

END ZONE - CREATING AN ANNUITY SELECTION PLATFORM

Supporting trustees to deliver improved retirement income outcomes for members through efficient annuity 'shop around' platforms

Reflecting on the most significant reasons for members inertia and procrastination and strategies that create engagement



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New annuity platform technology is taking the pressure off trustees by revolutionising choice for scheme members reaching retirement.

Every year thousands of people who have saved diligently through long working lives make uninformed – and usually irreversible – choices when they switch on their pension income.

A poor annuity choice can easily have the same kind of impact on the amount of income that can be generated as investing in a bottom quartile fund throughout all the years of scheme membership. Neither does the effect fade, but it is cumulative over the years or decades of retirement.

At a time of depressed annuity rates and rising life expectancy, retirees really do need all the help they can get.

Currently, hundreds of thousands are missing out on billions of pounds of income over the duration of their retirement. This has prompted key players in the advice and retirement income market to demand a major rethink of the Open Market Option in order to encourage more people to 'shop around' for an annuity.

The Pensions Income Choice Association (PICA) which commissioned independent research into the issue put the potential gains from better retirement decisions at £3.3 billion over the next 20 years, manifesting itself in higher consumer spending and standards of living plus greater tax revenues and lower benefits payments.

Although overall take-up of OMO is poor, the situation is at its worst in the corporate market. Research by the Pension Regulator in 2008 found that 23 per cent of retirees used the OMO, falling to less than 1 per cent for those with Additional Voluntary Contribution schemes. This compares to about 40 per cent take-up in the personal pension market, a figure deemed unacceptably low by a government that is pressuring pension providers for improvement.

This is despite evidence, from a Department of Work and Pensions report on trust and confidence in pensions and pension providers, suggesting around twice as many people trust their employer to 'act in their best interests' than trust either the government or financial services industry.

Those providing corporate pensions clearly still have a job to do. The good news is that we are on the cusp of a revolution, driven not only by political

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and regulatory heat but also by the arrival of new platform technology that will allow increasing numbers of retirees to scour the market for better deals. Arguably the biggest obstacle now is getting employers and trustees to buy into the changes sweeping this multi-billion pound marketplace.

Pension decumulation has always played second fiddle to accumulation. Most employers and their employee benefits consultants focus far more on

setting up a pension and allowing choices of funds than on how to optimise retirement income for departing staff. The hassle, risks and costs of decumulation were seen as too big for EBC to bother with and considered by many to be the domain of the 'broker' market.

Typically, the scheme provides information but it is left up to the employee to choose a plan or seek out professional advice. This stance may fulfil the trustees' legal responsibilities but it also leaves retirees out on a limb and far more likely just to accept the default retirement offer rather than to shop around.

From the end of 2012, access to independent financial advice is set to get even more expensive as IFAs focus on wealthier clients as a result of the Retail Distribution Review. With full advice out of reach to most, trustees will have to recognise that the future is non-advised, technology driven distribution that minimises costs yet maximises the potential for good

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choices.

This is already opening up as a new front in the competition between EBCs with Bluefin, for example, using its ability to deliver superior decumulation outcomes as a key selling point to trustees they know are under pressure to take the issue more seriously.

As Bluefin director David Tildesley points out, the shift to DC is inexorable with growing numbers of employees relying on it for an increasing proportion of their overall pension provision. “We spotted this trend a few years ago and have since partnered with The Open Market Annuity Service to provide an annuity desk solution for all employees of either our trust

based or contract based arrangements to have access to this guidance,” he says.

“We are increasing the education and guidance options available through our online employee benefits portal and are seeing significant take up and interest by trustees, employers and indeed employees.”

Platforms enable retirees to take control of their own decisions, by giving them easily-understood information on retirement options such as inflation-protection, dependants' pensions and death benefits, along with true whole of market, real-time, annuity quotes. It focuses on helping them select the right type of annuity and then finding the best rate available. The data equals that available to IFAs and allows retirees to opt in to full advice if they wish.

Comparing standard annuities is important but the most recent advances have been in comparing enhanced annuities – plans paying a higher income to people with lower than average life expectancy. This is a crucial area for promoting better outcomes because many retirees are missing dramatic increases in income.

Currently about one in six get an enhanced rate but our research suggests better information gathering could increase that number to three in five.

Some providers are using a simplified question set which has certain attractions and is a valid attempt to increase the percentage qualifying. We believe the real breakthrough is in using technology to simplify the information and rate gathering process to access whole of market enhanced rates. This brings the cost of tele-interviewing down and even allows members to submit their own data online.

Failure to help our retiring workers maximise their retirement incomes is a national scandal, one which ultimately costs us all in terms of lost tax and higher benefits payments. Trustees and EBCs are the gatekeepers to a better future. The solutions are here today but they need to be deployed in the corporate pension space if our retiring workers are to look forward to a better tomorrow.