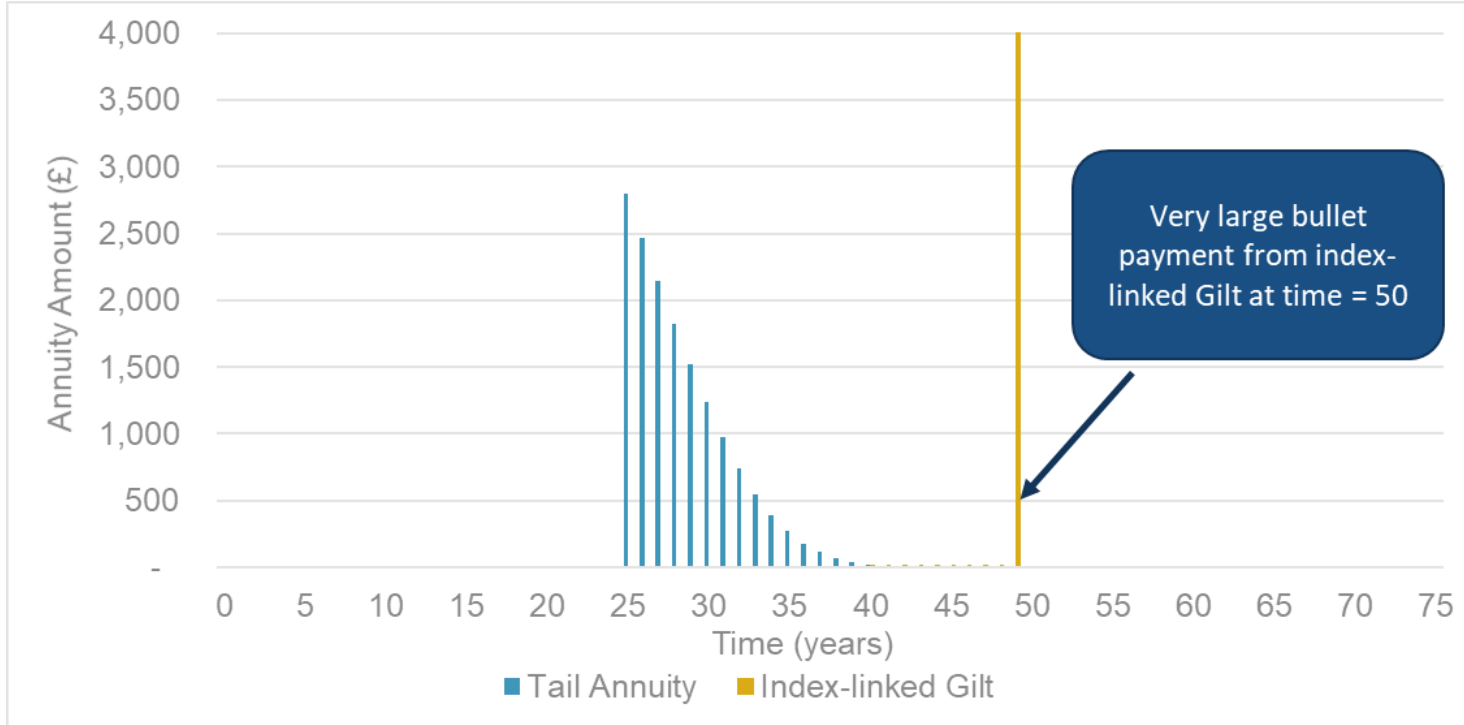


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# Challenge #1

## Sourcing assets

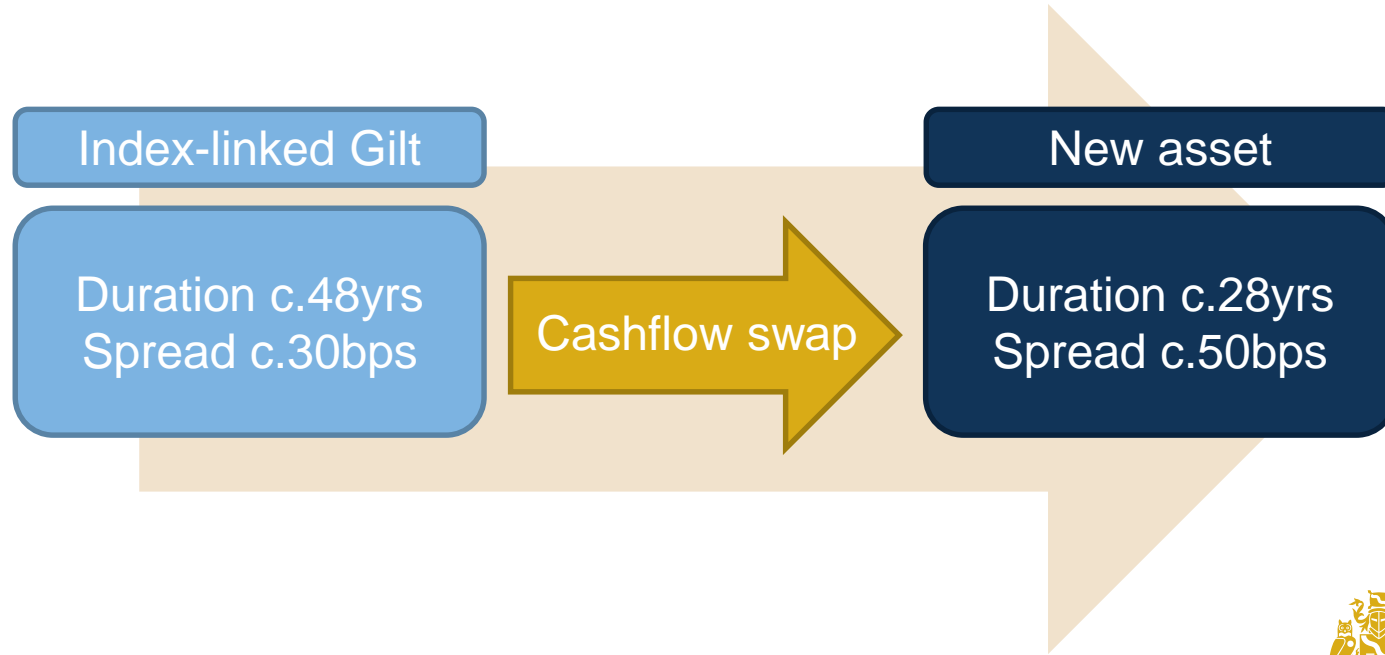
*Chart is for illustrative purposes only*



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# Challenge #1

## *Sourcing assets*



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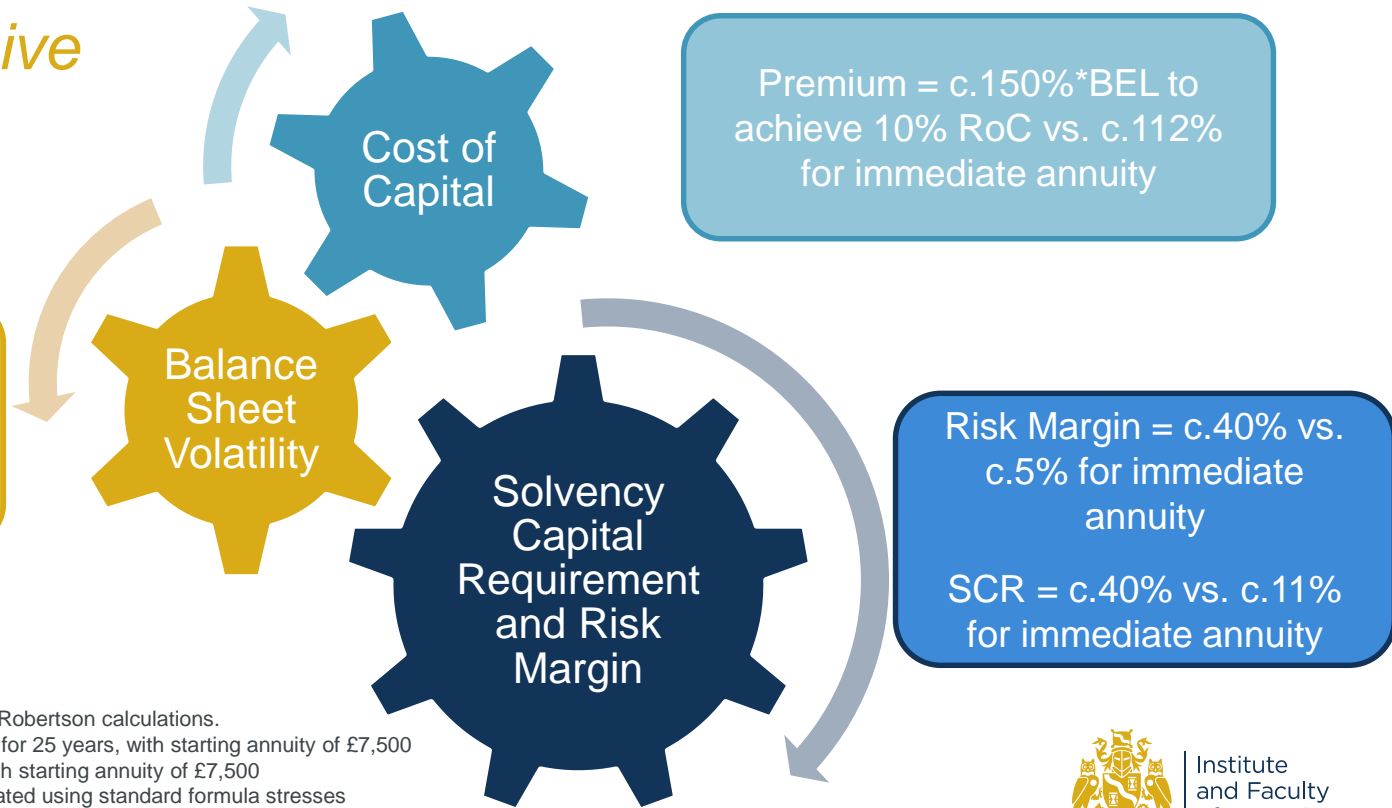


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## Challenge #2

### Capital intensive



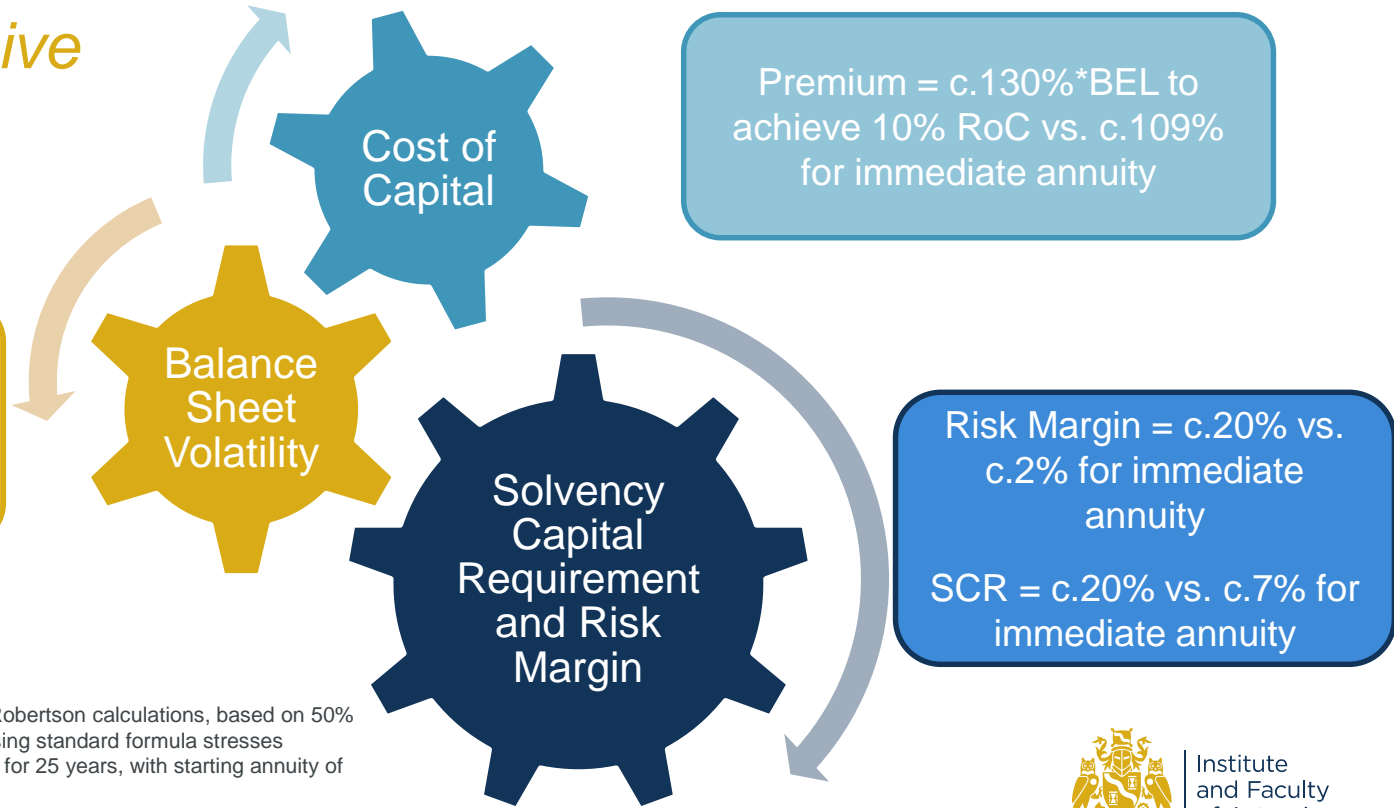
For illustrative purposes only. Source: Hymans Robertson calculations.  
Tail annuity life based on life aged 65, deferred for 25 years, with starting annuity of £7,500  
Immediate annuity life based on life aged 65 with starting annuity of £7,500  
Only Longevity and Credit risk assumed, calculated using standard formula stresses



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## Challenge #2

### *Capital intensive*



For illustrative purposes only. Source: Hymans Robertson calculations, based on 50% longevity reinsurance, with 5% fee, calculated using standard formula stresses

- Tail annuity life based on life aged 65, deferred for 25 years, with starting annuity of £7,500
- Immediate annuity life based on life aged 65 with starting annuity of £7,500



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# Challenge #3

## *Sourcing of reinsurance*



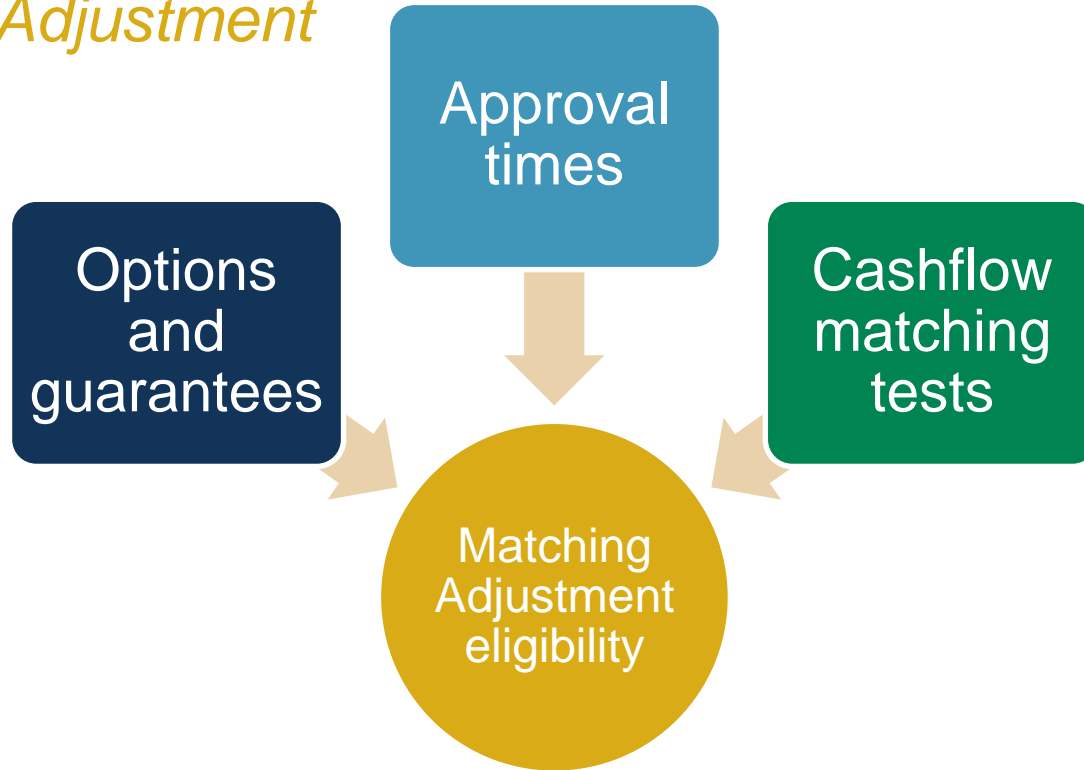
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# Challenge #4

## *Matching Adjustment*



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# Challenge #5

## *Member optionality*

- Lump-sum on death
- Guaranteed payment period
- Transfer to a spouse
- Commutation



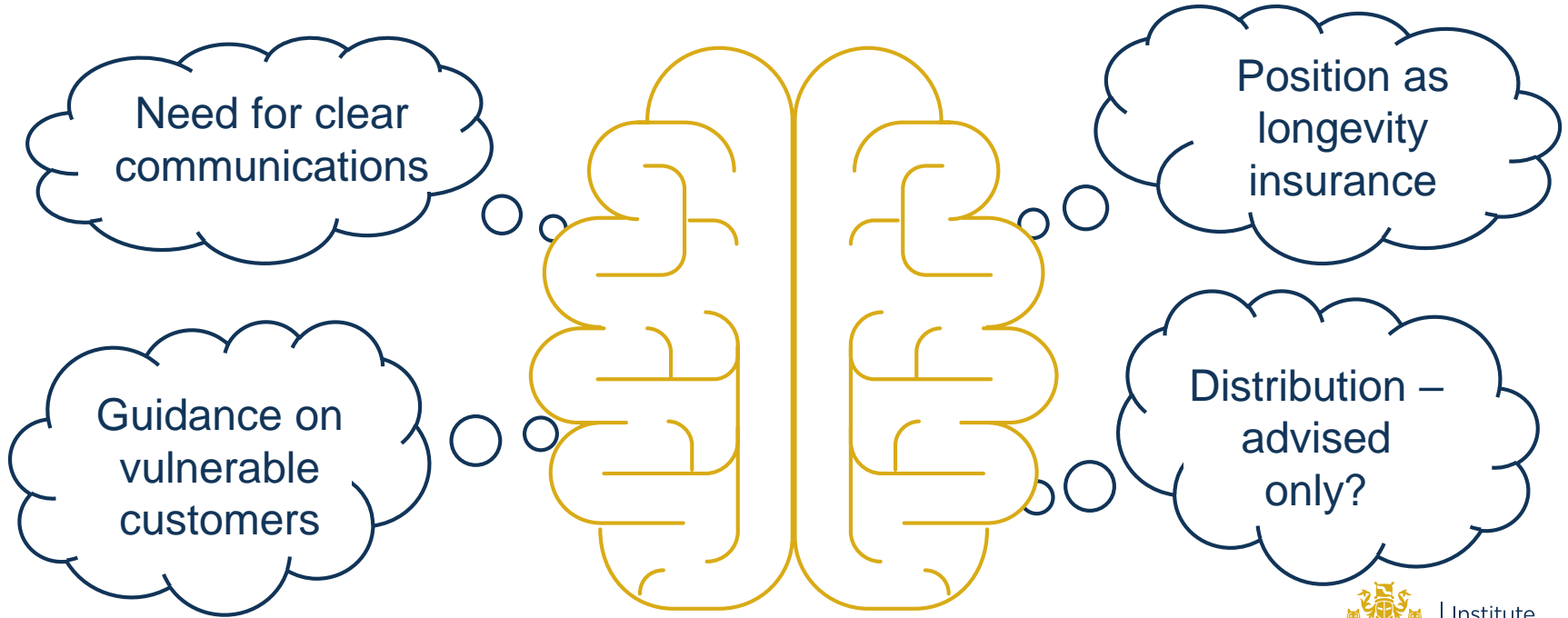
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# Challenge #6

## *Consumer understanding*



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# Questions

# Comments

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