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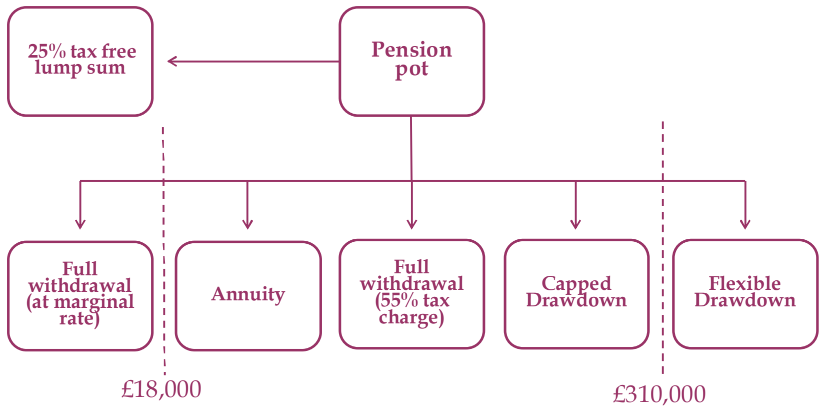
Freedom and Choice in Pensions: comparing international retirement systems and the role of annuitisation

Chart 1: Current tax system for accessing defined contribution pensions at retirement



Source: Chart recreated from HM Treasury (2014) *Freedom and choice in pensions* Cm 8835 p. 21 Diagram 3.A

Introduction

At Budget 2014 the Chancellor announced radical changes to how Defined Contribution (DC) pension savings can be accessed at retirement.

This Briefing Note explores how DC savings are accessed in other countries, how this interacts with wider government policy, and what international experience might mean for how DC savings are accessed in future in the UK.

Currently, around three quarters of those reaching retirement with DC pension savings use them to buy an annuity. The high take-up of annuities (which provide a **guaranteed income for the entire lifetime of the holder**) is partly attributed to tax rules which, until April 2014, only allowed those over minimum pension age (currently 55) to draw their pension savings as a lump sum without an additional tax charge if its value was below a certain limit (£18,000 or lower for a single pot). Two additional pots could be taken as lump sums provided they were worth less than £2,000 each. This is known as "trivial commutation".

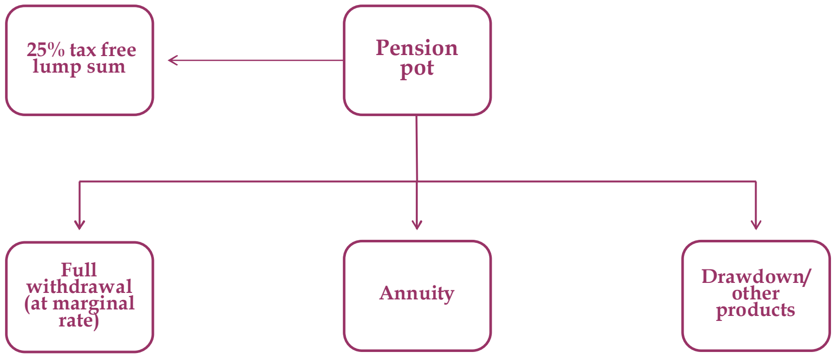
As an alternative to annuities, those over minimum pension age could invest their pot in an income drawdown product (Chart 1), but there were restrictions on how much could be drawn down in a given year ("Capped Drawdown") unless the saver had a secure retirement income for life of at least £20,000 a year ("Flexible Drawdown"). In practice, income drawdown has tended only to be available to those with larger pension pots (well above the median DC pot size at retirement of £20,000)[1] and, because of the risks involved and the complexity of investment choices that need to be made, has typically gone hand-in-hand with the receipt of regulated financial advice, which must be paid for.

Prior to Budget 2014, people could "trivially commute" a single pension pot up to the value of £18,000 by taking it as a lump sum and could take two further pots up to the value of £2,000 as lump sums. In the Budget it was announced that, between April 2014 and March 2015, the trivial commutation rules would be relaxed, so that a single pot up to the value of £30,000 could be taken as a lump sum, and up to three further pots of £10,000 or less could also be taken.

In addition, the maximum amount that could be taken under "Capped Drawdown" was increased from 120% of the equivalent value of an annuity per year to 150% and the Minimum Income Requirement for entering "Flexible Drawdown" was reduced from £20,000pa to £12,000pa.

The Budget also announced that, from April 2015 onwards, all restrictions on accessing private DC savings would be removed, so that anyone from age 55 onwards could access their DC savings as a lump sum without facing any additional tax charge over their marginal rate. This constitutes a significant liberalisation of the pensions tax regime and is partly facilitated by the new single-tier state pension which, the Government believes, should avoid pensioners fall-

Chart 2: Future tax system for accessing defined contribution pensions at retirement



Source: Chart recreated from HM Treasury (2014) *Freedom and choice in pensions* Cm 8835 p. 21 Diagram 3.A

ing back onto the state in future and should reduce the risks of moral hazard (though people in receipt of full single-tier may still fall back on the state for Housing Benefit, Council Tax Reduction and other means-tested benefits.) The Budget changes have wide ranging implications for the retirement landscape in the UK.

Those approaching retirement with a DC pension pot may now choose to access their DC pension using one, or a combination, of three options (Chart 2):

- Full withdrawal (at marginal income tax rate);
- Annuity purchase; and
- Drawdown/other phased income products.

All DC savers over age 55 still have access to a 25% tax-free lump sum.

Implications for the wider DC retirement landscape

The impact of these changes is potentially far-reaching and at this early stage in policy development there is a lot of uncertainty about how individuals will behave and how employers, pension providers, insurers and asset managers will respond in terms of developing new products and processes.

One key issue, identified in the Budget proposals, is how to support DC savers with the choices they need to make before, at and during retirement. The Chancellor announced that a new duty would apply to pension providers and trust-based pension schemes to provide members with "face-to-face advice" at retirement. However, in the consultation document, the Government clarified that this would be a "guidance guarantee" rather than fully regulated financial advice.

Another key issue is how pension schemes design default investment strategies for those approaching retirement given the wide range of options that will now be available to them from age 55 onwards. Currently, a typical default investment fund in a DC scheme being used for automatic-enrolment would invest in a range of asset classes and "de-risk" these assets in the run up to an assumed retirement age, on the assumption that the majority of members will choose to take a 25% tax-free cash lump sum and annuitise the rest of their DC pension pot.

This may no longer reflect an appropriate default assumption for the majority but there is no, as yet, established consensus within the UK pensions industry as to what an appropriate alternative default glidepath to retirement might be. One possible response is to require greater engagement from savers in DC pension schemes ahead of retirement or to try and nudge or guide them towards their preferred retirement age and investment strategy.

The future of annuitisation in the UK

In the absence of clear evidence on how the DC retirement landscape might evolve in the UK in response to the Budget changes, it may be illustrative to look at the experiences of other countries with well developed DC markets, particularly in respect of the choices savers make about how to use their pension pots at and during retirement, and the cultural, institutional and regulatory features that may drive these choices.

The UK is recognised as having one of the most dominant and established annuity markets internationally (relative to the size of the economy)[2] and so it could be argued that, culturally, UK retirees might expect their pensions to deliver them a secure income in retirement, particularly given the history of Defined Benefit provision in the UK.

There are some notable advantages to annuitising over taking a pension as a lump sum or using other forms of drawdown. In particular an annuity is the only product for those with DC pension savings that pools their longevity risk and provides them with a guaranteed income for life. Depending on the type of annuity selected it may also provide protection against future inflation although that additional protection comes at a significant cost in terms of a lower starting level of annuity income.

However, rising life expectancy, low gilt yields, and increasing regulatory and capital requirements have seen annuity rates fall significantly in recent years, to the extent that their value for money has been questioned.[3] The low understanding of many DC savers of the options available to them and the lack of shopping around for the best product and price has also led to concerns about consumer detriment in the annuities market and inertia selling.

Against that backdrop, the Chancellor's announcement to remove restrictions around how DC pensions are accessed has received a warm reception from the general public.

The annuities market in the UK is characterised by a wide range of annuity products (including conventional, fixed-term, investment linked, enhanced and impaired annuities) and a shrinking number of active annuity providers. With the annuities market estimated to be worth some £11bn[4] annually, radical changes in retiree's behaviour could have significant implications both for the annuities market but also the wider retirement income landscape in the UK.

There are a number of other countries with established DC markets where annuitisation in its different forms has played, or still does play, a role in the retirement landscape. Those countries include Australia, Canada, Chile, Denmark, Ireland, Israel, Singapore, Switzerland and the United States. The rest of this briefing note examines these countries in more detail and draws out some potential lessons and implications for the development of new products, guidance and processes in the UK retirement market.

What factors contribute to higher levels of annuitisation?

Switzerland[5]

Switzerland has a state pension which provides up to 36% of average salary and a further layer of means-tested benefits for pensioners. Membership of an occupational pension scheme is mandatory for employees and the vast majority of these schemes are cash balance, meaning they deliver a pre-agreed salary-related amount as a lump sum on retirement.

Despite Swiss savers being permitted unlimited access to their private pension savings (though some schemes restrict access), annuitisation levels in Switzerland are high; around 80% of DC assets are put into lifetime annuities. This is attributed to cultural attitudes; Swiss workers are described as being "financially conservative" and "preferring guaranteed incomes for life" over taking lump sums.

Swiss annuities are funded by hosting pension schemes and their rates (which are regulated by the Government) are considered to be very generous given the current low interest rates in the Swiss market and low mortality rates amongst annuitants. While high rates are likely to account for some of the popularity of annuities, there is concern that employers may face solvency concerns in the future.

Swiss annuities are, in the majority, joint-life. Indexation is at the discretion of the provider and subject to its financial position. Deferred annuities, fixed-term annuities and drawdown are not available for savers in the mandatory schemes. The private annuity market is relatively small, partly because annuities offered by mandated schemes offer such generous rates.

Chile[6]

Chile's annuity market is relatively young, dating from policy changes in 1981 in which Chile replaced its universal and earnings related state pensions with a mandatory private pension system. A minimal contribution-linked state pension and means-tested benefits for pensioners remain.

On reaching retirement, Chileans who wish to access their DC pension savings must opt either for a lifetime (deferred or immediate), index-linked annuity or for phased withdrawals from a pension fund. Married DC savers are required to purchase joint-life annuities. The fund providers must guarantee a minimum rate of return, which is backed by the Government. The number of DC savers purchasing an annuity in Chile has risen from 3% of pensioners in 1985 to just under 70% of DC savers for whom annuities were an option in 2007. This also equates to around 70% of DC assets.

There is a high demand for lifetime annuities in Chile, attributed to the restrictions on accessing savings and on the lack of a sufficient universal state pension to fall back on. The annuities market in Chile is highly competitive and developed.

Around 30% of annuities purchased are deferred, though the majority of these are deferred only for a year. The small take up of the phased withdrawal option may be linked to the relatively high charges levied on these products.

Singapore[7]

Singapore's pension system is single pillared and is intended to fund all retirement expenses (including healthcare and housing) for pensioners. The contributions from employers and employees are mandatory and costly (up to 36% of salary for younger workers) but the corresponding pay-outs in retirement are high as well as being subsidised by the Government.

As a result of increasing longevity among Singaporeans, the Government introduced a policy requiring the purchase of a retirement income product, for all pension pots over a minimum size, at age 55. Singaporeans are given the choice between a deferred lifetime annuity or the slightly more expensive, "longevity insurance" which is, in effect, a deeply deferred annuity that begins to pay out at age 90 coupled with a standard annuity which pays out until age 90. Joint-life and index-linked or escalating annuities are not available.

Reinforcing the high rates of annuitisation in Singapore is the fact that all DC savers are restricted to making a simple choice between two standard products at age 55.

Benefits can be drawn down from these annuities after the minimum pension age which is rising from 62 to 65. The annuities have flexible features such as bequest options for those who die at younger ages.

Israel[8]

Israel operates a flat-rate universal state pension based on residency which provides around 30% of average working-life salary.

Since the 1940s, Israeli private pensions consisted mainly of DB occupational pension schemes.

In 2008, the Government made membership of a pension scheme mandatory for all employees. Israelis not already covered by an occupational pension scheme can now choose between different types of savings vehicles, some of which require, at or after age 60, purchase of a lifetime annuity (paid out by their pension scheme) up to a certain minimum income amount. Annuities are designed to insure people against disability, death and inflation while allowing savings over the minimum required for this to be withdrawn.

Israelis also have the alternative option of saving in life insurance policies which cover risks such as death or disability and can also include a savings component for later lump-sum withdrawal.[5]

The proportion of savers who purchase an annuity is high among those who save in an annuity-linked vehicle. Israeli annuities are considered to have very good rates as they are partially subsidised by Government bonds.

Israel has made more use of index-linked annuities than other countries with mandatory annuitisation. The system is heavily focused on the "insurance" aspect of annuities and pension saving.

What factors contribute to medium levels of annuitisation?

Denmark[9]
Denmark operates a state pension, subject to a means-test for those over a certain income, as well as a supplementary pension for low-income pensioners.

Most Danish employees are required to contribute to a DC pension scheme (either the collective, earnings-related ATP or an individual "special pension"). Voluntary DC plans are available for workers not covered by either of these.

The provision of a lifetime annuity (direct from the scheme) is mandatory for those saving in an ATP pension. For those in other voluntary pension schemes there are different options available at retirement which include life annuities, fixed-term annuities and access to lump sums. Each pension scheme has different rules regarding how pension savings can be accessed.

It is during the savings process that many of the decisions around annuitisation are made, as employees can opt to have their savings used to purchase deferred annuities. In Denmark, 50% of DC pension savings are allocated to purchase lifetime annuities, 35% is used for fixed-term annuities and 15% is taken through lump sums.

The relatively high level of annuitisation could be partly attributed to the decision to annuitise being made earlier, during the accumulation period.

Ireland[10]
Ireland operates a state pension payable from age 66 (rising to 68) and a means-tested pension, payable from age 66.

Until 1999 Irish savers in DC pensions were required to purchase an annuity if they wanted to access their saving. Under new regulations introduced in 1999, Irish savers who meet the Minimum Income Requirement (MIR) (of €12,700 per year equal to around £10,500) have the option of purchasing an "Approved Retirement Fund" (ARF), similar to income drawdown, or withdrawing their entire savings pot as a lump sum.

The minimum income must be secured through state pension and a combination of an occupational pension, an annuity or purchase of a more restrictive income drawdown product an "Approved Minimum Retirement Fund" (AMRF) similar to Capped Drawdown. From age 75, AMRFs convert to ARFs and people can withdraw funds from them without limits, regardless of whether people meet the MIR. (Those with occupational DC pensions are still required to take their pension through an annuity.

Around 30% of those retiring with private pension savings currently purchase an annuity (the majority of which are flat-rate, lifetime annuities), though this figure includes individuals with an occupational DC pension who are still effectively obliged to purchase an annuity. Therefore it is difficult to assess how many people are making an active choice to purchase an annuity.

A 2007 review of the annuities market notes that those with a choice between an annuity and an ARF generally chose an ARF because of the flexibility they offer and because Irish annuities are perceived as giving poor value. However, the review showed that people purchasing an ARF and withdrawing from it in the same amounts that they would receive from an equivalent annuity, had a 50%-60% chance of exhausting their fund before they died.

The annuities market in Ireland is small. The 2007 review suggested that this could be attributed to:

- poor understanding by consumers;
- the reluctance of consumers to sacrifice capital;
- the lack of flexibility in available products; and,
- faults in the marketing and distribution strategy of annuity companies.

What factors contribute to lower levels of annuitisation?

Australia[11]
Australia's pension system involves two main pillars: a means-tested "state" pension and a system of mandatory saving into "MySuper" DC pension schemes (with minimum employer contributions of just over 9% rising to 12%) or occupational pensions.

Australians can access their DC pension savings after the minimum pension age, which is between 55 and 60 depending on the saver's date of birth.

There are very low levels of annuitisation in Australia. Around half of DC assets are paid out as lump sums. The other half provide an income stream; mainly through "pension accounts" similar to Flexible Drawdown.

Estimations of level vary; between 2% and 10% of DC pension assets are used to purchase a lifetime annuity.

There is low demand from the public for annuity products, but also a clear gap in understanding of longevity, income needs in retirement and how savings can best be used to meet those needs.

There are also incentives within the structure of the means-testing system for people to spend down their private pension savings to a certain level. For example, pensioners who qualify for even $1 of state pension are then entitled to other benefits such as healthcare, medicine and other living expenses.

The Cooper review of the retirement income market in 2010 found that the retirement income product market was "under-developed" and it attributed this partly to the small pot sizes being accumulated by the current cohorts of retirees.

The Cooper review recommended that Australians saving in pensions should be given more advice about retirement needs. It also recommended members be given regular projections of future fund value and the potential income which could be generated in retirement.

Canada[12]
Canada operates a contribution and residency based state pension system which is also subject to a means-test.

Private pension membership is voluntary though there are restrictions on accessing DC pension savings in retirement. Annuitisation of DC savings at retirement was once mandatory, but since the late 1980's the restrictions have been loosened. The rules governing accessing savings vary now between provinces, and range from requiring annuitisation at age 80 or requiring annuitisation of 50% of DC savings to allowing free access to lump sums.

The majority of pension plans offer several options to employees including annuities, savings accounts, and drawdown style arrangements which allow withdrawal (between a maximum and minimum amount) and require people to begin taking income by the age of 71. Lifetime annuities are reportedly the least popular option for those who have a choice.

Some pension providers have subsidised the cost of financial advice in order to help scheme members make good choices when they come to access their DC savings, however, other providers have expressed concerns about the fiduciary risk involved in providing advice.

The Canadian trade body for pension funds has issued guidelines on the information which should be provided to scheme members about their options for accessing DC savings.

USA[13]
The USA operates an earnings-related state pension. The USA has experienced a decline in private sector DB pension provision over the last few decades and an increase in saving into DC pensions particularly 401(k)s. Some employers voluntarily opt to auto-enrol their employees into their 401(k) schemes.

Savers in the USA are permitted to access their DC savings from retirement age without restriction. The purchase of lifetime annuities is minimal in the USA, estimated to account for less than 2% of pensioner income in 2009.

The lifetime annuities market in the USA is small and there is a lack of interest from consumers attributed to the lack of bequest options, large fund sizes, "adverse selection" and consumer concerns about developing health problems in later life.

However, Americans are not necessarily making the best decisions about how to use their pensions savings in retirement; researchers predicted that around half of those in or close to retirement in 2010 were in danger of exhausting their private pension savings before their death.

There is more flexibility in available annuity products in the USA than in some other countries with low annuitisation levels because, though take up is low, the large US population means that the numbers of people purchasing annuities is sufficient to create a relatively sizeable market. Most types of annuity products are available, in particular "variable annuities" (which in the USA are savings vehicles which allow the saver to withdraw lump sums in any amount at or during retirement as well as leave a bequest). These are growing in popularity as tax-effective, flexible ways of saving.

People in the USA are more likely to use annuities during the accumulation phase as well as in retirement because products such as "deferred" or "variable" annuities allow flexible, tax-advantaged ways to save.

Chart 3: Features in case study countries with different levels of annuitisation

		Restrictions on accessing DC savings	Flexibility of annuity products	Variety of other products: e.g. drawdown	High annuity rates/ MWRs	Annuities perceived as a "good deal"	State pension	Means-tested pension
High annuitisation	Switzerland (80%)				●	●	●	●
	Chile (70%)	●	●	●	●	●		●
	Singapore (not available)	●			●	●		
	Israel (not available)	●	●	●	●	●	●	
Medium annuitisation	Denmark (50%)	●	●		not available	not available	●	●
	Ireland 30%	●		●			●	●
Low annuitisation	Australia (2-10%)			●				●
	Canada (not available)	●		●				●
	USA (<2% pensioner income)		●	●			●	

Common themes in countries with higher levels of annuitisation

Countries with higher levels of annuitisation all offered higher annuity rates than would have been expected given market conditions (Chart 3). This is because the annuity markets were price regulated or because underlying investments were backed in some way by the Government. Annuities were perceived in these countries as a "good deal", even in Switzerland where purchasing an annuity with DC savings is not mandatory. There appears be a strong correlation in the countries examined between high levels of annuitisation, good annuity rates and a positive attitude towards annuities.

Though restrictions around accessing DC savings was a present factor in all but one of the countries with high annuitisation levels, some with lower levels, such as Ireland and Canada, also had some restrictions around accessing DC savings. So restrictions on access is clearly not the only determining factor.

Having a large range of annuity products did not seem to impact on annuitisation levels, though annuities in countries with high annuitisation levels were more likely to offer annuities which contained insurance elements such as inflation proofing (Switzerland), protection for dependents (Chile) and longevity insurance (Singapore).

Common themes in countries with lower levels of annuitisation

Within countries in which annuitisation levels were medium to low (30% or under) annuities were not perceived as a "good deal". Annuities in these countries were less likely to involve any form of Government backing or other intervention to ensure that annuity rates looked attractive when compared to other retirement income products.

Countries with lower levels of annuitisation also tended to contain a wider range of other available products that allowed drawdown of income as well as savings and the potential for bequest. These products tended to be more developed in these countries, while annuity markets were reported to be under-developed (e.g., Australia) or small (Ireland, USA). Popularity is growing in the USA for annuities which can be used during the accumulation period and during retirement for tax-advantaged saving and draw down, while still allowing access to lump sums and the possibility of bequests.

The understanding among consumers of the potential benefits of annuities, needs in retirement, and current life expectancy rates were reported as low in countries with low levels of annuitisation (e.g., Ireland, Australia, USA).

A key feature of countries with lower levels of annuitisation was that they tended on the whole to have fewer restrictions on accessing DC savings, though it cannot be assumed that this is the deciding factor in the light of the finding that in Switzerland, which allows free access to lump sums, around 80% of DC savings is used to purchase a lifetime annuity.

Countries with low levels of annuitisation all had a state pension or a means-tested pension. The Australian means-tested pension, and corresponding passported benefits (such as health care), were identified as an incentive for some people to spend down their private pension savings in order to qualify for a portion of state benefits.

However, most of the countries with high levels of annuitisation had either a state or means-tested pension, excepting Singapore, so it is not clear how much of a determining role a "fallback" pension plays.

What does international experience mean for the UK?

The Government estimates that as a result of the new freedoms, annuity purchases will decline from current levels of 75% of DC savers to around 50%.[14]

However, international experience suggests that people's reactions to the Budget changes and their corresponding impacts on levels of annuitisation will depend on several different factors.

Countries with high levels of annuitisation all have high annuity rates, regulated, backed or secured in some way, such as through underlying investments by the Government. Annuities are perceived as a "good deal" for annuitants in these countries.

In the UK, enhanced or impaired life annuities can offer higher rates (up to 50% more than a standard annuity) to those with shorter life expectancies arising from health problems or disability. Up to 60% of annuitants would currently qualify for some level of enhancement in their annuity rate.[15] If annuity providers are able to communicate to consumers that the uplift in annuity rates makes enhanced annuities a "good deal" for them, this could support the market for these products.

The Government has already announced a new source of secure income for pensioners through making new savings bonds available to people aged over 65, which will offer a fixed rate of return, from January 2015 (announced in Budget 2014).

DC savers who are given a choice as to how to access their fund seem to navigate towards products which allow tax-advantaged saving, with access to lump sums and bequest opportunities. For example, the use of what are known as "variable annuities" is becoming more popular in the USA because they offer these flexibilities. In Israel, annuities are popular because they contain a savings element, access to lump sums, protections against inflation, and insurance for disability and death.

There is clearly an appetite among consumers for annuities in other countries, some who value security such as Switzerland, and others who use annuities as a tax-advantaged, flexible way to save or as part of a portfolio offering security and insurance features as well as access to lump sums and bequest opportunities, such as the USA. If the industry is able to work with UK consumers to determine what they value from a retirement income product, then annuities which meet those needs could continue to play a substantial role in the more flexible landscape for DC savers.

Many DC savers in countries which do not require annuitisation, such as Australia and Ireland, opt for income drawdown style products rather than annuities. If these products are to play a greater role in the UK in future, then the industry will have to review their income drawdown product design to see if a range can be offered which is appropriate for people with smaller pension pots, who may not be able to afford high management charges and regular advice. However, for savers to benefit from using these products, providers, the Government and regulators will need to ensure that savers understand the potential risks and benefits associated with drawdown and other retirement income products.

The lack of understanding about financial issues was a source of worry in countries with low levels of annuitisation. The Cooper review urged the Government to ensure that Australians were given more advice and information about retirement needs as well as regular projections of future fund value. Canadian trade bodies are working to ensure that Canadians are given better information and guidance when they come to make decisions about retirement.

There is a poor understanding of annuities in Ireland, where the majority of savers opt for the drawdown style ARF option instead of an annuity, despite the 50%-60% chance of exhausting funds in ARFs if withdrawals are taken at the same rate as those available from an annuity.

Half of Americans in or close to retirement are in danger of running down their pension savings before their deaths.

The guidance and advice that is given to UK individuals at the point of and during retirement will play a critical role in the decisions retirees make about how to use their DC savings. It is clear from the international evidence that in countries with more flexibility such as Ireland and the USA, savers have a poor understanding of retirement needs and longevity, and are at a greater risk of running out of savings before their deaths.

Guidance and advice provided by schemes, government programmes and other agencies will need to be designed with the potential pitfalls for savers who do not purchase an annuity in mind. Clear, regular information before, at and during retirement about how needs might change and about how to insure against disability, long life and inflation will be essential if savers are to be given the knowledge to make informed decisions and protect themselves from financial difficulty in retirement. Savers are particularly in danger of under estimating how long they will live. In England, men aged between 50 and 60 under-estimate their life expectancy by two years on average, and women do so by four.[16]

The Government must ensure that pension schemes and advice and guidance bodies are equipped with the resources to provide the necessary advice and guidance to everyone who retires with DC pension savings.

Conclusion—who, in future, might purchase an annuity in the UK?

There are concerns that once the new flexibilities are in place, people with DC savings will no longer choose to purchase an annuity and that this could cause wider damage to the annuity market and increase the risk of DC savers depleting their pension savings before their deaths. According to one consumer survey, only 16% of DC savings will be used to purchase an annuity in future, though an alternative consumer survey found that 58% of savers still said they preferred a "regular income for life" over risking running out of money.[17]

Freedom and Choice in Pensions: comparing international retirement systems and the role of annuitisation

International experience indicates that in some countries, people still choose to annuitise even in the absence of restrictions on accessing DC savings.

These case studies show that even without compulsion, those who are financially conservative and risk averse are still attracted to the security offered by annuities. A consumer survey found that guaranteed income was one of the top priorities for consumers in investment decisions, alongside tax efficiency.[18] The high rate of annuitisation in Switzerland shows this particularly. **In the UK in future, those who are risk averse may still opt to purchase lifetime annuities with their DC savings.**

In Singapore, annuities and life insurance products are valued because they offer bequest options for those who die at younger ages, and longevity insurance options for those who live a long time. **If the UK annuity market builds guarantees into annuity products which can allow bequest options and long-term guarantees of payouts in later life (longevity insurance) annuities may remain popular with those who have DC savings.**

The industry may want to explore product development for people who might wish to use part of their DC savings to provide security for themselves and take the rest as a lump sum or invest it in other products. **Partial annuitisation could play a bigger role in future if people wish to use only part of their DC savings in order to secure guaranteed income or insure against longevity.**

In Denmark, decisions about annuitisation are made earlier during the saving process. **If UK pension schemes encourage decision-making during the saving period and build an option into schemes to pre-select income drawdown or annuity options then there could be lower take up of the full withdrawal option by DC savers in future than would otherwise be expected. These options may also prove to be more tax efficient for those who would otherwise be pushed into a higher tax band by taking a lump sum.**

Annuities which provide protection for disability are valued in Israel where annuitisation levels are relatively high. **Those qualifying for higher annuity rates (e.g. enhanced annuities) but who are still risk averse and might be uncertain how long they will live for could still find annuities attractive in future. Alternatively, new elements of health or disability insurance could be built into annuities to make them more attractive.**

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3 FCA (2014) *Thematic Review of Annuities*

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7 **Singapore** Warshawsky, M.J. (2012)

8 **Israel** OECD (2011) *Israel. Review of the private pensions system*; Rusconi, R. (2008)

9 **Denmark** Rocha, R. Vittas, D. Rudolph, H.P. (2010) *The Payout Phase of Pension Systems A Comparison of Five Countries*, World Bank, Policy Research Working Paper 5288

10 **Ireland** www.finfacts.ie/fincentre/ppp1.htm; Indecon and Life Strategies (2007) *Review of the Irish Annuities Market;* Rusconi, R. (2008), *National Annuity Markets: Features and Implications*, OECD Working Papers on Insurance and Private Pensions, No. 24, OECD publishing

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