



# Rethinking Retirement in the UK 2013

# 1 Foreword



In 2011, Aviva published *Rethinking Retirement in the UK*, a report which highlighted the financial challenges facing retirees. It set out a series of key changes we believed were vital to help the next generation of retirees make the most of their finances to plan the best retirement they can.

*Rethinking Retirement 2013* picks up where our first paper left off, by reviewing the challenges we set out in 2011 and measuring the progress the retirement industry has made towards implementing these reforms. We have seen the industry take great strides forward through new developments such as the ABI's Code of Conduct on Retirement Choices and the promise that future retirees will be helped to a better income thanks to automatic enrolment.

But there is still a long way to go to make sure everyone can achieve a decent standard of living in their later years.

Aviva is a leading pensions and retirement provider in the UK, and the largest provider of annuities in the open market. We offer a wide range of retirement products, advice and guidance. We are committed to our role in educating and supporting people by providing simple, accessible and unbiased material including our innovative online customer seminars, accessible to Aviva customers and non-customers alike. We think access to good advice is important for our customers so we also support adviser education through our Financial Adviser Academy, webinars and ongoing help and support.

*Rethinking Retirement 2013* sets out some new initiatives that we believe will help make the retirement market more fit for purpose and help customers manage their increasingly complex finances.

“Aviva is committed to leading by example and we would encourage – retirement providers, government, regulators, advisers and individuals alike – should take responsibility to act on these ideas to help provide financial security and peace of mind to current and future retirees.”

## Contents

1. Foreword	2
2. The financial landscape for today's retirees	4
3. Rethinking Retirement 2011 – how the market has developed	6
4. Rethinking Retirement – next steps for the retirement market	8

- **Increasing customer protection.**
- **Personal, underwritten annuities for all.**
- **Choosing the right advice, guidance and support at retirement.**
- **Meeting a social need for more retirement income sources.**

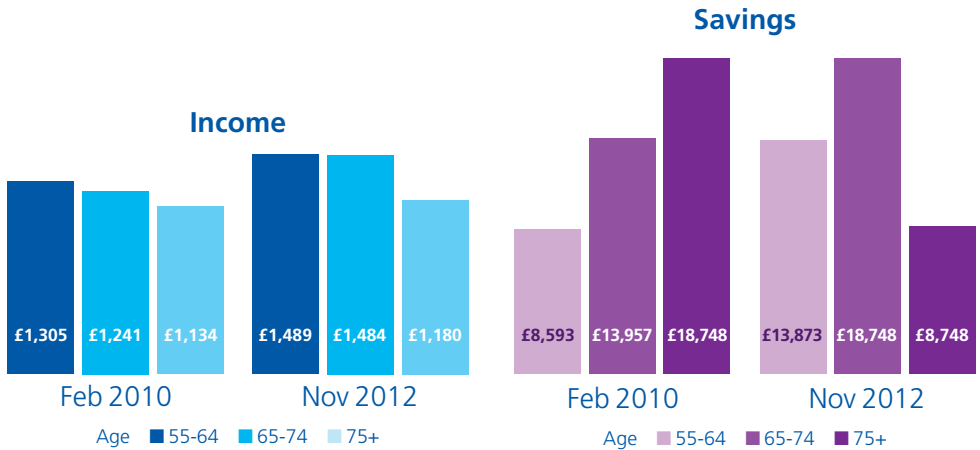
Aviva is committed to leading by example and we believe everyone – retirement providers, government, regulators, advisers and individuals alike – should take the responsibility to act on these ideas to help provide financial security and peace of mind to current and future retirees.

### **Clive Bolton**

Managing Director of Aviva's At Retirement business

# 2 The financial landscape for today's retirees

Aviva's quarterly Real Retirement Report series has run since 2010 and gives us a unique insight into the income, wealth and debts of the over-55 age group. We have tracked the finances and concerns of three distinct 'ages of retirement': 'pre-retirees', aged 55-64, who are approaching retirement; 'retiring', aged 65-74, some of whom remain in work; and the 'long-term retired', aged 75 plus, who can often be ten years into their retirement.



## Savings

- Despite a general increase in savings since the first report, 15% of people over 55 have no savings and almost a third (28%) have £2,000 or less.
- Nearly half (42%) of people over 55 are not saving on a monthly basis, with the long-term retired particularly affected – for the first time, over-75s are generally saving nothing each month.
- Monthly savings by all age groups have experienced a recent fall – highlighting their struggles to maintain their standard of living on a fixed income without dipping into their savings pots.

## Employment patterns

- Our studies have found that the modern retiree is active at work for longer and, when called for, prepared to concentrate spending on areas such as debt repayment.
- As the proportion of over-55s still receiving a wage has risen (with a noticeable growth among people aged 65-74), so have incomes in retirement. While 18% counted a wage as part of their income in February 2010, this increased to 23% in November 2012.
- Among those with unsecured debts, the long-term retired owe £9,442 compared with £21,476 for pre-retirees.

## Property and debt

- Property remains the largest asset for the majority of over-55s, with nearly two thirds (61%) owning their home outright and 19% owning it with a mortgage.
- Encouragingly mortgage debt has decreased for all age groups, especially for those over 75. This group has reduced its outstanding mortgage debt from £72,500 in November 2010 to £51,786 in November 2012.

With living costs straining their personal finances, there is a real need for people to seek help in managing their savings, pensions and assets in order to enjoy the kind of lifestyle in retirement they have worked so hard to achieve.

# 3 Rethinking Retirement 2011 – how the market has developed

2011's report was underpinned by the recognition that pension savers and those entering retirement age face two major challenges. They are living longer than ever before and so need to stretch their money further, but do not always get access to the financial information and tools they need to make an informed decision on their retirement income.

Aviva made five proposals vital to helping customers understand their financial options as they approach retirement and help them maximise their retirement income, and since these ideas were published, great progress has been made towards many of them.

- **Include medical questionnaires in maturity packs to drive access to automatic underwriting in annuities.**

This problem is well on its way to being solved, thanks to the Association of British Insurers (ABI) spearheading a great industry solution through its Code of Conduct on Retirement Choices. Published in March 2012 and soon to take effect, this will help customers understand their financial options at retirement.

ABI members will have to highlight the customer's right to shop around for the best annuity rate – the open market option. They must also alert them to the possibility of a greater retirement income if they qualify for an uplifted annuity rate due to ill health or lifestyle issues such as obesity or smoking – whether or not they offer such annuities.

We believe it is vitally important all customers are encouraged to have a conversation about their retirement needs with someone who can help them. The Code prevents annuity providers sending an application form to a customer before they have had initial contact with them. This will avoid people sleepwalking into an 'inertia purchase' of an annuity that may not be right for them.

This new Code is a great step towards further opening up the annuity market and empowering customers to shop around for the best annuity deal, seek further advice, guidance or support, and be aware that health and lifestyle choices can affect the income they receive at retirement. However the industry now needs to retain a focus on presenting annuity rates in a way that customers can easily compare and act on.



## Making annuity rates transparent

Although the principle of all annuity providers publishing their rates was included in the ABI Code, the actual mechanism for doing so is yet to be finalised. We urge the industry to quickly commit and implement a process where this can be achieved. Currently those pension companies offering poor value annuities to their own customers can do so with little risk that this will be exposed to public scrutiny.

- **Require all annuity providers to publish annuity rates to make it easier for customers to make comparisons.**

This forms a key part of the ABI Code of Conduct on Retirement Choices although work remains to be done to ensure implementation.

- **Reduce the cost of switching providers at retirement.**
- **Helping customers choose an appropriate level of guidance and advice.**

We highlighted our concern that customers may not have access to appropriate information to help them understand the various advice, support and guidance options available at retirement, and the associated costs.

The Retail Distribution Review has made full advice costs a lot more transparent but for non-advised services there is still work to do. The costs of these services are not always transparent or clearly articulated to customers, so in some cases customers who may opt for a lower level service may actually end up paying more for this than they would for full advice. The annuity market must address this.

Getting the right level of advice, support or guidance is just as important as getting the product right. Customers need to understand that the level of guidance and advice has a financial implication and the industry needs to clearly demonstrate the costs and benefits of both non-advised services and advice.

- **Streamline customers' retirement savings.**

We know our customers are concerned about keeping track of the numerous pension pots they build up throughout their working lives. Our research suggests nearly two thirds do not know they can combine these pots at retirement to potentially increase their pension income meaning they may miss out on the value they could get at retirement by combining their pots into one.

The industry and government are now working together on proposals to make it easier for customers to transfer their pensions into one pot throughout their working life.

# 4 Rethinking Retirement – next steps for the retirement market

## 1. Increasing customer protection.

Sadly there will always be a very small number of people who die early in retirement who haven't selected dependant benefits. In these circumstances they may not see a benefit from their annuity and this can weigh on customers' minds. Customers can purchase optional guarantees so that the policy continues to pay out even after death for a fixed period.

However, many customers miss out on these guarantees as when choosing an annuity they place greater emphasis on a higher initial income than on the longer term value these product features can offer. To help more people benefit and increase customers' trust and confidence in annuities, Aviva is changing its annuity offering to extend guarantees. These new guarantees will offer customers more certainty with minimal impact on their retirement income. The one year guarantee is applicable to all UK annuities. Value Protection is not currently available in the Isle of Man and Channel Islands. We are investigating this issue with a view to being able to offer this feature to everyone in the future.

### Annuity Value Protection

- We introduced our 'Annuity Value Protection' promise for all our annuity customers in February 2013. If a customer dies within 90 days of buying their annuity, we will return their annuity premium, less any payments already received by the customer, to their estate. This payment will include any guaranteed period payments.

### Default one year guarantee

- We've introduced a default one year guarantee on all our annuities. If the customer dies after the 90 day Value Protection period, but within the first year of the policy, we will continue to make annuity payments to their family or estate for the remainder of the first year.
- Optional longer guarantees will continue to be available for a customer to select when they purchase their annuity.

We believe these steps will increase customers' trust and confidence in annuities, and help advisers engage customers in conversations around the benefits of guarantees, whilst still providing highly competitive annuity rates.



This is a first step towards increasing customer protection and we call on the rest of the annuity industry to consider adopting our approach and making such annuity guarantees the default option for all annuities.

## 2. Personal, underwritten annuities for all.

The introduction of enhanced annuities has been one of the most important recent developments in the annuity market. They can deliver real benefits to customers by providing an income tailored to an individual's health and lifestyle. However, over time the actual term 'enhanced' is becoming less meaningful and could confuse rather than inform customers.

Further, the potential benefits of individually underwritten annuities are not reaching across all customers, although the ABI's Code of Conduct and increased adviser promotion of underwritten policies to their clients should help address this.

To extend the benefits of personalisation to all retirees, the next logical step for the annuity industry is to move to individually underwritten quotes for all policies, as we currently see in the protection market.

Aviva calls on the whole annuity industry to build on the progress made by the ABI Code of Conduct and common quote forms, to deliver personally underwritten annuities to all customers. In doing so, the objective should be to deliver the best customer value – rather than just a narrow focus on ever shorter forms which would not be able to take account of an individual's circumstances. This would evolve the market to a simple single standard and over time remove the confusion caused by terms such as 'standard', 'enhanced' and 'lifestyled'.

Any move to personal, underwritten annuities must be accompanied by an industry-wide campaign to educate customers that providing medical information will only ever increase – not reduce – the annuity income on offer from that provider.

### **Customers may assume an 'enhanced' annuity from one provider will always pay a higher income than a standard annuity from another. This isn't always the case:**

- Some highly competitive 'standard' annuities may offer a higher rate than an 'enhanced' quote from a less competitive provider.
- Some companies' enhanced annuities may include a narrower range of underwriting factors than another firm's standard annuity which may price to include factors such as postcode or smoking.

### 3. Choosing the right advice, guidance and support at retirement.

People approaching retirement need access to the right level of support, guidance or advice dependent on their personal circumstances and their fund size. Getting this right and not paying disproportionate fees is as important to customers as getting the best annuity rate. Both can significantly influence their retirement income.

Customers need to clearly understand the cost of support, guidance or advice. Whilst many customers may find non-advised services a simple and appropriate way to understand more about their options and choose an annuity, it is important people understand the financial implications.

The natural assumption is that lower levels of advice, such as non-advised services, will always be cheaper. This is not the case as non-advised annuity sales may still incur commission as opposed to a fee – and for some higher value pensions this commission could be more than an advice fee.

#### Role of the internet

Customers need access to a full range of support, guidance and advice services. Using the internet to shop around is often viewed as a universal way to find the best deal in the quickest way – for annuities this is not always the case. Whilst the internet is very useful for research and education, we believe the safest way to purchase an annuity should involve human interaction as this is often a one-off, life changing purchase.

We therefore call on the industry to ensure non-advised annuity sales meet the same cost transparency standards as advised sales. All providers and advisers should transparently explain the levels of service and costs to customers, to allow them to make comparisons. With this level of clarity customers can then understand if they are paying competitive costs for the appropriate level of advice, guidance and support for their needs.

Looking more widely, typically for customers with smaller pots, the market cost of advice or guidance could cancel out the financial benefits of the higher annuity income that

these services can help a customer secure. For a small group of people facing this problem, with smaller pension pots and possibly complicated financial needs, it can be hard to access cost effective support in the current market.

We believe there is a gap in the range of services available to customers in this situation. What they need is access to low cost non-advised help and information, which helps them understand their personal needs and make appropriate choices.

### Reliable, straightforward advice

In addition to getting appropriate guidance and advice at an appropriate cost, customers may need to speak to specialist advisers to cover all aspects of their financial affairs in retirement. Customers need a reliable and straightforward way to find someone who can help them. We support the aims of the Pensions Income Choice Association's online annuity directory, and would welcome its extension to cover all retirement products. It will make it easier for customers with complex needs to find a specialist adviser.

## 4. Meeting a social need for more retirement income sources.

Recent decades have seen life expectancy across the UK increase at a surprisingly fast rate, but we have not experienced a corresponding trend of people saving more to prepare for a longer retirement.

Our Real Retirement Report series has found that more people are in paid employment after retirement age. However, this can only help people make ends meet for so long – working isn't always sustainable through the entire course of retirement. A significant retirement income gap remains. As more and more people see their retirement incomes stretched, this becomes an ever greater issue for society as a whole.

For many people, addressing their retirement income shortfall by releasing the equity built up in their home throughout the course of their lives is becoming an increasingly attractive option – or in some cases, the only option – to help make ends meet. Modern products have evolved to better meet customers' needs, and offer features such as 'no negative equity' and 'inheritance protection guarantees'. These aim to inspire confidence in equity release and give customers flexibility and peace of mind.

The role that equity release and housing wealth plays in retirement finance is likely to remain a significant area of focus for both society and policymakers. Housing wealth is increasingly seen as a potential solution to help individuals meet a range of financial or social challenges. However, there is no single strategy or point of contact joining up government policies which potentially affect people's housing wealth. We therefore endorse the Equity Release Council's call for the government to define departmental ownership of equity release as an overarching issue.

## Where to find out more

For more information about Aviva's public policy and consumer research activity, including our Family Finances and Real Retirement research series please contact [public.policy@aviva.com](mailto:public.policy@aviva.com) or visit [www.aviva.com/research](http://www.aviva.com/research)

## Other Reports

Aviva also produces a series of reports looking at Retirement and Prosperity in the UK and across Europe.

### The Real Retirement Report

Quarterly insight into the attitudes of UK retirees and pre retirees.

### Family Finances Report

Developing a picture of UK family types and their approach to finances.

These reports are available on [www.aviva.com/media](http://www.aviva.com/media)

## About Aviva's Real Retirement Report

Aviva has interviewed more than 15,626 UK customers aged over 55 between February 2010 and November 2012.

This data was used to form the basis of the Aviva Real Retirement Report. Wherever possible, the same data parameters have been used for analysis but some additions or changes have been made as other tracking topics emerge.

Additional data sources include:

- Moneyfacts Treasury Report – UK Mortgage Trends – July 2012
- Halifax House Price – October 2012
- Housing Act of 1998 – The National Archives
- CML data analysis – XIT2 – October 2012
- Daycare Trust – November 2012
- National Minimum Wage – [www.gov.uk](http://www.gov.uk)
- Population Numbers – 2011 Census and mid-2010 estimates – ONS