



Association of British Insurers

# RETIREMENT CHOICES: BASELINE TO MEASURE EFFECTIVENESS OF THE CODE OF CONDUCT

Results of customer research

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**Report by Optimisa Research**

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## FOREWORD

Decisions about retirement are as personal as buying a home; and choosing an annuity is just as financially significant. The ABI's Code of Conduct on Retirement Choices, effective from 1 March 2013 and compulsory for all members, is a cornerstone of the industry's efforts to help more people access the best retirement income for them. This research report by Optimisa, *Retirement Choices: Baseline to measure effectiveness of the Code of Conduct*, gives us a snapshot of the market now, and we will repeat it within a year to help measure the success of our Code.

The research reveals that while high proportions of people are aware of their options at retirement, levels of understanding vary and savers who know they have the right to shop around often do not exercise it. The report contains baseline measures on understanding retirement, understanding different ways to take retirement income and understanding how to buy – including a more detailed look at why customers do or do not shop around, and what shopping around entails.

While there are a lot of positives, there is plenty of room for improvement from this baseline. The challenges in changing customer behaviour are well known, but as a result of implementing the Code, we hope to see an increase in understanding of retirement options and an increase in the numbers of people actively shopping around.

We live in a time when consumers face huge financial pressures, our population is rapidly ageing, governments across Europe are dealing with austerity and the UK retirement savings market is revolutionising through auto-enrolment. This research will enable us to start measuring the impact of the Code and assessing what more the industry can do to improve our proposition to our customers – and help them to get the best possible retirement income for their circumstances.

Stephen Gay

Director of Life, Savings and Protection, ABI

## EXECUTIVE SUMMARY

In March 2012, the ABI published a new Code of Conduct on Retirement Choices. The intended outcome of the Code is that customers consider their options and shop around to choose the retirement income product that best meets their needs. The ABI commissioned this research to serve as a baseline against which to measure effectiveness of the Code of Conduct in achieving its intended outcomes, following its implementation in March 2013.

The Code requires ABI members to take their customers through three critical stages. The research results are set out below, in line with these stages.

### Understanding retirement

Perceived understanding of the decisions required at retirement is high and respondents generally feel comfortable making decisions relating to their broad retirement options. However, 36% do not read the wake-up pack and 32% do not feel informed enough to compare quotes from another provider.

- 85% of pre-retirees and 87% of annuity purchasers are aware of the option to defer.
- 78% of those with multiple pension pots, pre and post-retirement, are aware of the option to amalgamate these.
- 73% of pre-retirees are comfortable with their level of understanding of their retirement options while the vast majority (89%) of annuity purchasers are confident they fully understood their retirement options; 87% know where to go for help and support.
- Two-thirds (64%) of all pre-retirees read the wake-up pack, a third (31%) in full. Of those reading the information, 85% of both pre-retirees and annuity purchasers consider the information as 'very' or 'fairly easy' to understand. The usefulness and quality of any telephone contact with their provider is broadly equivalent to that of the written information received.
- A third (32%) of pre-retirees, do not feel informed enough to be able to compare quotes from another provider.

### Understanding the different ways of taking retirement income

The majority of respondents claim to be aware of a variety of annuity types when prompted and typically feel confident they made the right annuity purchase for their needs. However, there are variations in the level of understanding, and those with at most a basic understanding are less likely to feel confident or informed.

- 77% of pre-retirees feel they have a basic (54%) or good understanding (24%) of the different annuity types. A further 23% claim they know 'little' or 'nothing' about different annuity types.

- Guarantee period (86%) and joint life (84%) annuities have the highest levels of prompted recall amongst annuity purchasers. Respondents are least aware of investment-linked (67%), enhanced or impaired (72%) and escalating (74%) annuities.
- Smokers are no more likely to consider enhanced or impaired annuities than non-smokers. Of those potentially eligible to an enhanced or impaired annuity, 66% are aware of them, 22% consider them and 16% purchase one<sup>1</sup>.
- Of those for whom a joint life annuity is an option, and claim someone would need an income if they pass away; 87% are aware of these types of annuity, 58% consider them and 48% purchase one.
- Post-retirement, 89% of annuity purchasers either feel 'very' (49%) or 'quite confident' (40%) they have made the right decision and felt their annuity fully meets their needs and circumstances.

### **Understanding how to buy**

The vast majority (91%) of annuity purchasers are aware of the option to shop around, but the degree of shopping around differs and less than half gathered annuity quotes from other providers.

- Two-thirds (63%) stated they shopped around and considered switching, with 30% of the total actually switching.
- When asked more specifically about their shopping around behaviour, 50% approached other providers (either themselves or via a financial adviser) to discuss annuity products or gather annuity quotes. Those who spent "considerable time and effort" shopping around were more likely to gather quotes and to switch.
- The main unprompted reason for shopping around is the potential for getting a better annuity rate. For annuity purchasers who did not shop around, the main unprompted reasons were: satisfaction or trust in their current pension provider; their annuity being a small part of the total retirement income; and a perception that the time and effort is not justified.
- 57% seek some form of advice or information before purchasing. Financial advisers are referenced by 35% of all annuity purchasers and are the most common source consulted. 17% of all annuity purchasers speak to their pension provider, the second most used information source. 28% were not able to spontaneously name a source of information of advice at retirement.

<sup>1</sup> Note that not all participating providers were able to provide information on whether customers purchased an enhanced annuity, so the proportion of customers with these is likely to be lower than the actual market figure.

- Half (49%) of annuity purchasers, who read the pre-retirement information, believe they are more likely to shop around as a result of it.
- Fewer customers seek information from providers on the telephone, but of those who do, 54% of pre-retirees and 49% of annuity purchasers say that speaking with their provider proved helpful and encouraged them to shop around.

Key aims and requirements of the Code are set out in Appendix 2. The Code is available on the ABI website, [www.abi.org.uk](http://www.abi.org.uk).

## CONTENTS

<b>1.0</b>	<b>INTRODUCTION</b>	<b>9</b>
1.1	Background	9
1.2	Objectives	9
1.3	Research method	10
1.4	Sampling	11
1.5	The customer journey	13
<b>2.0</b>	<b>UNDERSTANDING RETIREMENT</b>	<b>14</b>
2.1	Awareness of options available at retirement	14
2.2	Sources of information and support	17
2.3	The role of the pre-retirement wake-up pack	19
<b>3.0</b>	<b>UNDERSTANDING DIFFERENT WAYS TO TAKE RETIREMENT INCOME</b>	<b>28</b>
3.1	Awareness of annuity types	28
3.2	Consideration and purchasing of annuity types	31
3.3	Confidence in product choice	32
<b>4.0</b>	<b>UNDERSTANDING HOW TO BUY</b>	<b>34</b>
4.1	Shopping around behaviour	34
4.2	Interpretation of stated shopping around behaviour	36
4.3	Customers who have a greater propensity to shop around	37
4.4	Reasons for not shopping around	40
4.5	Financial confidence and shopping around	41
4.6	Reasons for shopping around	42
4.7	The role of financial advice	44
4.8	The role of provider support in encouraging shopping around behaviour	46
4.9	Shopping around and switching	48
4.10	Reasons for staying	48
4.11	Reasons for switching	50
<b>A1</b>	<b>APPENDIX 1</b>	<b>51</b>
<b>A2</b>	<b>APPENDIX 2</b>	<b>58</b>

## LIST OF TABLES

Table 1:	Awareness of retirement options – Pre-retirees	15
Table 2:	Awareness of retirement options – Annuity purchasers	15
Table 3:	Retirement options – Annuity purchasers	17
Table 4:	Sources of information or support believed to be available at retirement (unprompted) – Pre-retirement	18
Table 5:	Sources of advice or information used (prompted) - Annuity purchasers	19
Table 6:	Unprompted reasons for not reading the pre-retirement wake-up pack	21
Table 7:	Messages recalled from the pre-retirement wake-up pack	22
Table 8:	Usefulness and quality of information - Agreement summary	25
Table 9:	Usefulness and quality of telephone contact with provider summary	27
Table 10:	Awareness of annuity types – Pre-retirement and annuity purchasers	28
Table 11:	Awareness of annuity types and readership of wake-up pack – Pre-retirees	29
Table 12:	Awareness and consideration of annuity types – Annuity purchasers	31
Table 13:	Degree of shopping around – Annuity purchasers	37
Table 14:	Shopping around and deferring or retiring early– Annuity purchasers	39
Table 15:	Unprompted reasons for not shopping around amongst pre-retirement and annuity customers	41
Table 16:	Unprompted reasons for shopping around amongst - Pre-retirement and annuity purchasers	43
Table 17:	Unprompted reasons for shopping around amongst customers who stayed and customers who switched – Annuity purchasers	44
Table 18:	Impact of information sources (prompted) – Annuity purchasers	45
Table 19:	Unprompted reasons for not consulting a financial adviser – Annuity purchasers	46
Table 20:	Role of provider contact in shopping around behaviour	47
Table 21:	Unprompted reasons for staying after shopping around	49
Table 22:	Unprompted reasons for shopping around amongst customers who stayed and customers who switched	50
Table 23:	Unprompted reasons for switching after shopping around	50
Table 24:	Gender	52
Table 25:	Age of participants	52
Table 26:	Marital status	53
Table 27:	Pension pot and annuity value	53
Table 28:	Number of pension pots	54
Table 29:	Whether experienced the retirement process before	54
Table 30:	Early retirement	55

## LIST OF FIGURES

Figure 1:	Level of comfort understanding retirement options - Pre-retirees	16
Figure 2:	Confidence they will be able to make a fully informed decision when purchasing their annuity - Pre-retirees	16
Figure 3:	Readership of wake-up pack – Pre-retirement	20
Figure 4:	Clarity of pre-retirement information received	22
Figure 5:	Helpfulness of pre-retirement information received	24
Figure 6:	Understanding of annuity types compared to comfort understanding retirement options	30
Figure 7:	Awareness, consideration and purchase of relevant annuity types	32
Figure 8:	Confidence in product suitability – Annuity purchasers	33
Figure 9:	Shopping around - Annuity purchasers	35
Figure 10:	Shopping around and annuity purchasing – Annuity purchasers	35
Figure 11:	Shopping around amongst customers with varying pot sizes and numbers of pots – Annuity purchasers	38
Figure 12:	Shopping around amongst customers who had experienced the retirement process before and amongst those who have not – Annuity purchasers	39
Figure 13:	Relationship between not shopping around, financial confidence and existing switching behaviour – Annuity purchasers	42
Figure 14:	Shopping around and annuity purchasing – Annuity purchasers	48

Note: Percentages are rounded to the nearest whole number, and therefore in some cases sum to more than 100%.

## 1.0 INTRODUCTION

### 1.1 Background

The Association of British Insurers (ABI) has been working with its members, Government and consumer groups, to improve customer outcomes when securing retirement income. Central to this is the Open Market Option, which means customers can shop around and purchase an annuity from a different provider to their pension provider.

ABI figures show that a minority use their pension savings to purchase an annuity from a provider other than the one they saved with. Furthermore, about a third of people do not shop around for their retirement income<sup>2</sup>. As a result, customers may be missing out on a potentially higher income at retirement.

In March 2012, the ABI published a new Code of Conduct on Retirement Choices, designed to ensure consistent delivery of high standards across the industry, by providing customers with access to information that will help them make informed decisions and consequently, make the most of their pension savings.

There are several implications of the Code for ABI members, specifically:

- Communications should continue to focus on raising awareness and understanding of the customers' right to shop around and the benefits of doing so.
- Communications will need to highlight the much higher income that enhanced annuities can offer. Providers must be clear about whether they offer these products and signpost customers to the best sources of further information.
- Customers should be signposted to sources of information and advice available from regulated advisers and Government backed organisations.

The Code is a condition of ABI membership. It is compulsory for ABI members to adopt and implement the new Code of Conduct by 1 March 2013.

Key aims and requirements of the Code are set out in Appendix 2. The Code is available on the ABI website, [www.abi.org.uk](http://www.abi.org.uk).

### 1.2 Objectives

The ABI commissioned this research to serve as a robust and repeatable baseline against which to measure progress of the Code of Conduct on Retirement Choices, following its implementation on 1 March 2013.

<sup>2</sup> ABI Research Paper 23, Annuity Purchasing Behaviour, 2010.

The core research objectives were:

- To benchmark customers' awareness, understanding and intentions in the pre-retirement decision making process.
- To benchmark customers' awareness, understanding and behaviour about securing a retirement income post-retirement.
- Quantifying the effect of provider communications and other information sources on customer considerations, pre and post-retirement.

### 1.3 Research method

Quantitative and qualitative research was undertaken in order to meet the objectives outlined above. The study required an approach that provided a representative, statistically reliable and replicable assessment of customer decision making regarding retirement income choices. This was complemented by a detailed qualitative understanding of why and how customer decisions are made.

#### 1.3.1 Quantitative method

An assessment of two key audiences was taken to provide a rounded view of customer understanding and decision making at retirement:

- **500 pre-retirement telephone interviews** with customers with contract-based Defined Contribution (DC) pensions. All participants had been sent a wake-up pack between 1 September and 9 November 2012. The interviews took place between two to five months before participants' selected retirement date. This report refers to this group as "pre-retirees".
- **1,000 post-retirement telephone interviews** with customers who recently purchased an annuity, using a contract or trust-based DC pension<sup>3</sup>. All participants purchased an annuity between 1 September and 9 November 2012. The interviews took place between three weeks and four months after the purchase was completed<sup>4</sup>. This report refers to this group as "annuity purchasers".

In the report that accompanied the Code, the ABI said "taking action is as important as understanding, and far more important than customers' stated intentions." For this

<sup>3</sup> Most participating providers were unable to identify whether the annuity was purchased with a contract or trust-based scheme.

<sup>4</sup> The fieldwork period was extended to afford some providers greater flexibility submitting their customer samples. Our sample criteria for wake-up pack submission and annuity purchasing was broadly two months, to ensure that sufficient customer sample (meeting our criteria) was available.

reason, greater weight<sup>5</sup> was given to the post-retirement survey where actual behaviour and decision making could be assessed.

Fieldwork was conducted from the end of November 2012 to early January 2013 for both surveys<sup>6</sup>.

### 1.3.2 Qualitative method

To gain a more in-depth understanding of behaviour and decision-making relating to experiences securing a retirement income, 20 supplementary qualitative interviews were conducted.

## 1.4 Sampling

### 1.4.1 Quantitative sample

Thirteen pension providers were involved in the pre-retirement survey, representing the majority of the UK's in-force personal pensions industry<sup>7</sup>. Fifteen annuity providers were involved in the post-retirement survey, representing 86% of the UK's annuities purchased with contract-based or trust-based defined contribution pensions<sup>8</sup>. Each provided customer data covering a representative cross-section of each respective market. Sample profiles were then re-weighted to ensure the data was representative of contract-based DC pension customers approaching retirement and recent annuity purchasers, based on participating providers<sup>9</sup>.

### 1.4.2 Quantitative sample profile

This section briefly outlines the key aspects of the sample profile that are relevant:

- 40% of pre-retirees bought an annuity with a pension fund of less than £15,000 and 30% of annuity purchasers bought an annuity with a fund of this size<sup>10</sup>. The pot size or annuity value is meaningful to this study, as customers with relatively small pension funds may have the option to take all their benefits as a lump sum or may find they have limited choices for shopping around.

<sup>5</sup> By weight, we are referring to the larger number of post-retirement interviews conducted.

<sup>6</sup> All post-retirement interviews were conducted before the Retail Distribution Review changes, however these may affect some pre-retirement, if shopping around after 31 December 2012.

<sup>7</sup> Share of internal annuities sold in Q2 2012, by provider, was used to inform the number of interviews conducted for each participating provider.

<sup>8</sup> ABI market share data, number of annuities sold in Q2 2012, by provider.

<sup>9</sup> Note that minimal re-weighting was necessary as the sample proved to be representative across the main characteristics (e.g. fund size, demographics).

<sup>10</sup> ABI figures show the average (mean) annuity purchase price was £33,455 in 2012, and the figures in this sample tally well with the proportion of sales below £15,000 in ABI data.

- The number of pension pots held was consistent across both surveys, with around three-quarters (70% pre-retirement and 74% annuity purchasers) holding multiple pension pots at retirement.
- For 43% of recent annuity purchasers, it is their main source of retirement income<sup>11</sup>.
- Around a quarter (28% pre-retirement and 23% annuity purchasers) claimed to have experienced the retirement income process before this current experience.
- Pension providers were asked to provide details of the pension type held by customers. The vast majority hold a Personal Pension (82%) and a further 8% hold a Group Personal Pension<sup>12</sup>.
- Details of the annuity product held were supplied by relevant providers. The majority hold standard annuities, with 11% purchasing enhanced or impaired<sup>13</sup>, 4% investment-linked and a further 4% with escalating annuities<sup>14</sup>.
- While it was not possible for all providers to identify whether annuity purchasers retired early, when asked directly 43% claim they have taken early retirement.

Full details of the products held and participant profiles are provided in Appendix 1.

#### 1.4.3 Qualitative sample

The sample consisted of 20 customers falling into distinct behavioural categories. These were designed to help illustrate particular decision paths and to explore specific behaviours and choices.

Pre-retirement:

- Customers who understood the concept of shopping around but have decided not to.
- Customers who had read some or all of the wake-up pack, but have not yet reached a final decision.

<sup>11</sup> Participants were asked not to consider the State Pension, when considering the role of this retirement income.

<sup>12</sup> The remainder were unclassified on the customer data supplied by providers.

<sup>13</sup> Not all participating providers were able to provide information on whether customers purchased a non-standard annuity. The proportion of customers with Enhanced or Impaired annuities is likely to lower than the actual market figure (based on all annuity purchaser participants having their annuity type identified by the provider).

<sup>14</sup> Details supplied by provider - proportions based on total sample. However not all providers were able to identify type of annuity held.

Post-retirement:

- Customers who understood the concept of shopping around, but chose not to shop around.
- Customers who shopped around, and did not switch.
- Customers who shopped around, and did switch.

In each post-retirement category, the sample included customers who were smokers and/or had medical conditions which could make them eligible for enhanced annuities. The sample also covered married customers, who have or have not decided to purchase a joint life policy.

Full detail of the qualitative sample is shown in the appendix.

## **1.5 The customer journey**

The ABI's Code of Conduct on Retirement Choices states that all provider communications, whether written, online or over the telephone, must take customers through a clear customer journey covering the following three key stages:

- Understanding retirement
- Understanding the different ways of taking retirement income
- Understanding how to buy

The report structure follows these key stages in the customer journey.

## 2.0 UNDERSTANDING RETIREMENT

This section looks at the initial stages of the customer journey. The ABI Code aims to help customers understand the decisions they need to make at retirement and states that this stage in the journey should focus on ensuring communications approaching retirement are clear and understandable, engage customers in the process, and encourage them to seek personalised help and advice<sup>15</sup>.

The section focuses on four broad areas:

- Awareness of retirement options available including deferring retirement, tax free cash, commutation of smaller pots and amalgamation of pension pots.
- Levels of confidence and understanding of the retirement options available.
- Sources of information or support customers feel are available and intend to use.
- The role of the pre-retirement wake-up pack in customers' understanding of their options.

### 2.1 Awareness of options available at retirement

Most pre-retirees and annuity purchasers claim to be aware of the options available to them at retirement (see tables 1 and 2 below). There is near universal awareness of the tax-free lump sum. The majority of customers, 85% pre-retirement and 87% post-retirement, are aware of the option to defer the purchase of an annuity if they wish.

Seventy-eight percent of customers with multiple pension pots are aware of the option to amalgamate these before purchasing an annuity.

The retirement option with the lowest awareness is the ability to take the entire pot as a cash lump sum for small funds. Around a quarter of pre-retirees and annuity purchasers are unaware of this option. This does not vary significantly depending on the size of the customers' pension pot.

Respondents were asked about awareness of income drawdown, in order to filter out those who had already decided to take their income via drawdown instead of an annuity, as much of the survey would not be relevant to them; 40% of pre-retirees claim to be aware of income drawdown, with 7% in total considering this option.

<sup>15</sup> ABI Code of Conduct on Retirement Choices, March 2012.

**Table 1: Awareness of retirement options – Pre-retirees**

	<i>You can usually take up to 25% of your pension fund as a tax free lump sum</i>	<i>It was possible to postpone the purchase of an annuity</i>	<i>If you build up more than one pension pot, you could potentially combine them into one annuity</i>	<i>You may be able to take the entire pension pot as a cash lump sum if you have a relatively small fund</i>
<i>Unweighted base</i>	500	500	351	500
<b>NET Yes</b>	92%	85%	78%	72%
Yes – but it's not relevant to me	17%	48%	* n/a	38%
Yes, and I have/ will look into it	75%	38%	*n/a	34%
No I was not aware of this	7%	14%	*n/a	28%
Don't know	1%	1%	*n/a	-

**Note:** Sample = Pre-retirees. Base as shown. \*Combined pension pot question was asked separately to the other statements and had a different scale and was only asked to those that hold multiple pension pots.

**Table 2: Awareness of retirement options – Annuity purchasers**

	<i>You can usually take up to 25% of your pension fund as a tax free lump sum</i>	<i>It was possible to postpone the purchase of an annuity</i>	<i>If you build up more than one pension pot, you could potentially combine them into one annuity</i>	<i>You may be able to take the entire pension pot a cash lump sum if you have a relatively small fund</i>
<i>Unweighted base</i>	1000	1000	606	1000
Yes - aware	96%	87%	78%	73%
No – not aware	3%	11%	19%	24%
Don't know/ Unsure	1%	2%	2%	2%

**Note:** Sample = All annuity purchasers. Base as shown. Combined pension pot question only asked to those that hold multiple pension pots.

2.1.1 Consideration of retirement options

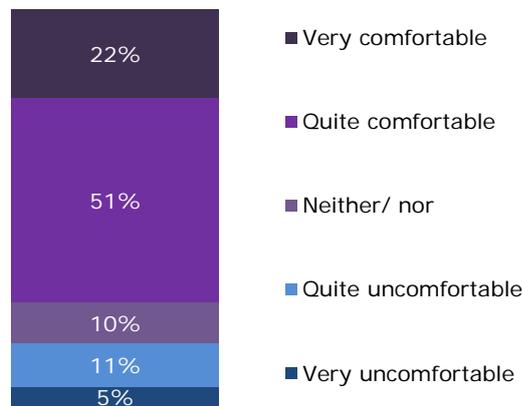
Three-quarters (76%) of pre-retirees claim to have started considering their retirement options, while 11% state they have actually begun to shop around for their retirement income. Customers are significantly less likely to have started considering their options if they describe themselves as generally needing to rely on the advice of others (hereafter referred to as customers with low financial confidence). Further

details regarding the statements used to define financial confidence are shown in the appendix.

### 2.1.2 Confidence with retirement options

Three-quarters (73%) of pre-retirees are comfortable with their retirement options, (see figure 1) but comfort levels reduce with lower levels of financial confidence. This varied from 60% of respondents of customers with low confidence to 88% of customers who have high financial confidence.

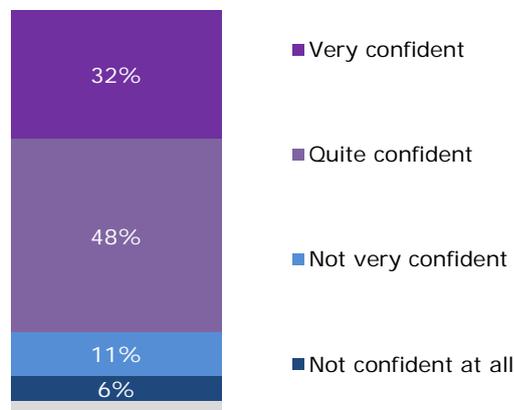
**Figure 1: Level of comfort understanding retirement options - Pre-retirees**



**Note:** Sample = All pre-retirees (500) Don't know figure (2%) not shown.

A third of pre-retirees are 'very confident' they will make a fully informed decision when it comes to purchasing an annuity, with a further 48% 'quite confident' (see figure 2). Those who are not confident (17%) are significantly more likely to be unsure whether they can buy their annuity from another provider.

**Figure 2: Confidence they will be able to make a fully informed decision when purchasing their annuity - Pre-retirees**



**Note:** Sample = All pre-retirees (500). Don't know figure (4%) not shown.

Table 3 below shows that the vast majority (89%) of annuity purchasers are confident that they ‘fully understand’ their options at retirement and 87% ‘know where to go for help and support’.

**Table 3: Retirement options – Annuity purchasers**

	<i>You fully understood all of your options at retirement</i>	<i>You knew where to go for help and support</i>
<i>Unweighted base</i>	<i>1000</i>	<i>1000</i>
<b>NET Confident</b>	89%	87%
Very confident	46%	46%
Quite confident	43%	41%
Not very confident	7%	8%
Not confident at all	2%	4%
Don't know	1%	2%

**Note:** Sample = All annuity purchasers. Base as shown.

Confidence in understanding options at retirement and knowing where to go for support was significantly lower for those who found the pre-retirement wake-up pack unhelpful, with 69% confident in both cases.

## 2.2 Sources of information and support

### 2.2.1 Awareness of different sources of information or support

Sources of information and support identified spontaneously by pre-retirees focus on financial advice and speaking to their current provider:

- 37% are spontaneously aware they can obtain the advice of a professional or independent financial adviser.
- 26% are spontaneously aware they can speak to their current provider.

A number of other sources are mentioned but with less frequency (see table 4, below). A minority spontaneously recall the free and impartial services offered by the Money Advice Service (6% recall the MAS website, 1% the helpline) or The Pension Advisery Service (3%, including the helpline and online planner).

In total, 28% of pre-retirees cannot spontaneously identify any sources of information or support.

### 2.2.2 Sources of information or support pre-retirees intend to use

When prompted with a list of information and support sources, 67% of pre-retirees claim they intend to speak to their current pension provider about their retirement

options; 12% have already spoken to their provider, and 52% intend to seek financial advice<sup>16</sup>.

**Table 4: Sources of information or support believed to be available at retirement (unprompted) – Pre-retirement**

Professional / independent financial adviser	37%
Speak to current pension provider	26%
Friend / colleague	6%
Newspapers / magazines	6%
Bank or building society	6%
Spouse or partner	6%
Money advice service website / comparison site (MAS)	6%
Don't know	18%
None	10%

**Note:** Sample = All pre-retirees (500). Support sources <6% not shown. Unprompted.

### 2.2.3 Sources of information or support used by annuity purchasers

In total, 57% of annuity purchasers have obtained advice or information before purchasing their annuity when asked directly, without any sources of information or support as prompts<sup>17</sup>. As may be expected, those with a larger fund size are more likely to seek financial advice, with 42% of those with a fund size of £1,000-£9,000 doing so compared with 73% of those with £50,000 or more.

Financial advice is the most commonly sought type, with 35% of annuity purchasers using an adviser.

Use of the internet or newspapers was often mentioned in the qualitative sample and a spectrum of activity was mentioned. This ranged from a brief check of comparison website rates and requesting 'instant' quotes, through to requesting personalised detailed quotes.

<sup>16</sup> Throughout the report, classification of financial advice is based on respondents' own perceptions. It is likely that many customers do not understand the difference between a service that offers advice and a service that offers information and requires the customer to choose. Therefore it is sensible to consider the "professional financial adviser" and "retirement specialist" and perhaps "bank" categories to overlap.

<sup>17</sup> This is likely an underestimate, given that the proportion shopping around is 63%.

**Table 5: Sources of advice or information used (prompted) - Annuity purchasers**

Professional financial adviser/ independent financial adviser	35%
Spoke to your existing pension provider	17%
Newspapers/magazines/articles	8%
Spouse/partner	8%
Spoke to another provider (not existing)	7%
Retirement specialist/ annuity specialist	7%
Friend / Colleague	7%
Money advice service website / comparison site (MAS)	6%
Bank or building society	4%
Other family member	3%
The pension Advisery service (TPAS) helpline	3%
NET online	7%

**Note:** Sample = Re-based on all annuity purchasers (1,000). Sources of information <3% not shown.

## 2.3 The role of the pre-retirement wake-up pack

### 2.3.1 Recall and readership of pre-retirement information

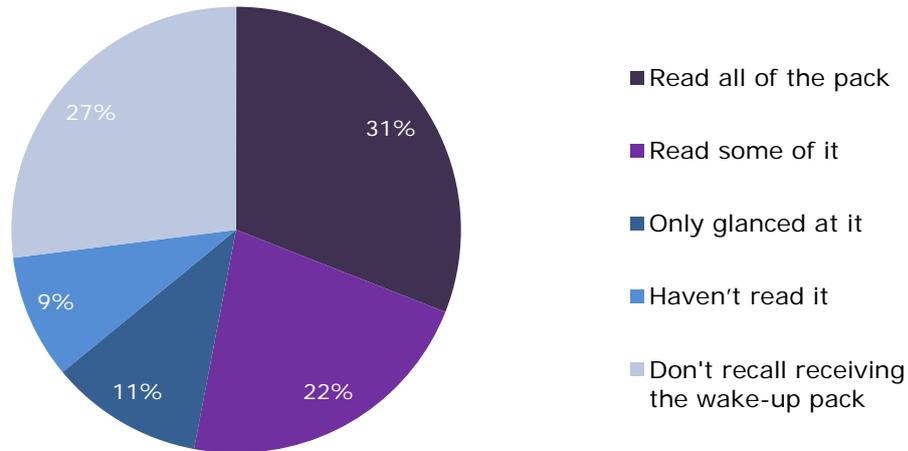
In total, 83% of pre-retirees remember recently receiving information from their pension provider, relating to their retirement options. Following a short description of the wake-up pack and when it is usually sent, 73% of all pre-retirees recall receiving it, compared with 92% of annuity purchasers<sup>18</sup>.

Figure 3 shows that readership of the wake-up pack varies widely, with around a third of pre-retirees claiming they have 'read all of the pack'. Whilst all customers should have received a pack, 27% cannot recall one and 42% have yet to read it in full.

Almost half (47%) of those who understand that they can purchase an annuity from other providers 'read all of the pack', compared with 30% of those who have not read in full. The least financially confident are also the least likely to have 'read all of the pack' (22%).

<sup>18</sup> Based on customer data sent by pension providers – it is important to note that proximity to their selected retirement date will vary by participant; it is typically two to five months before, but all have been sent the pack. It may not be possible to compare pre-retirees and annuity purchasers, because the latter will include some who had a different retirement process – people from trust-based schemes and early retirees.

**Figure 3: Readership of wake-up pack – Pre-retirement**



**Note:** Sample = All pre-retirees (500)

From the qualitative interviews it is clear that annuity purchasers found it difficult to distinguish between the retirement wake-up pack and their follow-up pack. The follow-up pack tends to dominate recall because it often contains definitive personal financial information. However, other comments reflect content from the earlier wake-up pack, suggesting that both have been read and absorbed to a degree.

Generally customers in the qualitative interviews highlight the importance of receiving information at the right time for them. The perception is that providers often seem to be working to retirement dates that do not match customer intentions or expectations.

*"They gave me these guaranteed rates and I felt very rushed, I only had two weeks to decide if I could afford to do it, I didn't really have enough time to think or find someone to help me" -*

Female, annuity purchaser, did not shop around

The most common unprompted reason for not reading the wake-up pack in full is a perception they do not have sufficient time to read it. A third of customers are delaying a more detailed review until a later date (see table 6). A small minority spontaneously cited the complexity, detail or clarity of the pack as a barrier to full readership.

**Table 6: Unprompted reasons for not reading the pre-retirement wake-up pack**

No time to read	39%
Will read it at a later date	33%
Plan to use a financial adviser	10%
Not relevant to me	8%
Looked complicated/ too detailed	7%
Read other information relating to retirement options	5%
Not interested in the pack	5%
Did not understand the pack	5%
Waiting to go through options with friends and family	4%

**Note:** Sample = Pre-retirees who did not read their wake-up pack in full (210). Reasons mentioned by below 4% not shown.

2.3.2 Main messages recalled from the wake-up pack

A variety of messages are spontaneously recalled among the pre-retirees who have read their pack, with over half (57%) identifying that the pack communicated that they have options at retirement (see table 7). More specific aspects of the pack are recalled by a minority, with 13% spontaneously recalling the ability to shop around and 10% citing the 'different annuity types available'.

From the qualitative interviews, it is clear that attitudes to the wake-up pack vary substantially. Some had read it carefully and registered many of the details it contains, even if they did not specifically recall terminology.

*"They sent me some information and I remember reading about joint annuities, and there was something about enhanced annuities. ...it was quite general information but that is what I would expect"* - Female, annuity purchaser, Did not shop around

Others were fairly dismissive of the wake-up pack because they considered the information it contained to be too generic.

**Table 7: Messages recalled from the pre-retirement wake-up pack**

Options (unspecified) available at retirement	57%
Ability to shop around for retirement income / annuities	13%
Lump sums	11%
Value of pension	11%
Different annuity types available	10%
Best retirement income/ annuity for my needs	6%
Different types of retirement income available	6%
Need to make a decision regarding retirement income	5%
Sources of advice and support available	5%

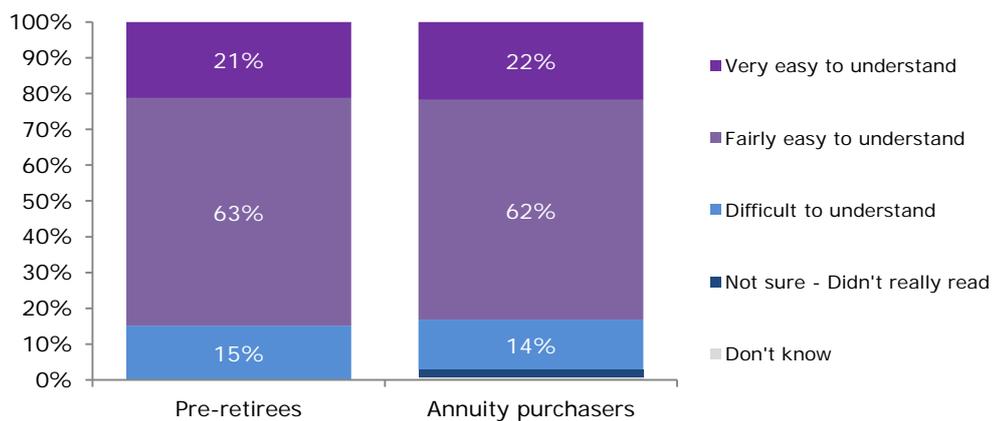
**Note:** Sample = Pre-retirees who have received and read at least some of the wake-up pack (319). Responses mentioned by less than 5% not shown.

### 2.3.3 Usefulness and quality of information from providers

A high proportion, 85%, of pre-retirees and annuity purchasers considered the information they received (pre-retirement) as 'very' or 'fairly easy' to understand<sup>19</sup>.

A minority of pre-retirees and annuity purchasers found the pre-retirement information difficult to understand (see figure 4). Annuity purchasers who were not confident they 'fully understand their retirement options' were over represented in this group with 52% of these customers finding the information 'difficult to understand'.

**Figure 4: Clarity of pre-retirement information received**



**Note:** Sample = Recall receiving and read written pre-retirement information from their pension provider; pre-retirees (319), annuity purchasers (924).

<sup>19</sup> Note that annuity purchasers will be assessing all written pre-retirement information they received, including the follow-up pack and annuity quotation letter. Pre-retirees are only going to be assessing the wake-up pack and any previous information sent.

A quarter (27%) of pre-retirees with low financial confidence found the written information 'difficult to understand'. This compares with 7% and 11% for those with high and medium financial confidence respectively. The less financially confident are also less likely to have read the wake-up pack fully (based on pre-retirees). Those who are likely to benefit most from the information are, therefore, the least likely to engage with it.

Pre-retirees and annuity purchasers who provided qualitative feedback on the communications often focussed on the amount of information they had received, and on the fact that it is complex. They described the number of pages, booklets and amount of financial information, and many found it overwhelming. In many cases this appeared to be a reaction to the follow-up pack, rather than the wake-up pack.

*"There was too much padding, it took ten pages to say what it could have said in one. I filed it away, it was mostly junk mail. The important bits are what you'll get for how long" - Male, pre-retirement*

*"It was a bit daunting, it was a ton of paperwork" - Female, annuity purchaser, did not shop around*

In some instances the timing of taking an annuity changed during the process, necessitating several quote packs to be despatched to the customer, which added to the perceived levels of complexity and confusion.

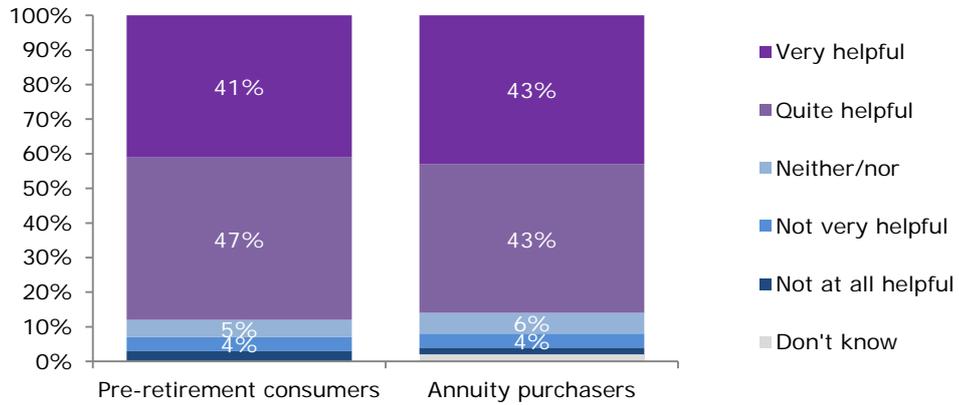
*"They sent me a lot of information, it was information overload really. Each time I rang them they would send me another pack! I had packs coming out of my ears"- Female, annuity purchaser, shopped around, switched*

Several customers in the qualitative sample described the information they had received as clearly written. Where some found it difficult to understand, they attributed this to the subject matter and their own abilities, rather than the quality of the materials.

*"I had to read it a few times but then I got it – anything legal is bound to be like that, you just have to read it carefully" - Female, annuity purchaser, did not shop around*

In total, 88% of pre-retirees and 86% of annuity purchasers who read the written information, found it 'very' or 'quite helpful', (see figure 5).

**Figure 5: Helpfulness of pre-retirement information received**



**Note:** Sample = Recall receiving and read written pre-retirement information from their pension provider; pre-retirees (319), annuity purchasers (924).

For some customers, the amount of unfamiliar language made the packs less helpful, and they wanted more use of 'laymans' terms.

*"What they sent me was comprehensive, it explained my options – but I did find some of it jargony, I had to read it a few times to make sense of it properly"* - Male, annuity purchaser, did not shop around

Overall, there is broad agreement that information from pension providers makes customers more aware of their retirement options and completely clear where to find more information, as shown in table 8.

**Table 8: Usefulness and quality of information - Agreement summary**

	Information from your pension provider made you more aware of your options at retirement		Information from your pension provider made it completely clear how and where you could find out more information	
	<i>Pre-retirees</i>	<i>Annuity purchasers</i>	<i>Pre-retirees</i>	<i>Annuity purchasers</i>
<i>Unweighted base</i>	387	924	387	924
<b>NET agree</b>	85%	87%	79%	85%
Strongly agree	25%	26%	22%	25%
Agree	59%	61%	57%	60%
Neither agree nor disagree	5%	4%	5%	4%
Disagree	6%	6%	7%	7%
Disagree strongly	2%	1%	2%	1%
Don't know	2%	1%	7%	2%

**Note:** Sample = Recall receiving and read written pre-retirement information from their pension provider; pre-retirees (319), annuity purchasers (924).

#### 2.3.4 Necessary information to compare quotes

Around three-quarters (74%) of more financially confident pre-retirees feel they are informed well or reasonably well informed enough to be able to compare a quote from another provider. This compares with 65% for all pre-retirees.

Around a third (32%) do not feel informed enough to be able to compare quotes and these customers are more likely to have found the pre-retirement pack difficult to read (44%).

Amongst the customers in the pre-retirement and annuity purchaser qualitative sample who had received follow-up packs, some did comment that it was difficult to distinguish between the different 'quotes'<sup>20</sup> that they received from a single provider, because they looked very similar. Often they appeared on separate pages which also made comparison less straightforward.

Comparing quotes from different providers was also difficult due to the use of different formats and terminology. Customers would like consistency in how quotes are laid out so that they are better able to compare quotes. They would also like better demarcation and explanation of the different annuity types:

<sup>20</sup> The Code of Conduct sets out standards for unrequested illustrations which some providers issue in packs. These set out what income the customer might receive, but are not necessarily tailored to the customer's circumstances. These are likely to be seen by the customer as "quotes".

*"I just got a load of quotes, there wasn't any other information with them. It was hard to compare – you couldn't compare like with like from different companies because they all described them differently"* - Male, annuity purchaser, shopped around and stayed

From the qualitative interviews it emerged that customers found it helpful when guidance was included as to whom the various annuity types might be suitable for. Any help deciding between annuity types was appreciated:

*"One website was really helpful as it showed you a range of annuity options and asked questions to get you to the right quotes"* - Male, annuity purchaser, shopped around and stayed

### 2.3.5 Usefulness and quality of telephone contact with providers

Direct contact with the provider plays an important role in the new ABI Code of Conduct on Retirement Choices. Currently, two-thirds (67%) of pre-retirees intend to contact their pension provider directly for information or support at retirement.

The usefulness of telephone contact is apparent. As shown in Table 9, most customers who spoke to their pension provider agree that the conversation made them more aware of their options. 84% of pre-retirees and 86% of annuity purchasers also agree that the person they spoke to made it clear how and where to access further information.

There is a marked difference between pre-retirees and annuity purchasers agreeing strongly that their 'provider made them more aware of their retirement options', although the base size for pre-retirees is small. 40% of pre-retirees agree strongly compared with 25% of annuity purchasers, a significant difference. The qualitative research found that this difference may be explained by annuity purchasers using their provider just as a starting point in the annuity process, whilst provider contact may be all the pre-retirees have experienced thus far.

**Table 9: Usefulness and quality of telephone contact with provider summary**

	Your pension provider made you more aware of your options at retirement		Your pension provider made it completely clear how and where you could find out more information	
	<i>Pre-retirees</i>	<i>Annuity purchasers</i>	<i>Pre-retirees</i>	<i>Annuity purchasers</i>
<i>Unweighted base</i>	58	173	58	173
<b>NET agree</b>	92%	84%	84%	86%
Strongly agree	40%	25%	32%	29%
Agree	52%	58%	52%	57%
Neither agree nor disagree	-	4%	3%	2%
Disagree	5%	11%	11%	10%
Disagree strongly	-	-	-	1%
Don't know	3%	2%	2%	2%

**Note:** Sample = Pre-retirees and annuity purchasers that contacted their provider. Unweighted base as shown.

Within the qualitative sample, customers who had telephoned for additional information were generally positive. Explanations received verbally from another person, particularly about the different types of annuity, could focus on the individual customer's situation and be more easily absorbed than written information. The openness of call handlers in suggesting shopping around was also mentioned as a positive, and enhanced the feeling of trust.

*"She was a very clear person on the phone, she stepped me through it... She also said it was a good idea to look around"* - Male, post-retirement, shopped around, did not switch

Therefore this element of provider contact was appreciated by customers, even though in some cases customers felt other aspects of the whole process were not as positive.

*"They sent me something about enhanced annuities, I rang up to find out a bit more – they were very helpful: well at least I thought so at the time"* - Female, annuity purchaser, did not shop around

For the less confident, having someone to explain something was reassuring, and some were insufficiently engaged to read through a long document. For people who are more confident, it feels like a quick and direct way to sort through options and extract relevant and personalised information.

### 3.0 UNDERSTANDING THE DIFFERENT WAYS TO TAKE RETIREMENT INCOME

This section focuses on awareness and consideration of the different annuity types and the degree to which annuity purchasers consider each product option before making their purchase.

#### 3.1 Awareness of annuity types

The majority of annuity purchasers hold standard annuities, with 11% purchasing enhanced or impaired, 4% investment-linked and 4% escalating Annuities<sup>21</sup>. Despite the tendency towards purchasing standard annuities, most customers are aware of other options when prompted with alternative annuity names and short descriptions.<sup>22</sup>

Whilst awareness of annuity types varies across pre-retirees and annuity purchasers, joint life annuities and annuities with a guarantee period have the highest levels of recall amongst both customer groups (shown below in table 10). Customers are least aware of investment-linked, enhanced or impaired and escalating annuities.

**Table 10: Awareness of annuity types – Pre-retirees and annuity purchasers**

	<i>Pre-retirement</i>	<i>Annuity purchasers</i>
	<i>% NET Aware</i>	<i>% NET Aware</i>
<i>Unweighted base</i>	<i>500</i>	<i>1000</i>
Guarantee period	76%	86%
Joint Life	81%	84%
Guaranteed Annuity Rate	75%	79%
Single Life	70%	76%
Level	73%	75%
Escalating (Inflation Linked)	66%	74%
Enhanced/Impaired	65%	72%
Investment-linked	65%	67%

**Note:** Sample = All pre-retirees (500) and annuity purchasers (1000). Prompted with annuity name and short description.

Married respondents are more aware of joint annuities than those without a partner. 87% of annuity purchasers that are married or co-habiting and 85% of those with

<sup>21</sup> Details stated by provider - proportions based on total sample. However, not all providers were able to identify type of annuity held.

<sup>22</sup> Descriptions used to prompt customers of each annuity type can be found in the Appendix.

dependents that need an income when they pass away are aware of Joint Life annuities; this compares to 65% among customers who are single.

Within the qualitative sample, most male married customers saw it as a priority.

*"I didn't know what type I should get except I knew I wanted a joint one, because my wife only has a small pension"* - Male, post-retirement, shopped around and stayed

Conversely, awareness of enhanced or impaired annuities is higher among non-smokers than those who currently smoke or have recently been regular smokers. Two-thirds (66%) of annuity purchasers who are current or recent smokers are aware of enhanced or impaired annuities compared to 74% of non-smokers.

Individuals who have gone through the retirement process before have an overall higher awareness of the individual annuity types. Similarly, those who sought advice and information before purchasing their annuity are significantly more aware of each option than those who have not.

Readership of the wake-up pack has a significant effect on whether customers are aware of different annuities. As shown in table 11, pre-retirees who claim to have read all of their wake-up pack are significantly more aware of their options than customers that glanced at or had not read it (although the bases for the latter two categories were small).

**Table 11: Awareness of annuity types and readership of wake-up pack – Pre-retirees**

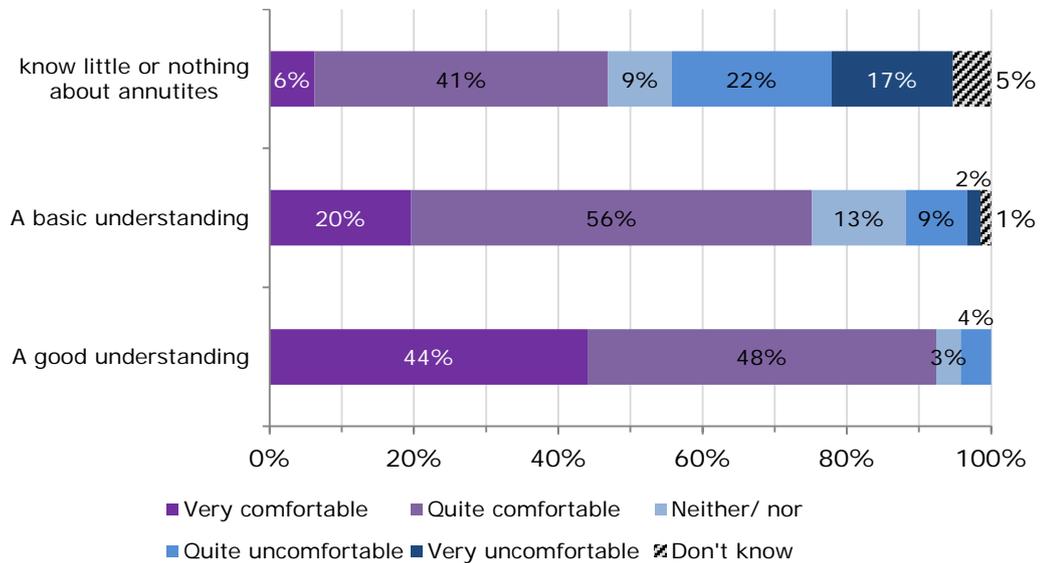
	<i>Read all of it</i>	<i>Read some</i>	<i>Glanced at it*</i>	<i>Haven't read*</i>
<i>Unweighted Base</i>	<i>153</i>	<i>111</i>	<i>55</i>	<i>44</i>
Joint Life	91%	84%	76%	67%
Guarantee period	88%	75%	67%	74%
Guaranteed Annuity Rate	88%	75%	70%	72%
Level	86%	73%	70%	63%
Single Life	83%	73%	64%	47%
Escalating (Inflation Linked)	83%	68%	59%	52%
Enhanced/ Impaired	80%	62%	63%	56%
Investment-linked	75%	62%	65%	68%

**Note:** Sample = The levels of readership of the wake-up pack by pre-retirees. Bases as shown. Prompted with annuity name and short description. \*Percentages in italics where there is a small sample base.

Readership also has a significant effect on customer understanding of annuity types. Overall, 77% of pre-retirees feel they have a good or basic understanding of the range of annuity types (24% good, and 54% basic), compared to 23% who know little or nothing about annuities. Of these, understanding is significantly higher amongst customers who have read their wake-up pack, than compared with non-readers: 88% of those that have read the pack feel they have a good or basic understanding of the different annuities whilst 72% of non-readers describe their understanding as good or basic. Those with a better understanding were much more likely to feel comfortable

they could understand their retirement options (as shown by Figure 6), and confident they could make an informed decision.

**Figure 6: Understanding of annuity types compared to comfort understanding retirement options**



**Note:** Sample = all pre-retirees (500 respondents); 'understanding' relates to "Which of the following best describe your understanding of the different types of annuity we have just described?"; 'comfort' relates to "Thinking now about your retirement. Could you tell me how comfortable you are about your understanding of the options available to you at retirement?".

Amongst the qualitative sample a number of awareness themes emerged, some of which suggest that self-reported levels of understanding may mask an element of confusion or over-confidence:

- **Confusion between the terms 'enhanced' and 'escalating'** - some customers appeared to believe these types of products were linked to the stock market (suggesting further confusion with Investment-linked).

*"Enhanced – I did look at that but it was so complicated with having to choose a % and smoothing....I didn't understand it"* - Female, annuity purchaser, did not shop around

- **Respondents were aware of the option of enhanced annuities** – but some felt they would not qualify as they had no health issues, so skimmed over the information and did not assimilate the terminology. Customers often believe that better annuity rates may be available for people with medical conditions or smokers, but did not know what they were called. Others had thought they might qualify, had enquired, and subsequently did not qualify.
- **Difference between Guarantee and Guaranteed Annuity Rate (GAR) unclear** - some customers are unclear on the difference, although they claimed awareness of both. Not all customers understand how guarantee periods work, and there is also evidence of GARs not being understood.

*"If you have a guaranteed pension for ten years what happens after that? – Nothing? I'd rather have a smaller amount now but go on for a longer period" - Female, pre-retirement*

*"I haven't got much time for them because they said this is what they guarantee to pay, but the actual offer is half that." - Male, pre-retirement*

- **Customers generally aware of the option to have a joint annuity** which would pay out to a spouse if the annuity purchaser died first. Those that have also taken a Guarantee period annuity are less clear on how these two aspects work together.
- **Most have awareness of the choice between a level or escalating annuity.** They are less clear on whether inflation-linked, RPI-linked and escalating all meant the same thing, or what the distinctions are.

### 3.2 Consideration and purchasing of annuity types

Guarantee period and single life annuities are more frequently considered than other annuity types, considered by 48% and 41% of annuity purchasers respectively; around half of the customers that are aware of them.

**Table 12: Awareness and consideration of annuity types – Annuity purchasers**

	<i>Awareness of annuity types</i>	<i>Consideration of annuity types</i>
Guarantee Period	86%	48%
Single Life	76%	41%
Guaranteed Annuity Rate (GAR)	79%	36%
Level	75%	34%
Joint Life	84%	37%
Enhanced/ Impaired	72%	21%
Escalating (Inflation Linked)	74%	21%
Investment-linked	67%	11%

**Note:** Sample = All annuity purchasers (1000). Prompted with annuity name and short description.

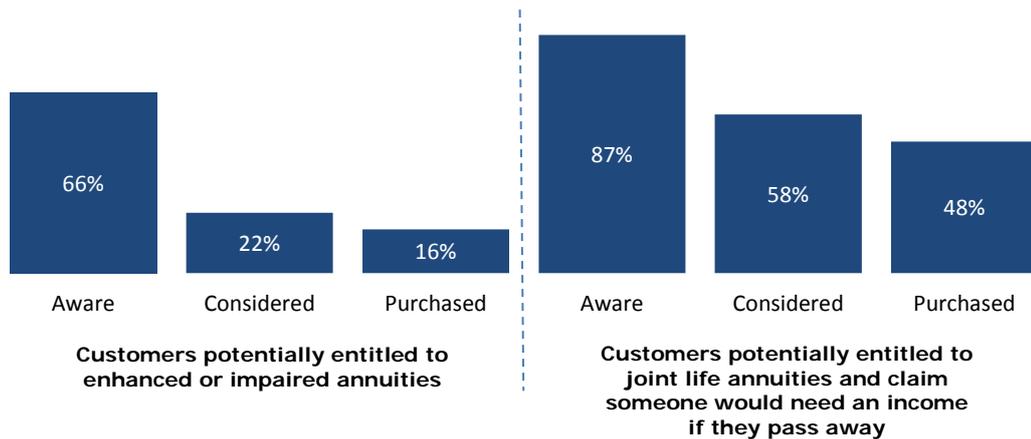
The table is organised from the highest to lowest conversion of awareness to consideration of these options; however, in cases where a type of annuity is not available to an individual, conversion is not relevant.

Investment-linked, enhanced or impaired and escalating annuities have the lowest awareness to consideration conversion. These annuity types are most likely to be considered by customers with larger funds (£50,000 or above), or by customers with previous experience of arranging a retirement income. Consideration of these annuities is also higher when a financial adviser is consulted.

Smokers are no more likely to consider enhanced or impaired annuities than non-smokers. Figure 7 shows the awareness, consideration and proportion purchasing an

enhanced or impaired annuity amongst those potentially eligible. Those who potentially qualify for, but do not purchase an enhanced or impaired annuity tend to be unable to say why. Those who do give a reason most commonly mention; finding a more suitable annuity for their needs; not having a large enough pension; finding this annuity type too confusing or a belief they do not qualify.

**Figure 7: Awareness, consideration and purchase of relevant annuity types**



**Note:** Sample = All annuity purchasers that currently or have recently smoked (227); all annuity purchasers that are married or co-habiting and claim someone would need an income if they pass away (454). The proportion purchasing is based on respondents' own reporting of whether they purchased each type of annuity.

Married customers who did not purchase a joint annuity more commonly made a conscious decision not to. This is either because their partner had their own retirement provision or because the size of their retirement fund was perceived to be insufficient.

Within the qualitative sample, married customers who opt not to take a joint annuity are often female. Their husband has the larger pension entitlement which is often taken on a joint basis. The annuity held by the female was often based on a smaller fund and a joint annuity is deemed unnecessary because:

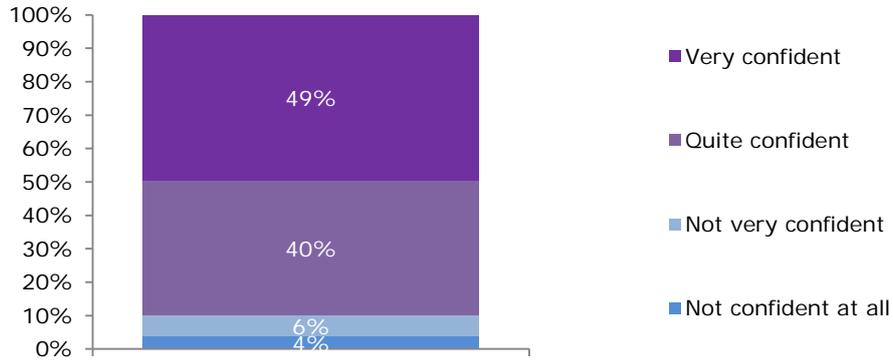
- She was younger and less likely to die first.
- The husband's pension was already adequate for his own needs.
- The absolute amount was relatively small, such that the reduction from single life to joint life terms made the pension no longer seem worthwhile.
- The relationship was breaking down.
- Or some combination of these factors.

Where a husband has decided to take a single life option, it is often perceived to be a small or secondary pot.

### 3.3 Confidence in product choice

Post retirement, 89% of annuity purchasers either feel 'very' (49%) or 'quite confident' (40%) that they have made the right decision and their annuity fully meets their needs and circumstances (See figure 8).

**Figure 8: Confidence in product suitability – Annuity purchasers**



**Note:** Sample = All annuity purchasers (1000)

Customers who purchased annuities other than standard annuities are the most likely to have sought financial advice before making their purchase. Furthermore, those who purchased an investment-linked, enhanced or impaired annuity, or one with a death benefit (such as a guarantee period or value protection) are more likely to have confidence in their purchase than those purchasing an annuity without these features (investment-linked 95%, enhanced or impaired 92% and death benefit 92% respectively compared to 88%).

## 4.0 UNDERSTANDING HOW TO BUY

The Open Market Option (OMO) is an important right for those looking to secure a retirement income, giving them the option to purchase their annuity from a provider other than the one they have their pension with.

The code requires providers to ensure their customers have all the necessary information to approach an alternative provider and make it absolutely clear that shopping around could result in a higher and more appropriately shaped income. Providers must also point customers to independent sources of help<sup>23</sup>.

The vast majority (91%) of annuity purchasers are aware of the option to shop around, but the decision to research alternative options is not always taken.

### 4.1 Shopping around behaviour

Whilst 91% of annuity purchasers are aware of their right to shop around, this does not always transfer to action.

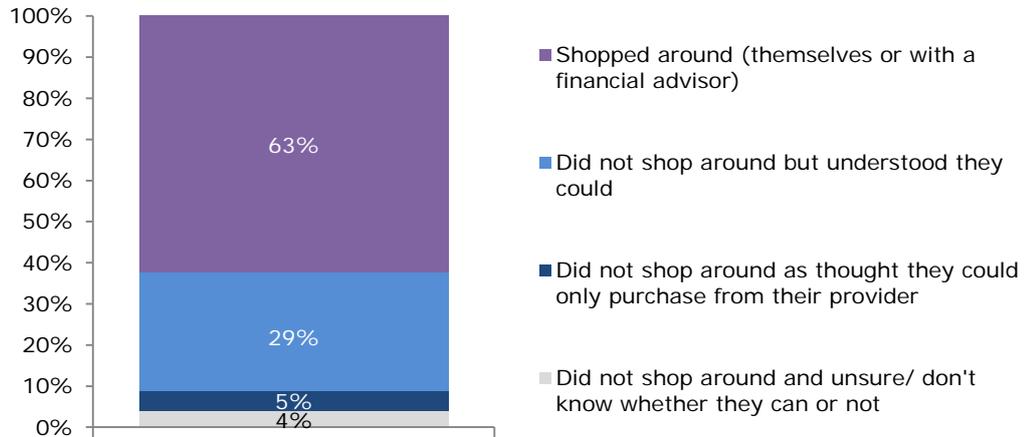
In total, 63% of all annuity purchasers claim to take some action to exercise their right to shop around, while 37% choose not to and to stay with their current provider (see figure 9 below).

In most instances customers who do not shop around are aware that they could. In total, 5% of respondents believe they have to buy an annuity from their pension provider. A further 4% were unsure when asked whether they were allowed to buy an annuity from another provider.

It is not clear when the awareness is gained – a smaller proportion (67%) of pre-retirees were aware of their right to shop around, with 16% saying they could only purchase an annuity from their pension provider and a further 17% saying they do not know whether or not they could purchase from another provider, or are not sure what an annuity is.

<sup>23</sup> ABI Code of Conduct on Retirement Choices, March 2012.

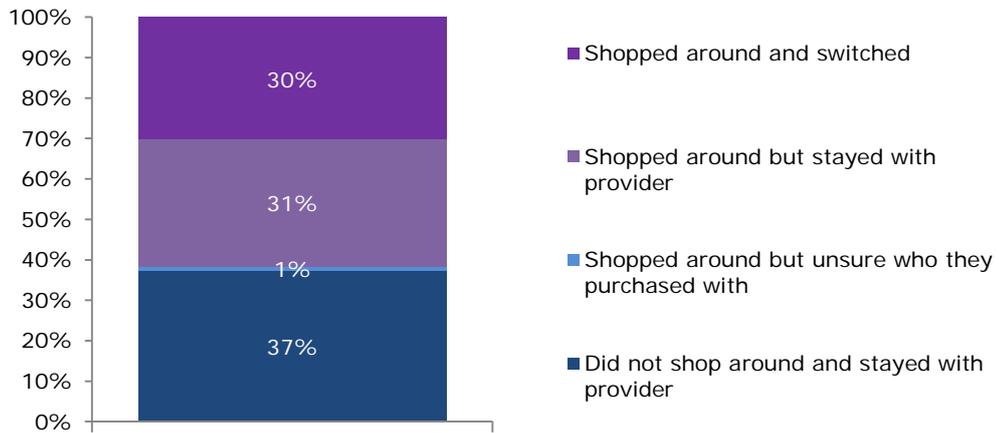
**Figure 9: Shopping around - Annuity purchasers**



**Note:** Sample = All annuity purchasers (1000). Shopping around defined using the following read statements 'I did not look into annuities from other providers and bought from my existing provider'; 'I had a professional financial adviser who looked at this for me'; 'I looked into annuities myself, but only for a limited time and using just a few sources'; 'I looked into annuities myself spending considerable time and effort, using numerous sources'.

In addition to the 37% who did not shop around, a further 31% claim they choose to stay with their current pension provider having looked into annuities from other providers. Overall therefore, 68% of all annuity purchasers in the sample choose to stay with their current provider.<sup>24</sup>

**Figure 10: Shopping around and annuity purchasing – Annuity purchasers**



**Note:** Sample = All annuity purchasers (1000). Shopping around and staying or switching all based on customer perception.

<sup>24</sup> The sample suggests a lower proportion switching than ABI statistics based on sales data. This could be explained by samples from some providers coming from customers who stayed with them rather than customers who switched to them.

## 4.2 Interpretation of stated shopping around behaviour

The most appropriate measure of shopping around is whether the customer has actually compared annuities from other providers they do not currently have a pension with, either themselves or via a financial adviser. The shopping around figures above are based on this definition and should be appreciated in this light.

That said the definition of 'shopping around' is open to a degree of personal interpretation. While 63% say they shop around, it is clear that this includes an element of informal shopping around. For example; of those who 'shopped around':

- 27% say they have not obtained information or advice before purchasing their annuity.
- 25% claim they have not contacted other providers (themselves or via a financial adviser) to discuss annuity products or for annuity quotes.

A range of interpretations are evident from the qualitative interviews, and some examples of shopping around and decision making behaviours are included throughout this section.

The degree of shopping around can be broken down further. Of those who had shopped around, 55% had a financial adviser, 30% looked into annuities themselves but only for a limited time and using just a few sources, and 15% who looked into annuities themselves, spending considerable time and effort, using numerous sources.

Half (50%) of all annuity purchasers approached other providers (either themselves or via a financial adviser) to discuss annuity products, and 47% did so to gain annuity quotes.

Customers who do approach other providers are thorough in their application and, on average, collect four annuity quotes. However it is clear that for some, 'shopping around' may stop short of talking about products and rates with anyone other than their existing provider. Those who spend "considerable time and effort" shopping around gather more quotes and are more likely to switch, as shown by Table 13 (although base sizes are small).

**Table 13: Degree of shopping around – Annuity purchasers**

Degree of shopping around	Obtained quotes from other providers	Average quotes gathered*	Switched
I had a professional financial adviser who looked at this for me	79%	4.6**	60%
I looked into annuities myself spending considerable time and effort, using numerous sources	82%	4.5	51%
I looked into annuities myself but only for a limited time and using just a few sources	51%	3.0	25%

**Note:** Sample = 94 annuity purchasers who spent “considerable time and effort” and 191 who spent “limited time”. “Average quotes gathered” is based on 74 “considerable time and effort” respondents, 101 “limited time” respondents and 206 respondents who used an adviser; these do not include responses of “Not certain how many” and “Can’t remember”.

\*\*Average quotes gathered” is calculated as a weighted average of the selected number of quotes, with “5 or more” assigned a value of 6. Assigning 12, the likely maximum number of quotes, to the “5 or more” category yields an average 7.5 quotes for those who used an adviser and those spending ‘considerable time and effort’.

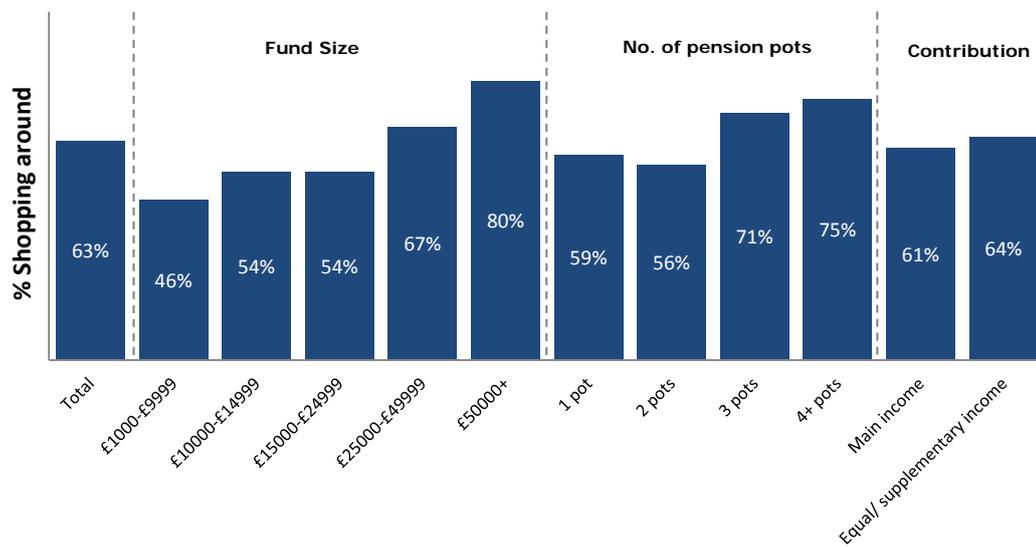
\*\*This value is likely biased downwards due to 27% of respondents who used an adviser being unsure of the number of quotes their adviser obtained.

### 4.3 Customers who have a greater propensity to shop around

Regardless of whether they display proactive shopping around behaviour or simply state that their actions are tantamount to shopping around, annuity purchasers with large fund sizes or multiple pension pots are significantly more likely to shop around, compared to those with small fund sizes and few pots. (See figure 11 below).

The annuity’s proportional contribution towards the customer’s overall retirement income has less of an effect on shopping around behaviour. Customers whose annuity is intended as their main retirement income have a similar propensity to shop around as those whose annuity is an equal or lesser contribution to their overall income (61% compared to 64%, respectively).

**Figure 11: Shopping around amongst customers with varying pot sizes and numbers of pots – Annuity purchasers**



**Note:** Sample = All annuity purchasers (1000). Bases will vary by sub-group. Shopping around based on customers' own reporting of whether they shopped around, as outlined previously.

Being offered a Guaranteed Annuity Rate (GAR) from their existing pension provider suppresses likelihood to shop around. Annuity purchasers who have been offered a GAR are also significantly less likely to use a financial adviser to help them reach their decision.

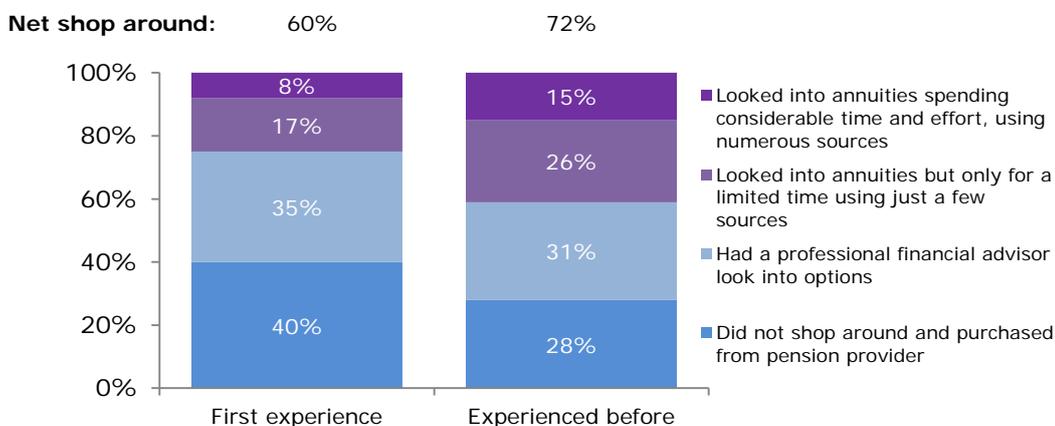
Enhanced or impaired annuity purchasers are more likely to have shopped around, and with a larger number of providers, than any other customer group. 83% shop around for their annuity, compared to 58% of investment-linked product holders and 55% of escalating annuity purchasers<sup>25</sup>.

A higher proportion of married customers (66%), claim they shop around than single customers (58%) and joint annuity purchasers are therefore more likely to research their options compared to those purchasing an annuity to provide a single income.

Past experience of arranging a retirement income also influences whether the customer decides to invest the time in shopping around to purchase their own annuity (see figure 12 below). Customers who have been through the retirement process before, either with a friend or family member, are significantly more likely to shop around than customers experiencing the purchasing process for the first time.

<sup>25</sup> It is difficult to confirm whether customers who smoke or have medical conditions shopped around more due to a better understanding of annuity types and the need to shop around or whether the act of shopping around resulted in these customers being more likely to purchase an enhanced or impaired annuity type.

**Figure 12: Shopping around amongst customers who had experienced the retirement process before and amongst those who have not – Annuity purchasers**



**Note:** Sample = All annuity purchasers who are experiencing the retirement process for the first time (772), all annuity purchasers who have experienced the retirement process before (227).

Early retirees and customers who purchase their annuity ready for their set retirement date are less likely to shop around than those who had deferred their annuity purchase (see table 14). Customers who had deferred purchasing their annuity are also more likely to ask a financial adviser to shop around for them.

**Table 14: Shopping around and deferring or retiring early – Annuity purchasers**

	<i>Retire early</i>	<i>Retire on set retirement date</i>	<i>Customers who had deferred retirement</i>
<i>Unweighted base</i>	435	537	143
<b>NET shop around</b>	62%	64%	78%
Did not shop around and purchased from pension provider	38%	36%	22%
Had a professional financial adviser look into options	33%	35%	42%
Looked into annuities but only for a limited time using just a few sources	21%	18%	22%
Looked into annuities spending considerable time and effort, using numerous sources	8%	11%	15%

**Note:** Sample = All annuity purchasers that retired early, deferred previously or retired on their selected retirement date. Classified based on customer perception. Bases as shown.

#### 4.4 Reasons for not shopping around

As mentioned above, most customers who do not shop around are aware they have the option. Unprompted reasons for not shopping around are varied amongst both pre-retirees and annuity purchasers, but satisfaction with the customer's pension provider is more often stated than any other reason (see table 15 below).

Customers in the qualitative sample who have decided not to switch said they want to deal with a company they trust to handle the process well, and who they feel confident would be financially sound going forward.

*"I thought that because they are a well-known, recognised company then I would be OK with them"* - Female, annuity purchaser, did not shop around

Customers who purchase a product with a Guaranteed Annuity Rate (GAR) are significantly more likely to state 'satisfaction with their pension provider' than customers who have not been offered a GAR.

Annuity purchasers provide a greater variety of reasons for not researching their options than the pre-retirees. Perceived 'time' and 'hassle' are also significantly more prominent amongst annuity purchasers and a 'small contribution' is also significantly more likely to be stated.

For many customers in the qualitative sample, informal shopping around processes serve the purpose of satisfying themselves that staying put is a sensible option. This tended to apply to people with smaller pot sizes and/or other sources of pension income. From talking to a friend or unofficial adviser, or looking in the national press, if their own provider is at or near the top, it can seem pointless to switch. Some customers also believed that in order to switch it would be necessary to involve an adviser and this too was a barrier to switching (see section 4.7).

*"I didn't want to put the time in, I was too busy – and I didn't think it would pay off"* Female, post-retirement, did not switch

*Carole – retired small business owner*

*Carole received a selection of five illustrations from her provider a few months before her 60<sup>th</sup> birthday. She and her daughter had discussed whether she should go to other providers, but once she had the quotes the figures looked satisfactory so she decided to look no further.*

*"We talked about it and it looked sound. Maybe I could have got more, but you don't choose to spend hours and hours doing that when you're happy with what you've got"*

**Table 15: Unprompted reasons for not shopping around amongst pre-retirement and annuity customers**

	<i>Pre-retirees</i>	<i>Annuity purchasers</i>
<i>Unweighted Base</i>	162	338
Satisfied with pension provider	43%	37%
Trust pension provider	15%	12%
Small part of total retirement income	14%	25%
Did not think time and effort was justified	13%	12%
Easier to stay	8%	11%
Professional adviser recommended to stay with pension provider	7%	3%
Pension provider has good reputation	3%	3%
Information was complicated and difficult to understand	3%	2%
Did not know you could shop around	1%	5%
Wasn't confident enough to do this	2%	2%
Did not think other companies would offer anything different	2%	3%

**Note:** Sample = Pre-retirees not intending to shop around; annuity purchasers not shopping around. Bases as shown.

#### 4.5 Financial confidence and shopping around

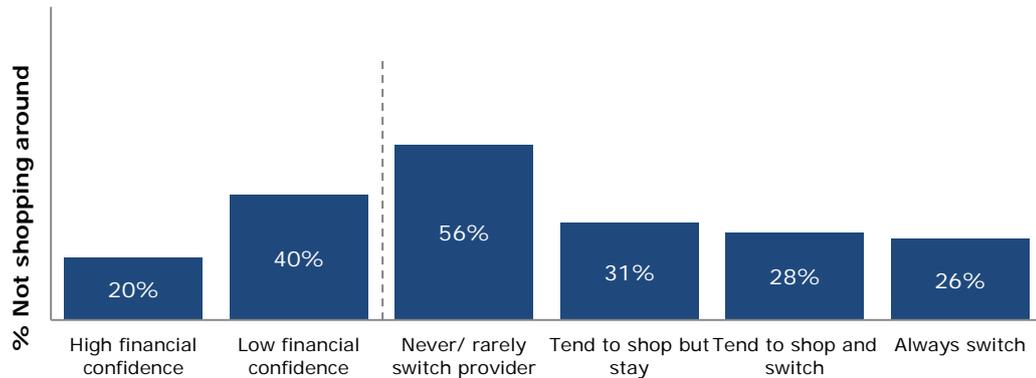
While 37% overall do not shop around overall, this differs among customers with different characteristics. Financial confidence and a customer's typical switching behaviour (relating to home insurance) affects whether they decide to shop around. As shown in figure 13 below, some groups are significantly more likely to stay with their existing pension provider:

- 40% of annuity purchasers who say they are not financially confident do not shop around, compared to 20% of those who have high financial confidence.
- 56% of annuity purchases who say they rarely or never shop around for insurance providers do not shop around for an annuity, compared to 26% of those who always switch.

Three-quarters (75%) of customers who do not shop around (28% of the total annuity purchasers) say they are confident they fully understand the benefits of shopping around and the impact on their retirement income of different annuities. Qualitatively, there is evidence to suggest that some customers repeat past behaviour and actively decide not to shop around out of choice rather than a lack of understanding.

For example, most of the group who had shopped and stayed with their provider, regardless of the reported level of financial confidence felt comfortable with their choices both during and after the decision making.

**Figure 13: Relationship between not shopping around, financial confidence and existing switching behaviour – Annuity purchasers**



**Note:** Sample = Bases will vary by annuity purchaser sub-group. Shopping around based on respondents' own reporting of whether they shopped around.

For some people, worries about the strength of pension and annuity providers lingers – if a provider has looked after their pension for 20 years they can trust it to pay their annuity. Therefore only minimal reassurance that their annuity is reasonably competitive was needed.

Furthermore, 84% of customers who do not shop around for their retirement income agree that it is important for others to do so.

*“There just wasn’t any point in me shopping around, all that time and energy for a couple of quid a month. Anyway, it’s not in my nature to shop around, I never have and you can’t change the habits of a lifetime. It may be worth it for other people though, especially if they’ve got bigger pots than me” - Male, post-retirement, did not shop around*

#### 4.6 Reasons for shopping around

Most customers who shop around do so in order to achieve the ‘best deal’ and ‘highest income possible’ to support them throughout their retirement. A greater variety of reasons for shopping around are given by customers who purchase an annuity compared to those pre-retirement, but perceived financial gain remains the key influence for both audiences.

As shown in Table 16, fewer annuity purchasers than pre-retirees say that they shop around in search of the “best” or “highest” income. Instead, more annuity purchasers say they were advised to shop around or that they feel the need to check that their pension provider is competitive.

**Table 16: Unprompted reasons for shopping around amongst - Pre-retirees and annuity purchasers**

	<i>Pre-retirees</i>	<i>Annuity purchasers</i>
<i>Unweighted Base</i>	318	662
Wanted best deal/ rate	60%	49%
Highest income possible	12%	6%
Greater choice of annuities	9%	6%
Always shop around	9%	8%
Check quote from pension provider was competitive	7%	14%
Very important decision	5%	8%
Financial adviser said important to shop around	4%	10%
Friends/ family/ colleagues told me to shop around	3%	2%
Unhappy with pension provider	2%	2%
Financial adviser shopped around for me	2%	11%
Read/ heard was important to shop around	2%	4%
Pension provider said important to shop around	2%	2%
Have a medical condition, so hope to get a better annuity	2%	2%

**Note:** Sample = All pre-retirees intending to shop around and all annuity purchasers who shopped around. Bases as shown. Reasons mentioned <2% not shown.

Some distinct differences emerge when comparing the reasons for shopping around between customers who purchase an annuity from their pension provider, and those who switch and buy from a new provider (see table 17). Customers who switch are significantly more likely to state an appetite for the best rate or to reference Financial Adviser recommendation or help. Customers who remain with their pension provider are more likely to cite, as a reason for shopping around, reassurance that their pension provider's quote is in line with those offered by others.

Once engaged in a more formal shopping around process, it was much more likely that the customer would pick, or the financial adviser would recommend, the highest quote, even if it was only highest by a small margin. This could result in switching or staying with the pension provider.

**Table 17: Unprompted reasons for shopping around amongst customers who stayed and customers who switched – Annuity purchasers**

	<i>Stayed with provider</i>	<i>Switched provider</i>
<i>Unweighted Base</i>	<i>310</i>	<i>310</i>
Wanted best deal/ rate	45%	55%
Check quote from pension provider was competitive	18%	10%
Financial adviser shopped around for me	8%	14%
Financial adviser said important to shop around	7%	12%
Always shop around	11%	6%
Very important decision	10%	7%
Greater choice of annuities	6%	7%
Highest income possible	5%	7%
Read/ heard was important to shop around	3%	6%
Pension provider said important to shop around	3%	2%
Have a medical condition, so hope to get a better annuity	1%	3%

**Note:** Sample = customers who stayed with their pension provider and customers who switched to a competitor. Reasons mentioned <2% for both staying and switching not shown.

#### 4.7 The role of financial advice

The influence of financial advisers needs considering in any repetition of this research in light of the introduction of the Retail Distribution Review (RDR) which came into effect at the start of 2013.

Over half (57%) of customers seek some form of advice or information before purchasing their annuity. Advice from a financial adviser is referenced by 62% of these customers (35% of all annuity purchasers) and is the most common information source consulted.

Financial advice also had a greater impact than other sources. Of customers who seek some form of advice or information, 44% (25% of the total annuity purchasers) say the information from a financial adviser encourages them to consider other providers and annuity types, (see table 18 below).

*Bob – retired pub landlord*

*Bob has had several employments and self-employments and some time ago combined all these into a SIPP. He considered drawdown before deciding to take an annuity.*

*Bob relied on his financial adviser to obtain quotes for him and advise on the option with the best rates for him, and his adviser arranged for him to switch. His wife has a separate pension pot and they expect to use an adviser again to obtain the best rates and product for them.*

**Table 18: Impact of information sources (prompted) – Annuity purchasers**

	<i>Information sources that made me consider other annuity providers</i>	<i>Information sources that made me consider other types of annuity</i>
<i>Unweighted Base</i>	573	573
Professional Financial Adviser	44%	43%
Information packs sent by your pension provider	34%	31%
Spoke to your pension provider	12%	14%
Retirement specialist / annuity specialist	6%	6%
Newspapers/magazines / articles	6%	6%
Friend / colleague	4%	4%
Spoke to another provider / not your pension provider	5%	4%
Spouse / partner	5%	4%
Another website (unspecified)	4%	4%
Money advice service website / comparison site (MAS)	5%	3%
Bank or Building Society	4%	3%
Financial adviser arranged through employer	2%	2%
Other member of family	2%	2%
The Pension Advisery Service (TPAS) online planner	3%	2%
None	15%	15%

**Note:** Sample = all annuity purchasers claiming to have sought advice or information. Bases as shown. Prompted question. Information sources <2% not shown.

Use of financial advisers for shopping around cuts across both the less and the more financially confident - asking a professional can seem the most appropriate course of action in either case. From qualitative interviews, some feel that financial advice is a necessary part of shopping around, either because they believe shopping around is something that only a financial adviser can do, or because they do not have sufficient information about how to go about shopping around independently, so they feel they need professional help. More confident customers may choose to use an adviser because they believe this will give them access to a better financial deal than they would find independently.

Reasons for not using financial advice may change with the introduction of the Retail Distribution Review. As shown in Table 19, a low pension fund and high self-confidence are the most common reasons for customers not consulting paid-for advice before making their purchases. Cost and trust are spontaneously raised as issues by 13% and 6% respectively of annuity purchasers that choose not to use financial advisers.

**Table 19: Unprompted reasons for not consulting a financial adviser – Annuity purchasers**

Small pension fund	21%
Confident I know what to do	17%
Knowledgeable enough	15%
Professional advice too expensive	13%
Happy with current pension provider	10%
Sufficient amount of available information to make a decision	9%
Too much hassle	7%
Friends or family help	7%
Don't trust financial advisers	6%
Confident to research and make a decision	5%
Employer help	3%

**Note:** Sample = Annuity purchasers that did not use a financial adviser (600). Reasons mentioned <3% not shown.

A number of other barriers to using financial advice emerged from the qualitative research:

- Uncertainty about who to ask and how to access a reliable financial adviser.

*"I did know I could shop around but I'm from Devon and I don't know this area, I didn't know where to go or which financial adviser to use"* - Female, annuity purchaser, did not shop around

- A belief that advice is charged for and offset any gain made from a better annuity rate.
- Lack of certainty that a financial adviser has the client's best interests at heart.

*"You could go to a financial adviser, and they'll look at your options for you – it would be too complicated to do it yourself. I know they are supposed to put your interests first...but they will take a percentage, and if they take 1 – 2% it's got to be that much better than the current option..."* - Male, annuity purchaser

- Worries about ability to understand the advice that an adviser might give.
- A belief that the time and effort (and cost) involved in accessing an adviser would produce a minimum benefit – and may result in having to pay to be advised to stay with their existing provider.
- An example of a financial adviser turning a client away because their pot was too small for shopping around or switching to be worthwhile.

#### 4.8 The role of provider support in encouraging shopping around behaviour

Information delivered by pension providers plays a positive role in promoting shopping around behaviour. Amongst annuity purchasers seeking information or advice:

- 34% state that the information packs encourage them to consider other annuity providers.
- 31% state that the information packs encourage them to consider other types of annuities.

In total, 49% of annuity purchasers who read the information say they are more likely to shop around as a result of information sent by their pension provider. 61% of annuity purchasers who read the information agree they are more likely to seek advice as a result.

Fewer customers seek information from their providers over the telephone. Of those who do, 54% of pre-retirees and 49% of annuity purchasers say that a conversation with their provider proves helpful and encourages them to shop around (see Table 20 below).

**Table 20: Role of provider contact in shopping around behaviour**

	You are more likely to shop around for an annuity as a result of speaking with your pension provider		You are more likely to shop around for an annuity as a result of information received	
	<i>Pre-retirees</i>	<i>Annuity purchasers</i>	<i>Pre-retirees</i>	<i>Annuity purchasers</i>
<i>Unweighted base</i>	58	173	387	924
<b>NET agree</b>	54%	46%	55%	49%
Strongly agree	8%	12%	16%	14%
Agree	46%	34%	39%	36%
Neither agree nor disagree	8%	6%	7%	9%
Disagree	21%	39%	28%	33%
Disagree strongly	11%	3%	3%	5%
Don't know	6%	5%	6%	3%

**Note:** Sample = All pre-retirees that either contacted their provider or recalled receiving written pre-retirement information. All annuity purchasers that contacted their provider or recalled receiving written pre-retirement information. Bases as shown.

However, Table 20 also shows that a considerable proportion of customers claim they are not influenced by the information they receive from their pension provider. Around a third of customers disagree that the information has an influence on their desire to shop around.

These customers are most likely to have a fund size of less than £15,000 or to be customers that never switch their home insurance policy.

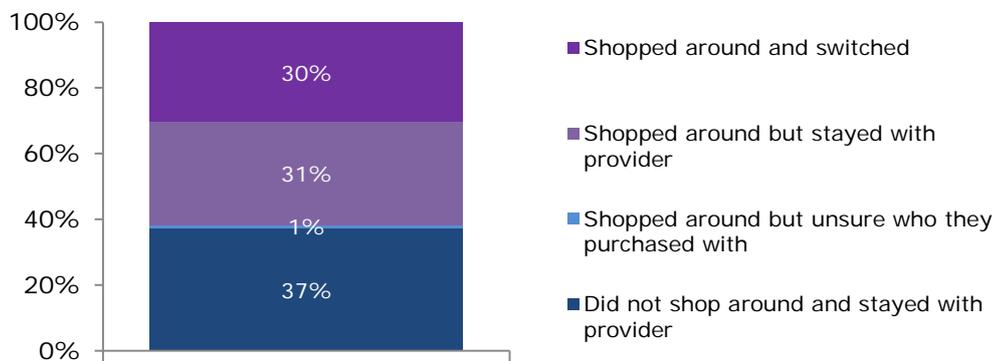
## 4.9 Shopping around and switching

Figure 14 below (previously referenced at the start of this section) summarises shopping around behaviour and propensity to switch provider amongst those annuity purchasers who shop around for their retirement income.

Among those who shop around, 50% (31% of the total annuity purchasers) stay with their pension provider and 48% (30% of the total annuity purchasers) switch provider.

Overall two-thirds of respondents stay with their provider regardless of whether they research their options or not; whilst a third of the market switch.

**Figure 14: Shopping around and annuity purchasing – Annuity purchasers**



**Note:** Sample = All annuity purchasers (1000)

## 4.10 Reasons for staying

Customers who shop around and stay with their pension provider are significantly less likely to describe the process of comparing different annuities as 'very easy', compared to those who switch (24% compared to 32%). However, in most instances the decision to stay is taken for financial gain rather than for ease (see table 21 over page). 'Best rates' and 'a good relationship with the pension provider' are the main reasons customers who shop around decide not to switch provider.

*Hugh – retired food scientist*

*Hugh is very interested in financial matters and regularly follows markets and financial stories in the Financial Times, Times and on websites.*

*He has several pensions and has planned these to provide a range of level and escalating annuity types, to offset the risk of opting for any one type.*

*For his most recent purchase he did a lot of research, including using a fund manager website which he found particularly useful.*

*His current provider emerged as the one offering the best rate and product for him, so for this pot he did not switch.*

*William, retired engineer*

*William knew he should shop around both from his wake-up pack and from talking to his provider on the telephone. He went to 'Money Saving Expert' to identify key providers then approached the providers themselves online. He felt it was easy to get quotes as he could input all information online. He qualified for an enhanced annuity.*

*After comparing rates he decided to stay with his current provider as their rates were 'substantially better'.*

A small number of customers said that switching was 'not worth the effort' or 'too much hassle' or that their small pot size meant that switching was not worth it. Eight percent of customers who shop around but stay with their pension provider spontaneously attribute their decision to finding it 'easier to stay'.

**Table 21: Unprompted reasons for staying after shopping around**

Better rate/ deal	50%
Thought current Provider offered good deal	16%
Trusted current Provider	9%
Current Provider has a good reputation	9%
Have a good relationship with current Provider	8%
Easier to stay with current Provider	8%
More suitable/ relevant product for needs	7%
Higher income	5%
Only had a small fund	5%
Financial Adviser said to stay pension provider	4%
Not worth the effort/ too much hassle	3%
Difference in products wasn't worth leaving/ moving	3%
Wanted the annuity sorting quickly	3%

**Note:** Sample= All who stay after shopping around (310). Reasons mentioned <2% not shown.

Customers who stay with their pension provider without shopping around are significantly less confident they made the right decision about their annuity (84%), than those shopping around and staying (93%). Reasons for shopping around amongst those who stay differs slightly compared to customers who switch (See Table 22). Those who switch are more likely to shop around in order to ensure they get the 'best deal', or because of advice to shop around. On the other hand, customers who stay with their pension company are more likely to state a desire to check the competitiveness of their quote or to shop around out of habit.

**Table 22: Unprompted reasons for shopping around amongst customers who stay and those who switch**

	Shopped around and switched	Shopped around and stayed
<i>Unweighted base</i>	310	310
Wanted best deal / rate	55%	45%
Check annuity quote from pension provider was competitive	10%	18%
Financial adviser shopped around for me	14%	8%
Financial adviser said important to shop around	12%	7%
Always shop around	6%	11%
Very important decision	7%	10%
Greater choice of annuities	7%	6%
Highest income possible	7%	5%
Read / heard was important to shop around	6%	3%
Pension provider said important to shop around	2%	3%

**Note:** Sample = Annuity purchasers who either shopped around and stayed or shopped around and switched. Bases as shown. Reasons mentioned <2% not shown.

#### 4.11 Reasons for switching

As mentioned above, customers who shop around and switch are more driven by perceptions of better deals and rates than their counterparts who stay with their provider. Two-thirds (67%) say their purchase is based on the best offer and 18% that the option purchased offers a higher income than their pension provider could deliver (See table 23).

**Table 23: Unprompted reasons for switching after shopping around**

It was a better offer	67%
Higher income	18%
Advised by professional financial provider	13%
Most relevant annuity for my needs	5%
Not satisfied with my pension provider	4%
More suitable products	3%

**Note:** Sample = All who switch (310). Reasons mentioned <3% not shown.

Customers who switch are more likely to have a larger retirement fund and combined multiple pension pots in order to draw their annuity income. They are also significantly more likely to collect quotes and to take financial advice compared to those who stay. 85% of customers who switch collect quotes and 87% take financial advice. This compares to 30% and 54% respectively of customers who stay.

Purchasers of enhanced or impaired annuities or those with another death benefit are significantly more likely to switch provider (57% and 51%) compared to those who purchase a standard, escalating or investment-linked annuity (27%, 26% and 12% respectively). Joint life annuity purchasers are also significantly more likely to switch (40%) than those who buy a single annuity (27%).

## A1 APPENDIX 1: METHODOLOGY

### Quantitative research method

On average the pre-retirement survey lasted 16 minutes and the post-retirement lasted 18 minutes.

Fieldwork was conducted from the end of November 2012 to early January 2013. The fieldwork period was extended to afford some providers greater flexibility submitting their customer samples.

On the broad assumption customers receive the pre-retirement wake-up pack six months before their selected retirement date, pre-retirement interviews were conducted with customers between two to five months before their selected retirement dates. In the vast majority of cases, before the follow-up pack would have been received.

Annuity purchasers conducted the interview from three weeks to four months after the date of purchase.

### Further quantitative sample detail

There were no restrictions on fund size in either survey. Where individuals held multiple pensions in the pre-retirement survey or multiple annuities in the post-retirement survey, the product of the highest value was selected when speaking to the participant. 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 funds with multiple providers, we selected the provider where the largest fund was held.

It is not usually possible to purchase an annuity before age 55, therefore any participants under the age of 54 who were in the sample were excluded from the pre-retirement research.

Non-UK residents and employees of the respective provider supplying the customer data were not included in the original sample extractions.

The questionnaires screened respondents to ensure they met the following criteria:

- Had not personally worked as a financial adviser within the last couple of years.
- Were personally involved in decisions relating to their retirement income.
- Intended taking an income from their pension in the next year (Pre-retirement only).
- Recently purchased an annuity (Post-retirement only).

Thirteen firms provided customer samples for the pre-retirement research and 15 firms provided sample for post-retirement.

## Quantitative sample profile

This section outlines the profile of participants. Across both surveys, males represent the majority of the sample (see table 24).

**Table 24: Gender**

	Pre-retirees	Annuity purchasers
<i>Unweighted base</i>	500	1000
Male	68%	74%
Female	32%	26%

**Note:** Sample = Base as shown. Data supplied on provider sample.

As expected, most participants are concentrated around the typical retirement age (see table 25).

**Table 25: Age of participants**

	Pre-retirees	Annuity purchasers
<i>Unweighted base</i>	500	1000
54 – 59 years	13%	15%
60 – 64 years	45%	38%
65 – 69 years	37%	41%
More than 70 years	5%	5%

**Note:** Sample = Base as shown. Data supplied on provider sample. 1% of annuity purchasers are under 54

The profile of marital status is consistent across both surveys, with nearly three-quarters married (see table 26). Half (49%) of annuity purchasers state that someone else is dependent on an income if they pass away.

In the post-retirement survey, 22% of annuity purchasers say they are regular smokers, either at the time of the interview or recently. Half (51%) state they have a medical condition.

**Table 26: Marital status**

	Pre-retirees	Annuity purchasers
<i>Unweighted base</i>	500	1000
Married	72%	73%
Co-habiting	3%	4%
Single (never married)	9%	8%
Widowed/ Separated/ Divorced	14%	14%
Refused	1%	1%

**Note:** Sample = Base as shown.

A minority hold a pension pot or annuity of more than £50,000 (see table 27). It was not possible to take into account the total value of funds held with other providers in this research.

Where multiple pension pots or annuities for an individual participant are identified amongst other participating providers, the highest value product is used.

**Table 27: Pension pot and annuity value**

	Pre-retirees	Annuity purchasers
<i>Unweighted base</i>	500	1000
Less than £10,000	29%	21%
£10,000 - £14,999	11%	9%
£15,000 – £24,999	14%	15%
£25,000 - £49,999	18%	28%
£50,000 or more	17%	21%
<i>Unclassified</i>	11%	6%

**Note:** Sample = Base as shown. Data supplied on provider sample.

The number of pension pots was consistent across both surveys, with nearly three-quarters holding multiple pension pots at retirement (see table 28).

Post-retirement, 21% of annuity purchasers claim to have multiple annuities with more than one provider.

**Table 28: Number of pension pots**

	Pre-retirees	Annuity purchasers
<i>Unweighted base</i>	500	1000
<b>NET Multiple pension pots</b>	<b>70%</b>	<b>74%</b>
1 pension pot	26%	24%
2 pension pots	34%	37%
3 pension pots	20%	23%
4 pension pots	10%	10%
5 or more pension pots	7%	4%
Don't know	2%	1%
Refused	2%	1%

**Note:** Sample = Base as shown.

For 43% of annuity purchasers, this annuity is their main source of retirement income, not taking into account the State Pension.

Around a quarter in both surveys claim to have experienced the retirement process before this particular experience (see table 29).

**Table 29: Whether experienced the retirement process before**

	Pre-retirees	Annuity purchasers
<i>Unweighted base</i>	500	1000
Yes	28%	23%
No	72%	77%

**Note:** Sample = Base as shown.

17% of those intending to retire in the next year have previously deferred taking their retirement income and 14% of annuity purchasers believe they have previously deferred.

It was not possible for all providers to identify whether annuity purchasers had retired early or not. When asked directly, 43% claimed they had taken early retirement (see table 30).

**Table 30: Early retirement**

<i>Unweighted base</i>	Annuity purchasers <i>1000</i>
Yes	43%
No – SRD or previously deferred	54%
Don't know	3%

**Note:** Sample = Base as shown.

Pension providers supplied details of the pension type held by customers. The vast majority hold a Personal Pension (82%); a further 8% hold a Group Personal Pension.

Details of the annuity product were supplied by relevant providers. The majority of customers hold standard annuities, with 11% purchasing enhanced or impaired, 4% investment-linked and a further 4% with escalating annuities. Nearly a quarter (24%) of the annuity purchaser sample held joint life annuities. 22% had a Guaranteed Annuity Rate (GAR) and just over a third (34%) hold an annuity with some other form of death benefits, such as guarantee period or value protection.

### Qualitative sample details

Gender	Age	Marital Status	Pre/post	Pot size and number	Shopping around	Enhanced	Joint	Financial Adviser use
Male	65	Married	Post	£18-£49k	Shopped around and stayed	Not enhanced	Not Joint	No FA
Female	57	Married	Post	£18-£49k - 2 pots	Did not shop around	Not enhanced	Don't know	No FA
Female	60	Widowed	Post	£18-£49k - 1 pot	Did not shop around	Not enhanced	Not Joint	No FA
Male	67	Married	Post	£18-£49k - 2 pots	Shopped around and stayed	Enhanced	Joint	No FA
Male	66	Married	Post	£18-£49k - 2 pots	Did not shop around	Enhanced	Joint	No FA
Female	61	Married	Post	£18-£49k - 1 pot	Shopped around and stayed	Not enhanced	Not Joint	No FA
Female	57	Married	Post	£50k+ - 1 pot	Shopped around and stayed	Enhanced	Not Joint	No FA
Male	67	Married	Post	£50k - 5 pots	Shopped around and stayed	Enhanced	Joint	Used FA
Female	60	Separated	Post	£18-49k - 3 pots	Shopped around and stayed	Not enhanced	Not joint	Used FA
Male	65	Married	Post	£18-49k - 4 pots	Shopped around and stayed	Enhanced	Joint	No FA
Male	67	Married	Post	£50k - 5 pots	Shopped around and stayed	Enhanced	Joint	Used FA
Female	60	Separated	Post	£18-49k - 3 pots	Shopped around and stayed	Not enhanced	Not joint	Used FA
Male	65	Married	Post	£18-49k - 4 pots	Shopped around and stayed	Enhanced	Joint	No FA
Male	60	co-habiting	Post	£18-49k - 3 pots	Shopped around and stayed	Not enhanced	Not Joint	No FA
Female	56	Not stated	Post	£18-49k - 1 pot	Shopped around and switched	Not enhanced	Not Joint	No FA
Male	64	Married	Pre	£18-£49k - 3 pots	might consider shopping around	Did not qualify	n/a	No FA
Male	65	Married	Pre - not comfortable	£18-£49k - 2 pots	Did not shop around	n/a	n/a	n/a
Male	64	Married	Pre - very comfortable	£18-£49k - 3 pots	might consider shopping around	n/a	n/a	n/a
Female	64	Married	Pre - neither/nor comfortable	£18-£49k - 1 pot	might consider shopping around	n/a	n/a	No FA
Male	64	Married	Pre - quite comfortable, read a little	£50k+ - 2 pots	Does not intend to shop around	n/a	n/a	n/a
Male	64	Married	Pre - quite comfortable	£50k+ - 2 pots	Did not shop around	n/a	n/a	n/a

### Classifying financial confidence

Participants were asked to self-report their level of financial confidence. This is determined according to which of the following statements they feel best describes them:

- **High confidence** – 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. (20% pre-retirement, 22% post-retirement).
- **Medium confidence** - 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. (48% pre-retirement, 48% post-retirement).
- **Low confidence** - 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. (32% pre-retirement, 28% post-retirement).

### Descriptions of annuity types

**Single life**– Provides income for one person only

**Joint life** – Provides some income for spouse/ partner if you die

**Guarantee period** – Guarantees that if you die within a specific period e.g. 5 to 10 years it will continue to pay your beneficiaries (i.e. spouse/ partner or children) money you were getting until the end of the specific period

**Level** – Pays same amount of income for the rest of your life

**Escalating (inflation-linked)** – Starting from a lower income, but increases the amount you receive each year by a set amount or in line with inflation

**Investment-linked** – Invests some or all of your money in real assets, such as equities and property to try and achieve a higher return

**Enhanced / impaired** – May pay a higher income if you smoke, have high blood pressure, cholesterol or health problems that threaten to reduce your lifespan

**Guaranteed annuity rate** – is a promise made by pension providers to pay a minimum retirement income to pension policyholders

## A2 APPENDIX 2: CODE OF CONDUCT ON RETIREMENT CHOICES

The Code of Conduct on Retirement Choices was developed to ensure that pension providers' communications to customers approaching retirement help every customer to make an informed decision. The Code is available on the ABI website, [www.abi.org.uk](http://www.abi.org.uk).

### Overarching aims of the Code

The purpose of all communication is to help the customer understand the decisions they need to make and takes the customer through a three-step journey:

- Understanding retirement
- Understanding the different ways to take retirement income
- Understanding how to buy, and encouraging the customer to shop around

ABI members will:

- Provide clear communications to customers, consistent across the industry.
- Give customers all the information they need to shop around on the first page of every cover letter.
- Prominently highlight that enhanced annuities can potentially offer a much higher income.
- Clearly signpost customers to sources of advice and support.

### Summary of key requirements of the Code

6 months from retirement, and again at least 6 weeks from retirement, send packs that:

- Highlight the benefits of shopping around and that other providers might offer a higher level of retirement income.
- Explain all retirement options including deferring, combining pots and taking small pots as cash.
- Explain the ways customers can take their retirement income, emphasising key points about health and lifestyle, providing for dependants and protecting against inflation.
- Encourage the customer to seek advice or further information, and signpost to sources of information and advice.
- Do not include application forms – so there is less chance that a customer will default to remaining with the existing provider without shopping around.

In any sales process with the customer, ask a set of questions and highlight risks arising from their answers, about:

- Health and lifestyle, which may mean they are eligible for an enhanced annuity.
- Providing for dependants.
- Protecting against inflation.
- Combining other pension pots.
- Taking small pots as cash, taking tax free cash.

A personalised illustration must be provided to the customer before the sale of an annuity is completed.

If a provider does not offer an enhanced annuity, they must say so, and that another provider could offer a much higher level of income.

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