

Annuities and Income Drawdown - UK - 2021

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This report looks at the following areas:

- The impact of COVID-19 on the market for retirement income products.
- The size of the market for retirement income products.
- Understanding what people want from their pension savings at decumulation.
- Use of regulated advice and guidance by those approaching or at retirement.
- Consumer engagement and confidence in making decisions about their pension savings.

31% of DC pension savers aged 55–64 have accessed at least some of their pension savings. At the other end of the spectrum, 40% of over-65s have yet to access any. This demonstrates the diverse nature of the decumulation market, with large numbers of people keen to dip into their savings early and many others choosing to keep their fund invested well beyond retirement age.

Over the past two years, there has also been an increase in the number of people delaying retirement, as a result of the disruption caused by COVID-19. Others have been prompted to move into the decumulation phase earlier than intended, as a result of redundancy or furlough. Neither of these trends have benefited the retirement income market, with both lifetime annuity and income drawdown sales seeing double-digit declines in 2020. That said, some providers have reported a surge in demand for fixed-term annuities, as retirees have sought intermediate solutions during the crisis.

Sales volumes for both products are set to recover. Even so, the biggest threat to the annuity market remains: the long-term decline in annuity rates. There may be a temporary reprieve in the short to medium term, with interest rates poised to increase to combat inflation. This, in turn, should help lift annuity rates, potentially boosting the product's appeal at a time when more people are seeking stability following a turbulent couple of years. Yet annuity rates are



“The market for retirement income products is diverse and, potentially, large. The challenge for providers is to create an environment where pension savers can easily look into all their options and feel confident of their choices, while at the same time develop products that meet the needs of future retirees.”

– Sarah Hitchcock, Associate Consultant – Financial Services

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unlikely to recover much of what they have lost over the past two decades, and the long-term outlook is broadly pessimistic.

Drawdown offers the greatest opportunity for growth. However, as Mintel's research shows, many people want a mix of guaranteed income and flexibility. This shows there is good scope to expand the market for blended solutions and hybrid options. More innovation is needed, though, to realise this potential, along with greater regulatory and adviser support.

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