

# The Annuity Purchasing Process

## QUALITATIVE RESEARCH REPORT

### Prepared for:

Financial Services Consumer Panel

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# EXECUTIVE SUMMARY

## INTRODUCTION

The Financial Services Consumer Panel (the Panel) is an independent statutory body that, from a consumer perspective, challenges and advises the Financial Conduct Authority (FCA) in its regulation of financial services. As part of its current investigation of the retirement market, the Panel commissioned Optimisa Research to carry out qualitative research to explore consumers' experiences when purchasing an annuity, by which means consumers turn their pension savings into a retirement income. This is not the first study of its kind, but the market has evolved, and there is evidence that consumers have made more use in recent years of the long-standing Open Market Option (OMO) to shop around.

The aim of the research is to illuminate the challenges faced by consumers in finding the best annuity product for their needs: their ability and willingness to shop around, to take advice and to understand the financial and consumer protection implications of their decisions. In April and May this year, we interviewed 24 individuals who had recently sought, and in most cases bought, an annuity. The participants had pension pots of various sizes and came from a wide range of socio-economic backgrounds. While necessarily qualitative, the results give indicative and in-depth insight into annuitants' varied experiences.

## KEY FINDINGS

**Apprehension.** The research revealed that few participants approached the process of annuitisation without a degree of apprehension. Their anxiety sprang from several sources: the irreversibility of the annuity decision; their lack of, and inability to acquire, relevant financial experience; the impact of low annuity rates on likely retirement income.

**Awareness of the OMO.** There seemed to be widespread awareness of the option to shop around for an annuity. A number of participants had in their view successfully selected an external provider who could provide a suitable annuity at an advantageous rate. Some participants reported differentials of 20% between the lowest and highest quotes obtained.

**Mixed views on professional financial advice.** Participants who had chosen to take professional advice about the timing of annuitisation and the types of annuity, and to obtain comparative quotes, mostly seemed satisfied with the service they received. Others were less willing to use advice for a variety of reasons: general distrust of the profession; uncertainty about where to find a 'good' adviser; cost; lack of conviction that an adviser could do a better job than they could do themselves or add value to the eventual annuity.

**Broad spectrum of "shopping around".** The description 'shopping around' was found to embrace a very wide range of behaviour and outcomes. Some participants who tried to shop around for themselves (i.e. without taking advice) briefly looked for information about

annuity rates in the press or online but stopped short of obtaining actual quotes from alternative providers. Others attempted to obtain comparative quotes but found the process difficult and chose either to go to an adviser after all, or to stay with their own provider. Some who had decided to exercise their OMO went straight to one alternative provider with a strong brand reputation for their annuity, while others did a full search of the market before making a final choice.

**Barriers to shopping around.** Participants who did not attempt to shop around, and those who began the process but gave up, provided indicative evidence of a number of shopping barriers. These included: difficulty of understanding where and how to get quotes online; unwillingness to provide detailed personal information; fear of being drawn prematurely into a sales process; unfamiliar terminology; lack of understanding of the impact of selecting different types of annuity on their immediate, and future, income levels.

**Mixed reasons for staying put.** In some cases participants who decided to stay with their current provider without shopping around had made an active choice to do so. Reasons included the value placed on an established relationship with their pension provider or the belief that the likely uplift to their annuity would not justify the effort of shopping around. Others shopped around extensively but decided to stay with their current provider because the rates offered were thought to be competitive.

**Blurred definition of “advice”.** Participants’ description of the advice they received covered a wide spectrum of activity: full financial advice from an IFA; guided “non-advice” from a workplace pension adviser, broker or pension provider; informal advice from a friend who worked in the finance industry. Participants had given little consideration to the role of consumer protection and redress, and had not factored this in to their choice of adviser.

**Little self-appraisal.** Having made their annuity decision, few participants questioned whether they had made the right choice. Although often disappointed by the low annuity rates available, most expressed satisfaction at having completed the process, and believed there was no point in dwelling on the decision once made. Although some expressed irritation with aspects of the process we did not find evidence of participants who believed that they had suffered financial detriment.

## RECOMMENDATIONS

1. Based on this research, we conclude that there is a need for clear step-by-step guidance about how to go about shopping around, which could help ensure that annuitants who want to shop around without using an adviser are able to follow the process from end to end. This would include: information on how and when to decide on an annuity type; the order in which to contact current provider and alternative providers (and questions to ask about pot value and transfer pot value); how to decide which/how many alternative providers to approach, and a checklist of the information providers will require.

2. Online comparison sites have a crucial role to play and this seems set to increase in importance as reliance on the internet as a first source of information for all age groups increases. Currently comparison sites for annuities do not always work smoothly, as participants did not know what they can expect from them or how and when to use them most effectively. There is a need for these sites to demonstrate to the consumer how different kinds of annuities work, and for transparency about how personal data supplied will be used and whether it will lead to sales calls.
3. Better information about types of adviser and the likely cost of advice (or guided non-advice) is needed. Information on how to find an adviser who can give advice about annuities, and what questions the consumer should ask to determine the likely cost of the advice would also be helpful to offset some concerns about using it. For those who wish to exercise their OMO as cost effectively as possible, clarity about how to do this would be helpful. Participants tended to believe that they would save money by not using an adviser.
4. The benefits of full advice when buying an annuity need to be ‘flagged’ more prominently as awareness of these in our sample was very low.

# INTRODUCTION

The Panel has commissioned consumer research at this time because the annuities market is undergoing a period of rapid change. The overarching objective of the research was to understand consumer annuity purchasing journeys as the market undergoes these changes.

The annuities market is expected to grow rapidly as voluntary market pension funds accumulated since 1987 come to maturity (personal pension funds and policies within defined contribution (DC) group pension plans) and consumers face decisions about annuity purchase, and in addition the Government's pension reforms are changing the landscape, with millions more people automatically enrolling into workplace pensions between 2012 and 2018, largely on a DC basis.

In January 2013 the Retail Distribution Review (RDR) took effect which will have an impact on the way advice is delivered and charged for. Consumers can be offered full advice (fee based advice where the adviser will make a recommendation based on the consumers' needs and preferences), and guided/non-advice (provided by commission based firms of advisers). Providers can also offer information to consumers who contact them directly. It is possible that changes in the way fees are charged, and in the levels of fees associated with different types of annuities could have an impact on consumer decision making journeys.

The Association of British Insurers (ABI) has introduced a new code of conduct on retirement choices (implemented March 2013)<sup>1</sup> which is designed to ensure that consumers are informed about the options available to them when taking out an annuity. The code builds on the 'wake up' letter sent out to pension policy holders by insurers about six months before the selected retirement age. This advises the consumer about the 'open market option' (OMO), which has been a regulatory requirement since 2002. The OMO means that consumers are able to shop around for the best annuity rates available to suit their circumstances and buy their annuity from the optimal provider. The ABI code of conduct also requires providers to inform consumers of the availability of different types of annuity, including enhanced annuities for people who qualify on medical or lifestyle grounds.

Previous research by NAPF for the Pensions Policy Institute<sup>2</sup> states that "securing the best single life, level annuity rate on the Money Advice Service compared to a mid-range annuity rate can increase private pension income by 5%, whilst locking into the lowest annuity rate on the Money Advice Service tables<sup>3</sup> can reduce private pension income by 7%. In practice

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<sup>1</sup> Details of the ABI code of conduct on retirement choices are available at [www.abi.org.uk](http://www.abi.org.uk)

<sup>2</sup> 'Closing the gap, the choices and factors that can affect private pension income in retirement', NAPF, February 2012

<sup>3</sup> Money Advice Service annuity comparison tables are available at [tables.moneyadviceservice.org.uk/Comparison-tables-home/Annuities/Compare-Annuities](http://tables.moneyadviceservice.org.uk/Comparison-tables-home/Annuities/Compare-Annuities)

the variation observed for specific individuals, particularly those eligible for an enhanced annuity, can be much greater.”

ABI data shows that the number of consumers buying an annuity with a different provider has increased from 31% in 2003 to 47% in 2012<sup>4</sup>, indicating progress but also the need to support shopping around further.

This research explores how consumers approach buying an annuity, and in particular how they go about shopping around for an annuity and exercising their OMO. For the purposes of this research we have used the following definitions in identifying different patterns of behaviour:

- Shopping around: This included a wide spectrum of information and quote gathering activity, ranging from looking at annuity rates in newspapers to obtaining formal quotations from several providers. Figure 1 below shows the extent of shopping around activity conducted by different parts of the sample. Those who had obtained at least one comparative quote (from a comparison website, another provider, via an adviser, or from a broker) are classified as having ‘shopped around’.

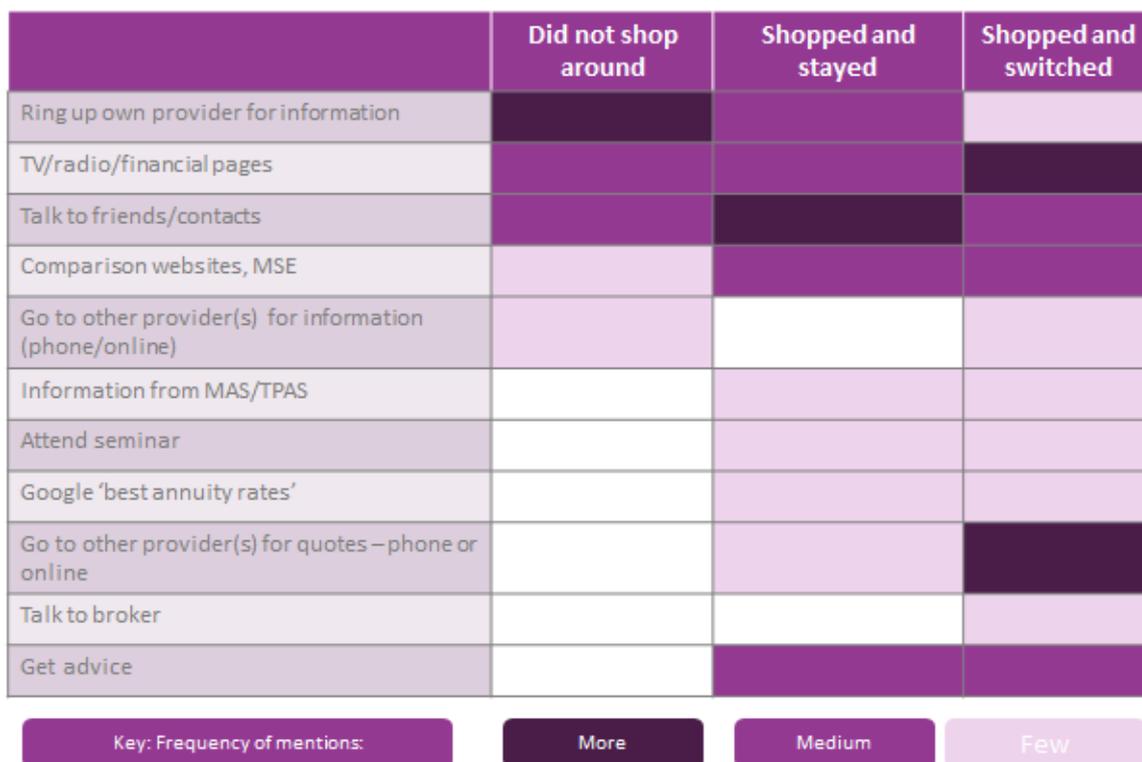


Figure 1 shopping around and information gathering by sample segment

<sup>4</sup> NEST, ‘Customer Engagement in the Annuity Market’, <http://www.nestpensions.org.uk/schemeweb/NestWeb/includes/public/docs/ABI-Customer-engagement.PDF.pdf>

- Switching / using the OMO: In this report, participants who had bought annuities with companies other than their pension provider are classified as having switched, i.e. they have exercised their OMO. This again reflects a wide spectrum of behaviour – from contacting one other company only (e.g. based on a recommendation) to undergoing a full advice process and/or full market search.
- Advice: Participants who had spoken to a professional adviser and paid for advice are classified as having taken advice. Participants who spoke to pension advisers at their place of work or other ‘free’ advisers received guided non-advice. Participants who spoke informally to friends, colleagues financial experts or other unofficial information sources are referred to as having received informal non-advice

The Panel’s view is that the consumer OMO journey should ideally comprise three stages:

- Firstly, choosing the optimal timing i.e. deciding exactly when to annuitise to suit income needs and also to optimise annuity income. This is of increasing relevance as more people choose to buy their annuity at times other than when they are retiring fully from work (e.g. to compliment income from part time working before or after the standard state retirement age)
- Secondly, identifying the right type of annuity (for example standard vs. enhanced, conventional or drawdown/investment linked) , combined with the most appropriate features (indexation and/or a partners pension, for example)
- Finally, selecting a competitive rate for the chosen type of annuity

Therefore full use of the OMO involves decision making covering a wider set of variables than rate alone. In this report all aspects of the consumer journey are considered, specifically:

- The process of purchasing an annuity including decisions about timing, choice of annuity type, and provider
- The drivers and barriers to shopping around
- The role of advice
- Satisfaction with the process as a whole

# METHODOLOGY

## SUMMARY OF APPROACH

In order to thoroughly explore the annuity purchase process a qualitative approach was adopted. This allowed the exploration of all aspects of consumer journeys in depth, from first consideration of drawing on an annuity, through the acquisition of information, shopping around and final decision making. Qualitative research is in-depth but indicative, meaning that it can explore subjects in much greater detail than a quantitative survey but does not seek to be statistically reliable in a way that most quantitative surveys do.

In total 24 annuitants were interviewed, 23 of whom had taken their annuity in the previous 6 months, and several in the 3 months leading up to the research. One was in the process of deciding. Participants were screened at the recruitment stage to ensure a good mix of socio-economic groups (SEG) and shopping around activity. The objective was to identify specific aspects of the consumer journey where detriment might arise and consider if participants' experiences might reflect similar problems embedded in the consumer journey for the DC population as a whole.

The sample was designed to cover a mix of annuitant types, in terms of pot size and whether they shopped around and/or switched provider. It also covered a range of pension and annuity providers, and a mix of people using/not using formal advice.

### Sample structure

Pot size	Did not shop around	Shopped and stayed	Shopped and switched	Shopped and consolidated / not yet decided
£18 - £30K	1	1	4	
£30 - £50K	3	2	2	
£50K +		4	5	2
<b>Total</b>	<b>4</b>	<b>7</b>	<b>11</b>	<b>2</b>

Mix of pension and annuity providers including Aviva, Canada Life, Friends Life, Phoenix, Prudential, Standard Life

Fieldwork conducted April and May 2013

Figure 2 Qualitative Sample Structure

# MAIN FINDINGS

## 1. Before the journey starts

*Overview:* It is relevant that across our sample only two participants approached the annuity purchasing journey with a wholly positive outlook. The rest of the participants reported a range of feelings from wariness to anxiety. Individual feelings were shaped by several factors; not least lack of financial confidence and preconceptions of the complexity of the annuitisation process/the market. While over half of participants reported feeling more comfortable once they had embarked on the journey, it is possible that there is a correlation between state of mind at the outset and likelihood of accepting the pension provider's annuity quote as a default position rather than using the OMO.

Annuitants who took part in the research fell into three broad groups, based on the choices made in how to approach buying an annuity:

- **Did not shop around** – did not obtain quotes from other providers. None of this group took formal advice.
- **Shopped around but stayed with provider** – obtained quotes (either direct from providers or via a comparison website) but bought their annuity from their current provider. Of this group over half took formal advice or guided non-advice.
- **Shopped around and switched provider** – obtained quotes from other providers and bought their annuity from a different provider. Half of this group took advice, half carried out the shopping around process without advice.

Amongst the participants who shopped around, the majority reported feeling apprehensive about embarking on the annuity purchasing process, particularly if they were generally not very interested in financial matters and/or were new to purchasing annuities. These feelings were mentioned both by those who did and did not end up switching provider. Some found that once they got started the process was easier than expected. Others chose to put the matter into the hands of an adviser.

*“I felt vulnerable at the start”*

Male, formal advice, large pot, consolidated

A small number of participants who shopped around approached the task with a degree of relish, looking forward to the challenge and preparing for it as a ‘project’. These participants were more likely to follow the OMO process fully and obtain full quotations from other providers.

*“I just found it natural to do this – I’d never accept the first rate offered. The internet makes it so easy nowadays”*

Female, no advice, small pot, switched

Amongst participants who did not shop around, some expressed anger and disappointment at the level of annuity payment they would receive. Others claimed that because the amount of the annuity was low, and would make little difference to their standard of living, they had not given the process much thought. In both cases, these feelings caused them to disengage from the process and accept a default option. In one instance a participant was worried about whether she would understand the process and, after a brief attempt at shopping around, gave up – and felt happier once she had done so.

*“I thought I might feel stupid – but actually if you read it through numerous times it wasn’t too bad. Once I stopped trying to shop around it was OK”*

Female, medium pot, no advice, did not shop around, stayed

Feelings towards the process before starting on the journey tended to be driven by a number of factors; confidence and engagement in financial matters/financial decision making, the importance of the annuity in the individual’s overall retirement income provision, their attitude towards retirement generally and expectations of the process/the annuity market itself. Figure 3 below shows some of the words participants used spontaneously to describe how they felt at the outset of their annuity purchasing journey.



Figure 3 Feelings at the outset of the annuity journey

On probing, feeling anxious, nervous, scared or wary generally related to a fear of making the wrong decision / not being sufficiently knowledgeable to make the most of the pension pot. Wariness was also used to describe a feeling of being about to embark on an onerous task. Feelings of disappointment and upset related to pension performance and the size of the pot at maturity compared to previous expectations, which in turn led to a resigned or philosophical position of ‘just getting on with it’.

*“I am scared about losing my money – it’s a strange place to be if you don’t understand it”*

Male, formal advice, large pot, not yet taken annuity

A small number of participants had conversely been pleasantly surprised, learning from a provider information pack that their pension pot was larger than they had been expecting or having a forgotten pot brought to their attention. A minority of our sample felt comfortable,

confident and/or relaxed at this stage; these participants were generally more engaged with retirement planning, more confident with financial management generally, and importantly, had a very strong desire to get the best possible outcome.

*“Really happy – it was money I didn’t think I could have until I was 65, and I haven’t had any income of my own for 5 years”*

Female, no advice, small pot, switched

As already discussed, expectations and pre-conceptions of the annuity purchasing process/market influenced the feelings participants had at the outset. Figure 4 below shows some of the words used to describe expectations of the process/annuity market;



Figure 4 Expectations of buying an annuity

As we can see from the figure, many of our participants set off on the journey with expectations of a potentially difficult path ahead. For some of our less confident participants, being in unknown territory led to feelings of anxiety; even some of our most confident participants expected the process to be complicated. Amongst those who shopped around, all appeared to have taken on board the importance of choosing an annuity, and there was a sense that for some this led to increased feelings of concern or worry. The use of words and phrases like ‘momentous’ ‘a big decision’ and ‘irreversible’, with their inherent sense of consequence, help explain why some participants reported feeling anxious, wary or vulnerable at the outset. Many of our participants had the impression, generally informed by media coverage but also in some cases from talking with family and/or friends who had been through the process, that it is a ‘bad time’ to be annuitising. It was clear from the interviews that this impression, especially when combined with other factors such as disappointment at fund performance and pot size at maturity, had led some participants to disengage from the process.

*"If you've got a box that says 'horrible' that's the one I would tick"*  
Female, no advice, medium pot, shopped around and switched

*"Having seen so much in the media about it being a bad time to take an annuity I was anxious about making the right decision"*  
Female, formal advice, large pot, shopped around, stayed

*"It's not worth much money – it's not worth getting worked up about"*  
Male, no advice, medium pot, did not shop around, stayed

## 2. The decision journey

### 2.1 Core elements of the Journey

While journeys varied from individual to individual, five core elements emerged consistently across the participants; Timing, Lump Sum, Annuity Type, Provider and Advice.

- **Timing**

The starting point for the journey was usually determined by whether the trigger was external, i.e. reaching state retirement age/stopping work close to state retirement age for health reasons / via redundancy or receiving a letter / wake-up pack from the pension provider; or whether it was self-determined i.e. a need or desire for a lifestyle change.

External triggers generally took the form of receiving information from a provider. A third stated that they were taking their annuity at the time of retirement, and obtaining an annuity income was part of the process. Some women in the sample had stopped working some years earlier and receiving news of their (dormant) pension could come as a welcome surprise

*"It was a welcome surprise when I got the letter – I thought I would have to wait until I was 65"*  
Female, no advice, small pot, switched

Two thirds of the participants initiated the process themselves and decided on the timing independent of their selected retirement age or state retirement age. Their paths to full retirement from work were disconnected from obtaining an annuity. Generally they had some discretion over when to take the income because they, or their spouse, had other sources of income, for example from part time work. Examples of reasons for deciding to look into taking their annuity were as follows:

- A change to number of working hours was associated with the need for supplementary regular income – whether imposed by falling work availability, or as a deliberate lifestyle choice
- A need for an immediate cash lump sum could trigger usage of the pension fund
- Concern over long term downward trends in annuity rates led a few participants to decide to annuitise now rather than leave it any longer.

*“My supply teaching work has been drying up – I needed a more permanent source of income”*

Female, formal advice, small pot, stayed

*“My husband died and I wanted to retire a bit early and get my own financial affairs more in order, tidier”*

Female, no advice, small pot, switched

Some participants reported that they had decided to move ahead at the time they did because they had either decided for themselves or heard from other sources – mainly friends and family but also general media coverage and following stock market trends – that annuity rates were unlikely to improve and might deteriorate. This was not expressed as in any way as a ‘knee jerk’ or panic response but more from a philosophical assessment that there was little point in waiting.

*“I’d been thinking about it for a few months, then an IFA I was talking to said I should do it now as annuity rates were getting slightly better”*

Male, informal advice, large pot, shopped around, stayed

*“ I was speaking to friend who said to take lump sum and get as much as possible now, don’t bother putting it off. “*

Female, formal advice, large pot, stayed

- **Lump Sum**

The majority of participants had taken their full lump sum entitlement and this was, for many of them an easy part of the decision. Being able to access a tax free lump sum for immediate expenditure needs was a very attractive aspect of the process.

*“I wanted the lump sum to buy a car, and give some to my children”*

Male, no advice, large pot, stayed

*“I just felt I had to take the tax free sum - rates so poor I would have been stupid not to”*  
Male, informal advice, large pot, switched

A few of the twenty four participants had not taken the full tax free lump sum, believing it would work harder left in the pension pot to contribute to the annuity, or because they had no immediate plans for the lump sum (and no desire to reinvest it). One individual had been extremely disappointed at the maturity value of the pension pot, and annoyed at the level of annuity payments the fund was likely to provide. He reasoned that it made more sense to maximise the value of the fund rather than reduce it, and seemed unconcerned at foregoing the tax benefit. A second participant had not taken the full 25% tax free allowance (he had taken 17%). This individual was especially keen to use the lump sum to fund a purchase that would otherwise have necessitated a loan, had a specific figure in mind (the amount needed) and had not realised that a larger amount could have been taken.

- **Annuity Type**

All of our participants had at least some awareness of standard lifetime annuities, but individual understanding of the various options for these was in many cases rudimentary, even amongst those who had annuitised most recently. Awareness of enhanced annuities was high, but a number of participants gave little consideration to these products, believing themselves to be ‘too healthy’. Awareness and consideration of other non-standard annuities and alternatives to annuities was generally very low. Annuity types and the influence of these in the decision journey are discussed in more detail in Section 4, Annuity Types.

*“I knew I just wanted a single, level one – and I wouldn’t have qualified for one of those enhanced ones. We didn’t really talk about income drawdown though; maybe my IFA decided it wasn’t suitable?”*  
Male, formal advice, large pot, consolidated

- **Provider**

All of our participants appeared to be aware of the option to shop around. The majority had at least tried to shop around, and of those who did not all said that they had made a conscious decision not to shop around. Across our sample, we found that in most cases the decision to switch to a new provider was based on financial considerations – usually to secure the best rate. A decision to stay with a current provider could be based on financial considerations (a better rate available from their current provider than elsewhere), but was sometimes based on emotional needs. For example, an attachment to a longstanding relationship, a desire to be loyal, and a sense of safety or familiarity were all influencing factors amongst non-switchers. The decision to stay was also sometimes based on a combination of financial and emotional considerations – i.e. not worth switching because there would be too small an improvement to their annuity rate to make it seem worthwhile.

*“I got chatting to a friend who went through it recently and he said there’s not much point shopping around – there’s not that much difference between them”*

Male, no advice, medium pot, did not shop around, stayed

- **Advice**

Those who decided to use advice were driven by several factors. Those who were less confident about financial matters preferred to use an adviser to save themselves time and effort and to help them avoid making a mistake through lack of understanding of the process. Those who were more confident financially were more likely to be motivated by the hope that an adviser might find a better rate than they would find themselves. See Section 6, Using Advice.

## 2.2 Typical Decision Journeys

The figures below illustrate three typical decision journeys: for someone who does not shop around (Figure 5), for someone who shops around in a prolonged and iterative sequence of steps (Figure 6), and for someone who shops around without advice in a shorter linear sequence of steps (Figure 7).



Figure 5 *Did not shop around, typical decision journey*

### ITERATIVE DECISION JOURNEY

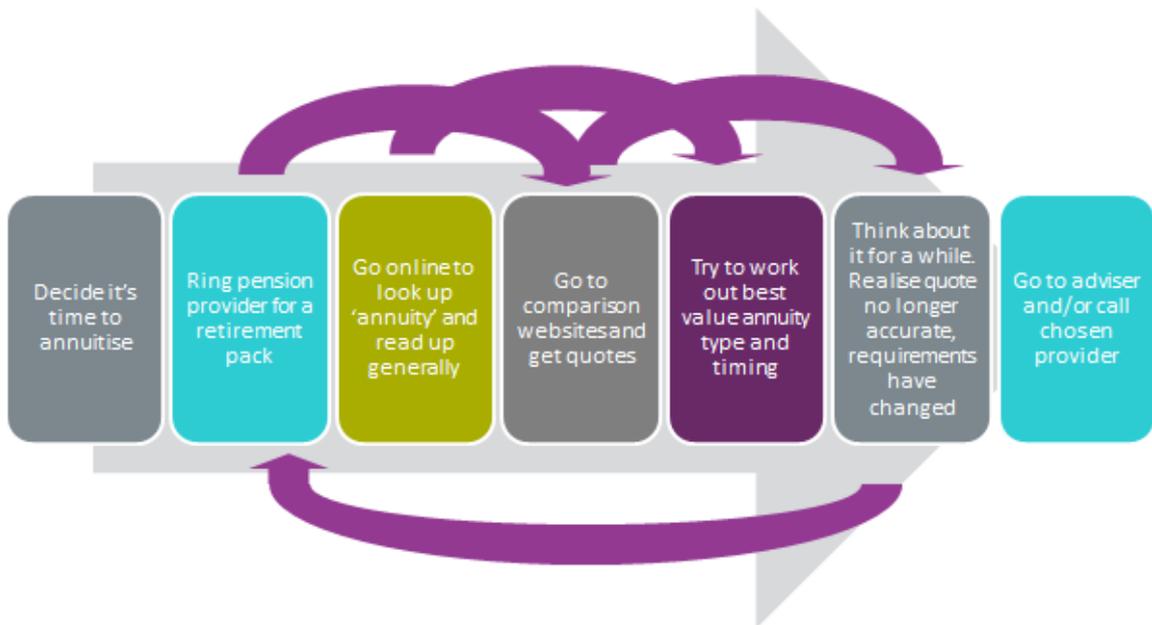


Figure 6 Iterative decision journey

Amongst those who shopped around, some seemed to embark on a journey of iterative steps. This journey may extend over a number of months during which time pots sizes, and annuity rates could change. With several moving variables it could be difficult to make true comparisons and arrive at a definitive judgement as to the best rate. Some participants engaged in a degree of shopping around behaviour of this type before deciding to ask an adviser (see section 6, Using Advice).

### LINEAR DECISION JOURNEY – NO ADVICE

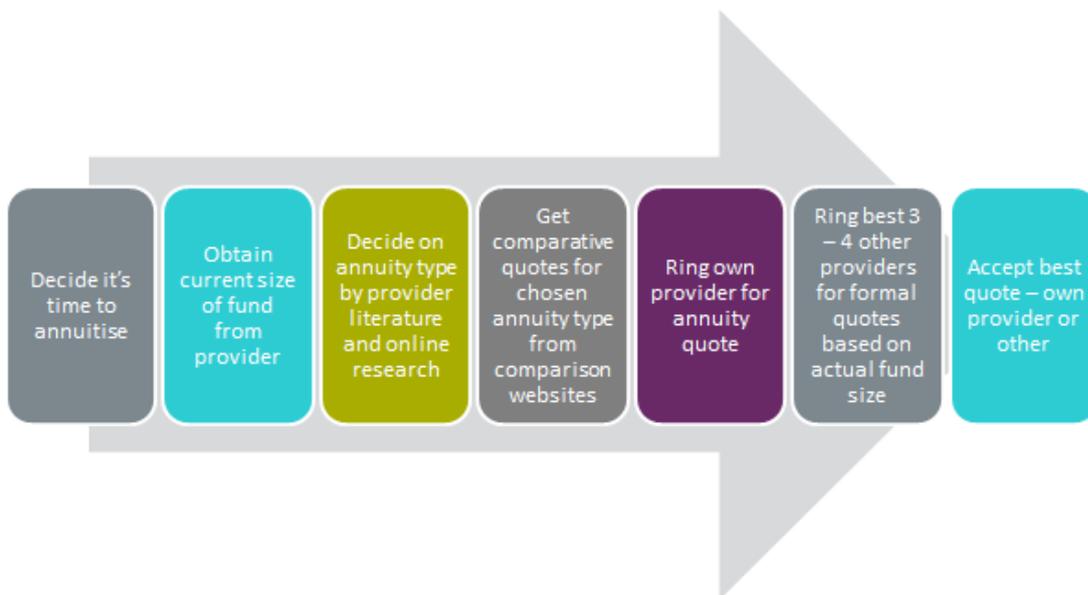


Figure 7 Linear decision journey

Some participants appeared to instinctively know how to go about shopping around, in an effective way – using comparison websites to identify a short list of providers, deciding what seems like a sensible number of quotes to obtain, and how to make sure quotes are easily comparable.

The decision process is discussed more fully in the following sections.

### **3. Shopping around experiences**

#### **3.1 Shopping around spectrum of activity**

In this research all of the participants were aware of the possibility of shopping around, and knew that they did not have to buy their annuity from their current provider. There was, however, a great deal of variability in the extent and type of shopping around activity undertaken. This can broadly be classified into informal shopping around (information gathering about annuities generally, rates and other providers) and formal shopping around (obtaining annuity quotations).

The shopping around journey generally started with one or more of the following activities:

- Looked in newspapers at editorial and/or annuity tables
- Talked to friends/colleagues about their experiences of retirement, and obtained recommendations about how to go about it
- Looked online at general financial websites e.g. Money Saving Expert (MSE), Money Advice Service (MAS), The Pension Advisory Service (TPAS)
- Talked to their own provider
- Looked online at annuity information – comparison websites, provider websites (may or may not get as far as obtaining quotes)

These sources provided general information and/or informal quotes prior to the formal quote stage. Those who did not shop around used few or none of these, those who shopped around used several of them. A few of those who considered themselves to have shopped around did not get beyond this stage.

Those who conducted a thorough shopping around process also completed one or more of these formal steps and obtained more information from these sources:

- Talked to an adviser
- Talked to a broker (i.e. an intermediary who provides ‘free’ non-advice quotes and is paid by commission)
- Obtained formal quotes from one or more provider (in addition to their current provider)

### 3.2 Research options used

The role of each of the sources of information in the shopping around journey are discussed below.

- **Looked in newspapers at editorial and/or annuity tables**

Almost half of our participants looked in newspapers to find general information about trends in annuity rates, and specific companies that offer good/bad rates. Annuity tables were used to gain a general impression of which were the more competitive providers (based on annuity types and 'standard' pot sizes selected by the publication) and an indication of whether an existing pension provider was likely to be competitive. They were also seen as useful for monitoring annuity rates over time and checking trends in order to help decide on the timing of the annuity purchase.

*"All through last year I looked at the rates in the Sunday Times and the Mail, and I looked online for 'best annuity conversions' – and Aviva were often there"*

Male, informal advice, large pot, shopped around and stayed

- **Talked to friends/colleagues about their experiences of retirement, and obtained recommendations about how to go about it**

For about half of the sample friends, family and colleagues were a source of information about types of annuity, the timing of taking an annuity, and/or where to go for formal advice. Personal recommendation of a trustworthy adviser seemed to 'kick start' the shopping around process for some who would otherwise have found it difficult or would not have bothered.

*"My brother in law explained about the lump sum..."*

Male, formal advice, small pot, switched

*"My wife retired, then a few months later I chatted to my brother - and then a friend in pub suggested a chat with an IFA"*

Male, formal advice, large pot, switched

- **Looked online at general financial websites**

Online sources were used by about half of the participants as a first source of information. In some cases they had actively Googled 'best annuity' – in other cases they had come across annuity information while reading about retirement and pensions on financial blogs/advice websites. Sources of information included both commercial sites e.g. MSE, and consumer information websites such as MAS and TPAS.

- **Talked to their own provider**

The point at which participants contacted their own provider varied. Most participants who were initiating the annuitisation process themselves did this early on, to obtain up to date information about their fund size and gather general information about the retirement process. Provider practices in response to this appeared to vary considerably; see section 5 – Role of Providers.

- **Looked online at annuity rate information – comparison websites**

Using the internet to obtain quotes was used effectively by some in this study, while others did not find this stage as useful. Some participants found it difficult to use comparison websites effectively, either for practical reasons (e.g. unable to input required information) or emotional reasons (unwilling to enter required information, uncertain of what would happen next to the information). This can cause consumers who would like to be able to shop around to give up and default to their current provider, or to decide to confine their shopping around to only one other provider, or to use an adviser. This topic is discussed more fully in the section on barriers to shopping around, where there are more detailed examples.

For participants who had shopped around successfully without taking advice, this stage in their journey seemed to work well as a means of narrowing down the search to a shortlist of annuity types and providers. They may have used one or more comparison websites but found a way to make comparisons easy e.g. by using an approximation of their own fund value (rather than trying to use an exact valuation which would expire), and requesting a quote for a narrow range of relevant annuity types. A few also kept spreadsheets which they populated to aid comparison or track changes over time. (A report prepared by NAPF and the Pensions Policy Institute<sup>5</sup>, explores the role of annuity rates attached to key threshold pot sizes frequently used by the financial press and the way this may provide misleading comparative quotations if consumers do not use accurate fund sizes).

In this study there was evidence of participants deciding that comparison website quotes were enough to enable them to make a decision to default to their current provider, for example:

- If their own current pension provider was at (or close to) the top of lists in terms of monthly or annual payments
- If the absolute value of the payments seemed too small to warrant an extensive and time consuming process

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<sup>5</sup> ‘Closing the gap, the choices and factors that can affect private pension income in retirement’, NAPF, February 2012

- **Talked to an adviser**

Almost half the participants who shopped around said they took advice from a paid adviser. A few had talked unofficially to IFA's on a 'free' basis. In general participants were not aware of any distinctions between types of adviser. Some elected to put the whole matter into the hands of an adviser from the outset, while others did informal research of their own first before consulting an adviser. Section 6 discusses the use of advice in more detail.

*"I tried to read up about everything but there are conflicting messages – so I've decided to use an IFA to do a 'pension audit'"*

Male, formal advice, large pot, not yet taken annuity

- **Talked to a broker**

In one instance, use of a comparison website had led to a follow up call from a broker offering commission-based non-advice. The broker offered to obtain quotes from which the participant could choose. The participant found this service very useful and problem free. The participant had not considered whether a fee was charged or not as the quotes received were for net annuity payments and matched those seen on the comparative tables.

*"I got all the quotes online which was fine but then the broker called me back and I realised it would save me time and effort so I said yes to them sending me all the options, so I could just choose the best of the 6"*

Female, commission-based non-advice, small pot, switched

- **Obtained formal quotes from providers**

Those who had taken a DIY approach to shopping around contacted providers directly. Whilst this sometimes initially involved looking at a provider's website, generally participants telephoned 3 – 4 providers to obtain quotes. In a few instances only one annuity provider was contacted, on the basis of a perception formed earlier (e.g. from a press article or a pensions seminar) that the particular provider would offer competitive annuity rates.

*"I was worried about approaching providers directly to start with in case I got loads of sales calls, so I got 20 quotes from a site – something like 'Annuity UK' – then I chose 4 to approach, and asked for the same three quotes from each"*

Male, no advice, large pot, switched

*"I looked at the MAS website and the Sunday Times booklet, and 6 providers on a comparison website, then I shortlisted 3 on rates and from there I chose Aviva"*

Male, no advice, large pot, switched

### 3.3 Incentives to shopping around

- **Financial**

The overriding incentive to shop around was to obtain the best rate possible for a lifetime annuity. In line with this, in general, participants who got to the stage of obtaining formal quotes from providers (whether by contacting providers directly or indirectly via a broker or by using an adviser) tended to choose the company offering the best annuity payments, on a commodity basis. The stages in the journey leading up to this point, i.e. of choosing a type of annuity and the best time to annuitise were also important parts of the decision making process but these elements did not seem to influence the decision of whether or not to switch provider.

*“It was very important to shop around because there was £500 difference between top and bottom. Although I was wary and quite anxious at the start about the amount of information, and all the different possibilities and variables, once I was in the process I enjoyed it all – my wife would say I became quite obsessed with it for a while”*

Male, no advice, large pot, switched

There was one example, however, of a participant rejecting the best paying annuity, on the basis that he had not heard of the brand and was uncertain of their longevity going forward. He chose the second-best payer instead; a market-leading brand name. While no other participants had actively rejected a less well-known brand for a familiar name, ‘a big or known brand’ was frequently cited as desirable and something participants were looking for, and several reported feeling comforted by the fact that they had chosen a household name.

It is clear that perceived brand strength can have an influencing role in provider choice, mainly because participants felt that the company needs to be around to make pay-outs for several decades and/or be eligible for government support in the event of being unable to pay out on annuities.

*“If anything went wrong with Aviva the government would bail them out – like they did for Northern Rock. I’m not sure they would for the other company, I’d never heard of them”*

Male, large pot, no advice, shopped around, switched

There were also two examples of participants who shopped around because they were dissatisfied with their current pension fund provider (because of poor performance) and had decided to switch, irrespective of current rates on offer from their provider.

- **Emotional**

Some participants were clearly more disposed to shopping around – not just for annuities but for any kind of financial product. Others were prompted by a trusted friend/relative, colleague or other acquaintance who suggested that they would be wise to shop around. In

both scenarios, participants were spurred on by a feeling that it was the 'right' thing to do. Some relished the challenge/project aspects of working through the process, while others preferred to delegate to an adviser.

- **Practical**

Other factors that appeared to incentivise shopping around were:

- The offer of free help by a friend considered to have expertise (e.g. someone who works in the financial services industry), or a recommendation to a 'good' adviser by a trusted personal contact.
- Being familiar with buying financial products online – insurance, savings products – seemed to offset concerns about providing personal details online. These participants were less fearful of becoming accidentally committed – or pressed to make a commitment - before being ready to make a decision. Previous experience with buying financial products online involved several stages before there is any commitment which was reassuring.
- Being competent with money management generally and financially savvy tended to increase levels of confidence, together with a belief that shopping around for an annuity could not be that difficult.

### **3.4 Barriers to shopping around**

For those who decided not to shop around from the outset, a number of motives for their decision were observed:

- **Emotional**

Participants trusted their current provider to continue making annuity payments going forward, because they had a long history of making contributions to their pension provider, and did not want to 'risk' going to a new company with whom they had no relationship/with whom they were not familiar. Some also saw themselves as someone who prefers to loyally stick to one provider, rather than switch. In this context, some felt that it was not important to be chasing down the last few pounds of income; that loyalty and trust were more important factors.

*"I have dealt with them for many years and I trusted them...I left it in their hands"*

Male, no advice, medium pot, did not shop around, stayed

- **Practical**

Practical reasons for not shopping around at all tended to be given in conjunction with the emotional reasons mentioned above. These included not knowing how where to start with

the process, or how to go about finding out about it (particularly those with limited confidence using the internet), and being reluctant to commit to the time/effort involved.

The lack of an obvious/streamlined process for obtaining comparative quotes helped to further justify sticking with their current provider. A few took a brief look online but finding no immediate/obvious information pointing to better rates available decided to accept the rates they had been offered by their provider.

*"I did go on line and looked at a couple of sites – Aviva and Rias I think - ...but I didn't really do much. Once before I went online and left my phone number [for an unrelated product] and you have no idea of the amount of hassle from calls, a nightmare"*

Male, no advice, medium pot, did not shop around, stayed

*"I found a lot of confusing sites - thought it [buying an annuity] would be like confused.com but I was bombarded with calls - if I'd found a decent website I might have kept going, but I got fed up with it"*

Male, no advice, large pot, shopped around and stayed

- **Financial**

Those with low fund values and/or less responsibility for providing their own retirement income (e.g. some married women) tended to be less willing to shop around. For a few, accessing the lump sum was a key factor driving the decision to take the annuity when they did, and the level of annuity payments going forward was of less significance. Once they had established that pay-outs would be small (due to the low fund size), they decided to accept the default option. In some cases doing nothing further was a rational decision based on an informal, instinctive cost benefit analysis of perceived effort required and likely gain.

*"Really I just wanted the lump sum – and I didn't think any amount of shopping around would make the annuity amount significant"*

Female, no advice, small pot, did not shop around, stayed

Two participants believed their own providers offered preferential 'loyalty' annuity rates to existing customers (i.e. slightly higher rates on their standard annuities) and this encouraged them to believe it was not worth looking round extensively.

*"I got a letter from them saying I was getting a slightly better rate for being a loyal customer for over 15 years"*

Male, large pot, no advice, shopped around and stayed

### **3.5 Interruptions / barriers to completing the shopping around process**

A few participants started off shopping around but did not follow through, and we found a number of 'turning back' or 'drop off' points. This demonstrates that barriers to fully using

the OMO have been encountered on the journey, rather than as a result of a lack of awareness or interest in using this option.

- **Not convinced it's worthwhile for a small gain**

The overriding incentive for most of our participants to shop around was to get the best annuity rate they could. However not everyone saw this in black and white terms. For them, there was a trade-off to be made between time, effort, perceived risk, and the level of gain. If the likely gain was small, it did not always seem worth the effort. Others could see their own provider at/near the top of the tables and concluded from that that a switch was unlikely to be worthwhile. Additionally the anticipated impact of any transfer fees and charges or fund value reductions (especially when an unknown quantity) deterred some from switching for a small gain.

*"I felt many of the companies were linked to each other and also that not big differences between rates - all felt about the same so in the end I just went for 'best' rate and actually it was my company"*

Female, formal advice, large pot, shopped around, stayed

We also observed that the presentation of comparative annuity payments tends to give prominence to monthly payments, where the differences between providers will be at their smallest in absolute terms. When annual differences are considered the benefits could seem more tangible. By extension, in our view, consideration of a 10 year or 'lifetime' benefit could help to motivate a broader search, but this factor was beyond the scope of the research.

*"In the scheme of things it is not a lot (£200/year) - but going through the process it seemed important, looking long term"*

Male, no advice, large pot, switched

- **Worried that they would have to use an adviser**

Some participants were daunted by the shopping around process once they had started investigating their options and considered that they would 'need' an adviser to do it for them. Others were directed to the use of an adviser by their provider and believed it was obligatory. There were a range of barriers to seeking advice and these are covered in section 5. Broadly, these relate to concern that fees and charges will negate any gain from shopping around, and concerns about how to find a good, suitable adviser.

*"Martin Lewis on Money Saving Expert said you can do other kinds of financial research yourself, but don't try and buy an annuity without an adviser"*

Male, formal advice, medium pot, switched

*"I would suggest that everyone does need impartial advice when taking out an annuity, but whether you would pay an adviser and lose half your first year's payments is debateable"*

Male, no advice, large pot, switched

- **Unhappy about obtaining online quotations**

When participants referred to obtaining quotes online the quotes could be used to fulfil two distinct functions. Firstly, at the information gathering stage, customers need comparative quotes based on their own age and pot size details (we refer to these as indicative quotes) and secondly, when ready to transact, they need formal quotes for the actual provision of an annuity. It appears that provider websites are expected to provide formal quotes. Websites that offer a comparison service can be more ambiguous – some are in fact broker sites which lead to a sales follow up call (either before or after providing annuity quotations), others (such as the MAS website) offer comparisons without a sales follow up. In practice participants who had shopped around online were not always aware of what type of website(s) they had visited.

There appears to be a blurred line in usage and understanding between indicative quotes (which can aid comparison between providers) and formal quotes. Participants did not always know what to expect or what kind of quote a website is offering, or how/when to optimise the different types. Some sites require detailed and exact information, including full contact details, and seem designed to lead to a sales process. These appeared to require a high level of practical and emotional commitment from the outset (e.g. having the exact fund size details to hand, being ready to give personal information, being ready to specify the annuity type). This worked well for those ready to commit, but created a barrier to looking further when the mind-set of the participant was to have a general look at what was available.

Some examples of barriers to using comparison (or provider) websites are given below. :

- Technical problems with websites where information required was not compatible with their own situation – e.g. provided one box for fund details, but they had two separate funds to be combined
- Difficulty with selecting annuity type options because of unfamiliarity with what they meant in either benefit or cost terms – buying an annuity was contrasted with buying car insurance where the process and terminology is familiar, and it is already known that there will be a cost/financial implication to choosing options such as a courtesy car or higher/lower level of excess. Websites were described as having ‘tick boxes’ rather than providing tools that would enable the implications of choices to be evaluated
- Resistant to putting in accurate personal financial information – distrusted the safety/security/privacy of the internet
- Resistant to entering contact information – did not want to be pestered with follow up sales calls
- Entered contact details and then regretted it – as they did subsequently receive unwanted sales calls (and in one case a house call from a provider).

*“I thought it would be like confused.com but I was bombarded with calls - if I'd found a decent website I might have carried on with it”*

Male, no advice, large pot, shopped around, stayed

*"I went to some of those 'compare the annuity' type sites but I found it hard – it asked if I wanted level, fixed, increasing – without knowledge, it's difficult. It's probably my naivety but with an annuity you don't know – with car insurance it's much easier!*

Female, no advice, small pot, switched

*"I looked online myself first, but the more boxes you ticked the less money they seemed to give you!"*

Female, formal advice, large pot, shopped around, stayed

*"I tried some websites that didn't give much information – they just seemed to want to ring you back"*

Male, no advice, large pot, switched

By contrast, those who obtained quick comparative quotes for annuity payments for someone of the relevant age, fund size and gender (and of the chosen annuity type) found it a very useful intermediate step in the journey, as it helped them to decide what to do/which providers to approach next.

- **Only obtained one other quote**

In some cases participants used their own background knowledge or contacts to identify an alternative annuity provider, rather than looking for the best annuity rate from the market generally. For example:

- Had been to a pension talk some years earlier where a provider name was mentioned/recommended
- Had read a newspaper article (months previously) recommending a particular provider as having competitive rates
- Clicked on Google and recognised the name of a company near the top of the list. Visited website, filled in form then received a call from them which explained everything
- IFA friend unofficially checked an alternative provider via an adviser-only channel and concluded no difference in rates on offer

In these instances participants were satisfied with the information they received on contact with the alternative provider and this validated their inclination to not shop around any further. It could result in switching or staying.

### **3.6 Formal quotes**

Formal quotes were obtained via three routes: quotes provided by an adviser, or quotes obtained by the annuitant from a provider (usually via the telephone, or occasionally online), or quotes obtained from various providers by brokers on the annuitant's behalf.

Those who had used an adviser were usually satisfied with the service provided. They had given the adviser information, arrived at a decision about annuity types to consider (possibly with the previous help of information from the provider) and then left it to the adviser to come up with quotes and make a recommendation, which was generally followed.

One participant had bought their annuity using a broker, and they were also very satisfied. Having obtained comparative quotes from the broker online, the broker followed up with a call offering to provide formal quotes and execute the service. The participant felt this would save her time and effort and she was pleased with the service provided. She was not aware of whether using this service had affected the value of her annuity.

For those shopping around independently, the telephone was usually the preferred channel for applying for quotes. In some cases, an initial application was made via the provider's website and then the provider telephoned to obtain additional information.

When participants described their experience of getting quotes, some said they had found the whole process straightforward. Others seemed to have needed to go through several iterative stages. Much appears to depend on the order of making decisions and approaching the various elements in the process, as described below.

- **Smoother formal quote process**

Those who had least trouble said that they developed a shortlist of providers to approach (based on comparing annuity rates online) and then obtained a range of quotes at the same time from 3 or 4 providers (or a mix of providers and brokers as in the example below). Often the formal quotes were requested via telephone calls to the providers. These participants had already worked out which type of annuity they wanted and obtained an up to date quote on fund size from their current pension provider to feed into this process. Once quotes came back they simply accepted the best one.

*"Firstly I got online quick quotes to screen, then I telephoned to get full quotes, from Age Partnership (who gave me Canada Life), Aviva; Hargreaves Lansdowne, St James. I knew I didn't want a joint pension – or an increasing one – so I just chose Canada Life, the best rate, in the end it was like buying a tin of beans"*

Male, no advice, large pot, switched

*"I used TPAS and MAS for information, then looked at some comparison sites and league tables to get a sense of best providers, then looked at several [provider] websites – about 10 – and made a shortlist of 3-4, excluding any who didn't offer the option of speaking to someone on the phone...I put it all on a spreadsheet"*

Female, no advice, large pot, switched

- **More complex formal quote process**

Those who took longer over the process, and/or tried to consider different combinations of variables each time (e.g. obtained quotes from different providers at different times with slightly different pot sizes, or asked for quotes for several different annuity specifications) found it difficult to make ‘true’ comparisons in rates. As pot sizes and annuity rates can vary from month to month it could be difficult to know whether different pay-outs between providers were because of changing annuity rates generally, or a change in the competitiveness of an individual provider, or a change in the fund size, or some other factor (such as fees or charges). Some participants said they felt better once they had made a provider choice (with better rates) and stopped worrying about whether there might be a better rate (or timing) option available. Others preferred to carry out some preliminary searches themselves but then to hand the matter over to an adviser, to ensure that everything was done correctly – as they could not be sure they would not overlook something/make a mistake (or for fear of ‘unknown unknowns’).

*“I spent about 5 or 6 months researching and fiddling about - and in the end the gain from moving from Pru to Aviva was about £200/year - so I suppose with hindsight not a huge gain given the amount of effort. In reality it’s difficult to get an exact feel for whether quotes were consistent with what I ended up with, because everything kept changing slightly”*

Male, no advice, large pot, switched

*“(My IFA) explained a few things more clearly to me in terms of types, and advised me to wait until last minute for quotes, then he gave me 3 different quotes based on criteria we agreed together (fixed, guarantee etc.) - I’d sort of semi decided this already through looking at internet sites, but I found the shopping around a bit confusing, because every time I ticked anything the rates went down”*

Female, formal advice, large pot, stayed

*“Phoned Phoenix early on to get quote for stopping early, and the fine was only £11 so it was not worth carrying on until end of year – then I phoned Canada Life, then I decided to talk to an adviser who was going to do it as a favour, it was only when he asked me about my health that he realised I could get a better rate – and I didn’t know about a widows pension until I talked to him either so it was just as well I did”*

Male, formal advice, medium pot, switched

Other factors which inhibited the quote comparison process were as follows:

- Some found it difficult to compare quotes between providers because they used different terminology and layouts which made it difficult to be sure that quotes were ‘like for like’
- If each quote was accompanied by a lot of additional information about annuities and retirement it could become overwhelming. [N.B. We observed that some participants had obtained multiple sets of quotes from their provider, collected over a period of several months]
- Where providers used it as an opportunity to try to sell additional products (such as investment opportunities for lump sums) this too could be off-putting.

*“I got a lot through the post from various different companies and really I found it quite overwhelming, so I didn't end up reading a lot of it in detail”*

Female, formal advice, small pot, stayed

*“I just found it all very confusing. When I tried to read all the different documents I felt there were conflicting messages – so I used an IFA to do a 'pension audit' ”*

Male, formal advice, large pot, consolidated

### **3.7 Switching process**

Amongst this sample, participants who had switched by using an adviser (and in one instance by a broker), generally said it had gone smoothly without any problems. Of the participants who had switched themselves we found evidence of two types of issue:

- Inefficient/unhelpful administrative procedures from the company releasing the funds (e.g. forms returned as not completed properly without any explanation)
- Fund values transferred not tallying with amounts quoted (in one case a small second fund had been overlooked by the provider transferring the funds out; in another the fund value reduced by a few hundred pounds without a clear explanation; in a third case the fund size was reduced by 19%, and the participant was unclear exactly why but had accepted the situation anyway).

## **4. Annuity types**

Post purchase, awareness of the basic concepts about annuities seemed fairly high. Choice criteria and patterns of decision making were more variable.

### **4.1 Awareness**

In general, participants were aware of the availability of the basic types of standard annuity: joint, escalating and enhanced annuities, and the option to shop around. The terminology however was not familiar and even those who had gone through the process very recently were apt to mix up terms or forget aspects until reminded. For example most had a measure of awareness that there were different annuities available to people with medical conditions, but they did not always know the term enhanced or impaired annuity. Some were confused by the use of enhanced and impaired and assumed they referred to two different types of annuity.

A few of the participants with large pot sizes had knowledge of drawdown annuities, but were uncertain of the detail of how they work. In one instance a participant had bought an

annuity with a review option after 18 months, suggesting that she had bought some form of fixed term/investment annuity despite considering herself 'risk averse'. The participant was very happy with the option to review as she didn't feel ready to make a long term commitment, but she did not appear to fully understand the product she had bought. A second participant felt that her annuity would not be worth much after 20 years, and when her FA suggested an investment linked option she was happy to accept it. [NB neither was fully dependent on this pension income to live on].

*"I think it's a level pension, Canada Life, but it'll be reviewed after 18 months. I wanted to secure an income now and get some of my pension sorted out, but not make a once and for all decision while sorting out probate etc. I am risk averse; I didn't want a pension linked to stock market or to inflation or anything risky"*

Female, no advice, small pot, switched

*"I didn't think it would be worth a lot in 20 years' time – but my FA found an investment annuity which could go up or down in value, probably more likely to go up I think, so I took that one"*

Female, formal advice, medium pot, shopped around and stayed

#### **4.2 Annuity type evaluation and decision making**

The first rate seen was usually the single, level option. For many the income generated by this did not seem very high relative to the size of the fund, but this rate seemed more acceptable than any of the other, reduced, options available (for those not eligible for an enhanced annuity). Added to this, about a third of participants generally felt they wanted a straightforward type of annuity that was transparent, and which did not seem to require any complex risk analysis or evaluation of value for money over time. Therefore they chose a single, level annuity as this type was easy to understand and maximised immediate payment.

*"I am risk averse and don't want to be greedy - I just want to stick with what I've got"*

Female, no advice, small pot, switched

*"I prefer fixed options – it's tidier, you know where you are."*

Male, formal advice, large pot, switched

Most participants tended to place more weight on current financial needs than on the future needs. Typical reasons for this included;

- No/low fear of inflation at this time – the economy has been 'flat-lining' for a long time
- A feeling that it is better to have money to spend now while young/healthy enough to enjoy it
- A feeling that as you get older your expenditure decreases
- Other pensions (e.g. state pension) will supplement income later on

*“If it did increase, I would have got less per week now. But with my life expectancy...and going by my mother-in-law I wouldn't need a lot of money anyway ...I need money now rather than in my 80's”*

Male, formal advice, medium pot, shopped around and stayed

About one third of participants felt the need to consider the financial requirements of the (known) present against the (uncertain) future but few were willing to fully ‘future proof’ their annuity for themselves and their spouse (against inflation, or against early death) because it would mean locking in to a very low starting rate relative to the level annuity. Therefore participants in this group generally claimed they could not afford both a joint and inflation linked/escalating annuity, and as a result joint tended to be preferred – partly because it seemed of greater importance to protect their spouse and secondly because it had less of an impact on initial pay-outs than escalation or index linking. A guarantee option was also often taken (as it made very little difference to payments; this was perceived by some as good value).

*“I decided on a 2/3 spouse pension, in case anything happens to me...but RPI payments reduced it too much, I decided I'd just do one of them”*

Male, no advice, large pot, shopped around and stayed

Participants with larger pot sizes or other income streams tended to take a more holistic view of their annuity options and where these fitted into their broader financial position. They researched options more thoroughly and were more likely to consider the lifetime value of the payments. For example they were more likely to weigh up issues such as;

- their own health/life expectancy and relative age of their spouse
- inflation
- the possible impact of tax and what interest rates/returns they could earn on their lump sum (if re-invested)
- the point at which an escalating product would break even with a level product – for example by seeing how many years it would take an RPI linked annuity rising at 2% or 3% to overtake the payments of a level option.

Participants who had a spouse with separate pension provision, and/or more than one income stream and/or a broader portfolio of investments, had greater flexibility to hedge their bets against different economic scenarios with different products. Therefore the annuity types chosen by this group tended to be fairly diverse and personal.

*“I didn't want a joint one as my husband has his own pension, but I did want a guarantee as it hardly cost anything”*

Female, no advice, small pot, shopped around and stayed

*“I wanted a level one as I will have other sources of income and they will be variable – and I didn't need a joint one as my wife will have her own pension, we haven't used her pot yet”*

Male, no advice, large pot, switched

*“There were graphs I went on to see whether flat rate or escalating was best – I chose RPI one because it would pay off in 9 years”*

Male, no advice, large pot, switched

The concept of enhanced annuities was familiar to most participants (even if they were unaware of the terminology) and one third had taken out enhanced annuity products.

*“I heard about enhanced payments on Money Box – it sank in because I have diabetes”*

Male, formal advice, medium pot, switched

Others reported being asked questions about their health, and/or had noticed information about better rates for those with impaired health but, rightly or wrongly, dismissed them as not relevant because they believed they did not have a qualifying condition. Therefore in general the availability of this type of annuity and the possibility of getting a better rate if eligible seems to be widely known. Some examples where awareness and eligibility did not concur as smoothly were as follows;

- One enhanced-eligible participant was disappointed that his own provider could not offer an enhanced annuity, but as he had a GMP (guaranteed minimum pension) it was not worth switching to an enhanced annuity provider. His financial adviser confirmed that this was the case.
- An early-retiree only learned of enhanced annuities from his adviser – after a first round of quotes had been received. He did in fact have a health condition which meant that a second round of quotes produced a much better payment.
- We observed some participants with possible lifestyle factors, such as obesity, who had self-excluded because they were not ill.
- Some participants had answered the providers health related questions and therefore assumed their health had been taken into account, but on reflection were unsure as to whether they had in fact obtained an enhanced annuity or not.

## 5. Role of providers

*Overview:* Experience of contact initiated by providers was highly variable. Over half of the participants had decided to take their annuity at a time that did not correspond with the provider’s ‘expected retirement date’ and as a result these participants had proactively contacted providers. They had not received a ‘wake up pack’ and their first contact was often a phone call instigated themselves to request a retirement quote.

*“I don’t remember getting anything – maybe it came when I was 60? [now 65]. I get stuff from them all the time”*

Male, no advice, large pot, switched

Those who had retired and taken their annuity at the 'expected' date responded to information sent out by providers. In some cases this prompted them to draw on funds to which they had previously given little or no thought (e.g. from paid up funds, dormant for many years).

- **Wake up Packs**

For those who recalled receiving the wake up pack, it seems to have educated them about pension basics – for example about the option to shop around and the possibility of better rates if you have a medical condition. However, most seemed to have skim-read it and put it to one side as not particularly important, because the personal financial information contained seemed too vague/abstract to be of great importance. Annuity 'illustrations' were not thought particularly useful or relevant. [NB all had received their wake up packs prior to the introduction of the new ABI code of conduct on retirement choices]

*"It made me realise I needed an annuity in order to access the money – I wasn't aware of this before"*

Female, no advice, small pot, shopped around and stayed

*"I got something vague through the post – I didn't really look at it until later"*

Female, formal advice, large pot, stayed

- **Retirement quotations**

For many seeing a 'real' valuation of their fund, and the annuity it can provide, was a moment of truth – when they fully engaged with the process and properly considered their options. The experience of receiving these quotations seemed highly variable, perhaps reflecting a great deal of variation in approaches between providers. Some had been supplied with a comprehensive set of quotes and information at this stage; others had been sent more limited information. Receiving a lot of information about different kinds of annuity if not familiar with the terminology was felt to be quite intimidating and may have encouraged a preference for the single life, level option amongst some participants, as it offers the highest pay-out and is the simplest option to understand.

In this study we did not find any evidence of participants feeling that they had to accept the quote provided – the quotations generally seem to make it clear that there was an option to shop around. It was much less clear exactly how to go about shopping around – the detailed/optimal sequence of steps required to obtain an annuity from another provider was not defined by the provider. To find out more, most of our participants made a phone call.

- **Telephone contact**

Most participants reported positive experiences of talking to providers, describing staff as helpful and good at explaining the various options. During the call annuity options were

discussed and as a result of the conversation participants felt they had decided on which would be the best option for them (e.g. joint or single, level or rising, with or without a guarantee). Questions about lifestyle and medical conditions were sometimes recalled indicating that providers were looking to quote for enhanced annuities in some instances<sup>6</sup>.

Some participants said that the option to shop around was raised by the provider at this stage and they welcomed this as a sign of openness and trustworthiness. For some participants, receiving this message implied transparency and helpfulness and this was sufficient to convince them that they need look no further as they felt they would achieve a reasonable payment.<sup>7</sup>

*"Because I was able to talk it through, I could take it in, ask stupid questions - but reading things, looking at things on the web was quite intimidating"*  
Female, no advice, small pot, switched

*"They were very nice and helpful on phone. When I got the info pack I started reading it but didn't ever finish it – I decided I knew what I wanted and felt safe with them"*  
Female, no advice, small pot, shopped around and stayed

We found some examples of providers who appeared to be much less willing/able to engage with callers to give any information or guidance about annuities, and instead directed enquirers to speak to an adviser. This was sometimes perceived as obstructive, especially if the caller was worried about the implications of having to pay for advice. This seemed to apply to pension providers who do offer annuities but who have a policy of only engaging with consumers through advisers. They offered their own advisers and participants were told any fees would depend on the extent of advice required.

## 6. Using advice

*Overview:* Independent Financial Advisers (IFA's) were a main route to the market for many of those who shopped around when buying an annuity. It should be noted though that not all participants who used an adviser took advantage of a fully independent service (fee based). Some, including some of those that annuitized pre-RDR, used a commission-based restricted service. Separately, some appeared to have been offered a commission-based restricted service at work based pension seminars.

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<sup>6</sup> The ABI Code of Conduct introduced in March 2013 promises that members will: "Prominently highlight enhanced annuities, and the much higher income they can potentially offer, and inform customers whether they offer these products, and how to find out who does."

<sup>7</sup> The ABI Code of Conduct introduced in March 2013 promises that members will: "Provide clear and consistent communications to ensure customers are able to make informed and proactive decisions about retirement income products, and are able to shop around for the most appropriate product."

There were several reasons underpinning both the use and non-use of full or guided professional advice. Perhaps the main distinction was between those that did and those that did not use such advice, were the varying levels of awareness and usage of IFA's *per se*, prior to purchasing an annuity. Figure 8 below illustrates the factors which underpin whether or not to use and adviser.



Figure 8 Factors driving use/ non-use of advisers

### 6.1 Perceived benefits of using an adviser

There were two types of participant who had used an adviser: those that viewed using an adviser as way of optimising their decision-making and those that saw using an adviser as a way of effectively 'sub-contracting out' the decision making process to an able and specialised agent. Perceptions of the benefits of using an adviser varied accordingly.

Some saw the two key benefits of using an adviser as using an expert with superior knowledge of annuities; and accessing an adviser as a labour-saving device, which allowed them to 'spend' their time on other business or leisure. Such participants were therefore disinclined to shop around themselves and tended to seek advice from the outset. These participants typically had long-standing relationships with their adviser which encompassed both the purchase of other annuities and other products such as pensions and investments. These relationships were characterised by high levels of trust. Typically the IFA would come up with a short list of options one of which was deemed to be the most beneficial.

*"I use my adviser for everything and I've known him for over 40 years."*

Male, formal advice, small pot, switched

Other participants had carried out their own initial research prior to approaching an IFA so that they would feel confident in their subsequent dialogue with the IFA. These participants were relatively financially sophisticated and literate but reasoned that the unusual and infrequent purchase of a product like an annuity warranted the use of a specialist. Some expressed a belief that IFA's would have access to better rates or a wider selection of annuity providers than a consumer could access alone. Some also presumed that they had

no choice but to use an adviser as some providers had stated this to be the case. Nevertheless, all felt that the adviser would add value to their annuity search.

*I made sure I did 'pre-research' before I spoke to the IFA – I wanted to be sure that what the IFA said made sense"*

Male, formal advice, large pot, consolidated

*"I was told by my provider that I had to use an IFA. Is that not right?"*

Male, formal advice, large pot, switched

*"I tried Age Partnership online, but then called my FA to see if I can get a better rate – he knows more people"*

Male, formal advice, medium pot, shopped around and stayed

## 6.2 Experiences of using an adviser

Some were very positive about the actual experience of using an adviser whilst others felt that although it had been valuable and worthwhile they *may* have been able to do it themselves and *might* have achieved better value for money had they not paid for the advice. This was a perception rather than a considered analysis of the 'pros' and 'cons' and at any rate all participants were at least relatively satisfied with their adviser experience. In all cases the adviser managed to find what was felt to be an optimised annuity; note, by optimised we mean having taken into account salient variables such as sole versus guaranteed, level versus escalating, eligibility for an enhanced annuity, as well as annuity rate. In two cases investment annuities were recommended and the respondents were pleased with these options.

It was evident that advisers adopted a broadly needs-based approach to their searches in that they discussed the various annuity variables with their clients and then searched on that basis (e.g. customer preference for sole vs. joint, health considerations, level or escalating, lump sum level, etc.) Thus, there was a clear dialogue around the importance of these variables before any search was made; advisers were not presupposing the importance of these variables and simply searching for the highest 'headline' annuity rate.

*"He asked me what was important to me and the quotes reflected my preferences"*

Female, formal advice, large pot, switched

There was also evidence that advisers were assisting participants in combining pension pots in order to buy an annuity – a service valued by those who had acquired multiple 'pots' over the years without much consideration to the future implications of doing so.

A minority of participants who used an adviser had felt after the event that they expected that they would obtain a better deal than they actually did, bearing in mind the cost of the fees. Those who purchased post-RDR cited fees from £135 (to obtain quotes) to over £2,000 on a pot size of £65K for the full process. These had seemed reasonable at the time

but a minority reasoned that, with hindsight, they perhaps should have shopped around themselves.

*“I paid £2,000 [on pot size of £65K] for the adviser but in retrospect I may have been better off doing it myself”*

Male, formal advice, large pot, switched

### 6.3 The barriers to using an adviser

There were several main reasons for not using an adviser:

- A sense of unease that some felt at using an adviser made up of a lack of awareness of, and trust in, the benefits that this might bring
- For some the idea of using a professional adviser was outside the normal way in which they managed their finances and so they felt apprehensive about speaking to someone who they imagined would have financial knowledge far greater than their own. As the use of full advice or guided non-advice channels is a strong indicator of the use of the OMO, this reluctance indicates a significant barrier to a journey that could lead to the use of the OMO
- There was also some expression of concern over the costs of using an adviser. This indicates a lack of knowledge of what the cost of advice might be and how to evaluate the potential value of advice. This is a consequence of inexperience in using advisers for some. Others were unconvinced of how much value an adviser could add over and above their own efforts.
- Disappointing prior advised experiences relating to other products were also cited by some
- Those that felt confident to shop around themselves often cited informal sources of advice as helping them to manage the process. These sources included ‘savvy’ (relatively engaged with financial services) friends and family who relayed the benefits of their experience of purchasing an annuity; other information sources such as websites, newspaper articles were referenced and several had attended pension seminars arranged via their employers or their spouse’s employers. These information sources were described as being helpful when making annuity decisions.

*“I didn’t want to pay for it [advice] as I felt confident doing it on my own.”*

Female, no advice, medium pot, switched

*“I spoke to my brother-in-law who works for Ernst & Young and he said I should have a look around.”*

Male, no advice, large pot, switched

*“No – I didn’t use advice - didn’t feel an IFA could do anything I couldn’t do myself... and when you think about the cost, and the extra amount I might have got taking into account what I’d already found out, it wasn’t worth it”*

Female, no advice, large pot, switched

#### 6.4 Guidance from providers

Those participants who used information from a provider felt that the information had been clear, valuable and helped them reach a decision. They described a process (typically on the phone) whereby they spoke to a member of staff who went through the various annuity variables with them and then presented them with options based on their preferences. Of course these participants had not taken advice from an IFA and so could not contrast the two experiences.

*Note: None of the participants in this research were aware of the benefits and protection that accrues from an advised sale as opposed to an execution only sale. From this we can infer that even if mentioned by advisers and providers, this message cannot be recalled by participants, suggesting that it would be beneficial for it to be 'flagged' more prominently than may be the case currently.*

### 7. Evaluating the purchase decision

Very few of our participants had attempted to evaluate their annuity decision post purchase, and when asked, many questioned the value in doing so. This attitude appeared to be driven by two main reasons; firstly that the decision is an irreversible one, and secondly, how would they go about evaluating it if they wanted to? Again, this suggests that the value of consumer protection conferred by a full advice service does not appear to have been understood. As annuities are a one-off purchase this may be an issue which needs to be addressed.

*"What's the point of worrying about whether you've made the right choice? You can't change it"*

Male, no advice, small pot, shopped around, stayed

Whilst a small number of the participants had tried to make some sort of evaluation of the likely lifetime value of the annuity they were considering, not knowing how long they would need it for was cited by many in the research as a key barrier to taking a longer term view. In a similar way, when asked how they might evaluate their decision, most did not know how they could usefully go about it. In terms of satisfaction with their decision/with the process, certain elements were considered to be much easier to evaluate than others:

**Lump sum** – this invariably had a 'feel good' dimension and for many was the highlight of the process. Various the sum was used for purchasing a new car, making repairs or home improvements, paying for dental treatment and paying off debts. All of these were seen as tangible benefits and for some appeared to provide some degree of comfort in contrast to the disappointment of fund maturity values and low annuity rates.

**Service** – helpfulness, knowledge and clarity of information were cited as key attributes associated with the annuity provider chosen. This appeared to validate the choice made, and to provide reassurance at having chosen a ‘good’ provider.

**Speed** – while a minority of participants had experienced delays in receiving payments / resolving fund transfer discrepancies, most were broadly satisfied. That said, few had any kind of benchmark in terms of what to expect.

Other elements were felt to be more difficult to evaluate:

**Annuity type** – a minority felt post-purchase that they should perhaps have given more consideration to joint or escalating policies, but didn’t know how to weigh up whether or not these would have been better for their personal circumstances, and often came back to the issue of not knowing for how long they would be receiving their annuity.

**Value for money** – annuity rates themselves, and in some cases disappointment with fund performance, generally overshadowed any thoughts of achieving value for money. Several participants commented that the basic premise of annuities does not offer value for money, believing that annuity providers end up keeping far more of annuitants’ pots when they die than they pay out when they are alive. However, few in this research had been genuinely shocked by the return they were getting; most seemed philosophical/resigned to the situation. There was a strong sense however that in response to the current market many were taking the view that the most sensible thing to do was to ‘get as much as possible now’, leading them to choose single life, level annuities as offering the best pay out in the short term.

## 8. Detriment and risk

In this study participants were rarely conscious of any area in which they might have experienced detriment. As described above, having made a decision they tended to accept and move on rather than dwell on the decision made.

The research team observed various instances where detriment could have arisen. These individual stories may highlight areas where the current process can let down annuitants or where there are misunderstandings:

- **Transfer discrepancies**

Some participants had noticed differences in fund sizes between that quoted by the provider and that used by the annuity provider. One spotted an error (failure to transfer a small additional second pot) and took the time and effort required to chase this up and have it put right, others were unclear about whether it had risen because of an error, timings, or fees/charges – but having finalised the process were disinclined to check. In one case the transferred fund was reduced by 19% but the explanation for this was unclear.

*“Equitable Life took 19% off the value of the fund because I was taking it early [NB aged 64], instead of waiting for the settlement.”*

Female, no advice, small pot, switched

*“Friends Life didn’t transfer the smaller pot even though I instructed them to move both to Aviva. I noticed the difference on the transfer confirmation and Aviva got in touch to say they hadn’t received what they expected. I had to phone several times to get it sorted out; I wasn’t impressed.”*

Female, no advice, medium pot, switched

- **Tax free lump sum**

One participant had not fully utilised his tax free lump sum even though tax free cash was a major motivation for annuitising. He had taken the amount he required to cover a short term cash need that would otherwise have meant taking a personal loan, and only realised after completing his annuity purchase that he could have taken 25%. Another did not take the lump sum at all, feeling it was better left in the (already disappointingly small) pot. He had not attempted to calculate which option would be best financially.

- **Annuity alternatives**

One participant was interested in a drawdown but was advised that his £132K pot size was not large enough. On reflection he was not sure whether he was told he could not, or should not, use drawdown; he had accepted the information at face value. Another had bought a

fixed annuity with an opportunity to review after 18 months, but claimed she was 'risk averse' so she may not have fully understood any investment element of the annuity.

- **Enhanced annuities**

Several participants had precluded themselves from considering an enhanced annuity, assuming that these annuities apply only to heavy drinkers or smokers, or those with a diagnosed serious illness. Although many had been made aware of enhanced annuities by their providers, it is possible that lifestyles considerations such as excess weight may not always be discussed or disclosed. One participant with high blood pressure had been told by his own provider that 'it did not apply' – the specific provider did not offer enhanced annuities so it is ambiguous as to whether the annuitant did not qualify, or the provider could not offer it. Some felt they might be eligible, and had answered medical questions so assumed they would have been offered enhance rates if applicable.

- **'Loyalty' bonus**

One participant had been told that he would receive a small 'loyalty bonus' on his annuity rate if he stayed with his current provider. He checked one other provider but believed because of this bonus it was probable that he would not be able to find a better rate so it was not worth looking further.

- **Brand recognition**

We found examples of participants selecting known names, and one ignored a higher rate from a lesser known player in favour of a market leader. This was because he wanted to be certain that his annuity would always be paid – and he believed that in the event of business failure the government would rescue the larger, more well-known company

*"If anything went wrong with Aviva the government would bail them out – like they did for Northern Rock. I'm not sure they would for the other company, I'd never heard of them..."*

Male, no advice, medium pot, shopped around, stayed

- **Redress**

Participants did not give any consideration to the subject of having an avenue for complaints about advisers or providers. There was no real awareness of whether they would/would not have a formal channel for redress, and it was perceived to lack relevance once the purchase decision had been made. As already discussed, there was no awareness of the implications of an advised purchase vs. execution-only in terms of protection. The participants' main concern was that the company providing their annuity would continue to pay out over the coming years, so protection of their annuity payments in the event of business failure was a much more salient issue.

## 9. Conclusions

- The message that it is possible to shop around for an annuity appears to be getting through to annuitants. In this sample the spectrum of shopping around activity varied from those conducting very little, through those conducting an informal level of research, to those who fully compared their options and made an informed choice whether or not to switch.
- Those who 'turn back' from a full shopping around process do so for a mixture of emotional, practical and financial reasons. Providing a simple step by step guide to shopping around could help to overcome emotional barriers – by suggesting a workable series of steps, for example the sequence in which to obtain information about annuity types, when to approach the current provider for a final valuation, when and how to obtain comparative quotes and when to obtain detailed 'final' quotes.
- In practical terms, making comparison websites easier to use seems a key area which could help to make shopping around less daunting. For example, providing a clearer indication of what, if anything will be done with personal contact or financial data after it has been entered would enable consumers to make an informed choice about how/when to use them. Annuitants who are still at the informal research stage may prefer to obtain comparative information without triggering any sales follow up. Those who are closer to a final decision/purchase may be reassured by an accurate/detailed application form and/or a follow up call from a provider or broker.
- On the financial side, demonstrating the impact of relatively small monthly differences on the long term value of standard annuities could enhance understanding of the value of using the OMO, even if on a first impression differences are small. Tools to help evaluate potential lifetime values though useful may not, however, break the current short term outlook of most annuitants (which in the current low payment environment leads to many choosing level over escalating annuities).
- Greater consistency of language and quotation presentation format could assist with the shopping around process, as it would ease comparison and help with identification of 'like for like' quotes. The message about the potential value of enhanced annuities seems to have been received by many people. A similar drive to help annuitants understand the value (and cost) of joint and escalating policies could help make the quotation and comparison process seem less opaque.
- Standard annuities appear to dominate the retirement products market at this time, coupled with taking the maximum tax free lump sum possible. Alternative products

(drawdown or investment annuities) may provide better value for money for some annuitants but currently little attention seems to be paid to these products, which are positioned as being inherently risky.

- While financial advice was of great assistance to many participants, the distinction between information and advice was not always clearly understood especially in the context of talking to providers. The relative costs of shopping around using different channels (i.e. using advice, using guided non-advice (e.g. via a broker), or by contacting providers independently) is not currently transparent and more information about how to shop around cost effectively would help consumers to decide how to approach the journey. Where providers appear to refuse to give out information and insist that annuitants need to talk to an adviser this can act as a barrier to shopping around (if the annuitant is unwilling to engage with an adviser and/or is reluctant to pay for advice). Clearer information about the role of consumer protection and redress in the context of advised or execution only annuity purchases may help to further inform choices about which channel to use.

# APPENDICES

# Appendix 1 – Annuitant Stories

## Annuitant Stories – Shopped around and switched

### Jon, 66, fully retired

No advice, shopped around and switched

*“The difference in rates was something like 23% between the highest and lowest. I don’t think it’s right that it’s left to the customer to have to find the best one”*

ANNUITY	
Pot	£92,418
Provider	Friends Life
Annuity type	Single life, level, 10 year guarantee
Annuity payment	£4,957
Provider	Aviva

#### IMPROVEMENTS:

- Less disparity in rates
- More workplace education on how pensions work

#### Jon’s journey:

- Over the past year listened to/read everything
- Key Moment of Truth was realisation of how low rates are - providers must be making high returns on a low risk product
- Felt he had to take tax free sum - rates so poor it would have been stupid not to
- Looked at several providers before shortlisting to 3 on brand and rate – final choice based on rate and impression of Aviva (professional, helpful, clear info)
- Satisfied with speed of process once choice made
- Dissatisfied at disparity of rates and the need to ‘shop around hard’ – doesn’t feel like value for money based on what likely to get back

RISK FACTORS	
Fear factor	Low
Urgency	Low
Financial capability	High
Information overload	Low



### Michael, 66, semi retired

No advice, shopped around and switched

*“annuities are inherently unfair, not in the best interests of consumer - you are forced to hand all savings over to an insurance company”*

ANNUITY	
Pot	£132,000 before lump sum taken
Provider	St James
Annuity type	Single, level
Annuity payment	£5,700 (rate 5.7)
Provider	Canada Life via Age Partnership

#### IMPROVEMENTS:

- The legislation should change so that you don’t have to give your fund to an insurance company
- Wanted to retain control of his fund

#### Michael’s journey:

- Has several income streams but decided to annuitise pension as annuity rates not getting any better
- Was interested in Drawdown but told by St James that his pot was not large enough
- Decided on level, single – wife has own pension provision, and he has other investments which will provide a rising income
- Went online and got quotes from about dozen companies.
- Used Age Partnership – found quotes for some companies remained the same, for others varied when using an intermediary
- Selected best 3 (plus current provider) and rang for detailed quotes.
- Selected best one ‘like buying a tin of beans’

RISK FACTORS	
Fear factor	Low
Urgency	Low
Financial capability	High
Information overload	Low



## Annuitant Stories – Shopped around and switched (continued)

### Arlene, 64, fully retired

No advice, shopped around and switched

#### Arlene's journey:

- After her husband died felt she needed to sort out her financial affairs quickly
- Was dealing with probate at the same time so felt stressed and wanted to keep things simple
- Very disappointed with Equitable Life so knew she wanted to move her pension
- Googled 'annuity', Canada Life was near top – recognised name and decided to ring up
- Found conversation and explanation easy and helpful. Included medical questions – she has diabetes
- Subsequently tried to get other quotes online but found websites difficult to use because language/types of annuity unfamiliar ...and promises of brochures 'packed with information' intimidating
- Final choice was for a pension she could review after 18 months – happy with this as didn't feel ready/able to make a once and for all decision. But also claimed to be risk averse and not interested in anything linked to stock market.

*"It's a minefield. The language used is hard to understand – even for a word person"*

ANNUITY	
Pot	£27,000
Provider	Equitable life plus lump sum from educational pension
Annuity type	Short term fixed annuity – review after 18 months. Possibly enhanced?
Annuity payment	£270/month (NB seems high?)
Provider	Canada Life

**IMPROVEMENTS:**  
Talk to an adviser  
Make them use consistent language

RISK FACTORS	
Fear factor	High
Urgency	Med
Financial capability	Low
Information overload	High



### Sara, 60, fully retired

No advice, shopped around and switched

#### Sara's journey:

- Retired 5 years ago to care for her mother, living off husband's wages. Handles financial matters with husband and keeps on top of financial news
- Key moment of truth was realising she could take annuity now – expected at 65. Nice surprise triggered by wake-up pack. One of her smaller pension pots
- Knew shopping around would uncover better rates, so went online
- Found index-linked and variable options unappealing – uncertain and low initial payments
- Took enhanced annuity (already aware she could due to cancer earlier in life) and lump sum to maximise funds now to help her husband retire – and buy her first car!
- Contacted by Hargreaves Lansdown after putting details in online and let them sort for her – not for advice, but saved her time and effort
- Sent a list of quotes, and satisfied that they were similar to those she found herself, chose best rate

*"I would never just accept the first price I was offered...it's the same for any service, it's natural to go online and compare now"*

ANNUITY	
Pot	£13,569
Provider	Friends Life
Annuity type	Single life, level, enhanced, lump sum
Annuity payment	£619.44 pa
Provider	Partnership

**IMPROVEMENTS:**  
Couldn't think of anything  
Easy, quick, and confident she got best rate available

RISK FACTORS	
Fear factor	Low
Urgency	Low
Financial capability	High
Information overload	Low



## Annuitant Stories – Shopped around and switched (continued)

### Gordon, 68, semi-retired

#### Formal advice, switched

ANNUIITY	
Pot	£20,000
Provider	Friends Life
Annuity type	Investment-linked annuity, single
Annuity payment	Sole, impaired, level, 5 year guarantee
Provider	Just Retirement

#### Gordon's journey:

- A semi-retired security consultant who also sits as a magistrate
- He recently went part-time so decided to annuitise this pension, though already has an annuity from another pension
- Uses an IFA and has done so for 40 years (close friend)
- Annuity bought in December 2012, so no up front fee
- As he had already annuitised before he already knew about the benefits of shopping around. He had a conversation with his adviser about his needs, and the IFA came back with 3 options. Just Retirement was the best annuity option
- He did not take the tax free lump sum, against his adviser's counsel, because he thinks there is no value in the savings market
- He was very satisfied with the advice he received. He would never have considered purchasing without an adviser – he uses the IFA for many other financial transactions such as investments
- Just Retirement were quick and efficient

*"I wouldn't even dream of trying to do these things myself"*

RISK FACTORS	
Fear factor	Low
Urgency	Low
Financial capability	Low
Information overload	Low

**IMPROVEMENTS:** quick and efficient processing of application is important. He had to wait three months for his first annuity

#### Gavin – received in follow up email:

"Here is the info. I thought I had to hand on the 3rd May. The whole annuity process is not easy as there are so many variables, and getting the information you require is not straightforward and is quite time consuming. I also could not get the financial help I needed from the company as their advisors were sacked last February.

I managed to get three or four comparison illustrations online - a fixed level payment, 3% escalation 10 year protection guarantee, an 8% escalation, and a RPI escalation 10 year guarantee, all half-yearly in arrears. (the last one is the one I eventually chose.) Hodge lifetime was the most attractive quote, But I chose Aviva as it came close to top on all illustrations, and was a known name to me that would not default I felt. On the level illustration Hodge Lifetime came out top with £2,723 and Aegon Scottish bottom with £2,223- a difference of more than £500 in just a year. A fifth of the total!

The final scheme I selected was the RPI escalation with 10 year guarantee with Aviva on £1,448 per annum which actually became £1,428.20 in reality (apparently because slightly less than £50,000 was transferred from Prudential, I'm not sure why this was) Prudential quoted £200 less than this figure. I chose this because even though it started quite low it looked the most attractive long-term, and would overtake other illustrations after about 10 years. I also was sent three or four illustrations from different providers after I contacted them by phone.

I would suggest everyone does need impartial advice when taking out an annuity, but whether you would pay an adviser and lose up to half your first year's payments is debatable."

## Annuitant Stories – Shopped around and stayed

### Jill, 60, semi-retired

#### Formal advice, shopped around and stayed

##### Jill's journey:

- Had been a head teacher for many years and was looking to wind down her career following a period of ill health
- Consequently looking to annuitise her smaller pension pot. Has subsequently continued to work part-time as a consultant
- Started seeking annuity information a year before she planned to retire. Through her union and husband's provider attended a couple of pension seminars. At one of these she was introduced to an IFA who she felt bombarded her with information and was too pushy. Information was provided by this source which suggested Aviva could offer the best annuity
- Eventually, via her union, she saw another IFA who enquired as to what her needs were. She was concerned that the value of the annuity wouldn't be worth much in 20 years time; he advised her that Prudential offered an investment-linked opportunity which could go up or down in value. She felt it was more likely to go up in value and so selected this option

*"The first IFA was really pushy. She knew her stuff but I wasn't ready to buy at that point."*

ANNUIITY	
Pot	£49,000
Provider	Prudential
Annuity type	Investment-linked annuity, single
Annuity payment	£1,700 p.a.
Provider	Prudential

**IMPROVEMENTS:**  
Talk to an adviser as information can be overwhelming

RISK FACTORS	
Fear factor	Med
Urgency	Low
Financial capability	Med
Information overload	High



### Dave, 68, semi-retired

#### No advice, shopped around and stayed

##### Dave's journey:

- A lecturer who's working part-time hours and product coming to maturity
- Savvy brother-in-law encouraged him to shop around
- Looked on some aggregator sites & entered details
- Was then bombarded by calls which he found very off-putting - a moment of truth which stopped shopping around
- Prefers online and having some time to reflect – but he wanted a good calculator, some definitive quotes and for him to be in control – for him, the whole online experience was negative
- He accepted rep visit from current provider – found him arrogant and pushy but he was fed up by this point and accepted the providers offer

*"I got bombarded with calls which I found really annoying and I just thought I may as well go back to my provider"*

ANNUIITY	
Pot	£92,000
Provider	Standard Life
Annuity type	Single, impaired, level
Annuity payment	£4,200
Provider	Friends Life

**IMPROVEMENTS:**

- Ability to see quotes online
- Minimise outbound calls
- Minimise 'bump' and focus on key figures

RISK FACTORS	
Fear factor	High
Urgency	Med.
Financial capability	Low
Information overload	High



## Annuitant Stories – Shopped around and stayed (continued)

### Andrew, 61, semi retired

Informal non-advice, shopped around and stayed

ANNUITY	
Pot	£84,700
Provider	Aviva
Annuity type	No lump sum, 2/3 Joint, 10 year guarantee
Annuity payment	£4,720
Provider	Aviva

#### IMPROVEMENTS:

- Couldn't suggest anything
- Better rates for loyal customers seemed appropriate

#### Andrew's journey:

- After buying a second home in Lincoln was spending lots of time looking at information and thinking about options
- Worked out no point in keeping his pension plan running – contributions not going to make much difference, better to be drawing out than paying in
- Checked Sunday Times annuity listings for about a year – Aviva rate often there
- Decided to talk to an adviser contact informally just to be sure – this contact looked at AXA rates on adviser 'technical screens' and concluded not much difference
- Aviva claimed to be giving better annuity rates to loyal customers – impressed by this, even though a small amount (about .1%? Uncertain)
- Decided to take a spouse's pension, in case anything happens to him – but 'not fussed' about RPI – wanted a financial boost now, and felt could only afford either joint or RPI options

*"I wanted to make plans, make notes, and make sure that I am doing the right thing"*

RISK FACTORS	
Fear factor	Low
Urgency	Low
Financial capability	Med
Information overload	Low



### Sandra, 60, semi-retired

Formal advice, shopped around and stayed

ANNUITY	
Pot	£70,148
Provider	Aviva
Annuity type	Single, fixed, 10 year guarantee, lump sum
Annuity payment	£250.49 monthly
Provider	Aviva

#### IMPROVEMENTS:

Simple booklet outlining terms – current information very detailed, felt she had to 'trawl through' it

#### Sandra's journey:

- As her own business dies out, she tries to keep up invigilation work and doesn't see herself as fully 'retired' yet
- Had 'forgotten' about pot, little active input - but grown large over years and felt it would stagnate if left
- Wake-up pack triggered realisation she needed an annuity – initially anxious because of media 'noise' that it's a bad time to take annuities
- Read Aviva's letter retrospectively – helpful, but complicated
- Went online and spoke to a friend (who recommended she take the lump sum) but found it all confusing and wanted some clarification
- Decided to talk to her usual FA and they agreed on criteria for her quotes between them – lump sum, single, guarantee
- Found rates quite low and advised to wait for EU law to change so women treated equally to men – although amount didn't appear to rise!
- Stayed with Aviva purely because best rate she could get – happy she took control of situation and made the best decision she could

*"I looked online myself first, but the more boxes you ticked the less money they seemed to give you!"*

RISK FACTORS	
Fear factor	Med
Urgency	Low
Financial capability	Med
Information overload	Med



## Annuitant Stories – Did not shop around

### Tom, 66, still working

Did not shop around

ANNUIITY	
Pot	£44,000
Provider	Phoenix Life
Annuity type	Single, level, annual payment
Annuity payment	Don't know - a few £100 - hasn't had a payment yet
Provider	Phoenix Life

#### IMPROVEMENTS:

- Couldn't suggest anything
- Was happy with speed and simplicity of the process

#### Tom's journey:

- A production manager who can't afford to retire yet
- Needed cash immediately to avoid taking out a loan, decided to use his pension
- Called Phoenix Life – who talked him through his options. Decided on a lump sum of £7,400 to cover the amount he needed, plus a bit more (NB he did not know that he could have had 25%)
- Agreed on a joint annuity, and Phoenix suggested a flat rate which he agreed would be best. Paid annually in arrears
- Wondered if he would be eligible for enhanced as had high blood pressure – but told it didn't apply
- It was easy – a two page letter, then a form to sign and fax back, then they sent him a cheque
- Did briefly look at other providers online – but very wary of entering personal details (had received many PPI calls), not prepared to put information into sites he did not trust

*"I thought I will stick with what I know – I've dealt with them on many occasions, I trusted them so I left it in their hands"*

RISK FACTORS	
Fear factor	Low
Urgency	High
Financial capability	Med
Information overload	Low



### Mick, 60, own start up business

Did not shop around

ANNUIITY	
Pot	£50,000 (from total pot approx. £80,000)
Provider	Phoenix Life
Annuity type	Single, possibly enhanced?, possibly index-linked?
Annuity payment	£3118 pa
Provider	Phoenix Life

**IMPROVEMENTS:**  
Clearer info from providers about how to shop around and get impartial advice  
Consumers need to be educated earlier

#### Micks journey:

- Not interested in finances and hadn't thought about annuity decision – "not worth my time"
- Friend at golf club told him annuity rates were terrible – not worth holding out for a better rate
- Then called Phoenix – found them friendly and helpful, had a 30 minute conversation and had decided to go ahead with them by the end
- Not aware of enhanced before or after purchase, but had cancer 3 years ago and they asked a lot of medical questions
- Also not aware of annuity type – definitely single, he thinks index-linked (unsure)
- Decided not to take lump sum, as he thought it better not to reduce his pot
- Handed paperwork to accountant to finalise
- Angry and disappointed with pot size and annuity – felt he'd be 'scrabbling around' for a better deal and wasting his time

*"I just found it easier and more convenient not to shop around – and the operator seemed genuine, helpful"*

RISK FACTORS	
Fear factor	Med
Urgency	Low
Financial capability	Low
Information overload	High



