

Annuities - UK - August 2011

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“In spite of ongoing challenges linked to increasing longevity, the long-term prospects for this market are fairly positive. The introduction of new pension reforms in 2012 will substantially boost the size of the DC pension pool, and thus the number of potential future annuitants.”

– Sarah Hitchcock, Senior Analyst – Financial Services

In this report we answer the key questions:

Annuity providers are currently facing a number of challenges. These include rising life expectancy and low gilt yields, which are together exerting downward pressure on annuity rates, volatile stock markets, low public interest in pensions and low awareness of annuities and other retirement income solutions. More than half of all UK workers currently have no private pension provision and many of those who do are not contributing enough to counter the effects of rising longevity and are likely to end up with a much lower pension income than they were envisaging. At the same time, pricing and competitive pressures are continuing to squeeze the profit margins on conventional annuity products, as the pool of healthy lives shrinks while the non-conventional sector expands.

On the plus side, the introduction of new pension reforms linked to workplace auto-enrolment will dramatically boost the number of defined-contribution (DC) pension savers from 2012. As a result, it will also expand the overall size of the annuity market and increase new business opportunities. To capitalise on this market expansion and to adapt to changing regulation and customer needs, providers are working on bringing new innovative solutions to the market, including more flexible and hybrid products, and are developing more sophisticated and personalised underwriting methods.

Mintel's report explores how these various developments are impacting on demand for different types of annuity, as well as rival products such as income drawdown. To provide context, the report offers an overview of the size and composition of the UK retirement income market and examines the main issues currently keeping annuity providers occupied. These range from macroeconomic and social trends to regulatory and legislative changes, such as the removal of the requirement to purchase an annuity by age 75. The overview analysis is complemented by the results of Mintel's independent consumer survey, which provides

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additional insight into patterns of pension ownership and retirement plans and expectations.

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