



# ABI statistics Q2 2014: The UK retirement income market post-Budget

All figures relate to ABI members only<sup>1</sup>

## Key points:

- Sales of annuities have fallen by over a third between the first and second quarter of 2014.
- In addition the average pot size of an annuity is bigger, as more people with smaller pots are taking cash following the increased limits announced in the Budget.
- A greater proportion of annuities are internal, but a greater proportion of those with pots below £5,000 are switching. A higher proportion of larger pots are being used to buy internal annuities; this is likely to be due to people continuing to take advantage of Guaranteed Annuity Rates.
- The proportion of enhanced annuities purchased, as a proportion of total sales, is unchanged, but of the external annuities sold a higher proportion are enhanced compared with previously. Enhanced annuities also make up a larger proportion of annuities bought with small pots.
- There has been an increase in sales of income drawdown contracts, but with a smaller average pot size than previously, as some providers reduced their minimum fund size for drawdown in line with the shift in policy towards pension flexibility.

## Data sources used in this Factsheet:

- ABI Quarterly Long-Term Business (QLB) dataset, which includes overall sales and value, internal, external, enhanced and investment-linked annuities by distribution channel.
- ABI Quarterly Pension Annuity (QPA) dataset, which includes sales broken down by age, fund size in different size bands, and further breakdowns of type of annuity.

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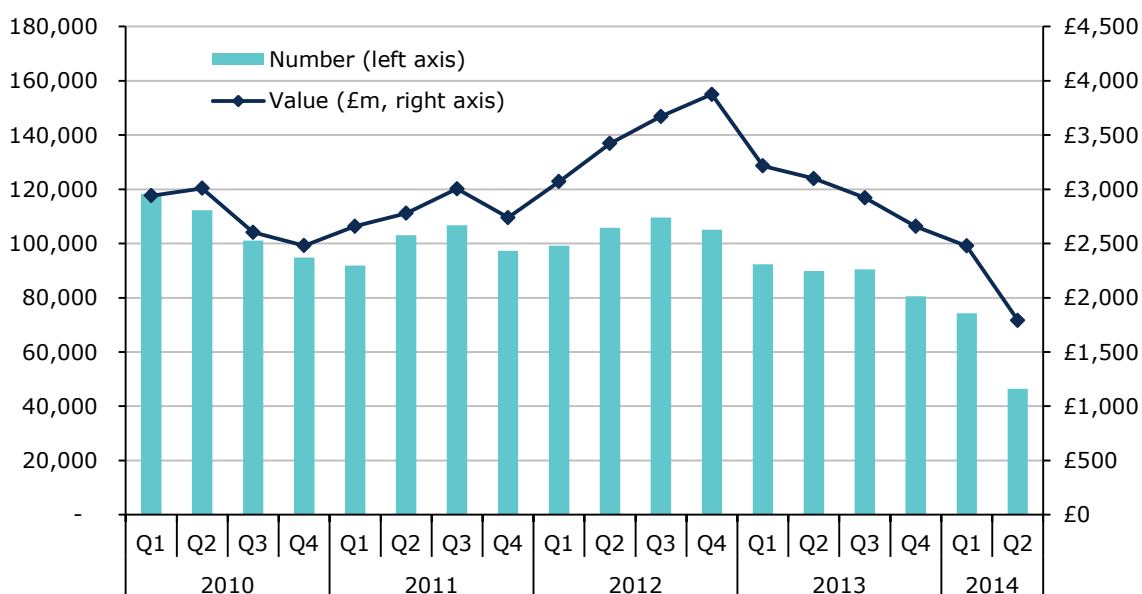
<sup>1</sup> Includes Legal and General.

## Overall annuity sales

The pension flexibility changes announced in the Budget in March 2014 meant fewer people bought annuities, although there was already a decreasing trend in sales.

Period	Number of annuities sold	Value of annuities sold, £m
<b>Q2 2014</b>	46,368	£1,792
<b>Q1 2014</b>	74,270	£2,478
<b>Q2 2013</b>	89,896	£3,098

**Chart 1: Number & value (£m) of annuities sold, 2010 Q1 to 2014 Q2**

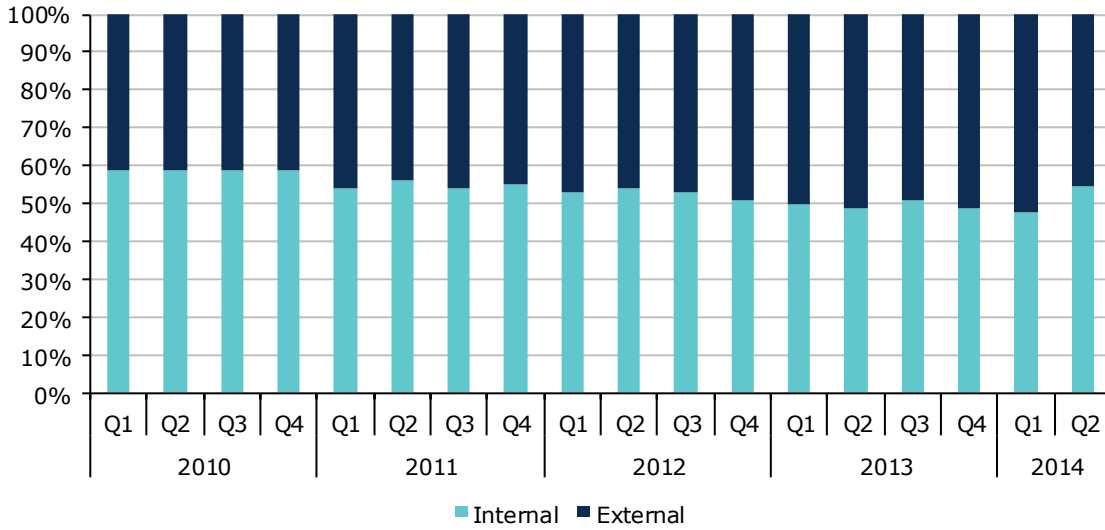


## Internal and external annuities

In the first half of 2014 a greater proportion of people bought internal annuities.

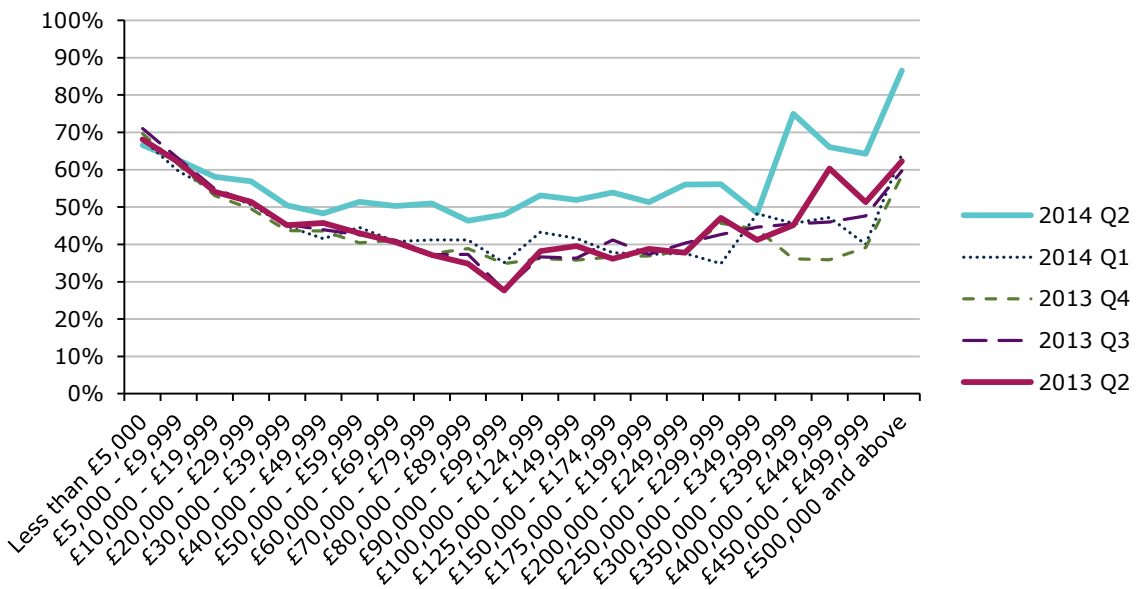
Period	Internal annuities sold	External annuities sold
<b>Q2 2014</b>	55%	45%
<b>Q1 2014</b>	48%	52%
<b>Q2 2013</b>	49%	51%

**Chart 2: Annuities internal & external sales split, 2010 Q1 to 2014 Q2**



But the data broken down by fund size shows a more even distribution of internal and external annuities than in the past. There was an increase in people with smaller pension pots switching annuity provider and those with larger pension pots choosing to stay with their existing provider. This is likely to reflect a result of people taking advantage of Guaranteed Annuity Rates.

**Chart 3: Proportion of internal annuity sales by fund size, 2013 Q2 to 2014 Q2**

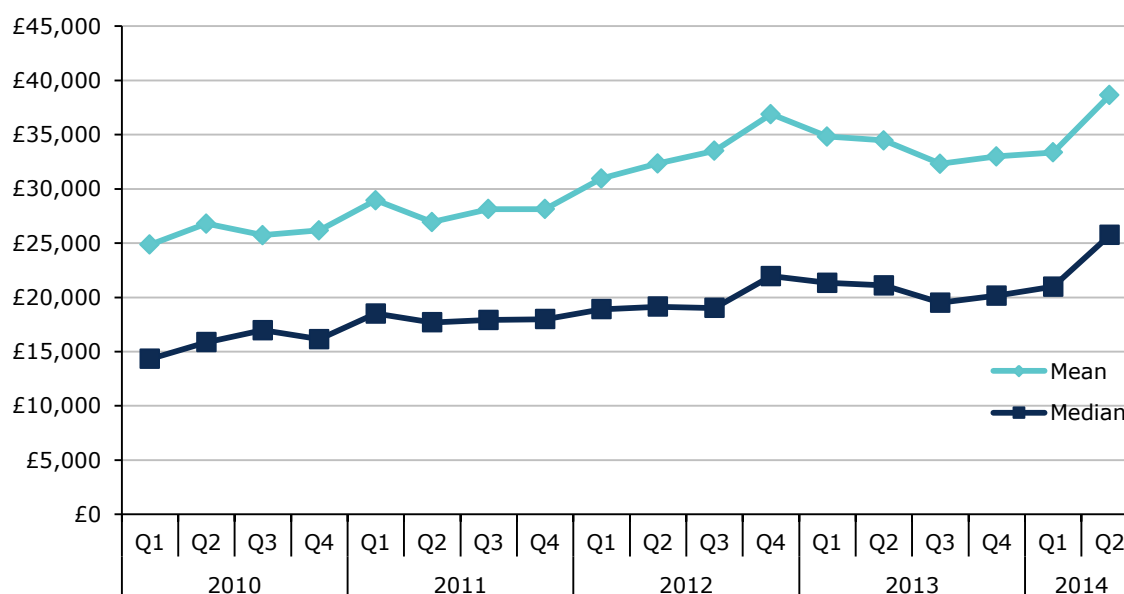


## Average pot size for annuity purchases

There has been an increase in the average pot size used to purchase an annuity. One reason for this could be that customers with small pots have chosen to take their pension as cash, given the increased limits since March.

Period	Mean pot size used to purchase an annuity	Median pot size used to purchase an annuity
Q2 2014	£38,600	£25,600
Q1 2014	£33,400	£22,000
Q2 2013	£34,500	£21,100

**Chart 4: Mean & Median annuity purchase value (£), 2010 Q1 to 2014 Q2**



## Enhanced annuities

The proportion of enhanced annuities - underwritten using health and lifestyle information - has stayed the same compared to the last quarter, but is still higher than a year ago.

But there have been increases in the proportion of small pension pots used to purchase enhanced annuities; and an increase in the proportion of external annuities that are enhanced. More providers (twelve) are now offering enhanced annuity rates and there is now a greater awareness and comparisons available of different rates offered. The increased proportion of internal annuities also helps to explain why the overall proportion of enhanced annuities has not changed.

Now that the majority of external sales are 'enhanced', the lines between standard and enhanced are increasingly blurred.

<b>Period</b>	<b>Enhanced annuities, as % of all annuities</b>	<b>Enhanced annuities, as % of annuities bought with less than £5,000</b>	<b>Enhanced annuities, as % of all pure external annuities</b>	<b>Enhanced annuities, as % of all internal annuities</b>
<b>Q2 2014</b>	29%	18%	59%	8%
<b>Q1 2014</b>	29%	12%	52%	8%
<b>Q2 2013</b>	25%	13%	47%	7%

## Drawdown and fixed-term annuities

Following the Budget changes, there was an increase in drawdown sales by ABI members, including an increase in fixed-term annuity sales (note that the drawdown data does not cover the whole drawdown market). It is too early to tell whether these customers will use drawdown as a temporary source of income until full pension flexibility in April, or whether drawdown will be used as a regular source of income.

<b>Period</b>	<b>New drawdown contracts sold</b>	<b>Value of new drawdown contracts, £m</b>
<b>Q2 2014</b>	9,498	£669
<b>Q1 2014</b>	6,132	£487
<b>Q2 2013</b>	5,476	£425

The average (mean) pot size assigned to a drawdown contract reduced, as a number of providers reduced the minimum fund size required for drawdown in line with the shift in policy towards pension flexibility.

<b>Period</b>	<b>Mean pot size assigned to drawdown</b>	<b>Mean pot size used for fixed term annuities</b>
<b>Q2 2014</b>	£70,500	£50,400
<b>Q1 2014</b>	£79,400	£53,400
<b>Q2 2013</b>	£77,700	£71,200