Time to annuitise?

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Time to annuitise?

> ñThe single most important financial tool for dying broke is the annuity ï it serves as a form of longevity insuranceò Pollan S and Levine M[1]

In 1997, a US financial planner Stephen Pollan published a book called ôDie Brokeö in which he set out his approach to financial planning. His clients are encouraged to spend every penny of their accumulated wealth before they die. Whilst acknowledging that many will find the concept insane, Pollan suggests that we should reject the idea of ôhoarding money for a time when we canõt spend itö but rather to use it on ourselves, our family or others during our living years. Pollan does not advocate giving it all away but he does encourage complete decumulation of wealth (including property wealth) during the retirement years (although he is not a fan of retirement as such).

A central plank of Pollanõs philosophy is the staged purchase of annuity income from age 70 (or later if income is not required) onwards. Pollan suggests purchasing annuities at regular intervals as income falls in retirement, until eventually all of a clientõs wealth is invested entirely in annuities (or given away to others). Ensuring that clients have enough income to live on throughout their retirement (managing longevity risk) and protecting clients against the ravages of the stock market and interest rates (managing investment and interest rate risk) are the central arguments used by Pollan in support of this strategy.

Whilst for some this approach to financial planning may prove too extreme, the recent historical low in interest rates has highlighted the dependence that some retirees have on their savings. A recent study by Investec Private Bank, suggests that around 6 million retirees rely on interest from savings for at least a part of their retirement income[2]. Moreover the same organisation points to the difficulty faced by those with savings of keeping track of the best interest rates ï their research suggests that during a three week period in January of this year 56 different accounts featured in the top five savings accounts[3]. Bank of England data on average deposit interest rates of UK banks suggests that interest rates fell by between 50% and 94% from October 2007 to August 2009[4].

For many pensioners in the UK, perhaps especially those with relatively modest amounts of savings held in bank or building society accounts, recent economic events have created uncertainty and for some real financial difficulty. Not only have many seen their incomes fall to unexpectedly low levels but some have faced the fear of losing their money as banks around the world face difficulties or even

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[1] Pollan S and Levine M (1997), *Die Broke : A Radical Four Part Financial Plan*, Harper Business New York

[2] As reported in ifaonline.co.uk, accessed 14th April 2009 http://www.ifaonline.co.uk/public/showPage.html?page=ifa2006_articleimport&tempPageName=852068

[3] Investec press release dates 10th February 2009 for balances of £25,000 and above

[4] Bank of England Statistical Interactive Database, Interest and exchange rate data, average quoted household interest rates of UK resident banks and building societies, accessed 6th October 2009.

collapse. In maintaining levels of income, some pensioners may now be eroding their capital and risk running out of money in later life. It seems almost certain that, in such circumstances, more pensioners will come to rely on state benefits or, if reluctant to claim, find that they are living in poverty.

Perhaps now is the time to consider again the options available to retirees who have some capital, either saved in the bank, invested in the stock market or in their homes. The option of investing in annuities has never been a sexy financial decision, caught up as it is in the psychology of inheritance, mistrust of financial institutions and the complexities of the benefits system. Moreover, the market is a difficult one for many to access ï few providers actively market their wares and those that do, do so predominantly through the IFA market. With many IFAs expected to move further up-market with changes to RDR[5], the channel is not considered appropriate or accessible to those of modest means. We will return to some of these themes later in the paper.

Is the time right for government, regulator and industry to take a fresh, holistic, look at the retirement income market and in particular the role that life annuities can play?

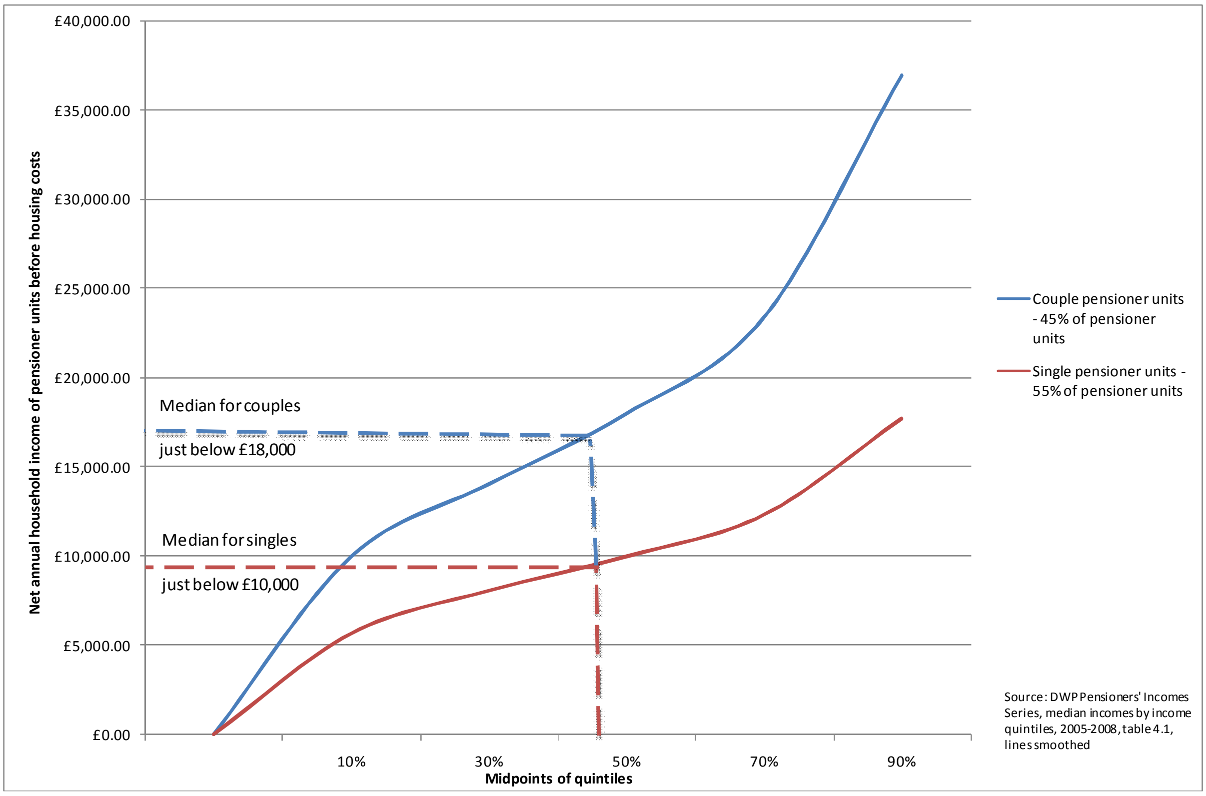
Who is affected?

In order to identify whether there is further scope for Purcashed Life Annuities (PLAs), we have carried out some initial research into the wealth and income profiles of the retired. Our model is, of necessity at this stage, a simplistic one and comes with a number of limitations that would need to be ironed out if any further research is conducted. We recognise that a number of other bodies are carrying out research into the wealth and income of the retired, notably the research team working on the ELSA project[6] and the current programme of work being conducted by the Pensions Policy Institute (PPI)[7]. The main limitations of our work here have been in finding a data set with robust data on incomes and financial wealth of the retired that is easy to work with. For simplicity, we have used the FSAês Baseline Survey of Financial Capability[8] as our main source of data on savings and investments but have had to cross-refer to other data sets and analyses for information on the incomes of the retired.

One factor often forgotten in the debate about annuities is the generally low level of income on which the retired survive. DWP data suggests that the typical (median) retired household has a total net income (after tax) of just under £13,000 p.a.[9]. In other words, half of pensioner households survive on less than this ï the bottom 10% of retired households survive on less than £8,000p.a. Chart 1 below illustrates how the majority (75%) of retired households has a net income of less than £20,000.

[5] Oxera (2009), Retail Distribution Review proposals: Impact on market structure and competition
[6] English Longitudinal Study of Ageing (ELSA), analysis on wealth and income distributions carried out largely by Institute of Fiscal Studies.
[7] PPI (2009), Retirement income and assets: do pensioners have sufficient income to meet their needs?
[8] FSA (2006), Levels of Financial Capability in the UK:Results of a baseline survey
[9] DWP PensionersôIncome Series 2007-2008, table 2.1

Chart 1: Cumulative % of retired households with income below level



Notes: the chart has been produced by drawing a smoothed line through the median incomes of the quintiles of income for pensioner households from the DWP's Pensioner Income Series. The median incomes are based on data collected from the years 2005-2008.

Clearly, having a low income in itself does not demonstrate potential demand for life annuities. We need to look at income levels alongside the value of retired people's savings and investments in order to identify whether there are any significant numbers of people who might benefit from annuitisation.

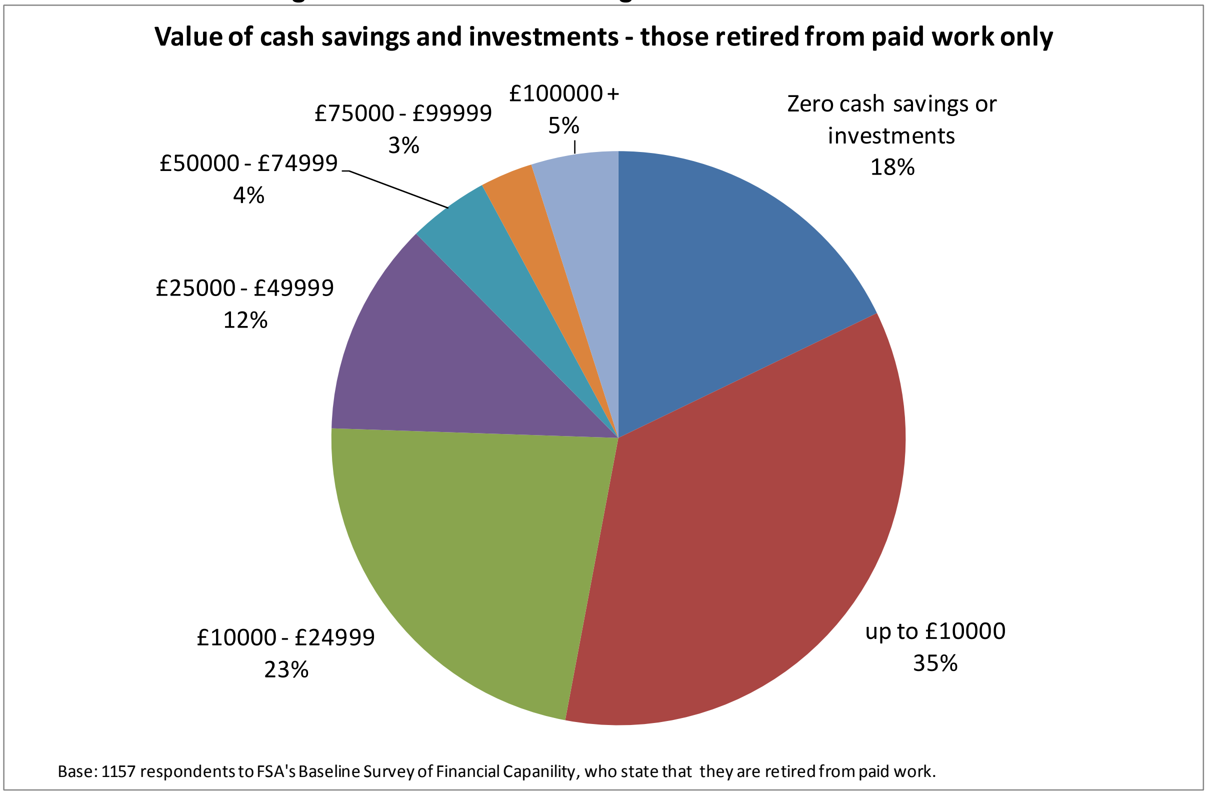
Most of those who are retired from paid work have at least some savings or investments (82%)[10]. This figure rises to 90% if the value of property is taken into account. However, for the majority, the amount saved (other than property) is quite small. More than half of the retired population has savings and investments worth less than £10000 and one quarter has savings and investments of less than £5000. For these groups, retaining their savings in cash makes sense since it gives them something to draw on in the event of major expenditure being needed (a new boiler or repairs to property). Worryingly, the Baseline Survey suggests that 0.5million retired individuals with savings of £10,000 or less have all of their savings and investments in equity-based products rather than in cash deposits.

Mean savings and investments for the retired from the Baseline Survey are approximately £23,000, with almost one quarter of the retired (or around 3 million individuals) having savings and investments of more than £25,000. By way of

[10] Calculation drawn from the FSA's Baseline Survey of Financial Capability using given and imputed values for cash savings and investments (excluding pension wealth and property). Where savings or investments held jointly with another, 50% of the value of the joint amount is taken into account.

comparison, using data published recently by the IFS on the distribution of wealth among the over 50s, we estimate that approximately 9 million individuals aged 50 or over have financial and physical wealth in excess of £25,000[11]. Given that some of these will not be retired and that wealth is shown to decline with age, the analysis would appear to broadly support the analysis from the Baseline survey and certainly confirms that there are significant numbers of asset rich: income poor individuals.The IFS analysis of the ELSA survey also suggests that net financial and physical wealth of the over 65s in England may be higher still at around £60,000[12], which may well mean that we are understating the market potential.

Chart 2: Value of savings and investments among the retired



In recent years when interest rates were in the region of 5% gross, the average wealth of those with savings over £25,000 (around £77,000) would have generated a net income of over £3,000pa for the basic rate taxpayer. With many accounts now offering 1.5% or less, unless they have shopped around for some of the higher rate offers, many will have seen their net incomes fall by at least £2,000pa to around £900pa (for some, the fall may have been even more extreme). Those who have not been able to shop around for a better rate or who have been unwilling to lock their money away in the fixed term deals on offer may have found themselves dipping into their capital to maintain their level of income. Barring any significant increase in

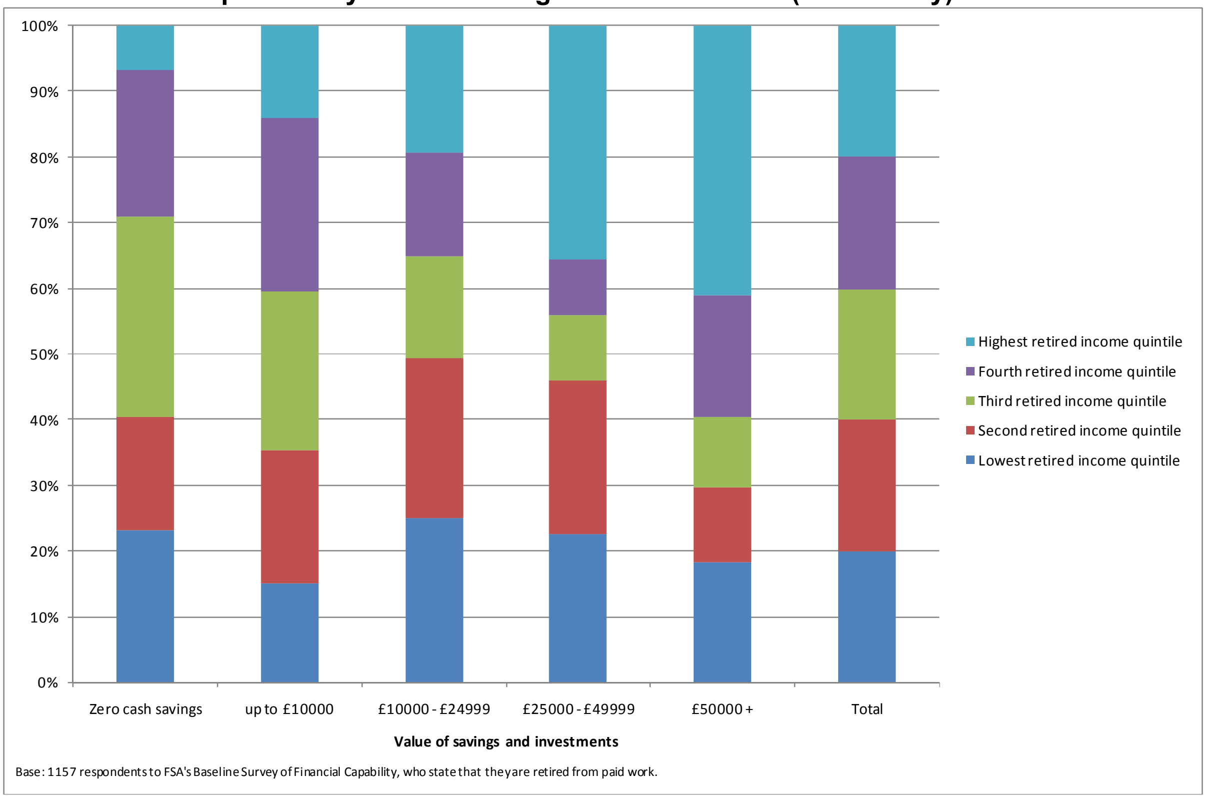
[11] Banks and Tetlow (2009), The Distribution of Wealth in the Population Aged 50 and Over in England, IFS Briefing Note BN86, table 1. By drawing a smoothed line through the wealth by income quintiles figures, we have estimated the proportion of the over 50s with wealth in excess of £25,000.
[12] Weighted mean for those aged over 65 calculated from Banks and Tetlow (2009), The Distribution of Wealth in the Population Aged 50 and Over in England, IFS Briefing Note BN86, table 1. Financial and physical wealth includes all cash and equity based investments excluding pension wealth and less any debts plus net equity in business property, second homes and holiday homes. ELSA data covers England only whereas the Baseline survey covers the UK population.

interest rates in the short term, many are unlikely to recover to their previous level of savings. Even when interest rates do increase again, many may find themselves with significantly less in their accounts and correspondingly less income.

But do this group need the income to sustain themselves? Our initial analysis suggests that many with assets of over £25,000 have incomes which may not sustain a comfortable lifestyle. Many in this group live on limited incomes and might be categorised as ásset rich, income poorô

Our initial estimates suggest that around one third of this group has no income from a private pension and is broadly reliant on benefits and income from their savings. Moreover, analysis of the Baseline Survey data suggests that almost a half of those with assets of £25,000-£49,999 and one third of those with more than £50,000 have incomes which place them in the lowest two quintiles of incomes among the retired[13]. Some of those with high assets and low incomes may well qualify for pension credit but are perhaps not claiming it or may as yet be too young to claim.

Chart 3: Income quintiles by level of savings and investments (retired only)[14]



Income data from the Baseline Survey is imperfect and so we have resorted to applying the median incomes available from the DWP Pensioner Series to help identify those who have reasonable assets and the need for higher incomes. We recognise that this approach is far from ideal (different data sets and different definitions of retired households) and that a more appropriate approach would be to analyse in detail the income and assets data from the English Longitudinal Survey of

[13] Income data from baseline survey may overstate those on low incomes due to low response rates.
[14] Baseline survey total household income - non-zero responses only.

Ageing. However, for the purposes of this initial exploratory report we believe that the data provides an approximate size of market.

In order to estimate the size of the market for life annuities, we have focused on those with savings and investments of more than £25,000 and with incomes in the second, third and fourth quintiles. Based on our judgement alone, we have excluded those in the top quintile of income since they might be considered to need the security of income somewhat less than others and may prefer to take the risks of changing interest rates or equity values. We have also, rightly or wrongly, excluded those in the poorest quintile some of whom should perhaps be pension credit candidates.

On this basis, approximately 1.3 million retired individuals have financial assets in excess of £25,000 and incomes in the middle three quintiles of incomes for the retired. We have then separated these into two groups, those with modest savings of more than £25,000 but less than £50,000 and a more affluent group with savings of more than £50,000. The former group comprise around 600,000 individuals and will have smaller sums to purchase an annuity. The latter group who number around 700,000 individuals may be able to release larger sums into annuities.

Applying the DWP mean annual income levels to these groups, we estimate that average net annual household incomes are just under £12,000 for those with assets of £25,000-£49,999 and around £13,500[15] for those with assets in excess of £50,000. The average age of individuals in the two groups is 69 and 67 respectively.

The average values of savings for the two groups are just over £32,500 and £121,000[16] respectively. We have developed a simple model to estimate the increase in income that a person in each of the two groups with the average wealth for that group might expect to realise if they were to annuitise some of their savings and investments by purchasing a life annuity.

We start by assuming that one-third of average capital is left either in cash or equities to cover planned or unexpected expenditure and that the remainder is used to purchase a life annuity at rates published in June 2009[17]. We also assume that the tax regime applied to life annuities is applied (albeit that a very approximate capital to income ratio has been applied) and that we need to reduce the income received from the annuity by the net income that would have been received had the person left their capital invested. We have made no allowance for the fact that some of the average assets held are held in equities and have applied cash interest rates to the whole amount instead.

The results suggest that an individual with savings and investments of £32,500 would be able to generate a net additional £1000 per annum (an increase of 9%) by

[15] Weighted averages based on mean data for pensioner income quintiles taken from DWP Pensionersô Income Series table 4.4 applied to quintile data from FSAφs baseline retired savings and assets segments and rounded to closest £500
[16] Mean data from FSAφs Baseline survey rounded to closest £500.
[17] Moneyfacts June 2009, Aviva PLA rates for females , aged 70, level guaranteed for 5 years, £693 per £10,000. 83% assumed to be capital repayment (17% subject to 20% tax). Assumes a tax rate of 20%.

annuitising some of their savings and investments. A person with £121,500 would generate a net additional £4,000 per annum[18] (an increase of 30%).

Table 1: Additional income generated by annuitising a proportion of savings and investments

	Financial Assets of between £25,000 and £49,999	Financial Assets in excess of £50,000
Approximate number of individuals	600,000	700,000
Approximate net annual household income	£12,000	£13,500
Approximate average individual financial assets	£32,500	£121,500
Funds available for purchase of annuity (2/3rds)	£21,775	£81,405
Gross annual annuity rate per £10,000	£693	£693
Net annual annuity received	£1,252	£4,682
Net annual interest sacrificed on capital employed (1%)	£174	£651
Net annual increase in income	**£1,078**	**£4,031**
Increase in net income	**9%**	**30%**

At this stage of our research we have not sought to quantify the effect of annuitisation if equity in property is taken into account but it is easy to see that many more could improve their incomes by doing so. Without property taken into account, our analysis suggests that the PLA market might benefit up to 1.3 million individuals. With property taken into account, the market could benefit even more who manage on relatively low incomes. Yet, as the data below show, less than 160,000 life annuities are in force with the number of policies having fallen by 65% in 10 years and new business in 2008 amounting to fewer than 1000 sales of life annuities.

As the case study below illustrates, in periods of low interest rates, the decision to annuitise can protect individuals from erosion of capital held in cash and provide certainty of nominal income during the life of the individual.

[18] Assumes a loss of net interest on capital employed to purchase of annuity at an interest rate of 1% and a tax rate of 20%. At 8% gross interest rates, both groups would see a fall in income by annuitising (but annuity rates might also be expected to be higher).

Case study

In order to compare how a decision to buy an annuity or keep money in a cash deposit can affect an individual's income and capital, we have drawn up the following case study. It assumes the following:

- A male aged 70 has £50,000 which can either be used to purchase a life annuity or save in a cash deposit
- He does so at a time of low interest rates on bank deposits (1.5%). They rise gradually over the next 3 years before falling and rising over the remainder of his life (but not returning to such low levels again)
- Annuity rates published in June 2009 are available
- He is a basic rate taxpayer and that basic rate tax is payable on the cash savings

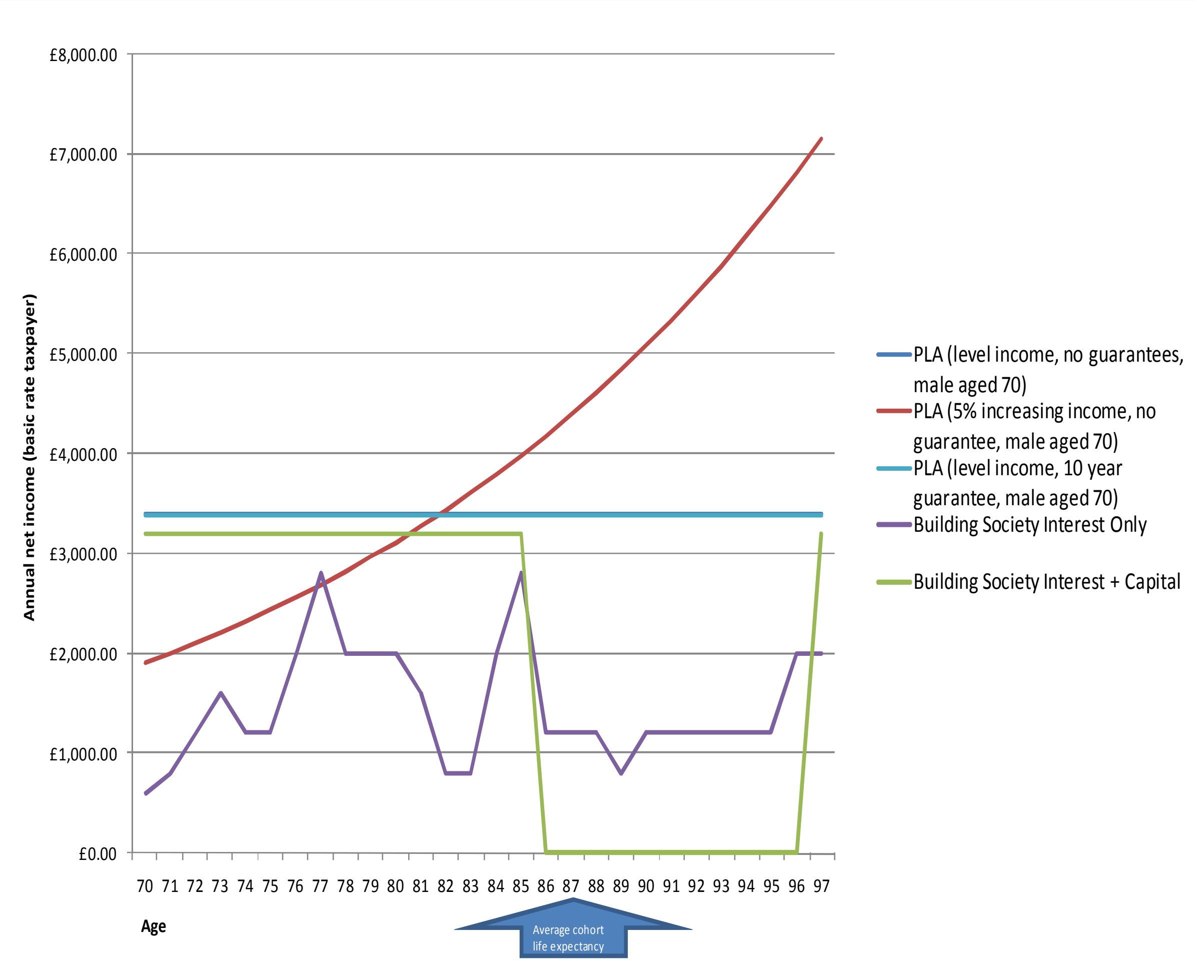
The simple model shown in chart 4 below compares his net income in five scenarios:

1. He purchases a level PLA with no guarantees[19]
2. He purchase an escalating PLA with no guarantees (5% escalation)
3. He purchases a PLA with 10 year income guarantee (thus providing some protection against dying 'too early')
4. He saves in a cash deposit, only withdrawing as much as is paid in interest[20]
5. He saves in a cash deposit but takes a fixed income broadly equivalent to the annuity income, irrespective of interest rates.

In the case of scenario 1, the person earns a net income of approximately £3,400pa for the duration of his life but his estate receives nothing on his death, whenever he dies. In scenario 2 he earns less in the first 10 years than he would from a level annuity but by year 13 at age 82, he is earning more than in all four other scenarios. In scenario 3 he earns approximately £3,300pa net for the remainder of his life but if he dies within the first ten years, his estate receives the remainder of 5 years worth of income.

[19] Rates for annuities taken from MoneyFacts June 2009, male aged 70, £50,000 invested, AVIVA rates £697 per £10,000 non-guaranteed, £676 per £10,000 guaranteed.
[20] The interest calculation is over-simplified for the purposes of this model and is based on the capital available at the start of the year and the annual interest rate. It therefore over-states the interest which would be earned if calculated on a daily basis.

Chart 4: Income comparison between life annuities and cash deposits (interest rates starting at 1.5%pa).

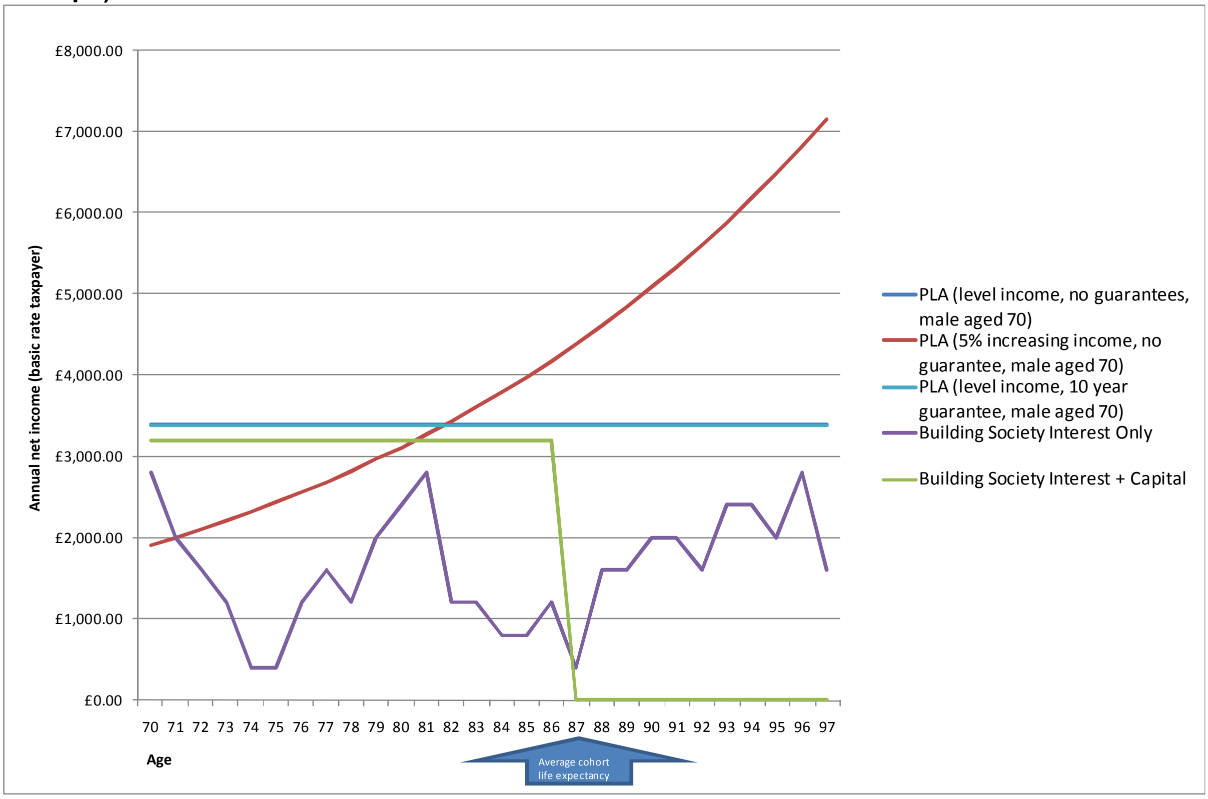


In scenario 4, his income is volatile, rising and falling with interest rates (which start at 1.5% and rise and fall over the period modelled, peaking at 7% in years 8 and 16). He is however able to leave his capital to his estate. In scenario 5 he decides to take £3,200 in income each year irrespective of how much income he earns. The result is that by year 16, one year before the average life expectancy for his cohort, he almost runs out of money and has very little left to leave his estate[21].

The picture does not vary much if we start the scenarios with higher interest rates: in chart 5 below we start with interest rates of 7% and vary them over the life of the individual). In scenario 4, the individual once again suffers from a volatile income. In scenario 5, the individual manages to eke out an income for a further year before running out of capital. In this picture we have not varied the annuity rates but in a world with 7% interest rates, we might expect annuity rates also to be different.

[21] Income ceases to be taken in scenario 5 where the capital and interest are less than the income required. Any residual amount is left invested and may in time (in this example, age 97, result in a further payment being possible.

Chart 5: Income comparison between life annuities and cash deposits (interest rates starting at 7%pa).



There are of course many trade-offs that an individual makes between these scenarios. The most obvious are:

- Control over capital versus certainty of income. In scenarios 1, 2 and 3, the person has traded in control for certainty and in scenarios 1 and 3 a higher standard of living today. In scenarios 4 there is no certainty of income but control over capital (albeit that spending the capital will further reduce income). In scenario 5 there is no certainty of income or capital.
- Leaving an inheritance versus income in retirement. In scenarios 1 and 2, no capital is left (other than other property the individual has). In scenario 3, capital is available to the estate until year 10, in diminishing amounts but income at the start is lower than from an annuity with no guarantee. In scenario 4, capital is left intact to leave to the family but in scenario 5 the individual risks using up all of their capital before they die and having neither capital nor income in later years of their life.
- Income today or protection against the effects of inflation. In scenarios 1 and 2 protection against inflation is traded for a higher income today. In scenario 3, the individual starts with a lower income but has some hedge against inflation. In scenarios 4 and 5 protection depends upon the differential between interest rates and inflation, another uncertainty.

For individuals with assets that can be annuitised, the decision to do so is complex. The individual will be uncertain about:

- How long they are likely to live. Research shows us that people tend to underestimate how long they are likely to live and average longevity continues to improve. Unlike cash savings and equity investments, annuities provide protection against living longer than one's savings, a benefit that has perhaps become undervalued in today's market. Behavioural economic theory has shown us that individuals are not rational when considering annuities. They have a tendency to overstate the probability of dying very soon after they purchase an annuity and understate the probability of living a long time.
- Current and expected levels of consumption. There is considerable evidence that retired individuals cut their cloth according to the resources available to them. In other words they reduce their expenditure to a level that they can afford. However, for some, this may mean a reduction in their social well-being, a sacrifice of holidays, family visits, treats, social events etc. For others it may be more serious – not heating the house, not eating well. Recent research by the Pensions Policy Institute[22] suggests that rather than expenditure simply falling during retirement, for some it can appear as a U-curve with expenditure increasing in later life as health needs increase (e.g paying for a hip replacement or a stairlift or paying for domiciliary or residential care). The uncertainty of needing capital for future health needs can be a significant barrier to annuitisation, particularly if it leaves the individual with little capital on which to fall back. The position is perhaps compounded by concerns about future state benefits for social care.
- Future interest rates. Unlike the income from an annuity, the rate of interest on money held in cash savings can rise and fall. In the lifetime of today's retired, typical interest rates have risen to levels in excess of 15% but have only recently fallen below 5% for any significant period of time. Many may expect normal service to be resumed in the near future with a return to rates of around 5%. This may frame attitudes to annuities for some.
- Future equity performance. Similarly, the performance of stock markets is uncertain. At the time of writing (August 09) stock markets around the world have started to show signs of recovery following (what we all hope is) the worst of the credit crunch.
- Levels of inflation, which can erode the real income received from annuities and from cash holdings and equities, although equities are held to provide the best protection against inflation in the long term.
- Family attitudes to and expectations of inheritance. The bequest motive is often held up as the principal reason why demand for annuities does not match traditional economic theory of expected-utility maximisation.

The question that demands further exploration is whether certainty of income, and perhaps with it reduced stress and anxiety, is a benefit that many older people would like to at least consider. With low levels of awareness and very limited supply and marketing of life annuities, it is unclear whether in today's market, older people are even given the option of considering the trade-offs outlined above.

[22] PPI (2009), Retirement income and assets: do pensioners have sufficient income to meet their needs?

Today's life annuity market

Although the analysis above suggests that there could be a significant market for life annuities, the market hardly exists at all, a phenomenon described by economists as the annuity paradox.

Data from the ABI shows that both the number of policies in force and the level of new business have fallen away in recent years. In 1997, the number of policies in in force was in the order of 400,000 but by 2007 had fallen to over 150,000 (chart 6). New business levels have also fallen (chart 7). Whilst new business levels in the first two quarters of 2009 appear to have picked up slightly, sales look set to remain at under 1000 new contracts a year.

Chart 6: ABI In Force data: Purchased Life Annuities 1997-2007

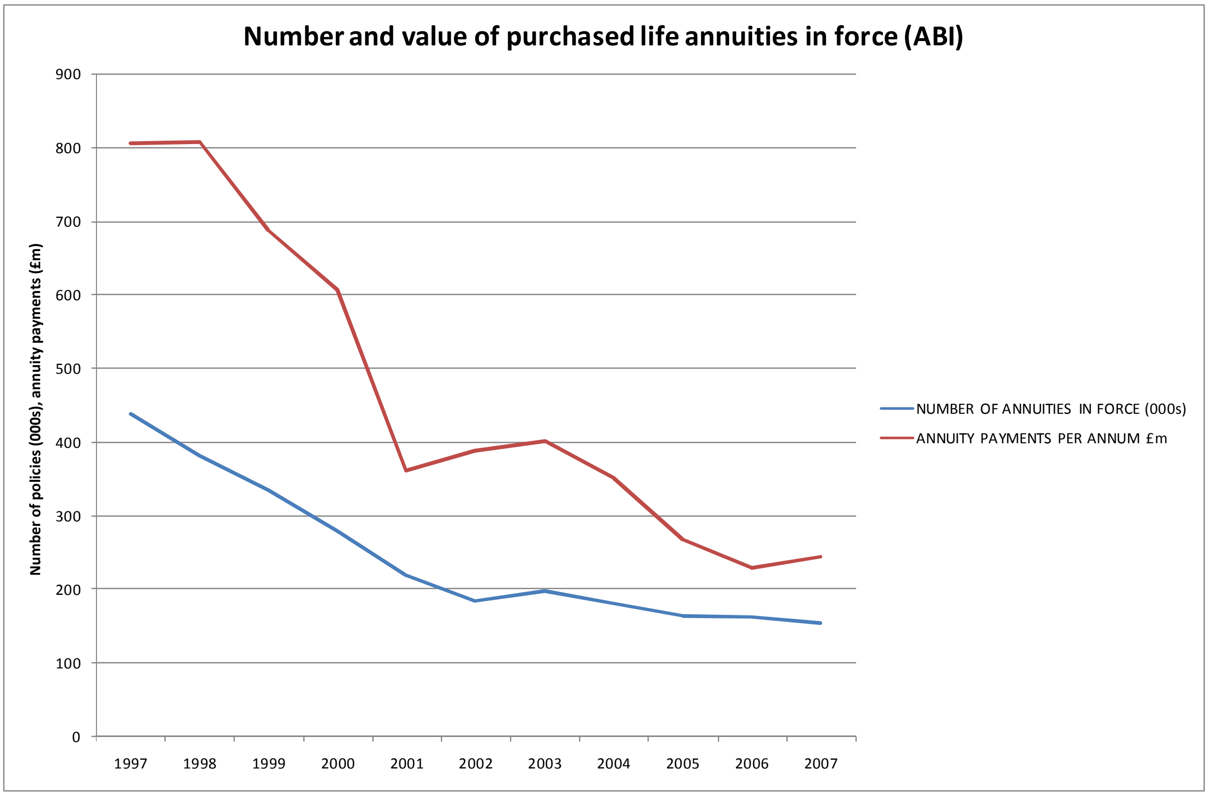
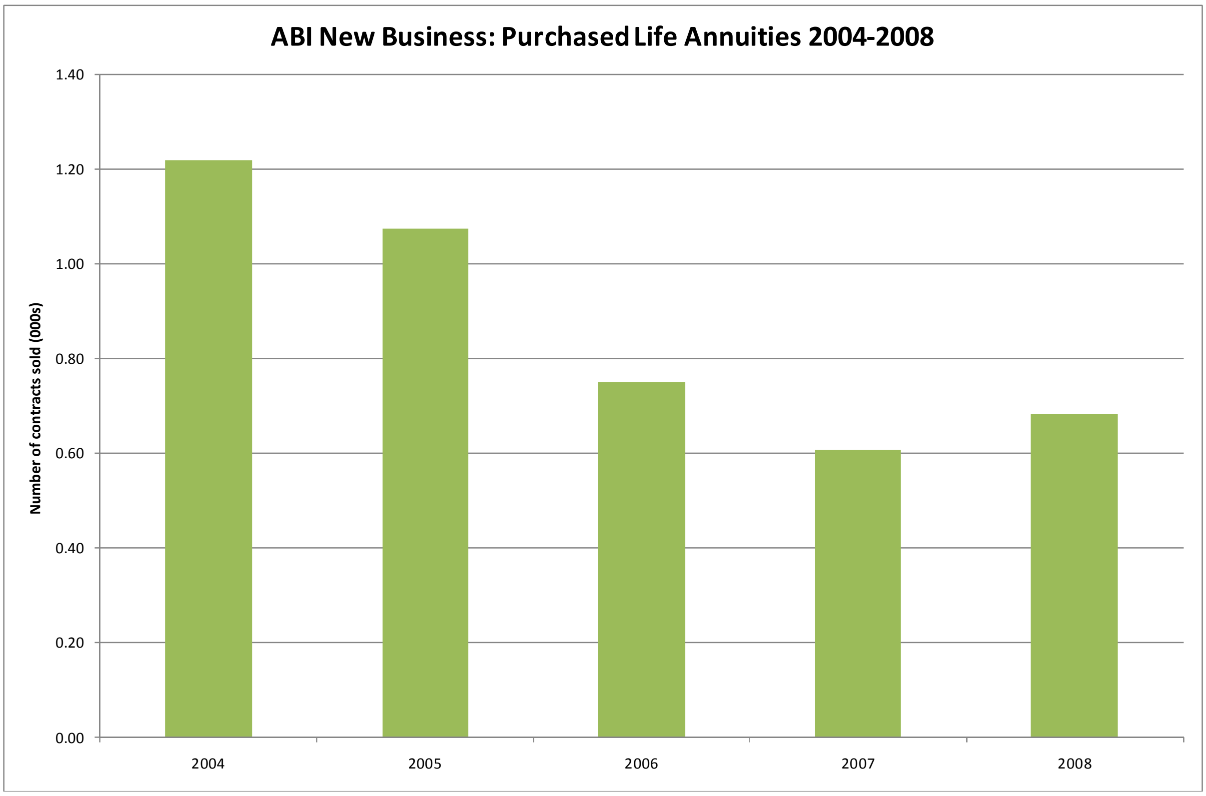


Chart 7: ABI New Business Data – Purchased Life Annuities 2004-2008



Economists have for some years sought to explain the gap between apparent and actual demand by exploring the relative returns between different investment options and by exploring behavioural characteristics. Some economists suggest that the bequest motive prevents people trading off control for certainty of income. Other more recent theories suggest a number of biases in peopleǿs thinking that affect their saving and investment behaviour. One of the biases refered to in behavioural economics[23] is accessibility; the concept that if you personal experience of something then you are more likely to believe in it (or perhaps, in this case, invest in it). Optimism (in the return of high interest rates), loss aversion and status quo biases may also act as barriers to annuity purchase.

The sheer lack of awareness, understanding and experience of annuities among consumers[24] must also contribute to low sales levels and what awareness there is may be negatively affected by media headlines that often paint annuities as poor value for money. Fear of a family backlash in the event of early death may also inhibit advisers from recommending annuities.

However, the gap between those needing income and those purchasing annuities would seem to be too large to be explained simply by perceptions of poor value or a desire to retain control of capital. The gap may also be explained by market inefficiencies, including:

[23] As set out recently by Thaler and Sunstein (2008) in Nudge
[24] DWP (2008), Information needs at retirement: Qualitative research focusing on annuitisation decisions, FSA (2006), Consumer understanding of annuities , ABI (2009), Retirement Income: Consumer wants, needs and priorities

- Consumer awareness of the opportunity to buy an annuity (other than with their pension) would seem to be almost non-existent, perhaps at an all-time low and little is done to raise awareness. Life annuities have become the product that is often not even mentioned in passing.
- Recent headlines suggest that many IFAs lack specialist qualifications relating to retirement income in general and annuities in particular and a significant number indicated a lack of confidence in selling such products[25].
- The incentives for advisers tend to operate against annuity sales. Commission levels for annuities are significantly lower than for alternative investment products. Commission levels for PLAs are believed to be in the order of 1% - 2% whereas commission levels for OEICs are in the order of 3% and investment bonds in the order of 5%[26]. Whilst the FSA's proposals for Adviser Charging are expected to remove the differential, it seems possible that the fee levels that advisers will wish to generate may make the purchase of an annuity appear expensive to many. Moreover, once a customer has been sold an annuity, the scope for further advice and earning fees on funds under management is reduced, whereas selling an investment bond may generate further advice in the future.
- Providers, advisers and banks find that funds retained in cash or equities are more profitable than those converted to an annuity. They are almost certainly less capital intensive which may limit the supply and marketing of annuities.
- Very few life companies (and even fewer well-known consumer brands) operate in the life annuity market, in part because the market is so small. It is not clear whether competition in the PLA market is as effective as it might be.
- Purchasing an annuity without an adviser is extremely difficult. Whilst L&G has started to offer its pension annuities direct, it does not operate in the life annuity market and those who do offer PLAs do not generally offer them direct to the public. Even many of the web-based annuity services appear to play down the PLA market.
- It would appear to us that in part the market has talked itself into their being no opportunity for life annuities. In researching this paper, we were told over and over again by industry representatives that there is not a large enough market to worry about. We were told that only a handful of older people have enough money to make an annuity purchase worth it. However, this view appears to be based on industry sales data rather than any analysis of the assets and income needs of the older population.

If consumers aren't aware of the options open to them, providers are convinced that there is no market and advice on annuities is hard to come by, it is no wonder that the market is small. But that doesn't mean that it should be. The insurance industry has few USPs over other competition but the provision of longevity insurance through life annuities is surely one, but one which is being left to wither on the vine.

[25] Survey of IFAs by the Annuity Clearing House as reported by ifaonline.co.uk on 5th October 2009.
[26] FSA (2004), Examples of the Menu http://www.fsa.gov.uk/pubs/policy/04_27/annex2.pdf

Improving consumer awareness and access

Whilst this research is far from being conclusive, it does suggest that there is a large group of consumers out there who could benefit from the annuity market. We suggest that the potential exists for a significantly larger PLA market than todayõs. However, without any proactive intervention by the industry or others, the market will at best stay in the doldrums. ILC would like to see further research on the subject and welcome the work being carried out by the Pensions Policy Institute on retirement income and assets.

Stimulating demand for life annuities will require a joined up approach from providers, advisers, information suppliers, FSA (in particular the FSAõs Financial Capability work), Government and others working in the retirement space. We would like to see:

- More emphasis in industry, Government and FSA material on the benefits and risks posed by different options in retirement
- Life annuities forming a core part of the information and guidance given to those in retirement
- A range of initiatives which make it easier for consumers:
    - to find out about the income options open to them in retirement;
    - to buy an annuity, perhaps at the Post Office or Supermarket (since many may not be able to access independent financial advice);
    - to buy an annuity cheaply.
- More promotion of annuities by the industry and the FSA ï perhaps a relaunch of the benefits of annuities.
- Consideration given to changes to the tax legislation for annuities
    - making the income from the first £100,000 invested in an annuity tax free (to put them on a level playing field with ISAs which can be used to generate a tax free income in retirement and whose tax benefits are lost if ISA funds are converted to an annuity)
    - Enabling annuities purchased before long term care is needed to be converted to tax free income when residential care is required.

Whilst we may not all agree with the philosophy of ódying brokeö, there are many benefits to individuals and society as a whole to securing an income for life from some of the assets built up during a working life. The life annuity market has social benefits which should not be forgotten in our concern for those in later life.

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