



The Future of Annuities - Issues on the Horizon

JPEF Conference
Panel Discussion Session

11th November 2002

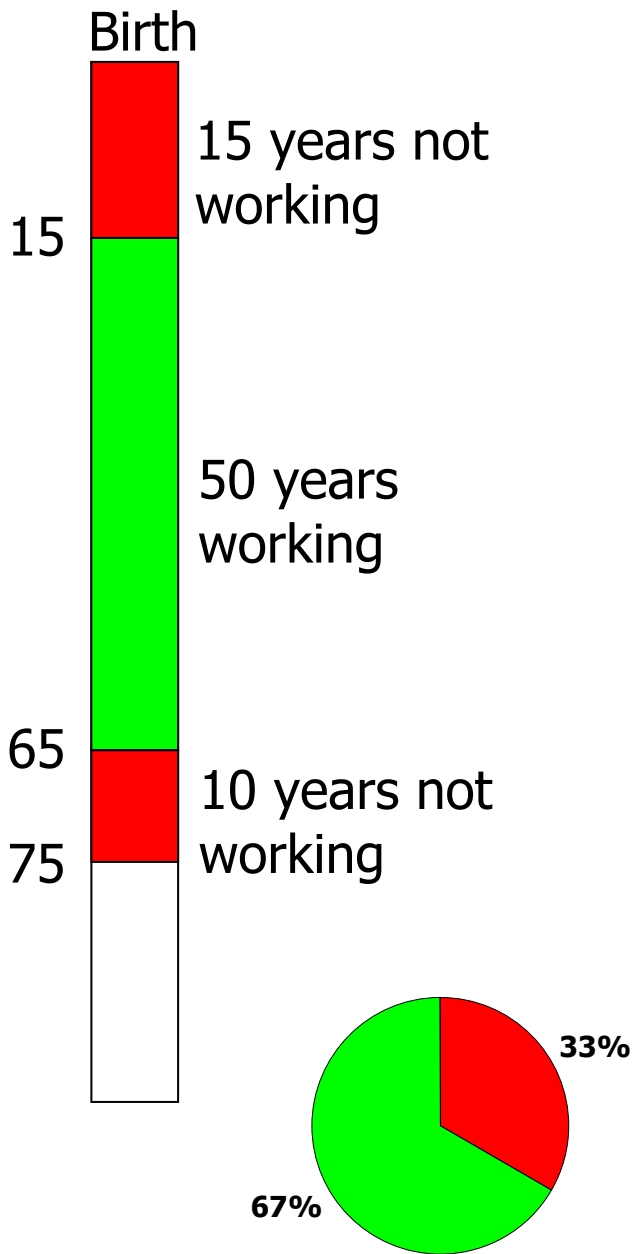
Dr. Ros Altmann



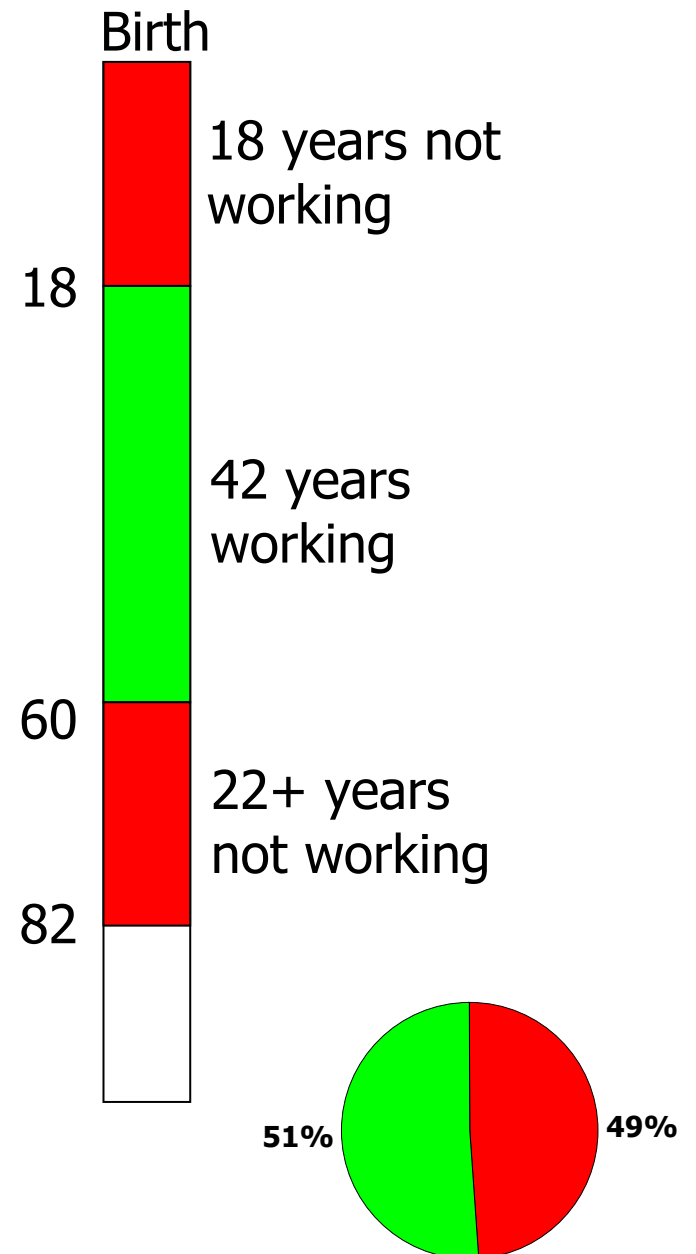
Problems

- People not saving enough
- People not working enough
- Confidence in pensions collapsing
- Increased reliance on means testing - poverty
- Lower long-term economic growth - waste of resources
- WE ALL LOSE

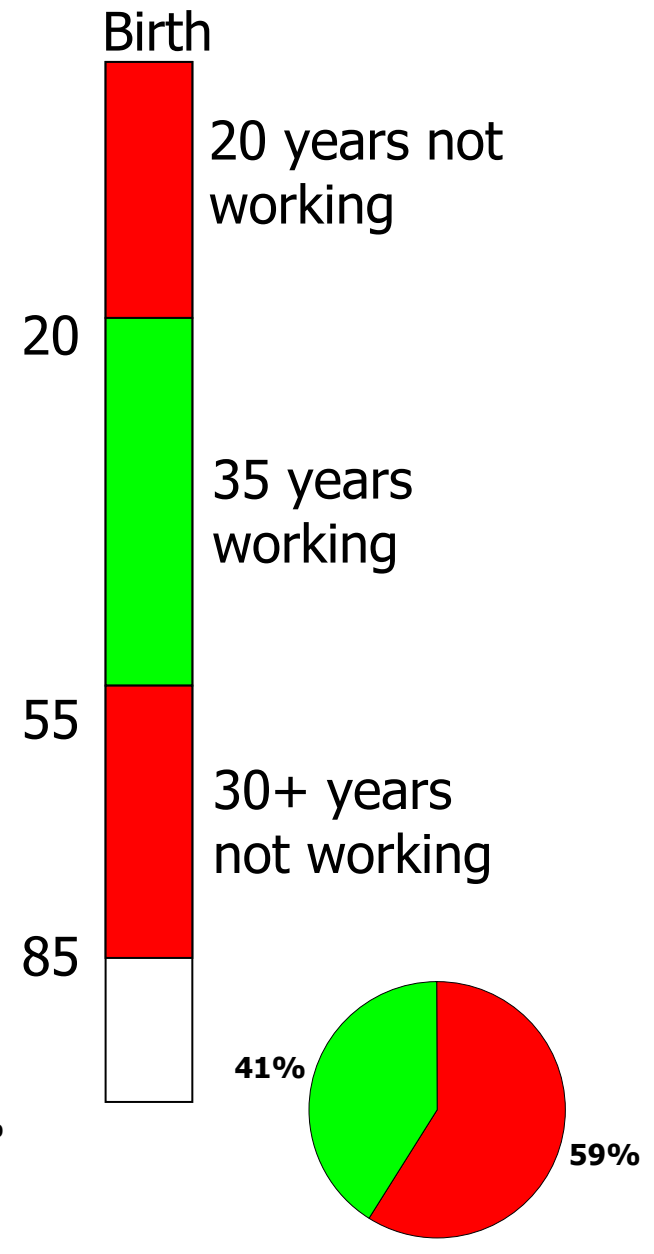
1950's



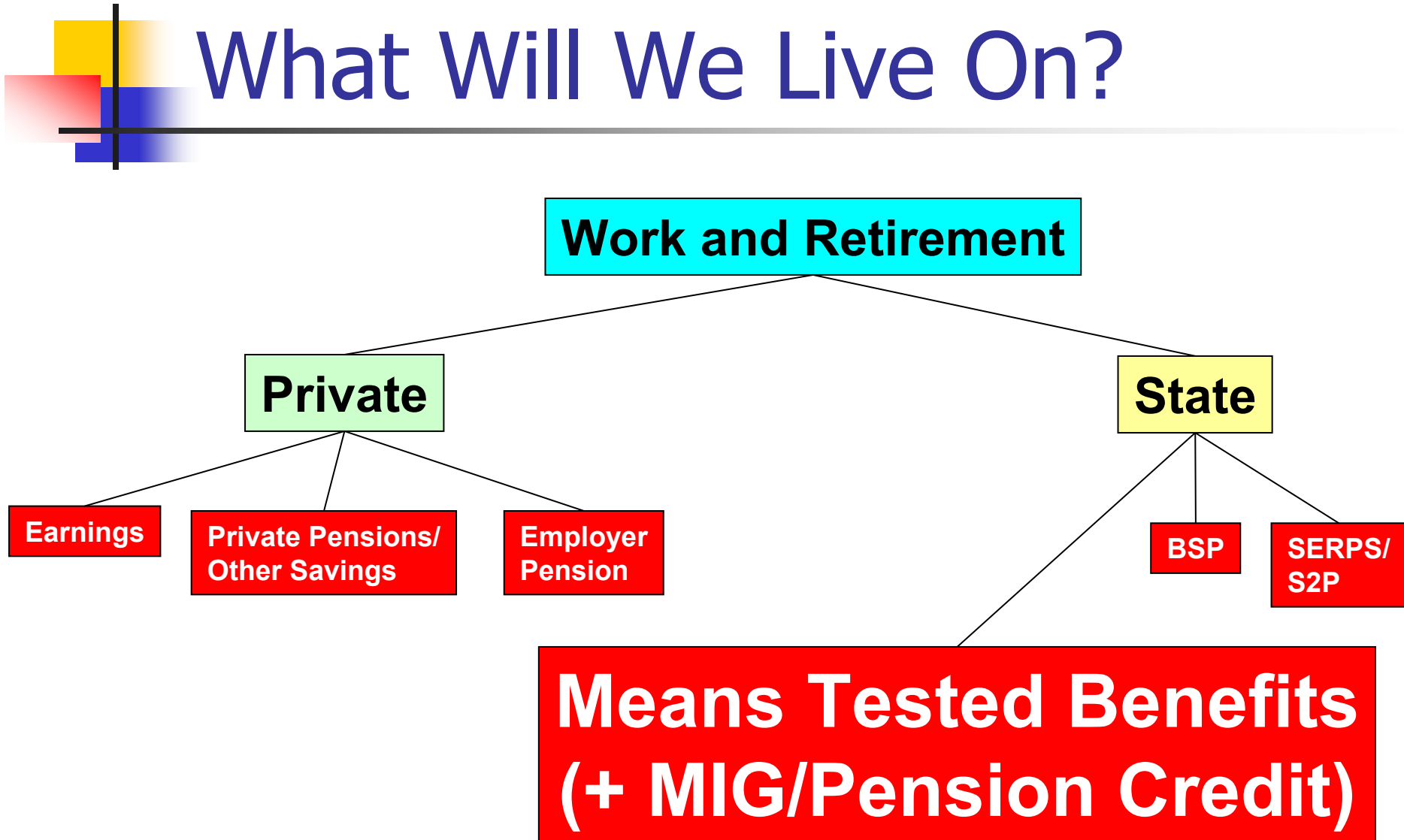
Now



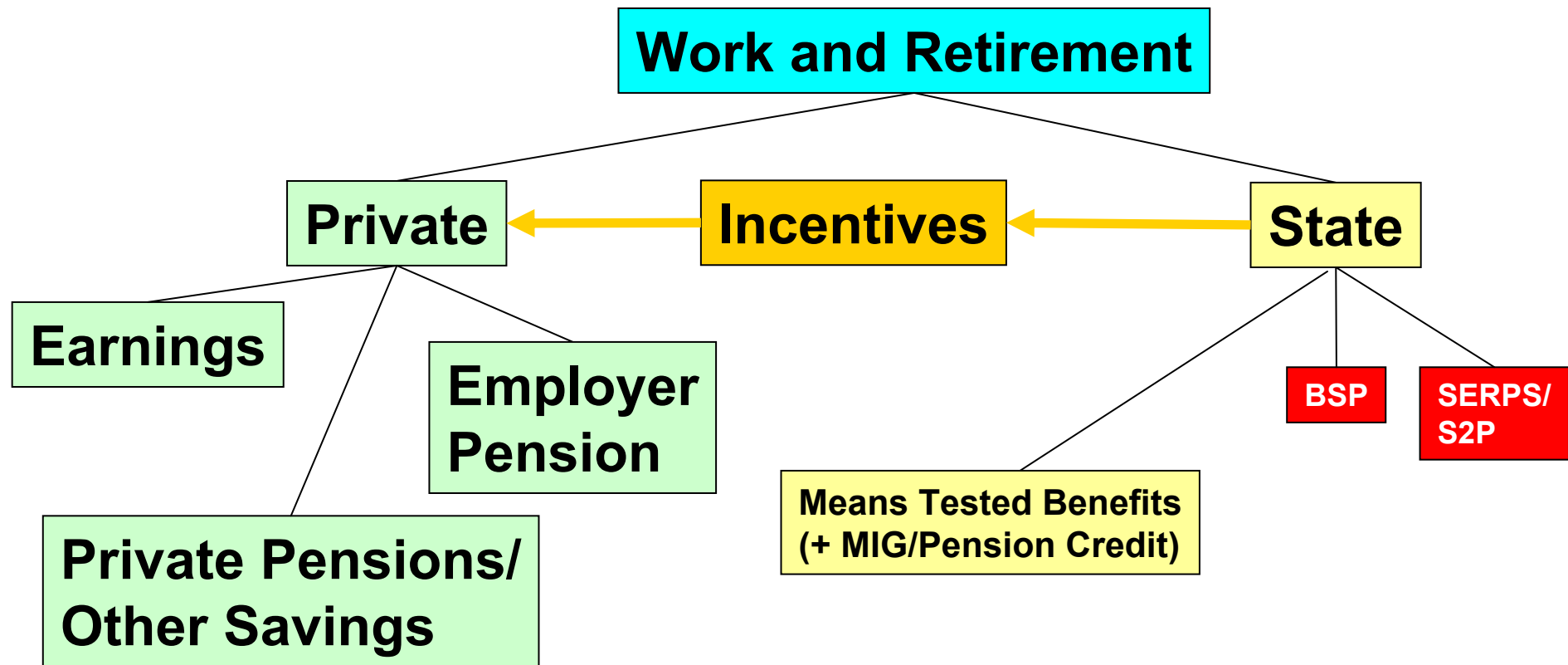
Future?



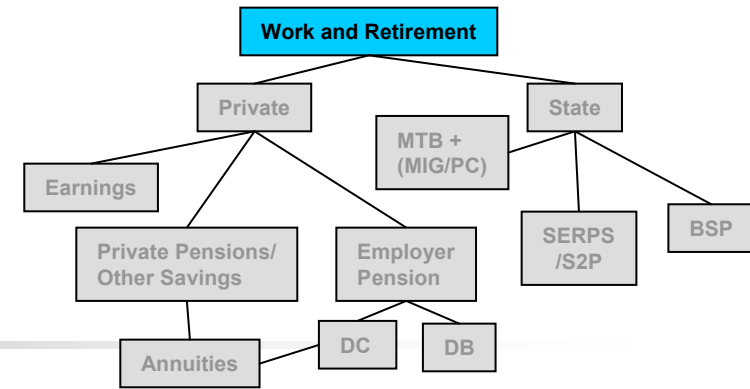
Income in Later Life - What Will We Live On?



Income in Later Life - Incentives For Better Income

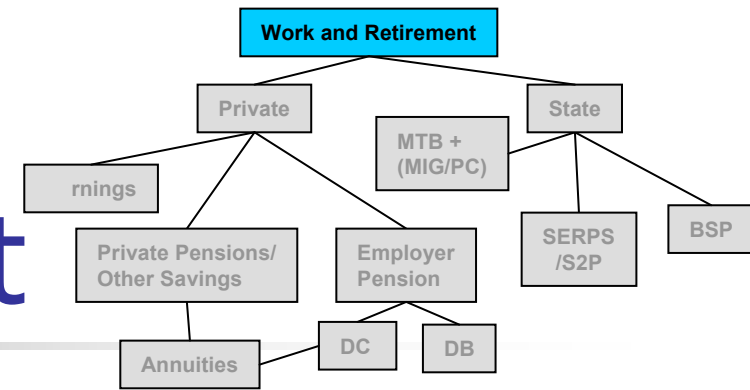


What Can We Do?



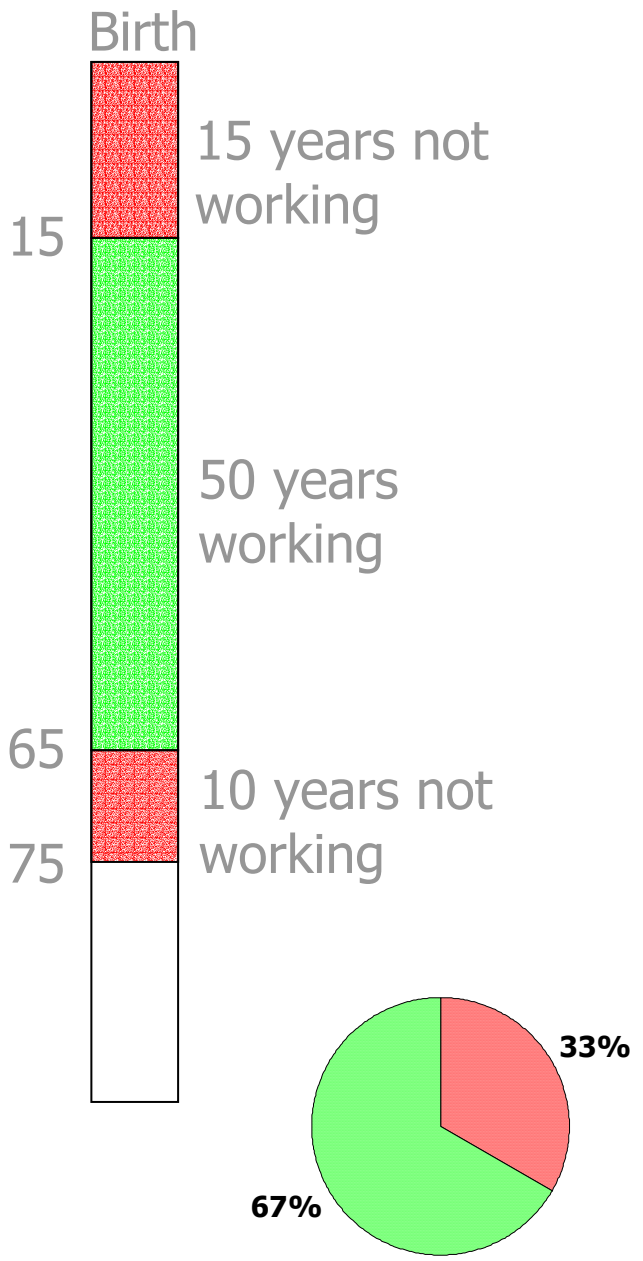
- Just saving more will not be enough
- Need to work longer too
- Not 'one size fits all' policy
- Just raising retirement age not the answer
- Give people more choice and flexibility

Gradual Retirement

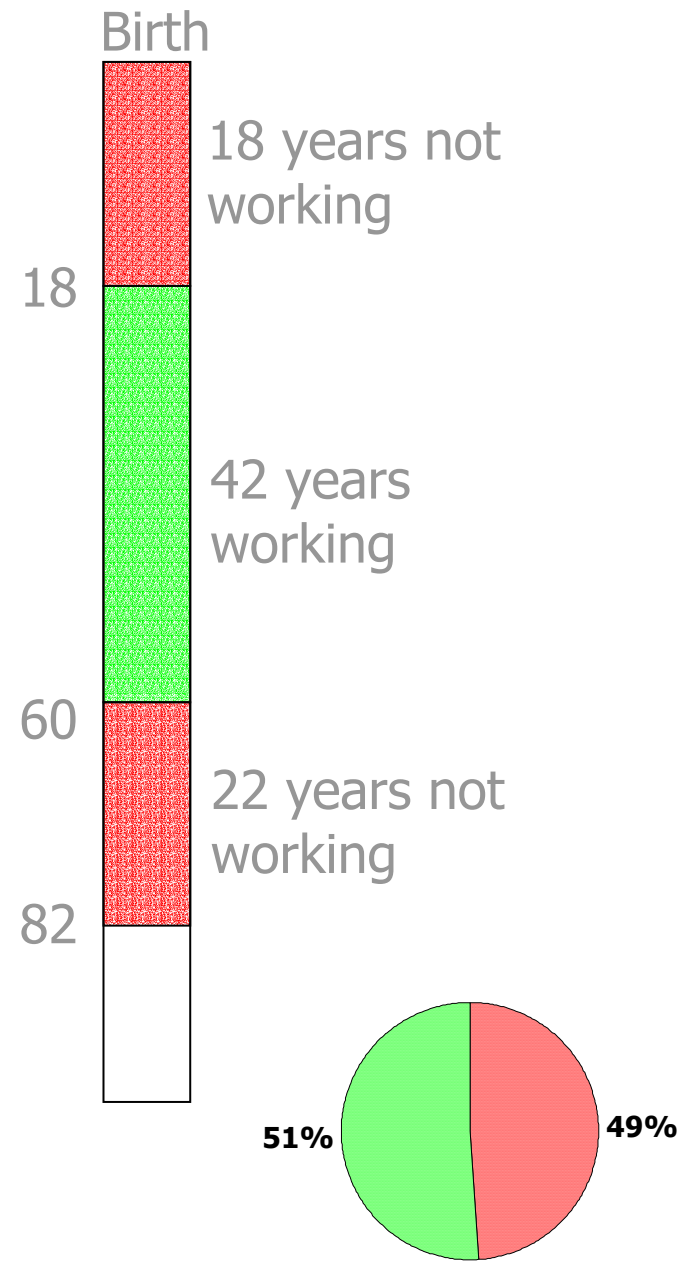


- Retirement should be a 'process' not an 'event'
- Allow part time work with part pension, same employer
- Age discrimination laws
- Change social attitudes
- Whole new phase of life
- Benefit of social/medical advances

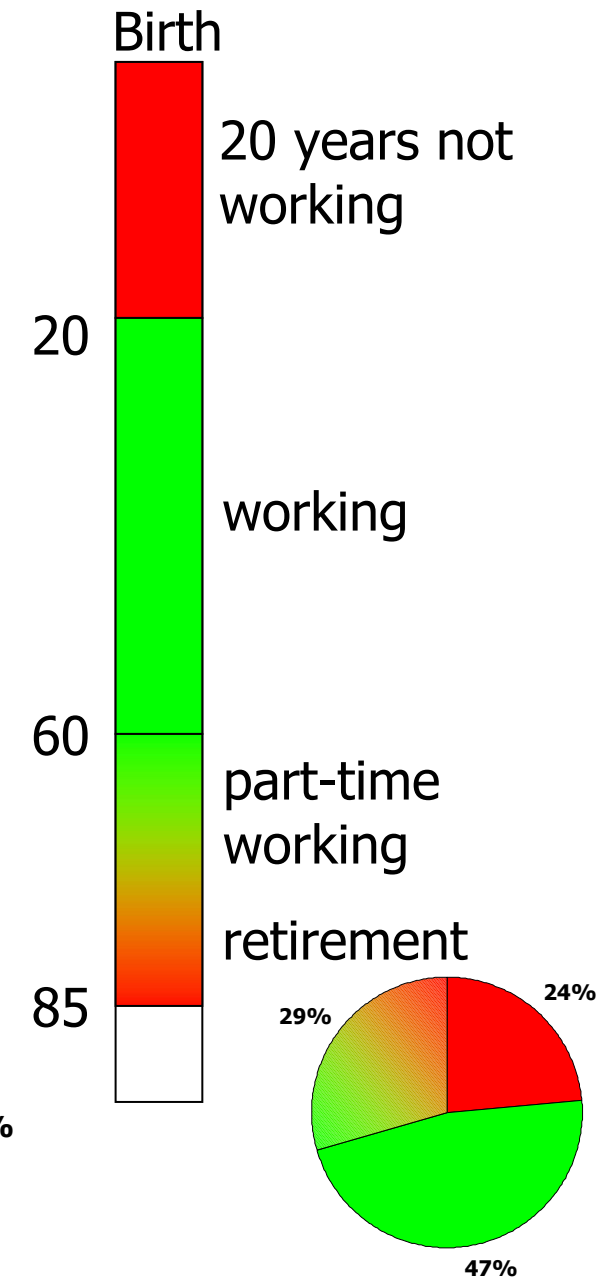
1950's



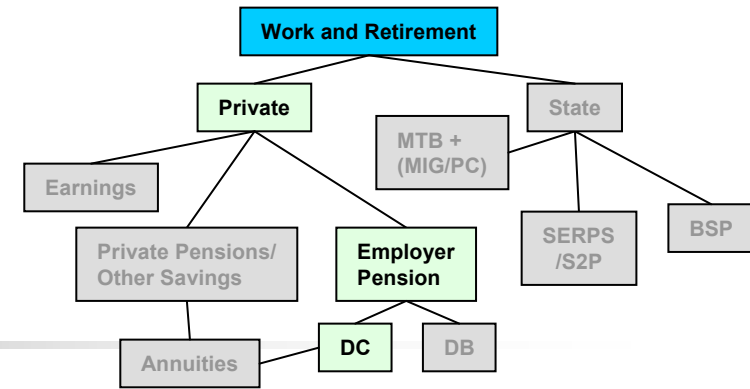
Now



Flexible Working



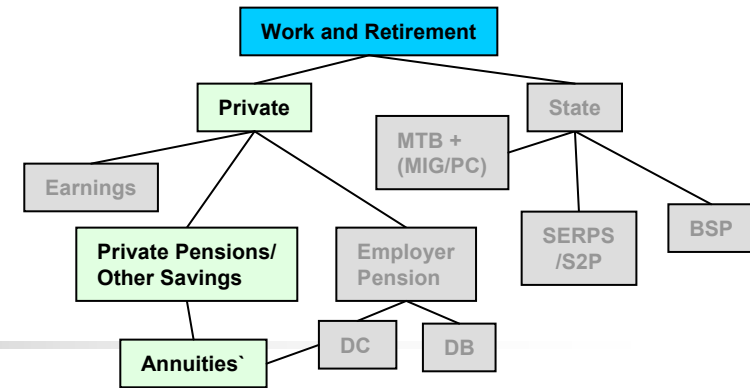
Employer Pensions



DC schemes

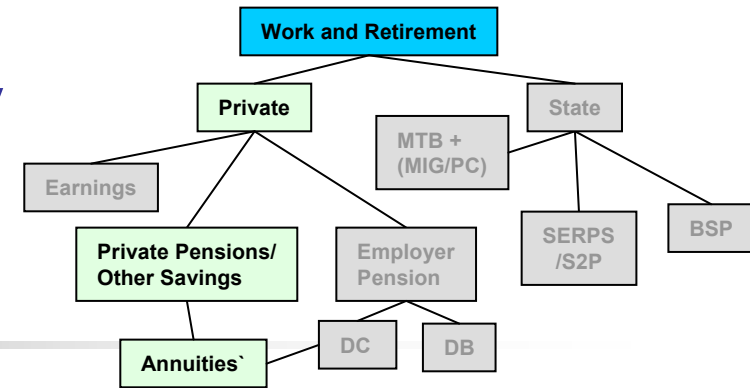
- Most likely provision for future
- 3 crucial areas in DC determine size of pension
- All have problems:
 - contributions (employer contributions reduced)
 - investment returns (net of fees) - not working well
 - annuities - need reform, unpopular

Annuities



- Most people don't understand
- Even those who think they know, don't
- Survey shows people don't know how to find right annuity or top rate
- Need advice and OMO - can't change
- Lose all money if die soon after buying
- People think annuities unfair

Annuities - YouGov National Survey



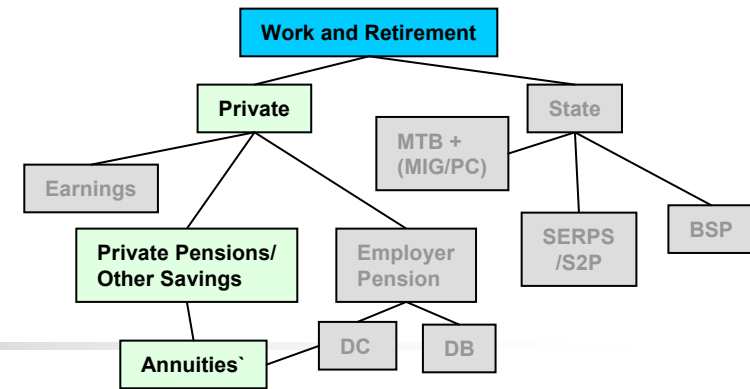
- 'How much do you know about annuities?'
 - Never heard of/don't understand - 56% women, 40% men
- 'Would you know how to choose best type of annuity?'
 - No/not sure - 63% men, 74% women
- 'Would you know how to find best market rate?'
 - No/not sure - 53% men, 65% women

Of those who say they know at least 'a little' -

- Can you change your annuity once you've bought it?
 - Yes/sometimes - 64% men, 72% women



Annuities



Policy Recommendations - Annuities

- Everyone must get basic advice, to find best annuity and top rate (they pay for it anyway!)
- Allow money-back guarantees
- Limited period annuities could help while working part-time, if need part pension



Summary

- Living longer is a good thing, but how can we afford it?
- Either we do it ourselves, or we rely on the Government
- People want retirement to be a 'process' not an 'event'
- Give people the choice to combine income from earnings and savings to suit their circumstances and preferences:-
 - Save earlier and save more if you want bigger pension or earlier retirement
 - Work longer, not necessarily full time, if you want better standard of living
- Some people can, some people can't. Some people want to, some people don't
- Policy and products should account for individual differences



Questions?

Dr. Ros Altmann

ros@rosaltmann.com