Association of British Insurers

The UK Annuity Market: Facts and Figures

Source: ABI statistics, 2013, unless stated; all figures relate to ABI members.

Full-year figures for 2013 are provisional and final figures will be available W/C 17/02/2014

THE MARKET

In 2013 there were 353,000 annuities sold by ABI members in the UK, worth £11.9bn in total.

14 providers offer annuities on the open market.

12 providers offer enhanced annuities based on health or lifestyle factors, of which 11 offer these on the open market.

The average (mean) annuity in 2013 was bought with a pension fund of around £35,600; but the median was around £20,000, so half of people buy an annuity with less than this.

Among ABI members, 7% of annuities are investment-linked and there are around 21,000 new drawdown customers every year

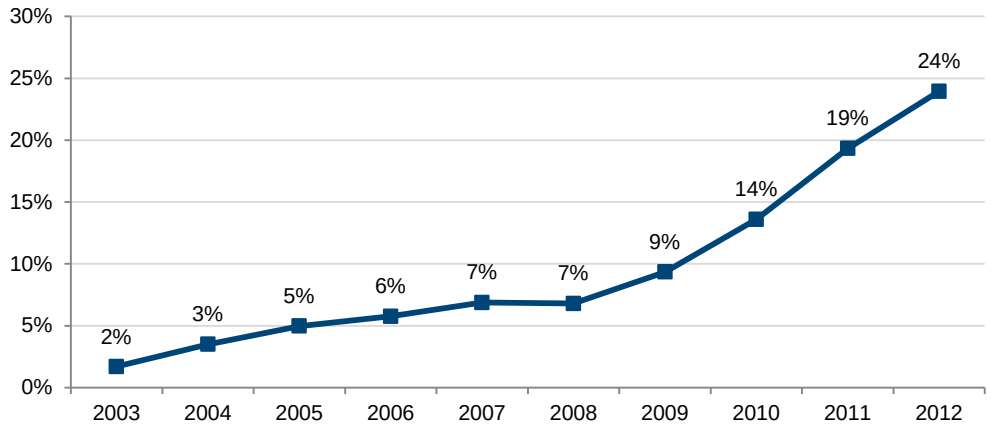
CHANGES IN 2013

In 2013 there were 16% fewer annuities sold. Members are reporting an increase in the number of customers deferring.

The proportion of annuities bought on the open market has increased in recent years; 48% of annuity sales were external in 2012 and 2013, compared to 31% in 2003 and 45% in 2011.

The proportion of enhanced, i.e. medically underwritten, annuities continues to rise (see below) and was at 28% in Q4 2013. More people with the smallest pots are now buying enhanced annuities.

Enhanced annuities sold as a proportion of all annuities, 2003 - 2012



Source: ABI Statistics

The proportion of internal annuities that were medically underwritten has also increased to 8% in Q4 2013, from 4% in 2012.

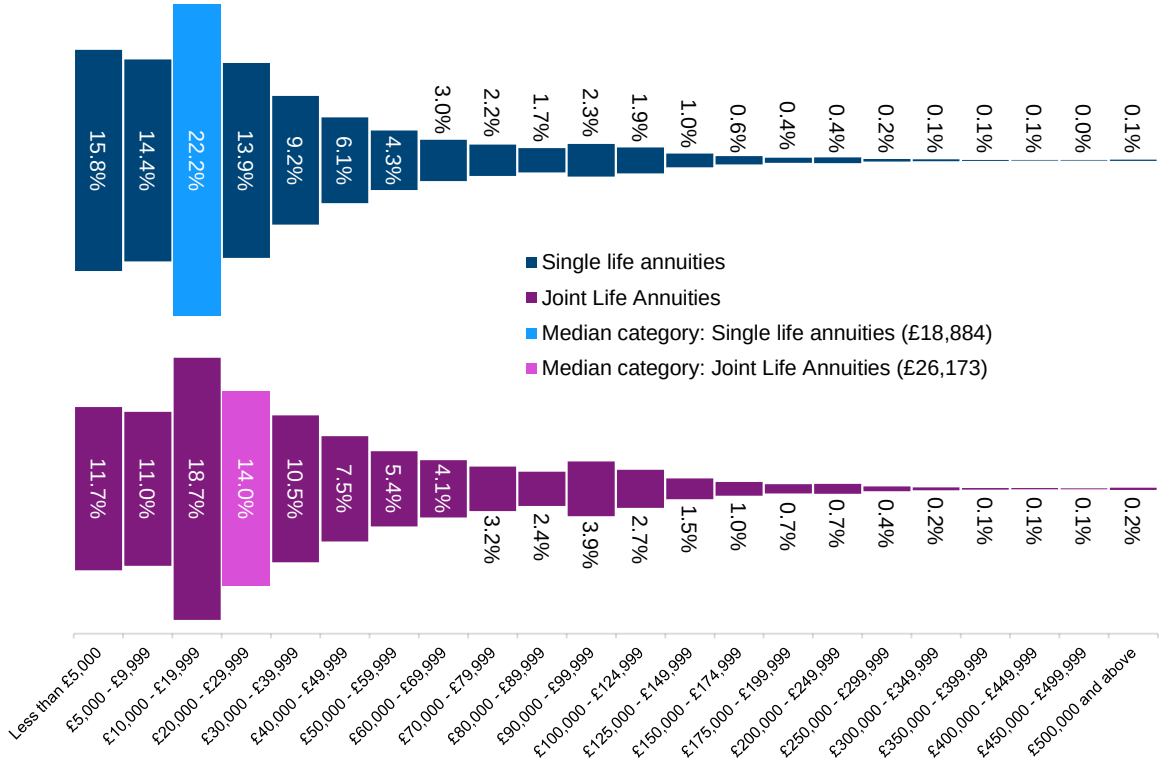
The proportion of joint-life annuities continues to rise and was at 33% in Q4 2013. It is not the

ABI.ORG.UK

Association of British Insurers | 51 Gresham Street | London EC2V 7HQ | Telephone 020 7600 3333

case that only people with larger pots choose a joint-life annuity; 41% of joint life annuities were purchased with a pot value less than £20,000 in 2013 (see chart below).

Annuity purchase value distribution, 2013



Source: ABI Statistics

Note: Point estimates of the median purchase value assume uniform distribution of pots within value categories.

EXTERNAL PURCHASE & SHOPPING AROUND

See the following table for the proportion of external annuity sales in recent years, as well as the results of consumer research examining the proportion of individuals shopping around.[1]

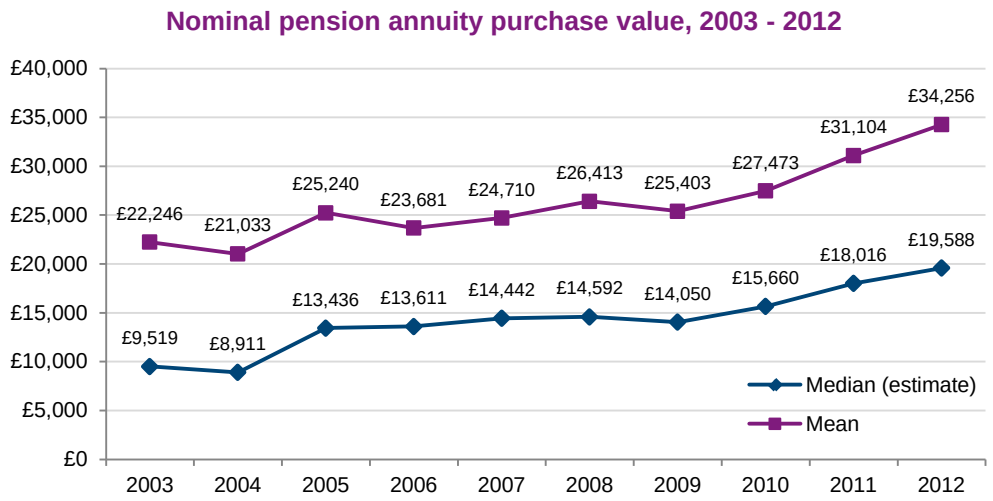
Year	% External sales	% Shop around	Shop-around source
2013	48%	63%	ABI (2013)
2012	48%	70%	Age UK (2012)
2011	45%	45%	Age UK (2012)
2010	41%	67%	ABI (2010)
2009	36%		
2008	35%		
2007	37%		
2006	33%		
2005	32%		
2004	33%		
2003	31%	48-59%	FSA (2003) (2 waves)

[1] Please note that shop around proportions are not all measured with similar methodologies, are typically self-reported by participants and may not directly relate to the corresponding external purchase data.

IMPACT OF POT SIZE

Most pots are small; 29% are bought with a pension pot of less than £10,000.

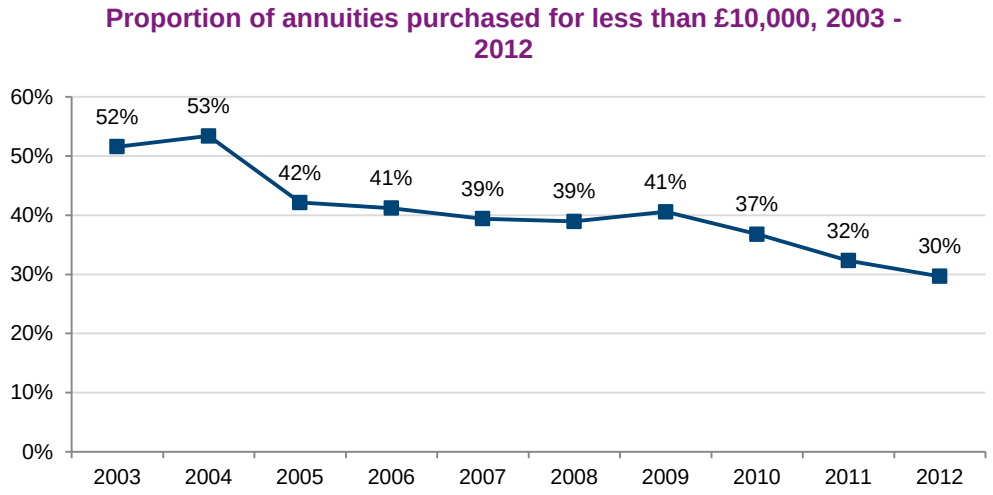
Pot sizes overall continue to grow:



Source: ABI Statistics

Note: Point estimates of the median purchase value assume uniform distribution of pots within value categories.

There are fewer people, but still a significant number, with pots below £10,000:



Source: ABI Statistics

Note: £10,000 threshold evaluated in nominal terms for each data year

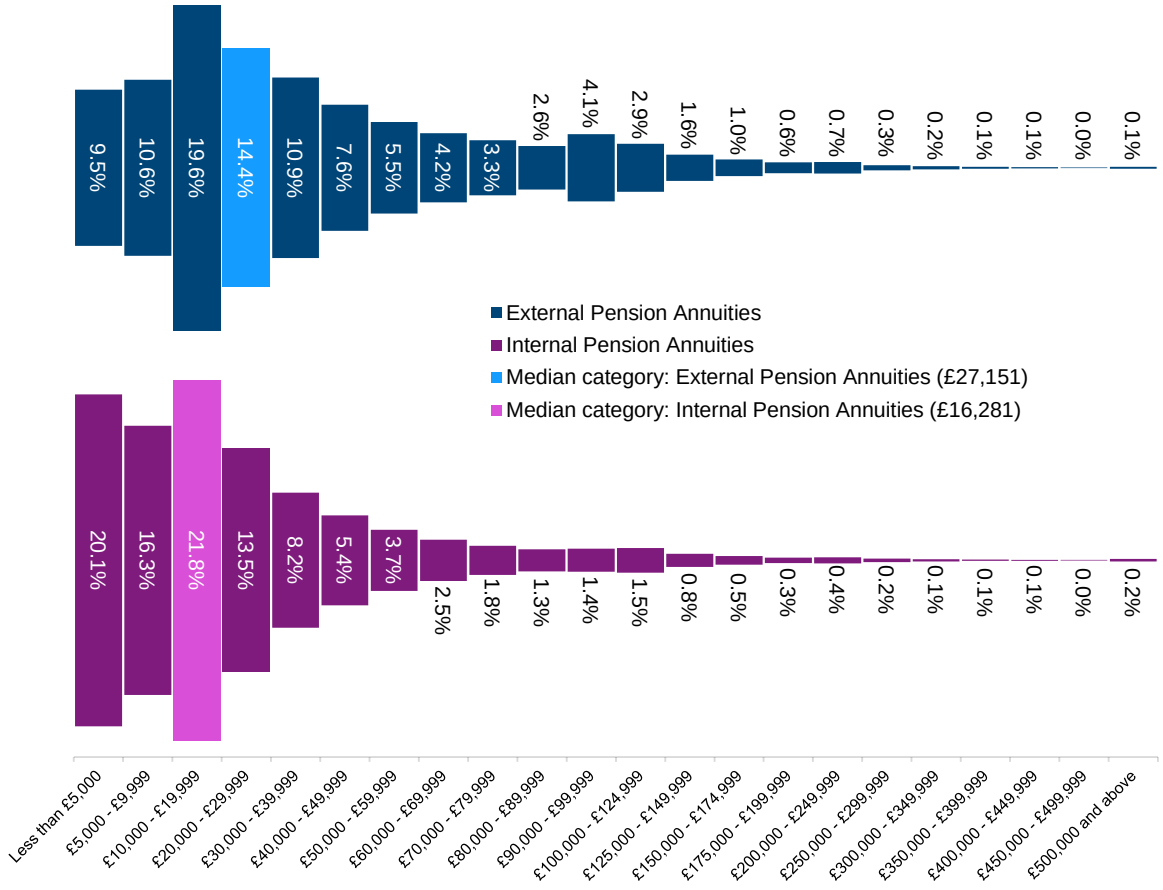
Our customer research[2] shows that having a smaller pot is the strongest predictor of whether someone will shop around: only 46% of customer with a pot of less than £10,000 said they shopped around compared to 63% of the total.

[2] ABI (2013) "Retirement choices: Baseline to measure effectiveness of the Code of Conduct, 2013)

A pot size of £5,000 will buy an annuity of around £20 a month for a 65-year-old in good health.

Most people with small pots (below £10,000) do not shop around or switch; and most internal annuities are bought by people with small pots (see below).

Annuity purchase value distribution, 2013



Source: ABI Statistics

Note: Point estimates of the median purchase value assume uniform distribution of pots within value categories.