



Association of British Insurers

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PRE-RETIREMENT WAKE-UP PACKS

Results of customer research

Report from Andrew Irving Associates and Quaestor Research

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EXECUTIVE SUMMARY

Key findings

The right to shop around (OMO)

- Awareness of the right to shop around increased significantly as a result of reading the wake-up pack from 62% before reading it to 82% after.
- Those with smaller pensions funds were less likely to be made aware of the right to shop around (69% against 82% overall).
- Of those who were aware of the right to shop around, the pack encouraged 51% to actually consider shopping-around.
- A further 39% of those who were aware of the right to shop around said they would have shopped around irrespective of the pack.

Understanding of retirement options and annuity types

- Reading the pack increased the proportion of participants feeling quite or very comfortable about understanding their retirement options from 70% to 80%.
- Seventy-one percent said the pack gave them a much better understanding, or told them a few new things about annuities.
- Sixty-four percent of those who read the pack said it told them about the impact of health conditions and 66% said it told them about the impact of lifestyle factors (i.e. smoking).
 - Those with health conditions were more likely to remember the pack told them about health conditions (65%) than average (64%). Long-term smokers were less likely to recall the impact of lifestyle (59%) than average (66%).
- The pack increased understanding of annuity types (single, joint, escalating, impaired, enhanced, guaranteed, investment-linked) for between 45% and 58% (depending on annuity type). For between 24% and 36%, the pack was the first time they had heard about these types of annuity. Only 2% - 6% said the pack did not inform them about annuity types as they did not understand it.

Advice and information

- Thirty-six percent said the pack made them aware of sources of information or support. In terms of unprompted mentions, IFAs and current pension providers were the most commonly mentioned.
- The pack encouraged 34% to seek advice and 37% to seek information. In both cases, approximately 20% would not have sought further information or advice at all if it were not for the pack.

The ABI commissioned Andrew Irving Associates and Quaestor Research to conduct research on the pre-retirement information customers are sent (the 'wake-up' pack) by their pension provider. The purpose was to find out how well customers understand the information contained in the packs. Wake-up packs typically incorporate a letter from the provider, along with an enclosed FSA fact sheet or the firm's own information booklet.

Andrew Irving Associates conducted 1,606 'cold' telephone interviews with participants who had recently received a wake-up pack, and 503 'warm' telephone interviews with those who had been asked to read the wake-up pack prior to the interview.

The key findings relating to the primary objectives of the research are set out in the Box above. Other key findings are summarised below.

Awareness and usage of the wake-up pack

Eighty-one percent of interviewees recalled receiving the wake-up pack. Of those who remembered receiving the pack, 42% had at least read the full letter, and 26% had read everything in detail. Fifty-eight percent had either skimmed or not read the pack at all or did not know.

Amongst those who had not read the pack thoroughly, 51% said they had not had time or intended to read it at a later date. Thirteen percent planned to use a financial adviser. Eleven percent had not read it because it looked too complicated or they did not understand it.

Eighty-four percent said that they had kept the pack to refer to at a later date and 11% had taken action as a result of the pack. Three percent had thrown the pack away.

The main message recalled was the availability of different options for retirement – 35% of respondents recalled this unprompted.

Timing and delivery of the wake-up pack

Sixty-nine percent said they would prefer to receive the pack between four and six months before retirement (as is the case at present). Twenty-four percent said they wanted to receive it one to three months before retirement.

When asked what their preferred means of getting the pack would be, 92% preferred to receive a written communication (as is currently the case). Face-to-face delivery (5%) was the next preferred choice.

Understanding of the pack

Eighty-seven percent of those taking part in the 'warm' interviews thought the pack was very or fairly clear and easy to understand. Eighty-six percent agreed it was written in plain English, 81% said the pack made them aware of their retirement options and 80% said it was relevant to their situation. Sixty-four percent agreed it was tailored to their circumstances and 73% said it contained the right amount of information.

Differences between providers and potential improvements

The research found that there were significant differences in responses between customers of the different providers. For example, in terms of the clarity of the pack and how aware respondents were of the OMO and different types of annuity. The ABI will look into these differences to see if any 'best practices' can be added to its guidance.

During the interviews some participants spontaneously suggested that personal contact would help people better understand their options. Respondents were also asked if they could suggest any improvements to the packs and the most frequently suggested were to make it easier to understand (e.g. no jargon), include more relevant examples (tailored to the individual), provide more information generally, and include more figures and more advice on options.

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1.0 INTRODUCTION

The Association of British Insurers (ABI) published new guidelines for pension provider wake-up packs in July 2008. This guidance formed part of a wider industry effort to improve retirement experiences for customers of defined contribution pension providers.

Pension providers are required to inform customers of the various options for taking their pension benefits four to six months prior to their selected retirement date. These communications outline the customer's key choices and inform the customer of the potential benefit of shopping around for an annuity under the Open Market Option (OMO). This communication is known as the 'wake-up pack', which comprises a cover letter detailing the customer's options and additional literature – usually the Financial Services Authority's brochure, *'Just the facts about your retirement'*, or the firm's own brochure.

The guidance was drafted with input from Government agencies, regulators, consumer groups, pension specialists, and financial advisers to raise standards across the industry. It included new template content for pension providers to use when designing their pre-retirement packs with the aim of clearly conveying customers' options, including the right to shop around and possible benefits of doing so.

The ABI committed to review the effectiveness of improvements made to providers' wake-up packs and commissioned AIA to carry out quantitative research to assess the packs and the impact they are having on customers.

1.1 Research objectives

The primary objectives of the research were to assess whether pension providers' wake-up packs:

- Clearly state the option to use the OMO and potential benefit of shopping around.
- Help customers understand the different types of annuity available at retirement (e.g. level, joint-life, enhanced, etc).
- Help customers understand where to access financial advice and/or other information.

The study also had several secondary objectives. These were:

- To check the extent to which customers read and engaged with the wake-up pack.
- To establish reasons why the pack was not read.
- To understand the relevance and preferences regarding timing of the pack.
- To test understanding of key aspects of the pack and its contents.
- To provide a robust sample size.

- To compare results across providers.

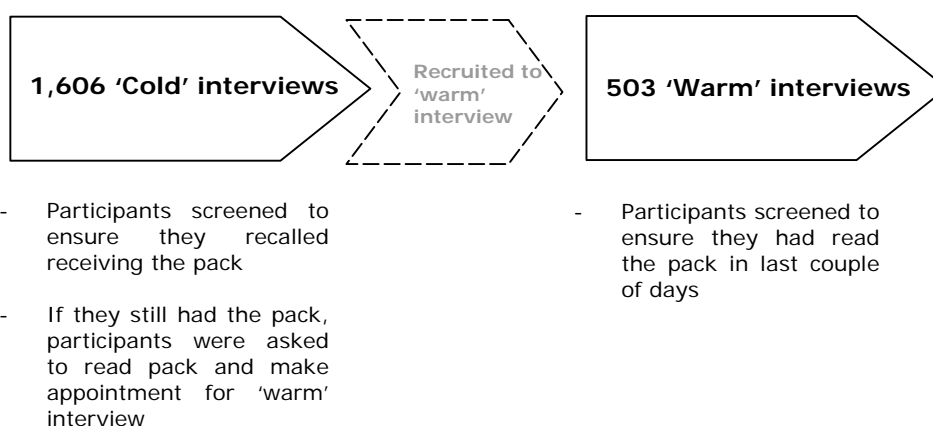
1.2 Research method

The research objectives required an approach that provided a representative snapshot of existing levels of awareness and the extent to which people read the pack, as well as providing feedback on the impact of the contents of the pack. A 'staged' approach was taken to the research in order to meet the above objectives:

- The first stage consisted of 1,606 'cold' telephone interviews. These were used to measure the extent to which participants had read the pack without being prompted.
- These 'cold' interviews were followed by 503 'warm' telephone interviews with customers who were asked to read the pack in advance of the telephone interview.

This staged approach was taken to ensure the research gathered feedback both from those who had engaged and read the pack (the 'warm' interviews) and with customers who may or may not have read the pack and were not expecting to be interviewed about it (the 'cold' interviews).¹ A summary of the approach is shown in Figure 1.

Figure 1 Approach overview



1.2.1 The sample

The sample consisted of those with non trust-based defined contribution pensions. All participants had been sent the wake-up pack by their provider between 1st February and 30th April 2009. This means participants may have received the pack between four to 16 weeks prior to the 'cold' interviews. All fieldwork was conducted between the 29th May and 14th June 2009. Details of the pension products and participants are given in the Appendix.

¹ Though note that all the interviews were of course conducted in line with the MRS code.

Fourteen pension companies were involved in the research, representing over 80% of the UK's in-force defined contribution pensions industry. These companies provided customer samples covering a representative cross-section of the market. Both the 'cold' and 'warm' sample profiles were re-weighted to ensure that both samples were representative of all non-trust based defined contribution pension customers.²

Based on the sample sizes we can be confident that participants' feedback for the 'warm' interviews are correct to within 4%, and correct to within 2% for the 'cold' interviews (both at the 95% confidence level - meaning there is a 5% chance the 'true' result falls outside of the confidence limit). The questionnaires are available from Quaestor or the ABI.

² Note that very little re-weighting was necessary as the sample proved to be representative of the population across the main characteristics (fund size, age, gender, etc).

2.0 SAMPLE PROFILE

This Section outlines the profile of the participants. Across both stages, males represented around two thirds of the total sample – 64% male and 36% female for the ‘cold’ interviews, and 67% male and 33% female for the ‘warm’ interviews. As expected, most participants were concentrated around the typical retirement age, with 65 the average age in both stages.

Table 1 Age of participants

	‘Cold’ interviews	‘Warm’ interviews
60 years or less	7%	6%
61 – 65 years	46%	44%
66 – 70 years	43%	47%
More than 70 years	2%	2%
Average (mean years)	65	65

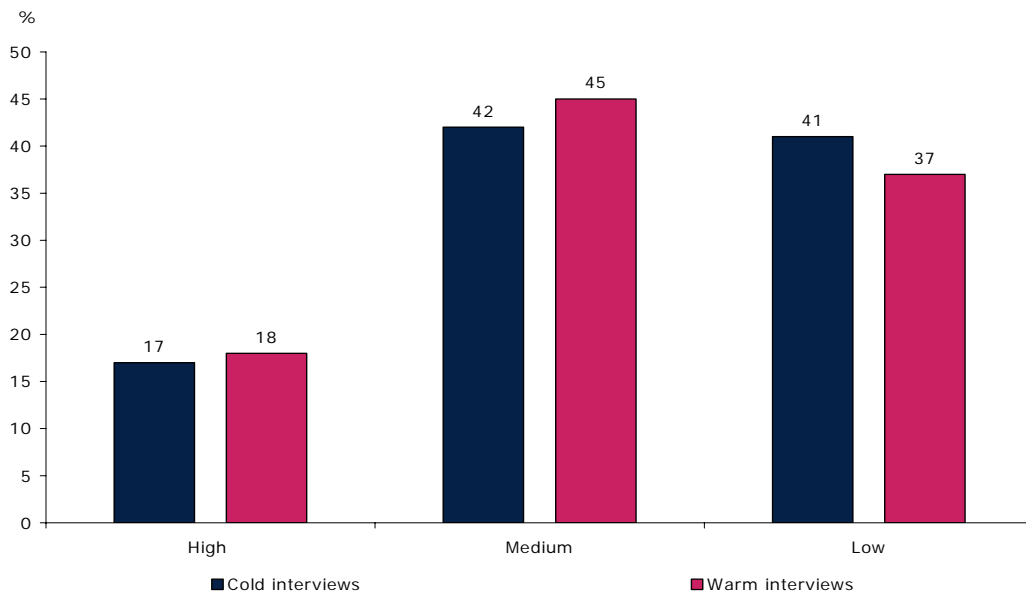
Note: Sample = 1,606 (‘Cold’ interviews), 503 (‘Warm’ interviews). Information taken from provider databases, some date of birth information not included.

Participants were asked to self-report their level of financial sophistication. This was determined according to which of the following statements they felt best described them:

- **High sophistication** – *You have a good knowledge and understanding of personal finance products and services. You like reading financial sections of newspapers/websites and you like to make your own choices about financial products.*
- **Medium sophistication** - *You have a reasonable knowledge of personal finance products and services and you are able to weigh up the advice of financial professionals when choosing a product to suit your personal circumstances.*
- **Low sophistication** - *Financial issues are best left to the experts – you generally rely on the advice of financial advisers, friends or relatives about which products are best for you.*

Figure 2 shows that a minority classified themselves as having high financial sophistication for both the ‘cold’ and ‘warm’ stages. The majority in both stages perceived themselves as having medium or low financial sophistication.

Figure 2 Level of financial sophistication (high / medium / low)



Note: Sample = 1,606 ('Cold' interviews), 503 ('Warm' interviews).

Table 2 sets out the marital status of participants.

Table 2 Marital status

Married	78%
Single (never married)	9%
Divorced/ separated	8%
Widowed	3%
Co-habiting	2%

Note: Sample = 503 ('Warm' interviews).

Amongst the 'warm' interviewees, 12% were long-term smokers, 12% had a history of poor health, and 3% were both smokers and had a poor health history. This provides some context to the findings on understanding of enhanced and impaired annuities. Pension providers were asked to provide details of the pension products held by customers (Table 3).

Table 3 Product type

	'Cold' interviews	'Warm' interviews
Personal Pension	58%	59%
Group Personal Pension	11%	11%
Stakeholder Pension	9%	8%
Personal Business - Other	8%	8%
Free Standing AVC	6%	6%
Retirement Annuity Contract	2%	2%
Section 32 Buy Out Plan	1%	1%
Product type not provided	5%	5%

Note: Sample = 1,606 ('Cold' interviews), 503 ('Warm' interviews).

Approximately 60% of customers in the 'cold' and 'warm' interviews held a pension fund of less than £25,000.³ It was not possible to take into account the total value of multiple pension funds held with other pension providers in this research.

The size of the pension fund was significant to this study as customers with relatively small pension funds may have the option to take their pension benefits as a lump sum through trivial commutation. Customers may also find that they have limited choices for shopping around under the OMO as a result of the relatively small size of their pension fund, and consequently awareness of the OMO and different types of annuity may be less relevant.⁴

Those with smaller funds were significantly more likely to be female. Based on the 'cold' interview data, 26% of females held funds of £5,000 or less, compared to 16% of males. Those with significantly lower fund values also tended to describe themselves as being less financially sophisticated.

Overall the sample profiles of the two stages had no significant differences. This means it was possible to make reliable comparisons between the two stages as differences were likely to be driven by the fact that 'warm' participants were asked to read the packs in advance of their interviews while 'cold' customers were interviewed on the basis of any unprompted reading of the packs they had already done.

³ ABI figures show that nearly two thirds (63%) of pension annuities purchased in 2008 were under £20,000.

⁴ See Pension Annuities, ABI Research Paper 8, Gunawardena, Hicks and O'Neill, 2008.

Table 4 Fund value

Fund value	'Cold' interviews	'Warm' interviews
Less than £5,000	19%	17%
£5,000 to £24,999	41%	44%
£25,000 to £49,999	14%	15%
£50,000 to £74,999	5%	3%
£75,000 to £99,999	2%	2%
£100,000 to £149,000	2%	2%
£150,000 to £199,999	1%	1%
£200,000 or more	1%	1%
Fund value not provided	15%	14%
Average (mean £)	£27,800	£28,280

Note: Sample = 1,606 ('Cold' interviews), 503 ('Warm' interviews).

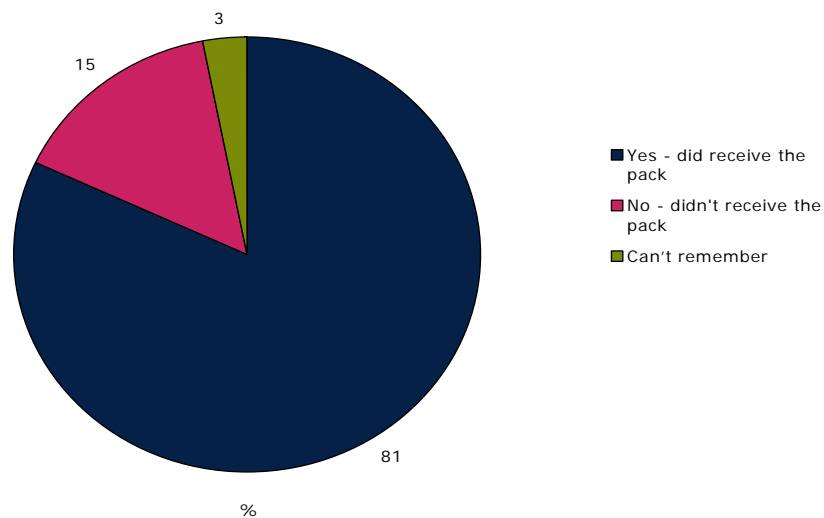
3.0 AWARENESS AND USAGE OF THE WAKE-UP PACK

This Section looks at recall of the pack and examines the extent to which it has been used and understood. The questions in this Section are based solely on the 'cold' interviews. As participants could have received the pack between four to 16 weeks before the 'cold' interview, researchers were careful to check that the wake-up pack referred to in the interview was just that and not another provider communication such as an annuity quote.

3.1 Awareness of the wake-up pack

Despite the range in possible lead-in times between the pack being received and the 'cold' interview (four to 16 weeks), 81% recalled receiving the pre-retirement wake-up pack. Fifteen percent claimed they had not received the pack, and 3% could not remember.

Figure 3 Have you received a pack from (provider x) in the last couple of months informing you of your retirement options?



Note: Based on all initial interviews (1,983). The 18% who did not receive the pack or could not remember receiving it were screened out, leaving 1,606 'cold' interviewees.

3.2 Engagement with the pack

Of those who remembered receiving the pack, 42% had at least read the full letter, and 26% had read everything in detail. Fifty-eight percent had skimmed or not read the pack at all or did not remember.

Readership levels varied significantly by provider, with the proportion of participants who read the letter in full ranging from 32% to 55% (the overall average was 42%).

Of those with low financial sophistication, 60% said they had only skimmed, or had not read, the pack (overall average 55%). Pension fund value was not a key factor in influencing the extent to which the pack was read.

Table 5 How much of the pack have you actually read?

None of it	16%
Just glanced	21%
Just looked at main points in letter	11%
Skimmed letter but read literature	7%
Read full letter but not read literature	6%
Read full letter and also glanced at literature	10%
Read both letter and literature fully	26%
Don't know/can't remember	3%

Note: Sample = 1,606 'cold' interviews.

Of the participants who at least glanced at the pack, they spent on average 22 minutes reading through it. Twenty-seven percent said they spent less than five minutes reading it.

Eighty-four percent had kept the pack to refer to at a later date. Three percent had thrown the pack away, and these people often did so because they were clear about their retirement income options and did not feel the pack would offer any new insight.

Table 6 What have you done with the pack?

Kept it to refer to at later date	84%
Done something as a result of pack	11%
Threw it away	3%

Note: Sample = 1,606 'cold' interviews. Excludes those who replied 'Don't know'.

3.3 Reasons why the pack has not been read fully

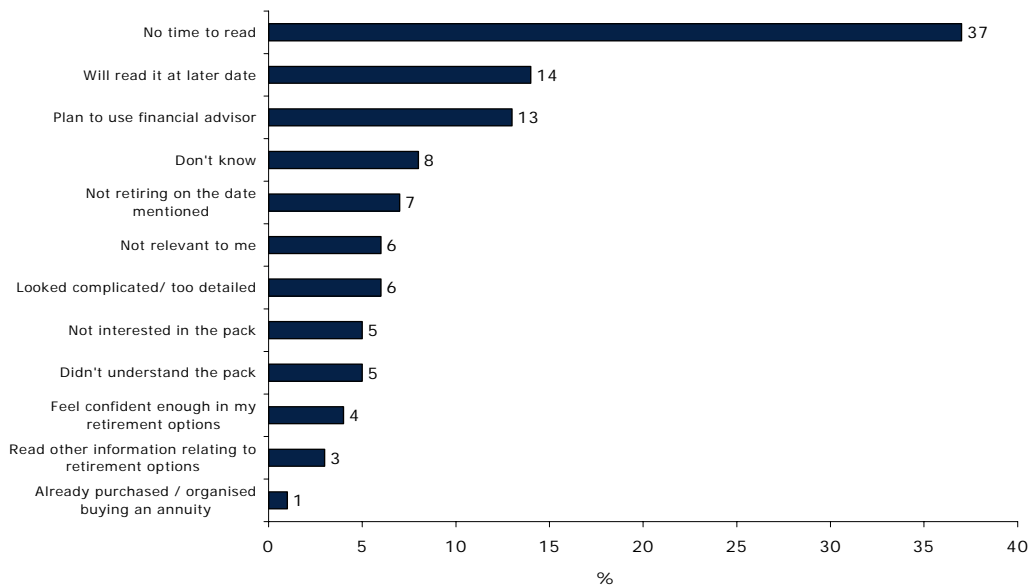
The main reasons cited by participants for not reading the pack was that they had not had time or planned to read it at a later date (51%). Thirteen percent had not read the pack thoroughly because they plan to use a financial adviser. Eleven percent claimed they did not read the pack because they felt it was 'too complicated' or they 'didn't understand it'. Significantly more of the less financially sophisticated participants said this (16%).

Of the 11% who said they had not read the pack thoroughly because it was too complicated or they did not understand it, the pack had the following impact on their likelihood of seeking support:

- 55% had intended to seek advice anyway.
- 33% were encouraged by the pack to seek advice.
- 12% did not intend to seek advice.

Those having difficulty understanding their wake-up pack are as likely to seek advice as those who did not have difficulty understanding the pack. Figure 4 shows spontaneous comments from 'cold' interview participants when asked to explain why they had not read the pack thoroughly.

Figure 4 Are there reasons why you didn't choose to read the pack thoroughly?



Note: Sample = 1,026 (All 'cold' participants except those who did not 'Read both letter and literature fully' and 'Read full letter and also glanced at the literature').

3.4 Main messages taken from the pack

Participants who had at least glanced at the pack (1,299) were asked what they thought the pack told them. As with all other questions in this Section, the 'cold' interviewees had not been prompted to read the pack. The unprompted responses have been analysed and sorted into the categories shown in Table 7.

Thirty percent were not able to recall any of the contents or messages in the pack. This was significantly higher for those with low sophistication (36%).

Table 7 What did the pack tell you and what do you think were the main messages?

Options for retirement	35%
Informative generally	16%
Information on lump sums/small pensions	7%
Information about annuities/types	7%
Predicted sums	7%
Shop around / best deal / alternatives	5%
Deferring pension	5%
Planning for retirement	4%
Unhappy with the predicted amount	3%
Seek advice before retirement	2%
Retirement was imminent	2%
Prefer to speak IFA/adviser	2%
Dates/ timescales	2%
Don't know / not enough information / too complicated	30%

Note: Sample = 1,299 'cold' participants who at least glanced at the pack.

Although 'options for retirement' was the main message across all 14 participating providers, significant differences did occur. Spontaneous recall varied significantly, with those unable to recall any of the content or messages from the packs ranging from 10% to 32% by provider.

Some interviewees saw the packs as complex. This was mentioned when participants were asked about the main messages they recalled:

"It was a bit jargonistic. It would be better if it was more down to earth - less colour and pictures and more to the point. The information wasn't clear, I had to call (the provider) and they also used very complicated terms to explain themselves, even referred to "the trivial amount" of my pension... I was thinking not everyone is going to be able to understand all this information." (Male, 64, <£5,000)

"The main message was retirement. What exactly is an annuity? I have to invest this into an annuity? Does this mean I've got no income until I'm 75, how long is the annuity? It doesn't say anything to you and doesn't make sense." (Male, 61, >£25,000)

However, participants generally thought that the pack was informative and had provided them with helpful information for their retirement planning.

4.0 PARTICIPANTS' UNDERSTANDING OF THE OMO

This Section examines the extent to which customers understand annuities and the OMO, and the impact the wake-up pack has had on this understanding.

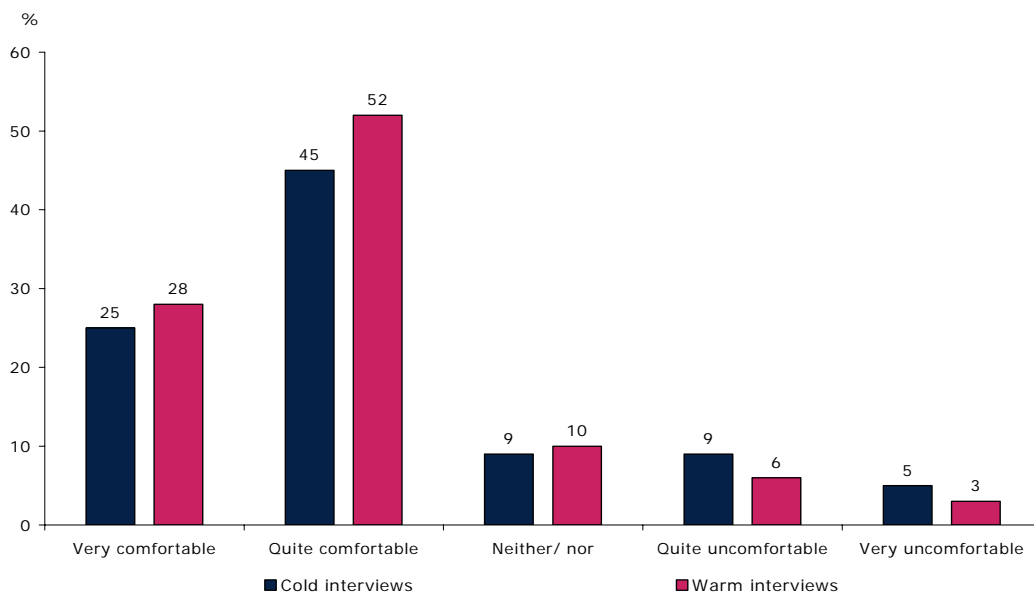
The Section predominately focuses on the 'warm' interviews, i.e. where customers had read the pack at least a couple of days before the interview. In addition to asking customers outright what impact the pack has had, we also asked participants about their views and understanding both before and after reading the pack.

4.1 Understanding of retirement options

The number of participants who felt comfortable understanding their retirement options increased significantly after reading the pack, from 70% to 80%. The proportion of participants who said they were comfortable with their understanding after reading the pack varied by provider from 62% to 93%.

Although the pack has had a positive impact on customer comfort – with most describing themselves as 'quite' comfortable in their understanding - 9% remain uncomfortable. Of this 9%, 83% claimed they would seek further advice, with 37% of the 'uncomfortable' participants saying they were encouraged to do so by the pack. There is a clear relationship between participants' relative comfort with their understanding of retirement income options and their self-described level of financial sophistication.

Figure 5 How comfortable are you about your understanding of the retirement options available to you?



Note: Sample = 1,606 ('Cold' interviews), 503 ('Warm' interviews). Excludes those who replied 'don't know'.

4.2 Understanding of annuities and the impact of the pack

Forty-six percent of the participants in the 'warm' interview said they had a 'basic understanding' of annuities before they read the wake-up pack. Twenty-eight percent felt they had a 'good' understanding and twenty-six percent said they 'knew little or nothing' about annuities. Thirty-eight percent of those that claimed to have a good understanding of annuities were unable to name any types of annuity, when asked spontaneously.

The less financially sophisticated had a poorer understanding of their retirement options. The vast majority (90%) of these participants felt they either had a 'basic idea' or 'knew little or nothing' about annuities before they read the pack.

Table 8 shows that 71% of those who read the pack for the 'warm' interview felt the pack enhanced their understanding of annuities. Six percent said they got no benefit from the pack because it was unclear.

Table 8 What impact did reading the pre-retirement pack have on your understanding of annuities?

Statement	
The pack explained a lot of new things about annuities which gave you a much better understanding	21%
The pack explained a bit more about annuities which meant you learnt a few new things	50%
The pack explained nothing about annuities that you didn't already know	22%
The pack told you nothing about annuities – because it wasn't clear	6%

Note: Sample = 503 'warm' interviews.

The packs had the greatest impact on the individuals with the poorest understanding of annuities - 78% of those with a 'basic' understanding learned something and 79% of those with 'little or no' understanding learned something. However, 17% of those with the poorest understanding of annuities prior to the pack, felt that they could not learn from their pack because they thought it was unclear.

4.3 Understanding of the right to shop around

Participants' awareness of their right to shop around (OMO) was measured by asking questions relating to their understanding before and after reading the pack.

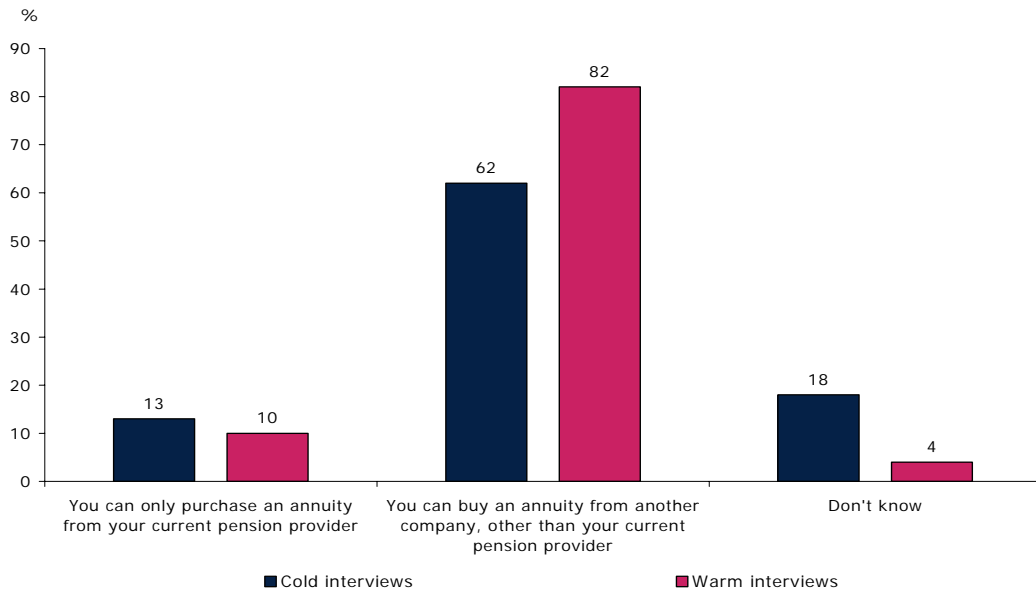
Figure 6 shows that awareness of the OMO increased significantly after reading the pack. The greatest impact amongst 'warm' interviewees was on those who said (prior to reading the pack) that they did not know whether they could shop around. Those who originally thought they could not shop around mostly still thought that to be the case, even after reading the pack.

When focusing on the 'cold' respondents, the results show a relationship between the extent to which the pack was read, and awareness of the OMO. Those who read the full letter and at least some of the supporting literature were more aware (71%) of the OMO than those who had not (57%).

There was also a relationship between awareness and fund value, with awareness of the OMO increasing in line with the size of pension funds. Ninety-three percent of participants with pension fund values of £25,000 and over were aware of the OMO, compared with 81% of those whose fund value was £5,000 – £24,999 and 69% of those with a fund value of less than £5,000.

Awareness of the OMO for 'warm' interviewees ranges from 73% - 92% by provider.

Figure 6 Could you tell me which of the following statements applies to your pension with your provider?



Note: Sample = 1,606 ('Cold' interviews), 503 ('Warm' interviews). Excludes those who replied 'Not sure what an annuity is'.

In terms of likely impact on behaviour, 51% said the pack encouraged them to shop around. Twenty-six percent said they would not have shopped around at all had they not received the pack.

Reading the wake-up pack had the biggest impact on the individuals with the poorest understanding originally. Thirty-six percent of the less financially sophisticated claimed they had been encouraged by the pack to shop around and would not have done so otherwise. Those who originally had little or no understanding of annuities were the group most encouraged to use the OMO - 62% of this group said they had been encouraged to do so.

Table 9 Has the pack raised your awareness of buying an annuity from a different company to the one you hold your personal pension with?

Response	
The pack made no difference – knew I would shop around anyway	39%
The pack indicated it was a good idea – I was thinking of shopping around anyway	25%
The pack encouraged you to look – I wouldn't have shopped around otherwise	26%
The pack did not encourage you to shop around at all	7%
Don't know	4%

Note: Sample = 410 (all 'warm' respondents who are aware of the OMO).

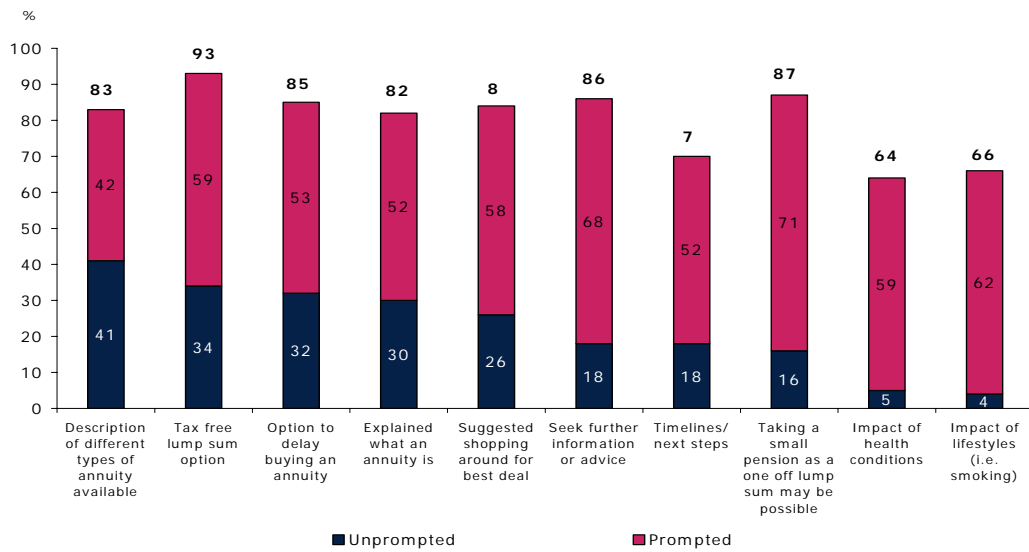
4.4 Awareness of the pack's contents

In order to assess the clarity of the pack, 'warm' participants were asked to give unprompted and prompted feedback on what key information they could recall.

Awareness levels across the key aspects were reasonable and only 16% were unable to identify any aspect of the information. Descriptions of different types of annuity were the most commonly recalled information. Recollection of different key messages varied between providers. For example, recollection of the ability to shop around for the best deal ranged from 68% to 92%, and recollection of the descriptions of different annuity types ranged from 67% to 94%.

Participants who admitted they had a history of poor health were slightly more likely to recall the impact of health issues on their annuity options, with 65% of those in poor health able to recall compared to 64% of those who were neither in poor health nor long-term smokers. Long-term smokers were *less* likely to recall wake-up pack content covering the 'impact of lifestyles' on annuity income, with 59% of long-term smokers recalling this compared to 67% of those who were neither long-term smokers nor in poor health.

Figure 7 What can you remember about the contents of the pack? What did it tell you? (unprompted and prompted)



Note: Sample = 503 'warm' interviews.

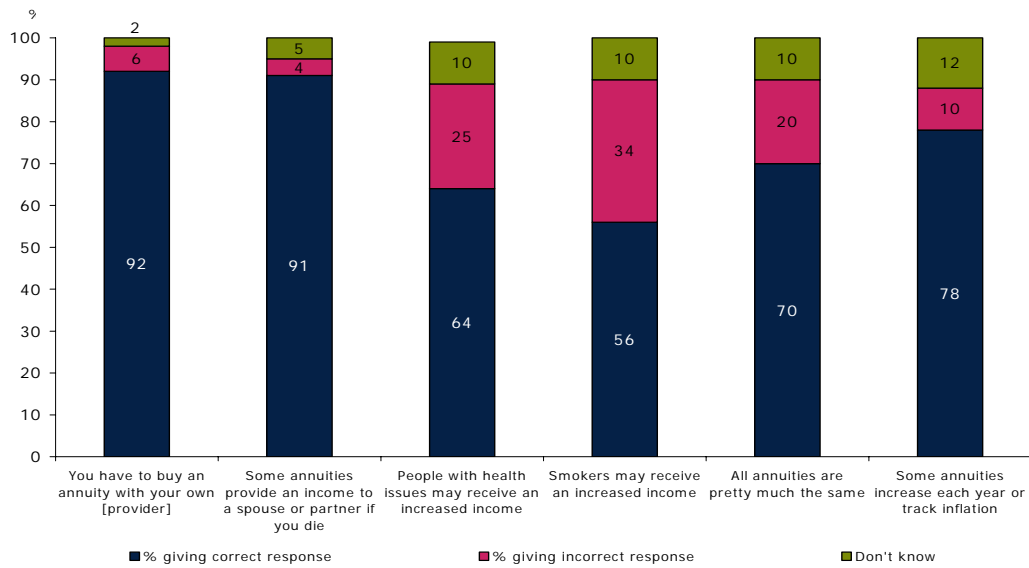
4.5 Measuring understanding of retirement options

In order to examine customer understanding, true or false statements were used. This was followed by questions to determine whether this understanding had been enhanced by the pack itself.

Figure 8 shows understanding was generally quite strong - particularly awareness of the OMO. Ninety-two percent correctly answered that the statement 'you have to buy an annuity with your pension provider' was false.

Those who had a history of poor health were significantly more likely to understand that this may increase their income in retirement (79% against the overall average of 64%). Long-term smokers however, were not more likely to understand that their lifestyle meant they could receive an increased income (55% against the overall average of 56%).

Figure 8 Are the following statements about annuities are true or false...?



Note: Sample = 503 'warm' interviews.

Twenty percent incorrectly said the statement that annuities 'are all pretty much the same' was true. Those with a fund size below £5,000 were less likely to answer this correctly (35%).

When participants in the 'warm' interviews were asked what the maximum percentage of their fund they could withdraw tax-free, 59% correctly identified 25% as the answer. Twenty-nine percent did not know and 12% gave an incorrect answer.

'Warm' respondents were asked to explain how the pack had enhanced their understanding. Table 10 shows that participants felt the pack played a key role. As we have already identified the pack did enhance awareness of the OMO, but to a lesser extent than the other areas tested. This is because participants claimed to have a stronger existing knowledge of the OMO relative to their understanding of the different type of annuity types for example, where the pack has had the greatest impact.

Table 10 To what extent did the pack enhance your understanding of...?

	Your right to shop around for an annuity	Different types of annuity	Ability to withdraw up to 25% of pension tax free	Possibility of taking all of a small pension in a single lump sum
First time you had been made aware of it	21%	28%	25%	28%
Improved your existing understanding	14%	29%	17%	20%
Not at all – Knew it already	64%	38%	57%	48%
Not at all – Didn't understand the pack	1%	5%	1%	4%

Note: Based on 503 'warm' interviews.

4.6 Understanding different types of annuity

When asked to describe examples of the different features provided by annuity types, 63% of 'warm' respondents were unable to name any specific examples. Given that all these participants would have very recently read the pack, this indicated that although participants remembered that different annuity types exist, the majority could not recall the detail.

Married and co-habiting participants were slightly more aware of 'joint' annuities being covered in the pack (75% compared to 67% of single, widowed, or divorced participants). Forty-nine percent of participants with a history of poor health were aware the pack covered impaired annuities and 49% of long-term smokers were aware the pack covered enhanced annuities – in both cases this is not significantly different from awareness amongst the whole sample.

Table 11 Which of the following annuity options did the pack make you aware of?

	Unprompted	Prompted
Single	12%	60%
Joint	23%	73%
Escalating/Indexed	21%	56%
Impaired/impaired life	5%	50%
Enhanced	4%	50%
Guaranteed	12%	64%
Investment linked	7%	49%
Level	10%	n/a
None of above	n/a	5%
Don't know	63%	9%

Note: Sample = 503 'warm' interviews. For the prompted answers, a description of each annuity type was read out to respondents.

Table 12 shows that the pack enhanced understanding of different annuity types for between 45% to 58% of respondents. For 24% to 36% of respondents this was the first time they had been made aware of some of the types of annuity described. For 2-6%, the pack did not enhance their understanding because they did not understand the pack.

Table 12 To what extent did the pack enhance your understanding of the following?

	Single	Joint	Escalating / Indexed	Impaired	Enhanced	Guaranteed	Investment linked
First time you had been aware of it	24%	26%	29%	31%	30%	33%	36%
Improved existing understanding	22%	19%	25%	19%	19%	22%	22%
Not at all – knew it already	51%	52%	43%	46%	48%	42%	36%
Not at all – didn't understand the pack	2%	3%	4%	3%	3%	3%	6%
Increased understanding (combined)	46%	45%	54%	50%	49%	55%	58%
Not at all (combined)	53%	55%	47%	49%	51%	45%	42%

Note: Based on 503 'warm' interviews.

5.0 RELEVANCE AND TIMING OF THE WAKE-UP PACK

This Section focuses on those who recalled receiving and had read the wake-up pack, examining their perceptions of the relevance, timing and format of the pack.

Seventy-one percent of participants had yet to take any actions at the time of the interview. Among these, 15% had started to think about buying an annuity (but hadn't done anything) and 56% had not thought about it at all. Ten percent saw the pack as not relevant (or did not know what purchase stage they were at), while 4% had moved their selected retirement date.

Table 13 At what point did you receive the pack?

Statement	
I hadn't thought about buying an annuity at all	56%
Buying an annuity was on my mind, but I hadn't done anything	15%
I had started looking around	8%
I had actually spoken to a pension provider or financial adviser	6%
Changed/ moved retirement date – it's not relevant yet	4%
Already purchased an annuity	2%
Don't know/ not applicable	10%

Note: Sample = 503 'warm' interviews.

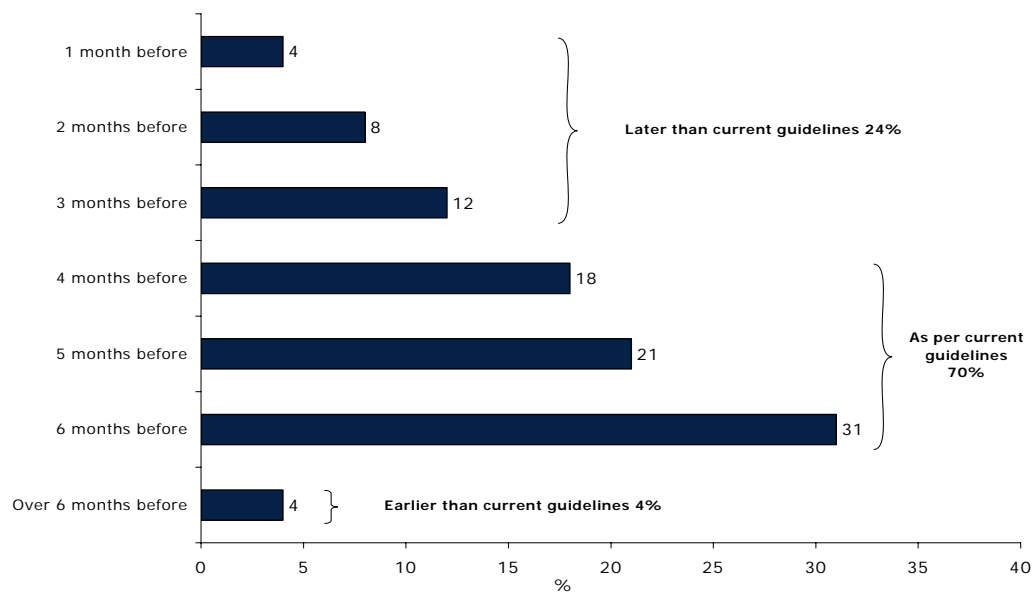
Eighty-one percent of those who were single, widowed, or divorced had not started to look around compared to 68% of married respondents. Those with medium to high financial sophistication were significantly more likely to have started looking around or have spoken to a provider or adviser (19% high/medium; 11% low), and those who 'always' seek financial advice (22%) were also more likely to have taken action.

5.1 Timing of the pack

Participants were asked to state how long before their retirement date they would prefer to receive the pack. Currently, it is four to six months before retirement. Seventy percent said that four to six months was their preferred period for receiving the pack, with 24% of respondents wishing to receive it one to three months prior to retirement and 4% wanting it to be sent earlier than four-to six months prior to retirement.

Those with the poorest understanding of annuities were more likely to want to receive the packs closer to retirement, with 31% preferring to receive it one to three months prior to their retirement. Significantly, more of those participants with a group personal pension plan preferred for the pack to be sent earlier (on average 6.2 months prior to retirement) compared to those with a personal pension (4.7 months).

Figure 9 How long before your retirement date would you prefer to receive this pack?



Note: Sample = 503 'warm' interviews. Excludes those who replied 'don't know'.

5.2 Preferred method of receiving the pack

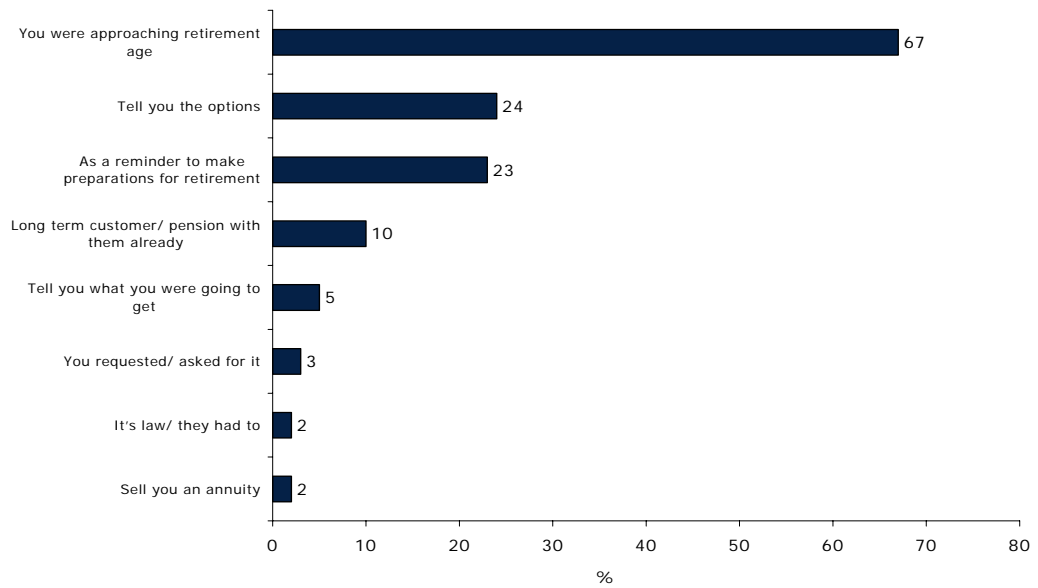
The current format of the wake-up pack (a printed copy sent in the post) was preferred by 92% of respondents. Different methods for relaying the wake-up pack information suggested by participants included e-mail, CD/DVD versions and face-to-face communications. Of these only face-to-face (5%) attracted more than 1% preference.

Levels of financial sophistication and understanding had some bearing on the strength of this preference, with those who had lower levels of understanding tending to want face-to-face advice or guidance. This includes those who were least comfortable with their retirement options, those who found the pack unclear and those who did not understand annuities – 26%, 21% and 20% of these groups respectively.

5.3 Perceived reasons for providers sending the pack

Participants were asked to describe their initial reactions to the wake-up pack and why they thought they had been sent it. Two thirds of respondents who had been prompted to read the wake-up pack thought that it had been sent because they were approaching retirement age (67%). Other reasons included 'to tell you your options' (24%), and 'as a reminder to people to make preparations for their retirement' (23%).

Figure 10 When you first looked at the pack, why did you think that it was sent it to you?



Note: Sample = 503 'warm' interviews.

Those who believed they could only purchase an annuity from their existing provider were significantly more likely to feel that the literature was sent to tell them what they were going to get (16% against 5% overall).

6.0 THE WAKE-UP PACK AND INFORMATION AND ADVICE

This Section investigates participants' awareness and use of financial advice and additional information when considering their retirement options. Firstly, we examine to what extent the pack has raised awareness of the different types of advice on offer. We then identify the packs' impact on the likelihood of participants seeking advice or seeking additional information about their retirement choices.

6.1 Sources of information available at retirement

Participants were asked spontaneously to detail what sources of information or support are available to them at retirement. Financial advisers were the most frequently mentioned by 51%. This proportion was significantly higher among those who had set up their pension with a financial adviser (61%). Sixty-six percent of those with a fund size of over £25,000 said they would talk to financial advisers, in contrast to those with funds under £5,000 (38%).

Twenty-two percent said their current pension provider could be a source of further information. Thirteen percent said 'other pension providers' and 11% said banks or building societies. Those who found the pack very clear were more likely to be aware of their own provider as a source of information (31%).

The FSA website was mentioned by 10%, and those with over £25,000 were significantly more likely to say the FSA (17%). The Pensions Advisory Service (TPAS) helpline was spontaneously known by 8%, and the TPAS online planner was mentioned by 5% of participants.

Table 14 Which sources of information or support are available to you at retirement? (unprompted)

Financial adviser (including IFA)	51%
Current pension provider	22%
Other pension provider	13%
Bank/Building society	11%
Financial Services Authority website/annuity comparison tables	10%
Friends/family/colleague	9%
TPAS helpline	8%
Employer	7%
Internet (unspecified)	5%
TPAS online planner	5%

Note: Sample = 503 'warm' interviews.

6.2 Sources of information highlighted by the pack

Thirty-nine percent said the pack had not raised their awareness of any additional sources of information. This figure was particularly high for those who felt that they were already fairly knowledgeable about pensions and annuities: 51% of those who already knew about annuities, 46% of those who already seek advice and 47% of those who always seek additional information.

Fifty-five percent of those who found the pack unclear said the pack had not made them aware of any potential sources of retirement information. A quarter of all participants were unsure about whether the pack had introduced them to any new sources of information.

Overall, financial advisers were the most frequently mentioned source of information prompted by the pack, mentioned by 18% of participants in the 'warm' interviews. Eleven percent mentioned their current pension provider, including 16% of those who admitted having little idea about annuities before reading the pack.

The pack also raised awareness of the TPAS Helpline (6%), FSA website (6%) and the TPAS online planner (4%). Those with larger fund sizes (£25,000+) were most likely to claim that the pack had made them aware of the FSA website (12%).

Table 15 Were there any sources of information or support the pack made you aware of? (unprompted)

Financial adviser (including IFA)	18%
Current pension provider	11%
TPAS helpline	6%
Financial Services Authority website/annuity comparison tables	6%
Other pension provider	5%
The TPAS online planner	4%
Bank/Building Society	3%
Nothing	39%
Don't know	25%

Note: Sample = 503 'warm' interviews.

6.3 Impact of the pack on seeking financial advice

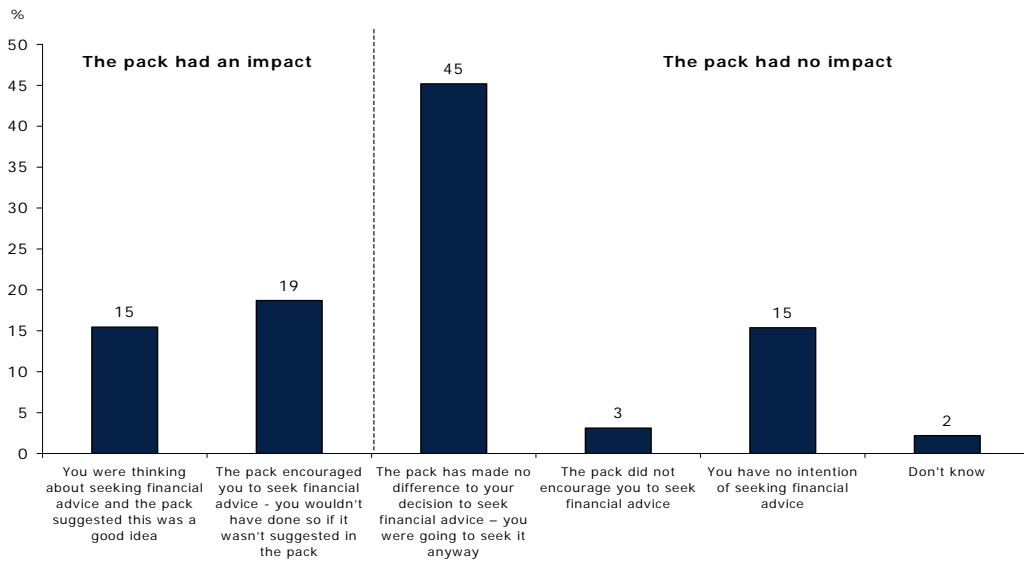
Thirty-four percent of respondents said that the pack encouraged them to go to an adviser (19% said that they definitely would not have gone to an adviser without the pack's encouragement).

The pack was most likely to have encouraged the under 60's (51%) to seek advice, those who were quite comfortable with their retirement options (38%) and those who had yet to start the annuity purchase process (38%). The pack also had a greater

impact on those who were less financially sophisticated (40%). Forty-five percent said they were likely to seek advice regardless of what was in the pack.

Three percent said the pack did not encourage them to take advice, and 15% said they had no intention of seeking advice. Those who were least likely to seek advice tended to have smaller fund sizes (under £5,000).

Figure 11 Has the pack made any difference to the likelihood of you seeking financial advice on your retirement choices?



Note: Sample = 503 'warm' interviews.

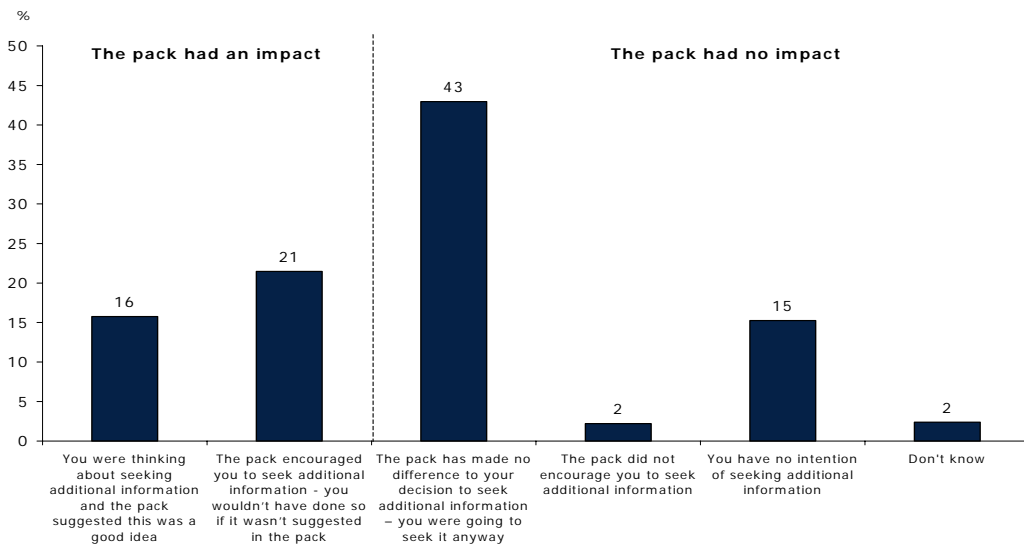
6.4 Impact of the pack on getting additional information

The pack had a similar impact on participants' intentions for seeking additional information. There was a clear correlation between participants' views on seeking advice or additional information, with 65% answering the same to both – i.e. those who would seek advice would also seek more information. We expect this is mainly because customers do not make the fine regulatory distinction between information and advice.

The wake-up pack encouraged slightly more participants to seek additional information (37% against 34% who were encouraged to seek advice). The pack had a bigger impact on those who had yet to start the annuity purchase process (39%) and those who felt that the pack had taught them a lot about annuities (43%).

Overall, 15% had no intention of seeking additional information. Eighteen percent of those with funds under £5,000 had no intention of seeking information. Those with little understanding about annuities before receiving the pack were also less likely to seek information (22%).

Figure 12 Has the pack made any difference to the likelihood of you seeking additional information on your retirement choices?



Note: Sample = 503 'warm' interviews.

7.0 OVERALL EVALUATION OF THE WAKE-UP PACK

In this Section we examine perceptions and overall understanding of the wake-up pack.

7.1 Clarity of the pack

Thirty-four percent of 'warm' respondents felt the pack was very clear and easy to understand. This was higher for those who were most comfortable with their retirement options (55%), had a good understanding of annuities (49%), and were of medium to high financial sophistication (42%). Fifty-three percent of all 'warm' participants found the pack to be fairly clear.

Thirteen percent of participants found the pack difficult to understand. This ranged from 4 – 35% by provider.

Table 16 Thinking about the clarity of the pack, would you say the pack was...?

Very clear and easy to understand	34%
Fairly clear and fairly easy to understand	53%
Not very clear and difficult to understand	13%

Note: Sample = 503 'warm' interviews.

Those with funds under £5,000 were significantly more likely to describe the communications as unclear than those with funds over £25,000 (15% compared to 7%).

Half of those who felt generally uncomfortable with their retirement options (51%) found the pack difficult to understand, and 27% of those with little idea about annuities found the literature unclear. Perceived lack of clarity was common among those who were still not aware of the OMO after reading the pack (28%).

7.2 Wake-up pack relevance, content and understanding

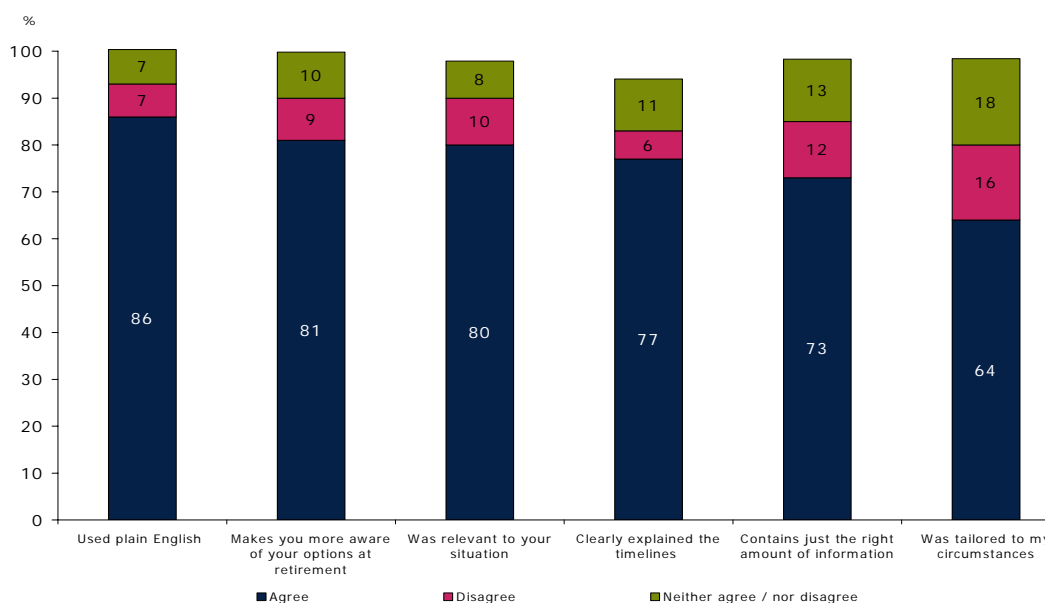
Participants were asked a number of statements about the pack to test the extent to which they agreed it was relevant, easy to understand and contained the right levels and types of information:

- 86% agreed the pack was written in plain English.
- 81% agreed the pack made them aware of their retirement options.
- 80% agreed the pack was relevant to their situation.
- 64% agreed the pack was tailored to their circumstances, and 73% agreed it contained the right amount of information.

Significant differences at a provider level were noted for: relevance to situation; greater awareness of retirement options; tailored to circumstances, and; used plain English.

Participants' understanding of their retirement options, annuities and financial sophistication all appear to have had a bearing on how the pack was received. Those participants who were most comfortable with both their general finances and their retirement choices tended to rate the pack higher across the board.

Figure 13 Do you agree or disagree with each of the following statements relating to the pre-retirement pack. The pack...?



Note: Sample = 503 'warm' interviews. Excludes those who replied 'don't know'.

7.2.1 Use of plain English

Those with a fund size of over £25,000 were more likely to feel that the pack was written in plain English (90%). The wording was also easier to understand amongst those who already had a strong understanding of annuities (96%). Amongst the 7% who did not like the language, the following are typical comments:

"They use their own wording like all insurance companies and they don't explain what they're saying." (Male, 64, £5,000 - £24,999)

"It assumes you understand everything about pensions/annuities, but it doesn't explain them very well." (Male, 54, £5,000 - £24,999)

7.2.2 Raising awareness of retirement options

Ninety-five percent agreed that the pack had a positive impact on their knowledge. Key reasons for feeling that the pack did not raise awareness were that it did not

contain enough information or figures (32%) and that it was difficult to understand (30%).

"There are so many different options to pick from. I am not used to working with figures like that so I just forwarded it to my financial adviser." (Male, 64, fund size unknown)

"It didn't give me any examples relating to whatever is in my pot." (Female, 59, <£25,000)

7.2.3 Relevance to circumstances

Twenty-six percent of those who were least comfortable with their retirement options felt that the pack was not relevant to their situation. Less financially sophisticated participants were also less likely to feel that the pack was sufficiently tailored to their circumstances, with only 74% feeling that the pack suited them.

Prompting revealed that the pack was sometimes deemed irrelevant as a result of specific circumstances, such as postponed retirement or low fund size. A third of participants (30%) simply felt it was too general.

"My fund is only a nominal amount of money so it's just a bit too much information for me." (Male, 65, <£5,000)

"I don't think it gave me enough information. It didn't tell me how much I was going to get and it was too generic." (Female, 59, <£5,000)

7.2.4 Timelines

Less financially sophisticated participants were least likely to feel that the timelines for selecting a type of annuity were clearly set out (70%). Criticism of the timelines set out in the packs appeared to be similar to those mentioned elsewhere, with lack of detail and difficulty in understanding both emerging as common criticisms.

"I've been through it and it doesn't really say the dates, it says they will get in touch with me." (Male, 54, £5,000 - £24,999)

"I didn't know from this what the next steps were." (Female, 54, £5,000 – £24,999)

7.2.5 Information contained in the pack

In terms of the amount of information, views differed:

"I could have done with a bit more information and help with the actual numbers." (Male, 64, £5,000 - £24,999)

“Basically it takes far too long to read and most people will not survive a seven page letter.” (Male, 61, £5,000 - £24,999)

7.2.6 Tailored to circumstances

Those with lower fund sizes (under £5,000) were more likely to feel the pack was tailored to their circumstances with three quarters of them (75%) believing this to be the case. This compares to 64% of participants overall.

7.3 Perceptions of other people’s understanding

Participants were asked whether they believed most other people approaching retirement would be able to understand the pack. Fifty-nine percent thought others in the same situation would understand it, with 15% unsure.

Twenty-six percent said that most people would not understand the pack. This is significantly higher than the number of participants who stated that they had found the pack unclear and difficult to understand for themselves (13%). Fifty-seven percent of those who themselves felt uncomfortable with their retirement options thought that understanding the pack would be difficult for most people.

Participants whose fund value was less than £5,000 were less likely to state that the pack would be difficult to understand for most people (18%) than those with over £25,000 (31%). This contrasts with the fact that significantly more of those participants whose fund value was less than £5,000 found the pack to be unclear and difficult to understand for themselves.

Table 17 Do you think that most other people approaching retirement would fully understand the contents of the pack?

Yes – the pack would be easy to understand for most people	59%
No – the pack would not be easy to understand for most people	26%
Don't know	15%

Note: Sample = 503 'warm' interviews.

In offering reasons why the pack was difficult to understand it was suggested that background knowledge was required to fully understand the pack; that the pack took a long time to read in depth; and that it confused some participants by offering too many different options. The quotes below indicate there are overlapping themes.

7.3.1 Background knowledge required

“Some parts were hard to understand. A majority of people who don't know anything about finance would find it difficult without a financial adviser.” (Male, 59, £5,000 - £24,999)

"The whole thing with annuities is a complicated business, up until six months ago I didn't know anything about it. The pack does what it's designed to do, but it's a difficult decision to make because there are so many variables." (Male, 64, £25,000>)

"I think there are a lot of people like me, if you're not financially aware you might not understand it. I think it's the language that's used, for some people it's not basic enough." (Female, 59, £5,000 - £24,999)

7.3.2 Time required to read the pack

"You have to read it quite carefully, as it's quite complex to understand. You really have to sit down and think about it to know the options which are available to you." (Male, 64, £5,000 - £24,999)

"So many people receive these packs and can't be bothered to read them. It would be good to have a human contact." (Female, 59, £25,000>)

"It jumps from one thing to another, there's no clear layout of what you can get and there are no clear options. You have to really indulge yourself into it." (Male, 64, £5,000 - £24,999)

7.3.3 Too many options

"There's so much information it takes a lot to take it in. There are too many options available and there are questions to ask but no one to answer them." (Female, 59, fund size unknown)

"I think they'd need more help and information on their options. Personal help is needed - just sending a pack is not sufficient." (Male, 59, £25,000>)

"I regard myself as a professional and have a lot of interest in my finances, but when it comes to making a decision the information was too much and I didn't know which option to take." (Male, 65, £25,000>)

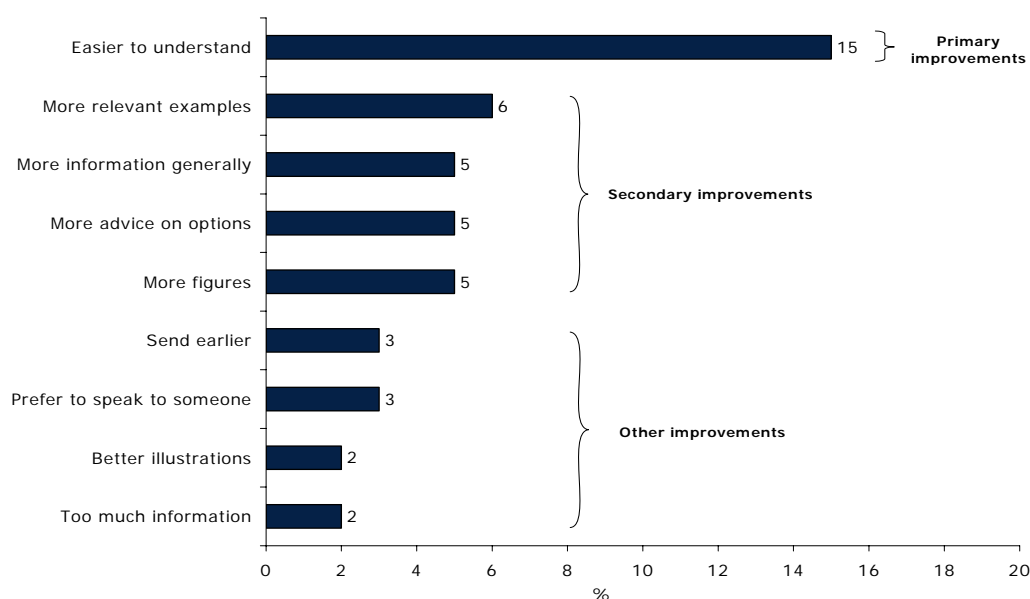
7.4 Suggestions for improvement

All 'warm' participants were asked to suggest improvements to the pack. Fifty-nine percent did not spontaneously suggest any improvements. Those who found the pack very clear (72%) were most comfortable with their retirement options (69%), and those who thought that most other people would understand it (66%) were least likely to suggest improvements.

The main suggestions that emerged from participants for improving the pack were to remove jargon and make the pack easier to understand (15%). Other suggestions included using more relevant examples (6%), more figures (5%), and more information on the different annuity options (5%). Five percent suggested more information generally (but were not specific about what type of information). This need for more information was in some cases linked to participants' concerns at the likely value of their pension, often as a result of the recent economic downturn.

Suggestions also included a preference to be able to speak to someone directly (3%), receive the pack earlier (3%) and the suggestion to reduce the amount of information sent (2%). This feedback sometimes contrasted with views reported earlier in the report, such as the general contentment with the written format of the pack (92% liked receiving the information by post), timing of its receipt (93% preferred to receive the pack six months prior to retirement or later) and the 73% of participants who said the pack contained the right amount of information.

**Figure 14 Overall what improvements would you suggest to the pack?
Anything else?**



Note: Sample = 503 'warm' interviews.

7.4.1 Primary suggestions for improvements

"I think it needs to be made clearer and in clear, understandable English. The various options need be written in layman's terms, highlighting their advantages and disadvantages." (Female, 60, £5,000 - £24,999)

"Some of the terms really need to be explained, such as the triviality clause." (Female, 59, £5,000 - £24,999)

"A summary on one page rather than having to dig through it all would help." (Male, 54, fund size unknown)

"I think the annuity options could be made clearer and could give instructions on how to go about doing this, although they did make it clear you should see a financial adviser." (Female, 64, fund size unknown)

7.4.2 Secondary improvements

"They should give some more specific examples of the effect of different annuities specific to me." (Female, 69, £25,000>)

"There needs to be more information in there as there are no figures, pension explanations, timescales or details on how it would increase." (Female, 59, £5,000 - £24,999)

"I'd like more specific information on the pension itself, in other words how much it is worth." (Male, 61, £5,000 - £24,999)

"I can't remember there being any case-studies in the pack which might be useful so you can identify with situations like your own e.g. single or couple. An at-a-glance comparison table might help as well." (Female, 59, £25,000>)

7.4.3 Other improvements

"Ideally I'd want someone from my company to speak to me face-to-face." (Male, 59, £5,000 - £24,999)

"They could include more flowcharts to make it easier to see what you have to do and where you have to go." (Female, 59, £5,000 - £24,999)

"I'd like to have received it earlier, as I only found out what an annuity was when I received the pack." (Female, 64, <£5,000)

A1 APPENDIX

On average the 'cold' interview lasted four minutes and the 'warm' interview lasted 20 minutes.

The research focused on customers with non trust-based defined contribution pensions, including:

- Free Standing AVC
- Group Personal Pension
- Pensions Business – Other
- Personal Pension Plan
- Retirement Annuity Contract
- Section 32 Buy Out
- Stakeholder Pension
- Trustee Buy Out Plan

There were no restrictions on fund size. Where individuals held multiple pension funds with the same provider, the fund values were aggregated together. For the purposes of the research, individuals could only be contacted once and only in relation to one provider, even if they held funds with multiple providers in our sample. Where an individual had pension funds with multiple providers, we choose the provider where the largest fund was held.

Where possible, individuals that had been sent the six to eight week annuity quotation pack were removed. However, this was not possible in all cases. To avoid confusion, we provided descriptions of the pack that were specific to the provider and that individual.

The 14 firms that provided customer samples for the research were: Aegon, Aviva, AXA, CFS, Friends Provident, HBOS, Legal & General, Pearl Group, Prudential, Royal London, Scottish Widows, Standard Life, Wesleyan, Zurich.

Aims and scope: The Association of British Insurers (ABI) is the trade body representing the UK's insurance industry. The ABI Research Paper series is used to publish the research that the ABI carries out on behalf of its members in order to help inform the insurance industry and contribute to public policy debate.

Series Editor: Rebecca Driver, Director of Research and Chief Economist, ABI

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