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ANNUITY PURCHASING BEHAVIOUR

Results of customer research

Report from Optimisa Research

By Kevin Crouch, Ian Sparham and David Barks

EXECUTIVE SUMMARY

For the vast majority of defined contribution (DC) pension customers, pension funds accumulated during their working lives are turned into a retirement income through the purchase of an annuity. One important right for retiring DC pension customers is the 'Open Market Option' (OMO). The OMO gives customers the right to purchase their annuity from an annuity provider other than the provider they have their personal pension with. This research investigates customers' annuity purchasing behaviour.

Shopping around and buying externally

- 67% shopped around and considered buying externally with 32% buying their annuity externally.
- The main reason for shopping around is the potential for getting a better annuity rate from another provider. For annuity purchasers who did not shop around, the main reasons for not doing so were: satisfaction with existing pension provider; the low value of their pension fund; and, their annuity being a small part of the total retirement income.
- Amongst all annuity purchasers, 4% were unaware of the OMO and the right to shop around.
- Providing access to a 'trusted advisor' is the strategy most likely to improve use of the OMO amongst those who did not shop around. One in three also stated that access to an online comparison tool would make them more likely to shop around.

Understanding of retirement options and annuity types

- There is almost universal awareness that annuity purchasers can take up to 25% of their pension fund as a tax free lump sum (96% aware). Eighty-seven percent were aware of the option to defer.
- Of those potentially entitled to an enhanced or impaired annuity with a fund of over £5,000, 51% were aware of these types of annuity, 19% considered them and 10% bought one.
- Of those for which a joint life annuity was an option, 82% were aware of this type of annuity, and 49% had bought one.
- Sixty-four percent of all annuity purchasers were aware of escalating/indexed annuities, 21% considered them and 3% bought one.
- Overall, 85% bought a level annuity, 5% bought a Guaranteed Annuity Rate annuity, 2% bought an escalating annuity, 1% bought an RPI-linked annuity and 6% bought a with profits annuity.

Advice and information

- 72% of participants stated that they obtained advice or information about the purchase before choosing the annuity and provider. Forty-three percent of those not shopping around obtained advice or information.
- 55% obtained advice or information from or bought their annuity through a professional financial advisor.
- 19% percent who did not use an independent financial adviser (IFA) wish that they had obtained advice or information from an IFA.
- The Consumer Financial Education Body's MoneyMadeClear website was used by 7%, TPAS online planner by 5% and TPAS helpline by 3%. Nearly all users thought these sources were very useful.
- Of those who did not use a professional financial advisor, good websites were key to making shopping around easy.

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1.0 INTRODUCTION

To convert a pension into an income at retirement most customers purchase an annuity. One important right of customers is the 'Open Market Option' (OMO). The OMO gives customers the right to purchase their annuity from an annuity provider other than the provider they have their personal pension with.

The ABI and insurance industry have made significant efforts to ensure that customers are aware of this right; understand this right; and are in a position to exercise this right effectively. The Government is also keen to ensure that the market works properly, with customers making an informed decision about their retirement income.

1.1 Research objectives

The primary objectives of the research were to assess:

- The proportion of customers making an active decision when buying an annuity (including those who buy from a provider other than their pension provider, and those that buy from their pension provider).
- How customers go about researching and shopping around for an annuity.
- Why some customers do not make active decisions to research and / or shop around for an annuity.
- What could encourage those who do not shop around to do so, and identify what would help all customers shop around more effectively.
- The number of customers receiving professional advice, whether customers benefited from professional advice, and how many would have preferred to have got professional advice.
- What customers feel are their actual retirement income needs.
- The study also considered whether those potentially eligible consider types of annuity other than the standard single life (e.g. joint life, escalating, enhanced, impaired), and the effectiveness of current tools to help shopping around.

1.2 Research method

The research objectives required an approach that provided a representative, statistically reliable estimate of the proportions that do and do not make an active decision about the annuity bought. To achieve this a quantitative, Computer-Aided Telephone Interview (CATI) survey was conducted.

In order to gain a broader, more in-depth understanding of how customers make decisions and deal with the annuity purchase process, 30 supplementary qualitative telephone interviews were conducted.

1.2.1 The quantitative sample

The sample consisted of customers of UK annuity providers who had bought an annuity using a contract-based defined contribution pension fund. All participants had bought an annuity between January and May 2010. All fieldwork was conducted between the 2nd and 16th of June 2010.

Thirteen annuity companies were involved in the research, representing over 84% of the UK's annuities purchased with contract-based defined contribution pensions. These companies provided customer samples covering a representative cross-section of the market. The sample profile was re-weighted to ensure the data was representative of annuity purchasing customers purchasing from these providers. The sample is reflective of the annuity purchasing market for age (between 55 and 75 years), gender, annuity value and annuity type (standard/conventional, enhanced/impaired and investment linked).

Based on the sample size of 750 interviews we can be confident that participants' feedback for the interviews is correct to within +/- 4% (at 95% confidence intervals).

1.2.2 The qualitative sample

The sample consisted of customers of UK annuity providers who had bought an annuity using a contract-based defined contribution pension fund. All had bought annuity products between December 2009 and March 2010.

Thirty one-to-one depth telephone interviews were conducted, lasting 15-20 minutes. Interviews book-ended the quantitative phase – with 10 interviews towards the beginning of the fieldwork schedule to inform the quantitative questionnaire design, and the remaining 20 conducted towards the end of the process to help clarify the quantitative findings.

Three categories were identified for the qualitative interviews, based on the decision making process and were self classified;

- Those who 'more extensively shopped around' and went with their pension provider
- Those who 'more extensively shopped around' and went with a different provider to their pension provider
- Those who 'did little/ no shopping around'

The pre-quantitative survey interviews were recruited via 'free-find' methods (i.e. not reliant on provider lists, but recruited via networking methods). These interviews took place in early May.

Remaining post-quantitative survey interviews were recruited from lists of those who were willing to be re-contacted from the main quantitative survey. These interviews took place in mid-late June 2010 after completion of the quantitative survey.

The qualitative research was used to add depth to the quantitative findings, and to identify:

- How customers shopped around and made decisions; including those that found shopping around 'easy' and 'difficult'.
- Why some customers do not shop around.
- What might encourage or help customers to shop around more.

2.0 SAMPLE PROFILE

2.1 Quantitative sample

This section outlines the profile of the participants. Males represented almost three quarters of the total sample – 72% male and 28% female (which also reflects the population of annuity purchasers). As expected, most participants were concentrated around the typical retirement age.

Table 1 Age of participants

	Total Sample
55 - 60 years	38%
61 - 65 years	52%
More than 66 years	10%
Average	62.6 years old

Note: Sample = 750

In the sample, 13% were regular smokers, 8% stated they had a history of poor health, and five respondents (1%) were both smokers and had a poor health history. Four percent (33 people) were smokers or had a history of poor health and had an annuity with a value over £5,000. Forty-seven percent of respondents informed us that they suffered from at least one health condition from the following list: raised blood pressure or cholesterol, any heart conditions, stroke, cancer, diabetes, any neurological condition, liver or kidney condition or chronic respiratory conditions (or any other similar condition). Thirty-seven percent with at least one of the listed conditions had an annuity with a value over £5,000. This provides some context to the findings on entitlement and understanding of enhanced and impaired annuities.

Pension providers were asked to provide details of the annuity products held by customers (Table 2). Of the 33 people potentially entitled to an impaired annuity (i.e. meeting the health / lifestyle criteria and with pension funds over £5,000), 24% purchased an enhanced or impaired annuity. Of the 275 people potentially entitled to an enhanced annuity, 10% purchased an enhanced or impaired annuity.

Table 2 Product type

Standard	81%
Enhanced/Impaired	13%
Investment Linked	6%

Note: Sample = 714 Information taken from provider databases, some information not included.

Approximately 37% of customers held an annuity of £10,000 or less.¹ It was not possible to take into account the total value of funds held with other pension providers in this research, although we found that 5% of all respondents held annuities with more than one provider.

Where information on multiple annuities for an individual participant was received from the annuity providers participating, the highest value annuity that was attributed to a potential participant was used.

The value of the annuity was significant to this study as customers with relatively small pension funds may have the option to take their pension benefits as a lump sum through trivial commutation. Customers may also find that they have limited choices for shopping around as a result of the relatively small size of their pension fund, and consequently awareness of the OMO and different types of annuity may be less relevant.² Table 3 shows the proportions of annuity values held by customers and the average fund value.

Fifty-one percent of customers had an annuity of less than £17,500. This was the current level of triviality commutation in 2009/2010. This has since risen to £18,000 in the 2010/2011 tax year.

Table 3 Annuity value

Less than £10,000	37%
£10,001 to £40,000	35%
£40,001 or more	28%
Average (mean £)	32,893

Note: Sample = 750

2.2 Qualitative sample

The qualitative sample (see Table 4) was weighted towards those that self-defined as having shopped around (as opposed to 'didn't shop around') to ensure sufficient coverage of customers who had been through a more 'involved' process in buying their annuity. It was also important to understand why those who had not shopped around did not do this.

We also overlaid customers reported perceptions about the 'ease of purchase' on the sample, to ensure we had a spread of those who found the process more straightforward, through to those who found the process more difficult. The sample included customers from 12 different annuity providers.

¹ ABI figures show that 41% of pension annuities purchased in 2006 had a value of less than £10,000.

² See Pension Annuities, ABI Research Paper 8, Gunawardena, Hicks and O'Neill, 2008.

Table 4 Qualitative sample summary

Audience	TOTAL	High / medium value	Low value
Shopped Around – Different provider	9	5	4
Shopped Around – Same provider	9	5	4
Did not shop around	12	5	7
<i>TOTAL Telephone interviews</i>	<i>30</i>	<i>15</i>	<i>15</i>

Broad quotas were set on the qualitative sample to ensure a spread by:

- **Annuity value** - half of the qualitative sample had an annuity value of under £20k (defined at the outset of the initial phase of qualitative research as 'lower' value)³; the remaining half of the sample were either medium value (£20k-£40k) or higher value (over £40k). The intention was to split evenly between lower and higher value, but in the event a few medium value customers were included due to a short-fall in high value customers able to take part in the qualitative interviews.
- **Advised vs. non advised** – we included a broad mix of those who sought professional advice and those that did not; it was necessary to observe what impact advice had on perceptions of the ease of purchasing an annuity and the level of shopping around that was undertaken.
- **Gender** – the balance was heavily biased towards males, as reflected in the quantitative sample – with 22 males to 8 females overall.
- **Marital status** – the majority of the sample were married – 21 in total.
- **Type of annuity** – fairly broad mixture of single and joint policies; products mostly standard but included a few customers with enhanced/impaired policies.

³ We are conscious that the fund values representing 'lower', 'medium' and 'higher' value were slightly adjusted for the quantitative phase of the research – however we used these broad parameters throughout the qualitative phases

3.0 USING THE OMO

This section looks at shopping around and whether shopping around resulted in the purchase of an annuity from an external provider, i.e. a provider other than the original pension provider. It also looks at the use of professional advisors.

3.1 Shopping around

3.1.1 Quantitative Findings

In total 67% of annuity purchasers shopped around for their annuity (see Table 5). This is similar to the findings of research conducted in 2007 by the FSA, as part of the Consumer Purchasing Outcomes Survey (2008), which found that 66% shopped around.

Table 5 Shopping around behaviour

	Total	Low Fund Value	Medium Fund Value	High Fund Value
I looked into annuities from other providers, but I decided to buy from my original pension provider	18%	12%	21%	21%
I looked into annuities from other providers, and decided NOT to buy from my original pension provider	8%	13%	3%	8%
A professional financial advisor looked into annuities from other providers on my behalf, but I decided to buy from my original pension provider	17%	15%	16%	21%
A professional financial advisor looked into annuities from other providers on my behalf, and I decided NOT to buy from my original pension provider	24%	33%	15%	25%
I bought the annuity from my original pension provider, without looking at any other providers	30%	24%	43%	22%
Don't know	3%	3%	3%	4%

Note: Sample = 750

There is no difference in whether a customer shopped around or not based on whether their annuity value was above or below the trivial commutation level (67% and 67% shopped around respectively). In fact the proportion shopping around with annuities less than £10,000 is similar to those with £40,000 or more (73% and 75% respectively). Those with annuities between £10,000 and £40,000 were significantly less likely to shop around.

Annuity purchasers with joint life annuities were significantly more likely to have shopped around (75%) compared to single life annuity holders (62%). This is partly reflected in the marital status of the annuity purchasers. Seventy percent of married or co-habiting annuity purchasers shopped around, significantly more than those living alone (58%).

Enhanced or impaired annuity purchasers were significantly more likely to have shopped around (93%) compared to standard or investment linked annuity purchasers (64% and 46% respectively). Regardless of whether they eventually bought an enhanced/impaired annuity or not, those potentially eligible for an enhanced annuity with pension funds of over £5,000 were significantly less likely to shop around than those not entitled (60% compared to 71%).

Those with high financial sophistication were significantly more likely to shop around (78%).

3.1.2 Qualitative Findings

The qualitative findings highlighted that those with a joint life policy were likely to have taken more time and looked more into the detail of their policy than those taking out a single life policy. Reasons for this were:

- *Feeling an extra sense of responsibility towards their spouse/partner* (especially where they were likely to be reliant on the income). This sense of personal responsibility meant more time was spent ensuring the future of their partner.

“It’s not just about me. It’s about ensuring my wife has something to live off if my time comes.” (male, high value, shopped around)

- *Fund value* - Joint life policies in the qualitative sample were often taken out on medium-higher value funds. There is more benefit to shopping around where fund values are higher.

In contrast, those with single life policies were more likely to take the view that it was their money and in terms of choosing an annuity provider they did not feel the need to justify their decisions (there was no ‘dependent’). In this respect, they were less likely to shop around, particularly where values were lower, and they could see little point in spending time shopping around for marginal differences in the value of the annuity.

Those with enhanced/impaired policies were ‘made aware’ of the option either by the provider directly or via friends who had been through the same process. Having this information appeared to encourage a degree of shopping around. Some who had quit smoking in the past 10 years also believed they had missed out on better return annuity deals because they had quit.

“I wish I’d kept smoking now, and got one of those enhanced ones. I’m sure they get more money.” (female, medium value, shopped around)

3.2 Reasons behind not shopping around

3.2.1 Quantitative Findings

Unprompted reasons for not shopping around were varied but being 'happy with existing provider' and 'only having a small amount to invest' were the two key reasons given.

Table 6 Unprompted reasons for not shopping around for an annuity

Happy with existing company [pension provider]	35%
Only have a small amount to invest	23%
Too much hassle	14%
Not enough expertise in this field / Would need professional advice	11%
Better price with existing company	9%
No choice / taken care of for me / only option available	7%
I did not have the time	5%
Would not save money / Cheaper to stay with existing company	5%
Advice would be expensive	2%

Note: Sample = 222 (Respondents not shopping around). Reasons given by <2% respondents not shown.

Annuity purchasers who did not shop around with an annuity value of less than £10,000 or between £10,001 and £40,000 were significantly more likely to say they did not shop around because they felt they 'only had a small amount to invest' (37% and 22% respectively) compared to those with an annuity value of £40,001 or more (6%).

Those with an annuity value of £40,001 or more were significantly more likely to say 'happy with existing company' (48%) and 'better price with existing company' (23% - although this does imply they may have done some shopping around) than those with an annuity value of less than £10,000 (25% and 1% respectively).

When asked directly about their understanding of the OMO, 5% of all annuity purchasers stated 'I was only allowed to purchase an annuity from (existing pension provider)'. A further 2% were unsure.

When prompted with potential reasons for not shopping around, ease of staying with pension provider (73%) and the reputation of their existing pension provider (60%), as well as the fund being 'a small part of the retirement income' (56%) were the most frequent choices.

A minority of annuity purchasers (15% of those who did not shop around, 4% of all annuity purchasers) stated as the reason for not shopping around that they 'didn't know you could shop around'. Twenty percent of those not shopping around (6% of all annuity purchasers) stated that they 'didn't know where to go to shop around'.

Twenty percent of those not shopping around said that the 'information I was sent was complicated and difficult to understand'. Table 7 provides a full breakdown of the

prompted reasons for not shopping around. Those with medium to low financial sophistication were significantly more likely to cite 'I didn't think the time and effort was likely to be justified' or 'didn't know where to go to shop around'.

Annuity purchasers who did not shop around and stated that they thought it would be 'difficult to compare annuities' and also tended to state that 'I didn't think the time and effort would be justified' (87%). Eighty-six percent said their annuity 'was only a small part of my retirement income' and 78% that their pension provider offered a Guaranteed Annuity Rate.

Table 7 Prompted reasons for not shopping around for an annuity

Easier to stay with pension provider	73%
My pension provider has a good reputation	60%
It was a small part of my total retirement income	56%
I didn't think the time and effort was likely to be justified	51%
My pension provider offered a Guaranteed Annuity Rate	48%
I thought it would be difficult to compare the different annuities	26%
Information I was sent was complicated and difficult to understand	20%
Didn't know where to go to shop around	20%
Didn't have time to shop around	19%
Didn't know you could shop around	15%
I was advised by professional financial advisor to stay with my pension provider	11%
None of the above	5%

Note: Sample = 222 (Respondents not shopping around).

3.2.2 Qualitative Findings

Knowledge of the OMO was high. This was due to:

- Talking to family/friends/associates who had been through the process recently.
- Media coverage (e.g. Watchdog, newspaper articles).
- Receiving pre-retirement letters (which a few recalled had spelt this out).

Two participants said they were not aware they had an option to change provider. These participants also said they would be unlikely to change even if they did know, because they trusted and felt loyal to their pension provider. A few of the non-shoppers were not aware of the different annuity options, and got confused about the differences between an annuity and a pension.

"I thought an annuity was the same as a pension. I thought it was just continuing your pension, sort of thing." (male, medium value, didn't shop around)

Qualitative research sessions held before and after the quantitative survey about key reasons for not shopping around concurred with the figures in table 6. These were:

- *Happy with pension provider:* participants felt they had received good customer service over the years and were fairly confident about the financial stability of their pension provider.
- *Happy with service when exploring annuity options with provider* – some participants (typically the less financially confident) telephoned their pension provider after receiving the pre-retirement letter. Quality of service either over the phone or in a few cases face-to-face was a persuasive factor. Where it was felt the provider's representative offered a compelling deal (e.g. a GAR), or sounded both financially confident and reassuring these were key determining factors. The fact that many customers suggested the service was not 'pushy' and representatives were looking to inform, rather than to sell, allowed the customer time to consider their options which was widely appreciated.
- *Only a small amount to invest* – for some, the annuity bought was not their only pension or they had alternative retirement income they were more reliant on. Where the annuity represented a small part of their total retirement income they were more inclined to not shop around. They regarded shopping around as a waste of time – and assumed that the gains would be small.

A few also indicated that they did not shop around because they had a small pension and believed that to get professional advice or to change provider would incur costs which were not worthwhile given the expected low value of the annuity. There was a widely held perception that there were likely to be charges associated with taking fund elsewhere and so a few felt no need to shop around, to avoid these costs.

A few customers who did not shop around for their annuity also had not tried to search online for 'best deals' in other areas, such as household or car insurance. A lack of comfort with using the internet was seen as a key factor in stopping them shopping around easily.

3.3 Reasons behind shopping around

3.3.1 Quantitative Findings

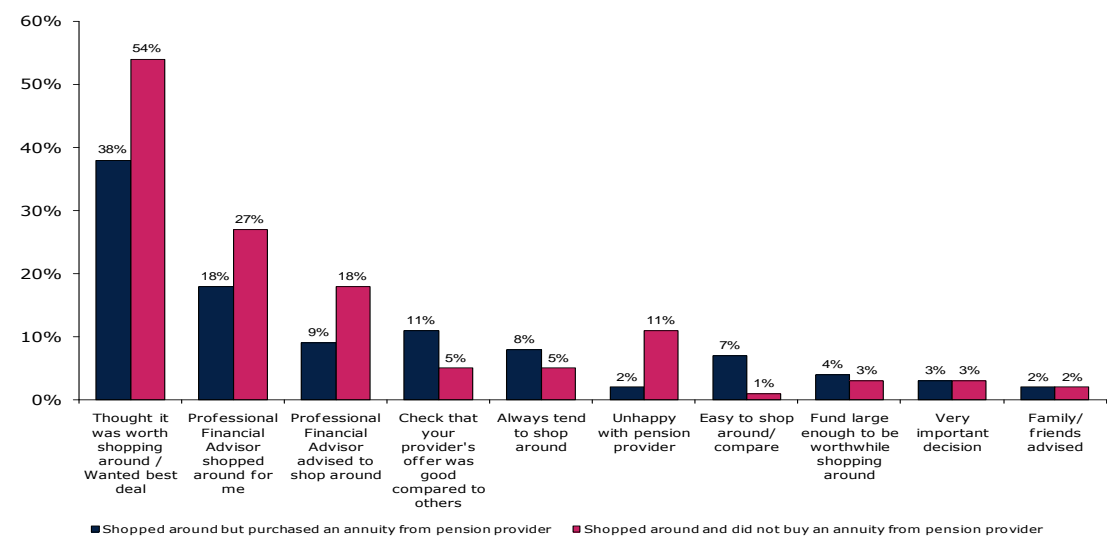
Table 8 shows the unprompted reasons for shopping around for an annuity. The key reason for shopping around is the potential of getting a better annuity rate from another provider.

Table 8 Unprompted reasons for shopping around for an annuity

Thought it was worth shopping around to see what I could get elsewhere / Wanted best deal	46%
Professional financial advisor shopped around for me	22%
Professional financial advisor advised to shop around	13%
Check my provider's offer was good compared to others	8%
Always tend to shop around	7%
Unhappy with pension provider	6%
Easy to shop around/ compare	4%
Fund large enough to be worthwhile shopping around	4%
Very important decision	3%
Family/ friends advised	2%

Note: Sample = 505 (Respondents shopping around). Reasons given by <2% respondents not shown.

Figure 1 Reason for shopping around



Note: Sample = Shopped around, bought internally (260). Shopped around and bought externally (245)

As shown in Figure 1, those who shopped around and bought their annuity from another provider are significantly more likely to have shopped around because they 'thought it was worth shopping around to see what I could get elsewhere / wanted best deal' than those who bought from their pension provider (54% compared to 38%). Other factors that determined whether the participants shopped around included those who said 'a professional financial advisor shopped around for me' (27% compared to 18%), 'a professional financial advisor advised to shop around' (18% compared to 9%) and 'unhappy with pension provider' (11% compared to 2%). However, those who shopped around but bought from their pension provider were significantly more likely to state that they wanted to 'check my providers offer was good' (11% compared to 5%).

3.3.2 Qualitative Findings

The qualitative findings indicate that those who shopped around did so because of one or more of the following reasons:

- *They had a big pension that was their key source of income in retirement* – they felt the need to check they had the best deal; they were much more likely to seek professional advice either face-to-face (in their bank, via an independent advisor), or talk to friends/family about their views and avenues for further investigation.

“I spoke to people who know about money and they said it was worth me looking around. They said I’d regret it if I didn’t.” (female, shopped around)

“It’s my income in retirement, so it’s not to be taken lightly.” (male, shopped around)

- *They felt more able to shop around* – more comfortable using the internet as a source of key information and advice; they had time to invest in shopping around with providers directly; in addition some were more confident and felt they understood their options more clearly. A few were made aware by press or TV programmes.

“I look at the This is Money website a lot, I used [a broker], I read a lot in the financial press. It’s just something I do, look at the markets and things.” (male, shopped around)

“I keep an eye on financial matters. I feel I know my stuff. ... That’s why it was necessary and fairly easy to compare a few different offers.” (male, shopped around)

- *They knew a financial advisor* – they were able to use an advisor they trusted (sometimes seen as a long term friend) at a much reduced rate or for free. Indications were that there was more inclination to use ‘paid for’ advice only when turning a larger pension fund into an annuity.

“A friend of mine’s an IFA, and I therefore use him, I trust him. He’s not let me down before. I get favourable rates too, as a mate. So it makes sense to listen to his advice. He said I should get a few quotes and he’d look at them.” (male, shopped around)

- *They felt ‘let down’ by their pension provider* – in some cases this related to seeking pension advice at the pre-retirement stage that was perceived as confusing, or not forthcoming. Once the sense of ‘loyalty and trust’ had been compromised they were more open to exploring their options.

“I wrote to [provider] and explained I had a heart condition, so would this affect my pension when I get an annuity. But they never got back to me. I thought that was awful.” (female, shopped around)

- *They were concerned about financial stability (and future) of their provider* – a few shopped around due to concerns about their pension provider’s financial stability in the longer term, given the recent coverage about indebtedness of financial institutions.

Shopping around did not necessarily mean they were likely to change provider. Those that did shop around but chose not to buy externally said:

- *They were offered an 'unbeatable deal' (a GAR) by their pension provider* – this seemed a good deal where other providers were unable to match this
- *They wanted to avoid charges* – especially prevalent amongst those with smaller value pensions, where the benefits of switching were minimal compared to any expected fees for changing provider.
- *They didn't feel other providers were offering a significantly better deal* - where there was little between the offers, the familiarity of their pension provider and low hassle option of not-switching was often key to remaining with their pension provider.

3.4 Ease of comparing annuities between providers

3.4.1 Quantitative Findings

Of those who did shop around for their annuity, 12% stated that they found it difficult to do so and 51% found it easy (36% said that someone else did the shopping around on their behalf). When shopping around without a professional financial advisor, 17% found it difficult to do so, significantly more than those who used a professional financial advisor (8%).

When the shopping around was considered easy to do the main reason was the use of a professional financial advisor. Of those who did not use a professional financial advisor, good websites were cited as the main reason for the ease of the process (27%) but receiving clear information was also cited by some (18%).

When shopping around was considered difficult, difficulties in understanding the process was stated by about half (51%). However, 17% also said that they could not find any information. Shopping around was considered significantly easier for high financial sophistication participants (69%). Only 29% of low financial sophistication participants found it easy and 55% of this group 'did not compare, someone else did the shopping around on their behalf'.

3.4.2 Qualitative Findings

A proportion of interviewees who found shopping around straightforward said the shopping was done by their professional advisor, and they had been involved in the final decision making process. They therefore wanted to understand the type of policy and rates – ensuring they (and their partner) were looked after in retirement.

Those who found shopping around easiest were often fairly confident about both their own finances and financial issues more broadly. These customers found the process of gathering information and advice on their annuity choices more straightforward.

In particular, those more comfortable looking online at information and advice, from sources ranging from brokers to newspapers or websites, felt better equipped to make decisions in a timely and efficient manner. It was suggested that key to this was the ability to compare offers quickly and easily, either via comparison tables or telephoning advisory services and speaking to 'experts' who could talk them through their options (and what might suit them best).

Those that found it more difficult to shop around were often less financially confident. They often used more direct methods of engagement with providers (telephone, letter, or face-to-face at their local bank) but often found comparisons hard to make, laborious, and the information provided not always easy to follow.

"The pension advice I got from [provider] was a joke. It was gobbledegook. I hadn't a clue what they were talking about." (male, shopped around)

Frequently they tried one or two providers in addition to their pension provider. The lack of access to comparison tables was in sharp contrast to those that had found the process more straightforward via the internet or advisory services. Some participants were more comfortable dealing with people in 'traditional' (telephone, face-to-face) ways.

"The internet's alright, I dabble a bit. But there's nothing like the face to face or the phone. You can ask questions you feel like. You feel more confident then." (female, shopped around)

In some cases customers tried to find as much information as possible themselves (via papers, the internet, and direct from providers) but resorted to using a professional advisor if they were still unsure what their options were. This lack of clarity about their choices or what they should be comparing led those with higher value annuities in particular to look for guidance.

Three respondents in the qualitative sample stated they had used the MoneyMadeClear website to check their options, and expected rates of return, but found the website hard to navigate.

"I don't think it was awful, but I struggled with the complicated terminology a bit. It needs to be simplified." (male, shopped around)

Others simply chanced on the best deal open to them that they had found, usually based on a familiar and 'trusted' (i.e. perceived as financially stable) brand name and price.

For the less financially confident, another confusion with regards the purchase process was trying to consolidate multiple pension funds at the same time. Issues could arise such as different provider offering an initial quote based on different criteria. Often they resorted to seeking professional advice in this instance to ensure the deal worked for them and all necessary paperwork was completed.

3.5 Purchasing an annuity externally

3.5.1 Quantitative Findings

In total, 32% of annuity purchasers bought their annuity from a provider other than their pension provider. This is the same proportion (32%) that bought externally in 2005 according to HM Treasury (2006)⁴. The ABI also estimated in 2008 that one-third of annuitants shop around and then buy externally⁵.

Enhanced or impaired annuity purchasers were most likely to have bought their annuity externally (70%) compared to standard or investment-linked annuity purchasers (28% and 18% respectively).

Joint life annuity purchasers are significantly more likely to have bought from an external annuity provider compared to single life annuity purchasers (41% and 28% respectively).

3.5.2 Qualitative Findings

Participants with enhanced/impaired annuities in the qualitative sample had been informed by friends, family or other 'informal' sources of advice (e.g. media coverage) that they ought to be looking for the best deal and that deals could be considerably better for those with health problems. These participants had followed this advice and done a degree of shopping around. However, most had only moderate-low value pension funds and did not recall any considerable differences in the deals.

When shopping around, those with lower value funds often felt there was justification for staying with their provider after a cursory 'shop around'. This included comparing rates online against competitors and quickly deciding that there was little gain in the effort of moving to another provider. Many thought charges were likely to be applied for changing provider and that this may outweigh the benefit of moving their funds.

"I looked around, but in the end I had nothing against [provider] and they are reputable. So I think I could have made a bit more by going to [another provider] but it wasn't much more and at that level of income I think it's more hassle than it's worth. I don't want to pay the bloody charges too. It's not worth it, I decided." (female, shopped around)

⁴ The Annuities Market. HM Treasury (2006)

⁵ Pension Annuities. Pension Annuities and the Open Market Option. ABI Research Paper No. 8 (2008)

3.6 Reasons behind provider choice

3.6.1 Quantitative Findings

Of the 35% who shopped around but decided to purchase from their original provider, 46% stated that it was the best offer. Eighteen percent also stated that a financial advisor advised them to stay with their pension provider.

Participants with funds of less than £17,500 who did shop around but did not buy externally, were significantly more likely to say that they were satisfied with their pension provider (11%) or 'only had a small fund' (7%) than those with funds above trivial commutation (3% and 2% respectively).

Of the 32% who shopped around and decided to buy externally, Table 9 shows the reasons why they decided to do so – almost always to get a better offer or higher income.

Table 9 Unprompted reasons why those who shopped around decided to purchase externally

It was a better offer	52%
Higher income	35%
Advised by professional financial advisor	29%
Not satisfied with my pension provider	9%
Most relevant annuity for my needs	9%
Easy to do	4%
Advised by friends/family	2%

Note: Sample = 245 (Respondents shopping around and bought externally). Reasons given by <2% respondents not shown.

Participants who had bought an enhanced/impaired annuity were significantly more likely to state 'Most relevant annuity for my needs' (17%) than those who had bought standard annuities (6%).

3.6.2 Qualitative Findings

The qualitative research indicated that key triggers to changing provider were:

- *Desire to maximise the value of their annuity* – there was more interest in changing provider when participants had larger pension funds.
- *Feeling let down by current pension provider* – either through a significantly lower offer or due to poor customer service. A few reported not having heard back from their pension provider when they had asked for information or advice on how to take their pension forward.

Where customers used an advisor, this made the process of switching more straightforward. Typically customers were happier using 'paid for' advisors for bigger funds.

As a rule, the lower the fund, the less time and effort was put into considering their options, particularly where the annuity was not the participant's main source of income.

"It's probably convenient for me to stay with [provider]. They've never let me down, the price was okay compared to a few I looked at and I thought 'there's nothing much in it.' I couldn't be bothered for the sake of a few quid a month. ... At least I know what to expect with [provider]" (female, shopped around)

4.0 THE ANNUITY PURCHASING PROCESS

This section looks at how annuity purchasers are prompted to purchasing their annuity, how advice and information is gained, and how useful these were.

4.1 Prompts to annuity purchasing

4.1.1 Quantitative Findings

Table 10 shows the prompts mentioned by participants. In total, the key reason for over half was their impending retirement. However, other prompts do vary by their shopping around and purchasing behaviour. Those who shopped around and bought externally were most likely to state, without prompting, that they always knew they needed to purchase an annuity compared to those shopping around and buying internally and those who did not shop around at all.

Those who did not shop around were significantly more likely to have been prompted to buy their annuity by their pension provider. They were also significantly more likely to state a desire or need for a tax free lump sum. Low financial sophistication participants were significantly more likely to be prompted by contact from/with a professional financial advisor.

Table 10 Prompts to purchasing an annuity

	Total	Did not shop around	Shopped around, buying internally	Shopped around, bought externally
Unweighted Base	750	222	260	245
Coming up to retirement date	56%	52%	59%	60%
Wanted additional income	21%	22%	19%	21%
Always knew needed to purchase an annuity	9%	5%	5%	15%
Letters/ communication from pension provider	7%	11%	5%	4%
Wanted tax free lump sum	6%	9%	5%	5%
Contacted by professional financial advisor/ spoke to professional financial advisor	6%	2%	8%	6%
Employer	5%	7%	6%	3%
Made redundant	5%	5%	4%	5%
Health issue	4%	5%	3%	4%

Note: Sample = unweighted base as shown. Reasons given by <2% respondents not shown.

4.1.2 Qualitative Findings

The key prompts from the qualitative research back the quantitative findings. For many, the prompt to buy an annuity was simply the fact they were coming up to retirement age and had started to consider their options. Some also indicated that a letter from their pension provider had prompted action. Some had deferred getting their retirement income because:

- They were still working, and therefore had no immediate need for the additional income.
- They were concerned about the impact of the economy on getting a decent rate - as evidenced by letters from providers telling them the initial rate offered had later changed for the worse.

A few who had no immediate need for the money said they had been deferring buying an annuity in the hope of improved annuity rates in the future, but had eventually given up hoping the economic situation would improve and feared it would only get worse, lowering their potential returns even further.

"I didn't need it immediately. So I thought let's see what happens, let's see if things pick up and I might get a bit more money. ... In the end I gave up a bit, I started getting twitchy and worried by the financial situation out there. I thought I might end up with nothing if I left it any longer." (male, shopped around)

Another key trigger was an immediate need for cash (i.e. the tax free lump sum), and this was for issues as varied as paying off a debt or mortgage, a change of circumstance (e.g. being made redundant) through to a desire to get home improvements done. A few wanted to use the lump sum to have a holiday.

4.2 Shopping around in context

Annuity purchasers who shopped around were more likely than those who did not to shop around for other products including cars, home insurance and life insurance. However, use of a professional financial advisor for the annuity purchase did not always indicate that the consumer had used a professional financial advisor when buying other products such as mortgages.

Qualitative research indicated that participants with smaller value pension funds often tended to avoid seeking professional advice, to avoid the charges. However, this did not mean the same customer did not use intermediaries to shop around for other products, especially home and car insurance or mortgage deals. Additionally, many were aware of comparison websites for insurance products, and were comfortable using them in other product areas, though not all had used them for annuities.

“I used Go Compare when I bought the car insurance in March, but I wouldn’t have thought of something like that for annuities. Is there such a thing?” (female, shopped around)

A few said that a lack of high profile annuity ‘comparison sites’ (often online brokers) made it harder to compare annuities. Those that did use sites such as online brokers said they were comparable in terms of ease of use to similar sites for insurance.

4.3 Time needed for annuity purchasing decision

4.3.1 Quantitative Findings

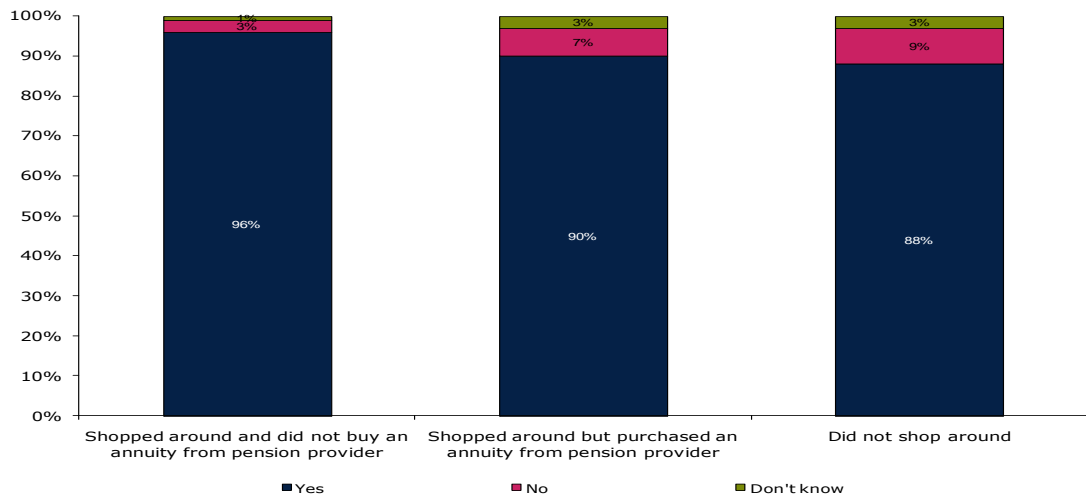
Twenty-three percent of annuity purchasers stated that they had previously deferred the purchase of the annuity. In particular this was stated by those 66 years of age and over (63%).

On average, annuity purchasers take two months to decide which annuity to purchase. This varies considerably with annuity purchasers who did not shop around choosing their provider in 1.4 months, compared to those who shopped around but did not buy externally (2 months) and those who shopped around and bought externally (2.6 months). Forty-four percent of participants who did not shop around bought their annuity within two weeks.

Figure 2 shows whether participants believed they had sufficient time in which to consider which type of annuity to purchase and who from. Those who bought externally were significantly more likely to state that the time taken was sufficient to make their decision.

In total, 6% of annuity purchasers thought they did not have sufficient time to consider their annuity purchase.

Figure 2 Sufficient time to consider type of annuity to buy and from which provider



Note: Sample = Shopped around, bought internally (260). Shopped around and bought externally (245), Did not shop around (222)

4.3.2 Qualitative Findings

Qualitative findings indicate that there was usually enough time in which to make decisions on the type of annuity and which provider to buy from. If anything, the time taken to decide was often less than expected.

“It was fast. I’m sure it was little more than a month from deciding to do it to having it finalised. That’s impressive, it’s better than I thought it would be. I thought it could take months.” (male, shopped around)

As with the quantitative research, the decision time needed was usually longer if shopping around was undertaken, and longer still if shopping around was done by the customer without (or with limited) professional advice. Those who did hardly any or no shopping around, or who went straight to their advisor for help, were keen to point out that the ease of purchase was a key driver to their satisfaction with the process - they took the shortest length of time to decide on the deal for them.

“It was quick. I spoke with them, they sent out the paperwork, I talked to a friend, signed it and got it back to them. Must be a few weeks, no more.” (male, didn’t shop around)

When dealing with the providers directly, a few were frustrated by how quickly providers responded to their queries. In some cases the level of customer care was a decisive factor in where to purchase. There was evidence of some participants doing their own shopping around and losing patience with the process and making a decision based on instinct

rather than a full comparison of the available options. Decisions often were based on a known brand or price.

"I got bored in the end. I don't like the waiting around for quotes, it's not a lot of money anyway. I thought it was almost too much choice, and my husband suggested I do it so I did it. I got tired of nothing happening."
(female, shopped around)

"It's a bit like buying a holiday on the internet. In the end I get bored of researching and looking at this and that, comparing this and that. I just tired and made a snap judgement." (female, shopped around)

4.4 Advice and information received

In total, 72% of participants stated that they obtained advice or information about the purchase. Forty-three percent of those not shopping around obtained any advice or information.

When purchasing annuities, 41% stated that they purchased their annuity through a professional financial advisor. Advice or information was obtained from an IFA by almost half of all annuity purchasers. In total, 55% obtained advice or information from or bought their annuity through a professional financial advisor (including financial advisors arranged through employers for instance).

The use of comparison tables and websites is also fairly common. Specific recall of the use of the TPAS online planner and helpline is 5% and 3% respectively.

Table 11 Sources of advice or information used

Independent Financial Advisor	46%
Provider	20%
Comparison table	11%
Another website	11%
Friend/ colleague	10%
Another Provider	9%
Spouse/ partner	9%
FSA website/ MoneyMadeClear	7%
Financial advisor arranged through employer	7%
Bank or Building Society	6%
Employer	5%
The Pension Advisory Service (TPAS) online planner	5%
Non-spouse/partner member of family	4%
The Pension Advisory Service (TPAS) helpline	3%
None	27%

Note: Sample = 750. Rebased on total. Sources of advice/information given by <2% respondents not shown.

When considering whether the source of information or advice was useful or not, 2% considered the IFA they used to not be useful. This is similar to FSA research in 2008 which found that "...purchasers of decumulation products cited IFAs as the... most useful source they had consulted"⁶.

Similarly, 3% who said they obtained information from the provider thought that this was not useful. Those who said this either did not shop around or shopped around but did not buy externally.

Eighty-four percent said they felt they received a sufficient amount of useful information from their pension provider about their retirement options. Fourteen percent felt they had not received sufficient information.

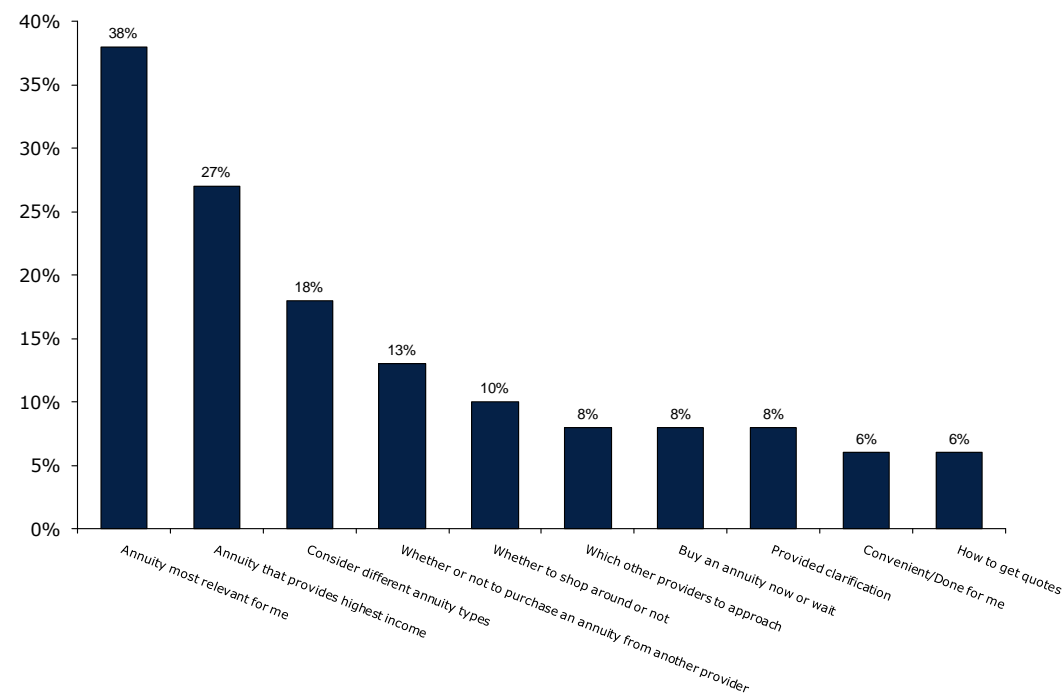
When information or advice was obtained from a provider they did not purchase from, fifteen percent found this not useful. Twelve percent said that the Bank or Building Society they contacted was not useful.

Of the 3% who did use TPAS Helpline, all thought this was useful. Six percent (three people) of those using the MoneyMadeClear website and 6% (two people) of those using TPAS online planner found these to be not useful.

Where annuity purchasers had obtained any advice or information, this primarily helped to find the annuity that was most relevant to their needs and circumstances (38%), or the annuity that provides the highest income (27%).

⁶ Consumer purchasing and outcomes survey. FSA (2008)

Figure 3 How the advice or information received had helped



Note: Sample = 544 (All receiving any advice or information)

Amongst those who used the different sources of information/advice, comparison tables were most likely to aid finding the most relevant annuity compared to professional advisors or providers. Professional advisors and TPAS were most helpful in finding the annuity that provides the highest income. Online services and TPAS were most likely to help annuity purchasers consider different annuity types.

4.4.1 Use of Independent Financial Advisors

IFAs were chosen by those obtaining advice or information from them through having existing relationships with them (46%) or being recommended by a friend or family member (29%). Sixty-three percent of those obtaining advice or information from an IFA said they did not pay a fee for the service.

The main reason for using IFAs is due to a need for professional advice resulting from a lack of experience (38%).

4.4.2 Non-use and openness to use of Independent Financial Advisors

Amongst those who did not obtain advice or information from an IFA, the reasons for not doing so varied. Table 12 shows a breakdown of these reasons. Those who did not shop around for their annuity were most likely to say that the reason they did not use an IFA for the purchase was due to only having a small amount to invest (23%).

Table 12 Reason for not obtaining advice or information from an Independent Financial Advisor

Knowledgeable/ Can do it myself	17%
Only a small amount to invest	17%
Too expensive/Fees	16%
Happy with present Provider	12%
Just not interested	11%
Don't trust IFA's	9%
Friend / family member dealt with it	6%
Too much hassle/no time	5%
Don't need - company take care of it	4%
Didn't know I could	2%

Note: Sample = 400. (all not receiving advice or information from an IFA)

Nineteen percent of those who did not use an IFA said they wished that they had obtained advice or information from an IFA, with no significant difference between those who had shopped around or not.

Forty-six percent of those who wished that they had obtained advice or information from an IFA would have been willing to pay a fee. Significantly more would have been willing to pay a fee to access independent financial advice if they had shopped around but not paid for financial advice (51%) compared to 39% of those who did not shop around.

4.4.3 Qualitative Findings

The qualitative findings support the quantitative research:

- Those more reliant on informal advice (friends, family, associates that knew more about financial matters) tended to have small funds or were fairly confident about financial issues. Those more confident said they found all they needed online.
- Those more reliant on formal advice (IFAs, providers, banks/building societies) tended to have larger funds or were less confident in their ability to get a good deal.

A few customers said they were not financially confident but that they also felt disinclined to seek advice for smaller value funds.

"It's only a few quid a week, why would I need to spend more on an advisor who costs a fortune? I'll do it myself." (male, shopped around)

Those that didn't use an advisor for small funds also said that they probably would consider an IFA if they had a larger fund.

Very few were dismissive of the advice given by their professional advisor. Those most satisfied with their advice were those who got an annuity they felt suited their needs, based on their health or marital status (not just the best price). IFAs, where used, were

acknowledged to make decision making more straightforward and give confidence that the policy was right for them.

For less financially sophisticated customers, those that didn't seek advice were sometimes unaware what the benefits might be.

Also, customers' understanding of what 'professional' meant varied. For some this was paid for advice; for others it was speaking to their pension provider or the pension advisor at their bank. For others this meant talking to their close friends/family who worked in a financial role who were seen as knowing a lot about annuity choices.

The broad definition of a 'professional' advisor also appeared to impact on perceptions of impartiality. Some participants felt disinclined to use a 'professional' because they felt they would be biased by commission. These customers were also more likely to state that they were inclined to listen to advice and information from friends and family, who they felt they could trust.

"My son's great at finances, so he's my advisor really. There's no need to pay for the professionals if you've got a professional in the family. I see him that way." (male, didn't shop around)

4.5 Satisfaction with the annuity purchasing process

4.5.1 Quantitative Findings

Satisfaction with the overall ease to consider options and purchase the annuity was very high (68% extremely/ very satisfied). Table 13 shows that about one in four of all annuity purchasers were extremely satisfied with the speed, ease and simplicity and overall ease to consider options.

Table 13 Satisfaction with annuity purchasing process

	Time taken to set up your annuity	Ease and simplicity to set up your annuity	Overall ease to consider your options and purchase your annuity
Extremely satisfied	28%	25%	22%
Very satisfied	42%	46%	46%
Quite satisfied	23%	21%	24%
Not very satisfied	4%	4%	4%
Not at all satisfied	2%	1%	1%
Don't know	1%	1%	1%
Not applicable	-	1%	1%

Note: Sample = 750.

If dissatisfaction was stated with 'time taken to set up your annuity' or 'ease and simplicity to set up your annuity', suggestions as to what could have made the process

quicker and easier centred on improving efficiency (31%) and 'understand my needs/answer my questions' (28%). Seven percent also stated a need to improve communication between pension and annuity providers.

Overall, 92% of annuity purchasers said that they were confident that they had made the right decision when purchasing their annuity. Seven percent were not confident. Significantly, more annuity purchasers who did not shop around suggested that they were 'quite confident' (52% compared to 41% of those who shopped around) or 'not very confident' (8%), compared to 3% of those who shopped around.

4.5.2 Qualitative Findings

Most participants were satisfied with the process of setting up their annuity and showed fairly high levels of confidence that they had as good a deal as possible in the current market. There was a widespread feeling that expectations had shifted in terms of what they could get with their pension funds compared to 10 years ago.

Those most satisfied with the purchase process had either:

- Shopped around thoroughly and found the process manageable; or
- Used a trusted professional advisor and taken a more active role at the decision making stage.

Those who got a GAR were particularly satisfied. Likewise, those with enhanced/impaired policies were fairly satisfied due to the fact they had often shopped around more, and usually got a better deal than had been expected at the outset.

Those who had taken a less active role (e.g. they had simply taken their advisor's word or they didn't shop around) were the least satisfied with the process because they had a few nagging doubts about whether they made right decision. Overall, they demonstrated the least confidence that they had a good deal (but were also fairly unconcerned if the amount was seen as minimal within their overall retirement income).

"I don't think it's amazing, but what would be amazing when the fund's so small? I mean it's okay, I might have got better elsewhere but I'm not going to worry now it's done. It was so little, I don't think it's worth worrying." (male, didn't shop around)

A few who didn't shop around and were less financially confident were fairly satisfied with the purchasing process because their provider had talked them through the process and seemingly made the process straightforward for them. They had barely given any consideration to shopping around or comparing deals.

Those most dissatisfied with the process expressed concern at length of time taken to set up their annuity. Also a few were dissatisfied by level of income obtained, which was lower than they had hoped or expected. This dissatisfaction was generally felt more strongly amongst those for whom the annuity was a more important source of retirement income.

4.6 Summary qualitative 'decision tree' in the annuity purchase process

Figure 4 A general summary of the decision processes and routes taken by customers when choosing their annuity

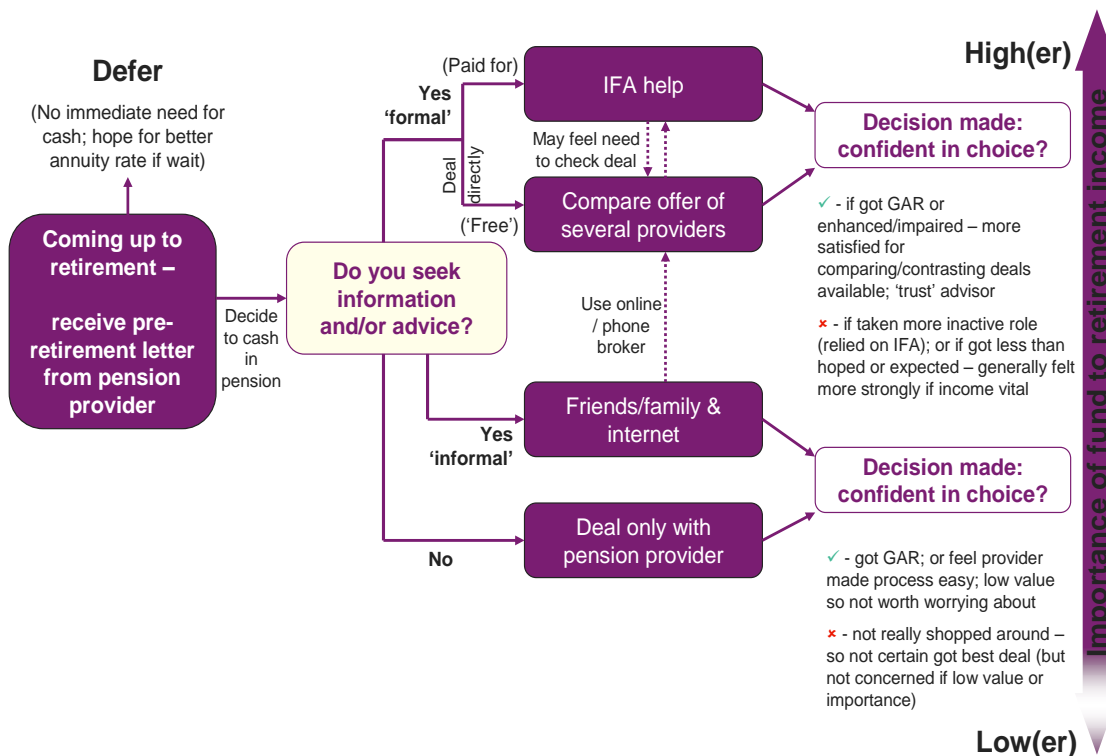


Figure 4 is an overview of the decision making evident amongst participants in the qualitative research and how this impacted on their overall confidence in their final choice of annuity. It highlights that the time and money invested in the decision making process is frequently related to the perceived importance of the fund to their total retirement income; those using 'paid for' advice were more likely to view their fund as more important income. However, even amongst those using an IFA and where the annuity value was higher, this fund was rarely their only retirement income.

The figure also highlights the relationship between informal and formal advice, in particular where friends, family and the internet ('informal' sources) have directed people to online or telephone brokers to get comparable quotes for several providers free of charge.

Where participants used IFAs there was a proportion that still did their own research to check they were getting the best deal. Likewise, those who had directly contacted several providers but who were struggling to compare offers occasionally turned to their IFA to help them make a final decision in their interests.

5.0 POTENTIAL STRATEGIES TO INCREASE SHOPPING AROUND

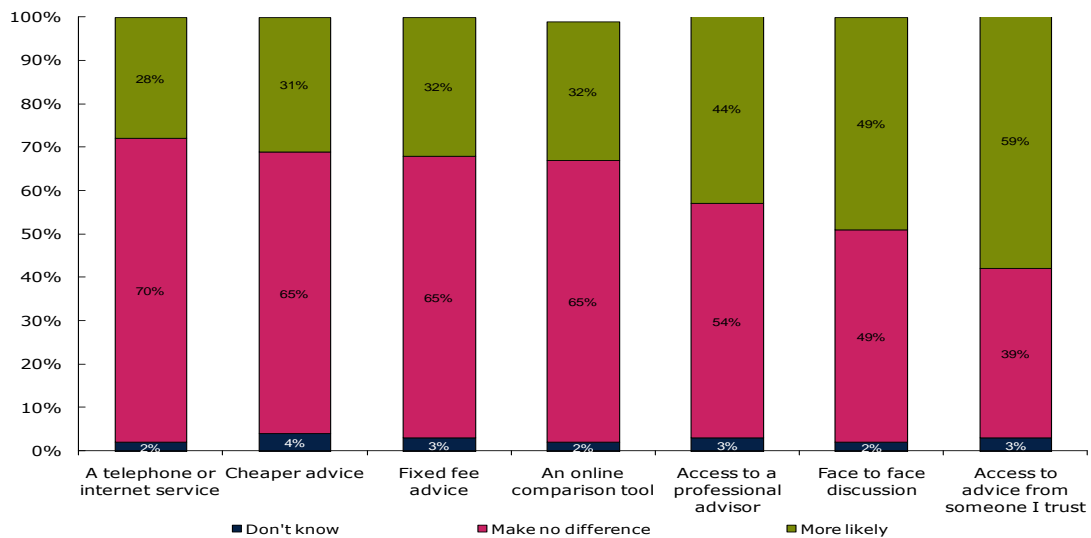
5.1 Customer suggested improvements

When asked what would have encouraged participants who did not shop around to do so, responses were mixed. However, one in three stated that nothing would have encouraged them to do so. Many participants who did not shop around also appear to suggest that the fund was too small to bother (18%). There was also a perception from some that they did not think they would be able to find a better deal (14%). Three percent suggested that providing them with information that was easier to understand would have encouraged use of the OMO.

5.2 Suggested strategies and fee paying

Figure 5 shows that providing access to a trusted advisor is the strategy most likely to improve use of the OMO with those who did not shop around. This is equally likely to encourage OMO use amongst all values of annuities purchased. It is also significantly most likely to encourage OMO use amongst those who may be entitled to an enhanced annuity (40% 'a lot more likely' compared to 26% of those who may not be entitled to an enhanced annuity).

Figure 5 Strategies suggested that could encourage use of the OMO



Note: Sample = 222 (all who did not shop around)

A face to face discussion was seen to improve the likelihood of the use of the OMO for almost half of annuity purchasers who did not shop around. Fifty-six percent of these annuity purchasers suggest that they would also be willing to pay a fee for the service. This does not vary by value of the annuity. Thirty five percent who did not shop around, but said a telephone or internet service would encourage them to shop around, would be willing to pay a fee for the service.

5.3 Qualitative findings

From the qualitative findings, key improvements focused on ways of allowing customers to find information to make annuity choices without relying on paid-for advisors (especially important where annuity fund size is anticipated to be small). For example, improving:

- The ease of access to comparison data.
- Information on where to find 'neutral' comparison sites (or reputable online brokers offering clear comparison data about providers).
- Signposting to other sources of free and neutral advice.
- Understanding of the annuity types available.

One of the main findings was that those who could not use the internet with ease were at a distinct disadvantage when it came to doing their own research on annuities.

"I'm a bit of a Luddite. I'm not happy on computers, but I feel at the moment that means I can't easily access this comparison information. I want to be able to ring a helpline, explain my situation and they send me some comparison information, just like it is on the internet. And if they already do it, why don't I know about it?" (female, shopped around)

A few had worked round this constraint and were able to access online information by relying on help from their family or friends, although not all were able to access this type of help.

"I don't get on with computers myself, but my daughter does all that stuff for me, like the shopping on the internet." (female, shopped around)

6.0 AWARENESS AND UNDERSTANDING OF ANNUITISATION OPTIONS

This section looks at the awareness of options when purchasing an annuity, the requirements for the annuity that were considered, awareness of the annuity types that could have been available and the types that were considered when purchasing.

6.1 Awareness of annuity purchasing options

There is almost universal awareness (96%) that annuity purchasers can take up to 25% of their pension fund as a tax free lump sum. Eighty-seven percent were aware of the option to defer.

Sixty-four percent of all annuity purchasers were aware that 'people with health issues may receive an increased income'. Ninety-six percent of holders of an enhanced or impaired annuity were aware of this. Sixty-one percent potentially entitled to an enhanced annuity were aware of this.

Fifty-nine percent of all annuity purchasers correctly agreed with the statement that 'Smokers or people with high blood pressure or cholesterol may receive an increased income'. Ninety-three percent of those holding an enhanced or impaired annuity were aware of this, and 55% of those potentially entitled to an enhanced annuity knew this.

Qualitative research indicated that this information was picked up via a mixture of news articles, friends and family who had been through the annuity purchase process, and information obtained directly from providers. There was one example of a professional advisor putting a customer off pursuing an enhanced or impaired annuity because the additional income was not seen as worthwhile for the amount of paperwork involved.

6.2 Requirements for annuities

As shown in Table 14, the key requirements when considering which annuity for most annuity purchasers were 'having a guaranteed income for a set length of time', 'security of the income' and 'maximising the income'. There are also significant differences in the requirements depending on whether annuity purchasers shopped around or not and bought externally or not. Those who did not shop around for instance, are significantly more likely to have considered 'having the income increase with inflation' and 'having the income increase each year to allow for increasing costs' than those who shopped around.

Table 14 Requirements considered when purchasing the annuity

	Total	Did not shop around	Shopped around, bought internally	Shopped around, bought externally
<i>Unweighted Base</i>	750	222	260	245
Having a guaranteed income for a set length of time	78%	77%	76%	84%
The security of your income	78%	77%	76%	84%
Maximising your income	75%	73%	73%	83%
Providing for your partner/ spouse	54%	53%	55%	56%
Having the income increase with inflation	40%	55%	35%	33%
Having the income increase each year to allow for the potential of increasing costs, for instance for carers	31%	44%	30%	23%
Whether the annuity was designed for people in poor health or not	29%	29%	26%	34%
Whether it was linked to investments or not	20%	23%	23%	17%

Note: Sample = unweighted base as shown

6.3 Awareness and consideration of annuity types when purchasing

Awareness and consideration of annuity types available is significantly higher if the annuity purchaser had shopped around. This is accentuated if the shopping around resulted in buying externally.

Table 15 Awareness and consideration of annuity types

	Awareness of Annuity Types		Annuity Types Considered Purchasing	
	Shopped Around	Did not shop around	Shopped Around	Did not shop around
Unweighted Base	505	222	505	222
Guaranteed (period)	86%	71%	50%	39%
Joint Life	81%	66%	41%	33%
Guaranteed annuity rate	74%	69%	40%	33%
Investment linked	70%	58%	15%	10%
Escalating/ Indexed Level	70%	52%	26%	10%
Single Life	68%	53%	38%	23%
Enhanced/ Impaired	62%	39%	22%	6%
Don't know	4%	8%	10%	14%

Note: Sample = unweighted base as shown. Short descriptions of annuity type were provided to respondents, please see appendix for full descriptions given.

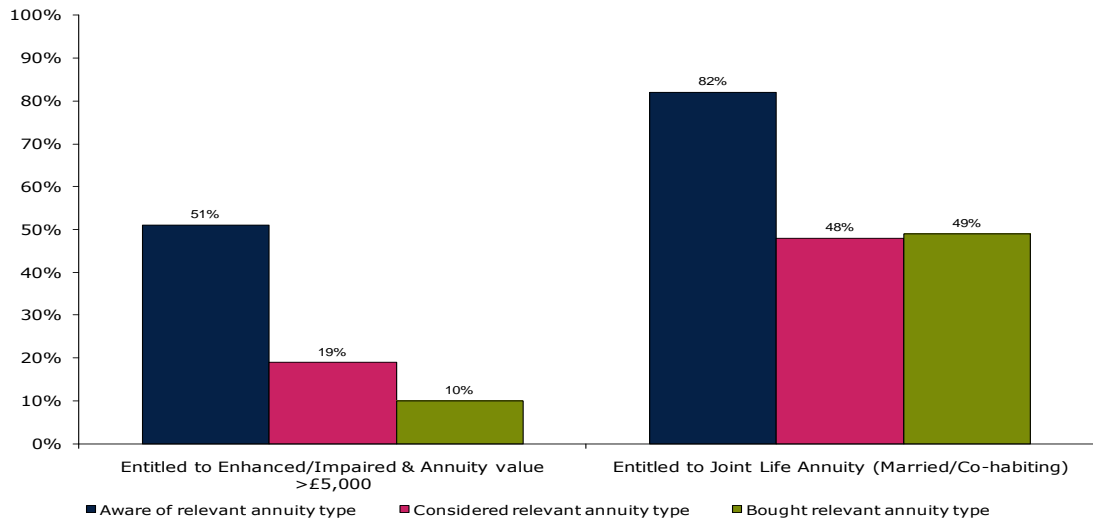
If a professional financial advisor did the shopping around for the annuity, awareness of a guarantee period, escalating/indexed and enhanced/impaired annuities was significantly higher. Consideration of these annuities was also significantly higher if a professional financial advisor did the shopping around for the annuity.

Figure 6 shows that of those potentially entitled to an enhanced or impaired annuity with a fund of over £5,000, half were aware of the annuity type by name and short description, one in five consider it and 10% bought.

Those potentially able to purchase a joint life annuity (defined as those co-habiting or married⁷) had very high awareness of the option of a joint life annuity with broadly half considering and purchasing this type of annuity. The percentage buying a joint life annuity is higher than the proportion who considered purchasing a joint life annuity. This is a result of differences between participants' recollection of what they considered and sample information supplied by providers on what participants actually bought.

⁷ Note however, that of those co-habiting or married 27% said their partner (or other family member) were dependent on the respondent's income or financial support.

Figure 6 Awareness, consideration and purchasing of relevant annuity types



Note: Sample = 275 – Entitled to Enhanced/Impaired Annuity and Value >£5,000; 566 – Entitled to Joint Life Annuity. Data regarding the type of annuity purchase was from annuity company provided sample. Consideration and awareness from survey response.

When participants were potentially entitled to an enhanced or impaired annuity but unaware of this option, 60% had an annuity value of over £17,500, and 27% had a annuity of over £40,000. Ninety percent had taken their annuity as a standard annuity with 82% purchasing from their pension provider. Despite 50% shopping around for an annuity, 63% did not use a professional advisor to shop around on their behalf for the purchase.

7.0 INCOME NEEDS

This section provides a description of alternative sources of income in retirement and whether annuity purchasers consider their total retirement income to be sufficient for their needs.

7.1 Alternative sources of income in retirement

Two percent stated that they had no other sources of retirement income. One in three of these annuity purchasers purchased an annuity with a value of £10,000 or less.

Fifty-five percent of participants mentioned state benefits or the state pension, 41% stated savings interest, 37% employer pension, 30% other pensions, 27% investment income and 26% paid employment.

7.2 Sufficiency of total retirement income

7.2.1 Quantitative Findings

Sixty-nine percent state that their total retirement income is sufficient to meet their needs. Twenty-two percent said it was not, and 9% did not know.

Seventy-nine percent of annuity purchasers over 66 years said their retirement income was sufficient – significantly higher than 55-60 year olds (64%). However, there was no link to the value of the annuity purchased or whether a professional financial advisor shopped around for the annuity.

Amongst those whose retirement income is not considered to be sufficient for their needs, significantly fewer have alternative sources of income including savings interest, employer pensions and investment income.

7.2.2 Qualitative Findings

In line with the quantitative findings, the majority of interviewees had (or anticipated) other sources of income. Other sources of income ranged from savings and the state pension through to other pensions, investments and property.

Very few, including those with higher value annuities, said that their recent annuity purchase represented a major part of their retirement income. Typically, many had a level of income in mind for a 'comfortable' retirement, which ranged from £15,000-£40,000 per annum, although many suggested around £20,000. In most cases the annuity purchase only contributed a small amount to this total.

"I see this as pocket money really. I mean, it's about £50 a week. It's not exactly going to make a huge difference. My investments are much more important for that." (male, shopped around)

To achieve their desired income, many respondents talked about down-sizing property, cashing in savings and investments, having other ('more significant') pension products (often group or defined benefit pensions from their work) and their lack of mortgage payments as reasons for not feeling concerned about achieving necessary income levels.

A1 APPENDIX

On average the quantitative interviews lasted 17 minutes.

There were no restrictions on fund size. Where individuals held multiple annuities, the annuity of the highest value was selected when speaking to the respondent. For the purposes of the research, individuals could only be contacted once and only in relation to one provider, even if they held funds with multiple providers in our sample. Where an individual had pension funds with multiple providers, we choose the provider where the largest fund was held.

Participants under the age of 55 were excluded from the research due to the change to the Normal Minimum Pension Age change that occurred in April 2010, and therefore led to a one-off increase in annuity purchases among people of this particular age.

The 13 firms that provided customer samples for the research were: Aegon, Aviva, AXA, Co-operative Financial Services, Friends Provident, Just Retirement, Legal & General, MGM Advantage, Prudential, Royal London, Scottish Widows, Standard Life and Zurich Financial Services.

Further sample detail

Table 16 sets out the marital status of participants.

Table 16 Marital status

Married	72%
Divorced / separated	10%
Single (never married)	8%
Widowed	6%
Co-habiting	3%

Note: Sample = 750

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

- **High sophistication** – You have a good knowledge and understanding of personal finance products and services. You like reading financial sections of newspapers/websites and you like to make your own choices about financial products. (22% of the sample.)
- **Medium sophistication** – You have a reasonable knowledge of personal finance products and services and you are able to weigh up the advice of financial professionals when choosing a product to suit your personal circumstances. (51% of the sample.)

- **Low sophistication** - Financial issues are best left to the experts – you generally rely on the advice of financial advisors, friends or relatives about which products are best for you. (27% of the sample.)

Descriptions of annuity types

Single Life– Provides income for one person only

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

Guaranteed – Guarantees that if you die within first 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 5 or 10 year period

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

Escalating/ Indexed – 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 equity investments 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

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Authors: This paper was written by Kevin Crouch (Associate Director, Optimisa Research), David Barks (Research Manager, Optimisa Research) and Ian Sparham (Director, Optimisa Research). The ABI research project manager was David O'Neill.

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For more information, contact:

Association of British Insurers

51 Gresham Street

London EC2V 7HQ

020 7600 3333

www.abi.org.uk