

The Effect of the Reforms to Compulsion on Annuity Demand: Appendix

This appendix includes additional results on the effects of the reforms to compulsion on the demand for annuities and income drawdown products.

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Figure AI: Number of quarterly annuity and drawdown sales

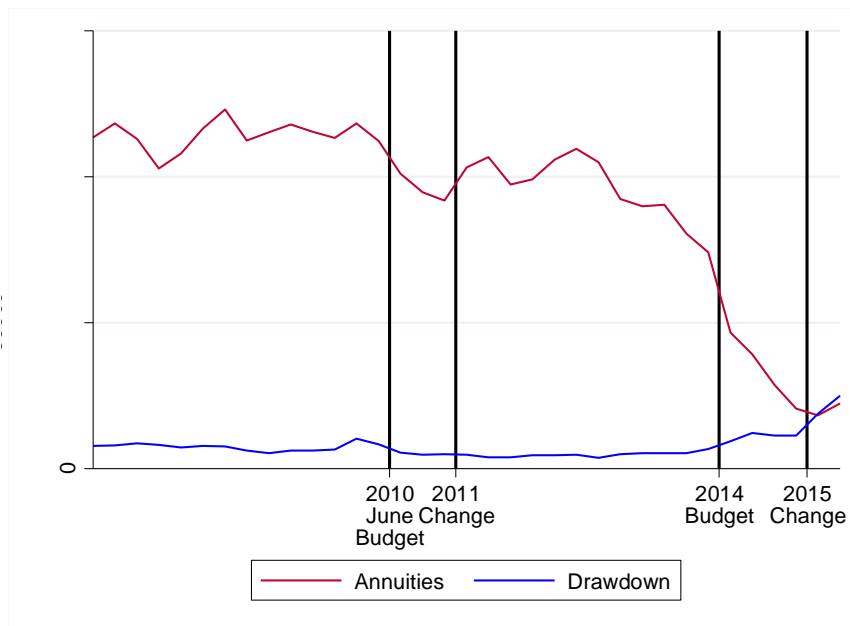


Figure AI shows number of annuity and income drawdown contracts (000s) in each quarter 2003 to 2015 as distinct from the value of annuities and drawdown contracts sold in Figure I in the paper. It can be seen that in terms of the number of annuity contracts sold had started a decline well before the 2014 reforms were announced, and that the number of drawdown contracts per quarter had remained fairly stable up to the 2014 budget.

Figure A2.1: Cumulative annuity purchases by size of annuity

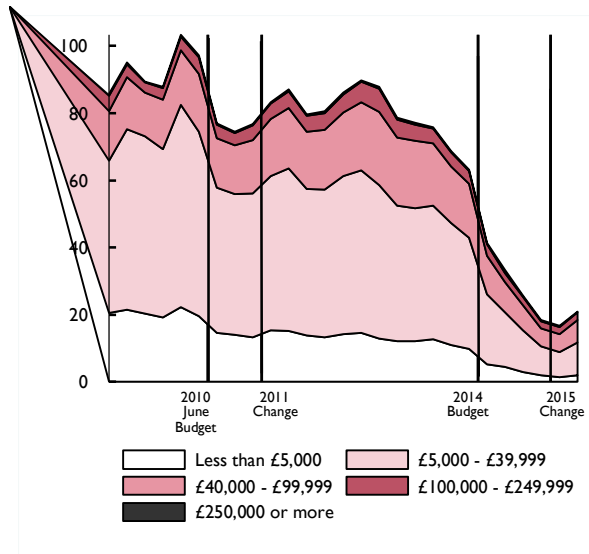


Figure A2.2: Share of annuity purchases by size of annuity

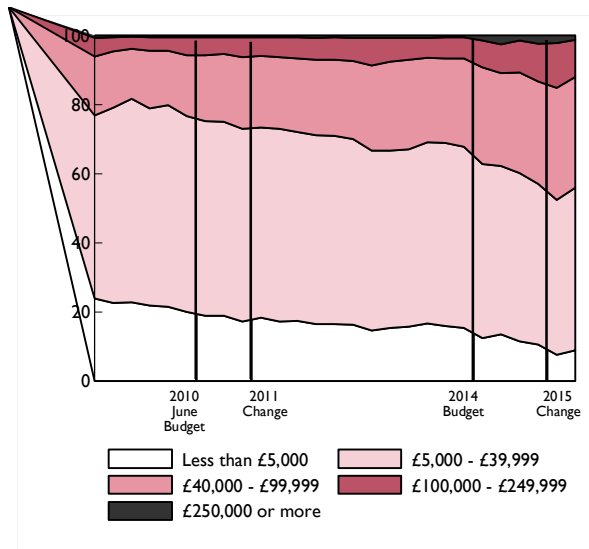


Figure A2.1 shows the cumulative numbers of purchases of different size annuities and Figure A2.2 shows the resulting shares of the market. These figures correspond to Figure 2 in the main paper that illustrates the numbers of annuity purchases of different sizes.

Figure A3.1: Sales of enhanced annuities: number of policies

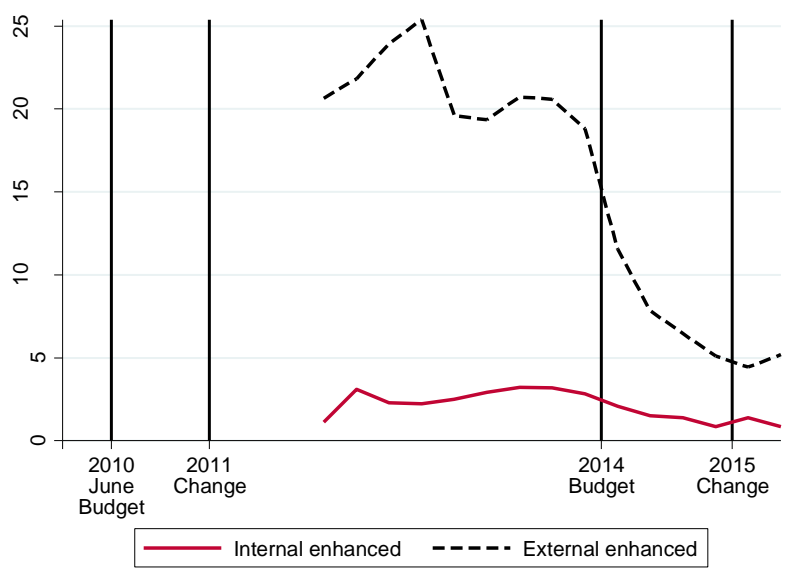


Figure A3.2: Sales of enhanced annuities: average size of policies

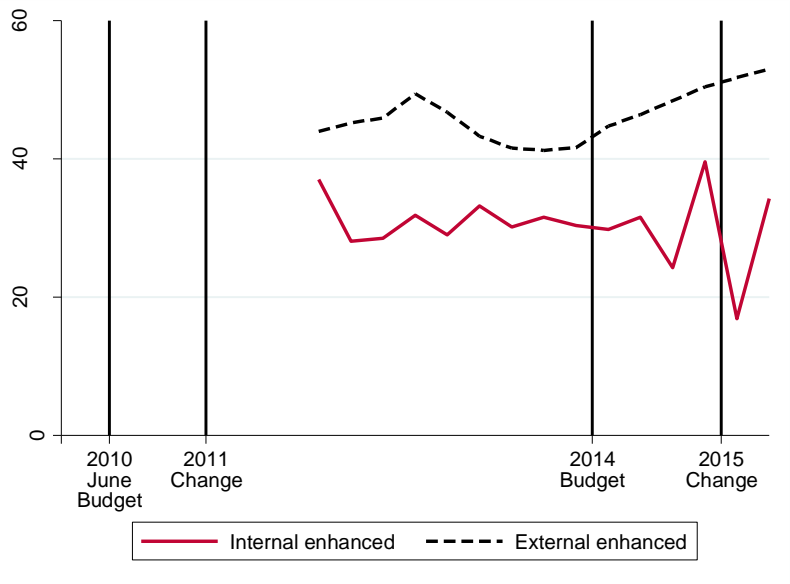


Figure A3.1 shows the number of enhanced annuities sold both internally and externally, and Figure A3.2 shows the average size of annuity contract in the enhanced annuity market. Data are from the QLB survey and only available from 2012q1. Figure A3.1 appears to show a larger fall in annuity sales than in Figure 1 in the paper for regular annuities, but when we compare these diagrams with Figure 5 in the main paper, we can see that this is illusory. In fact the market share of the enhanced market was increasing up to the 2014 reforms, and appears to have stabilised since then.

Figure A4: Sales of conventional and investment-linked annuities

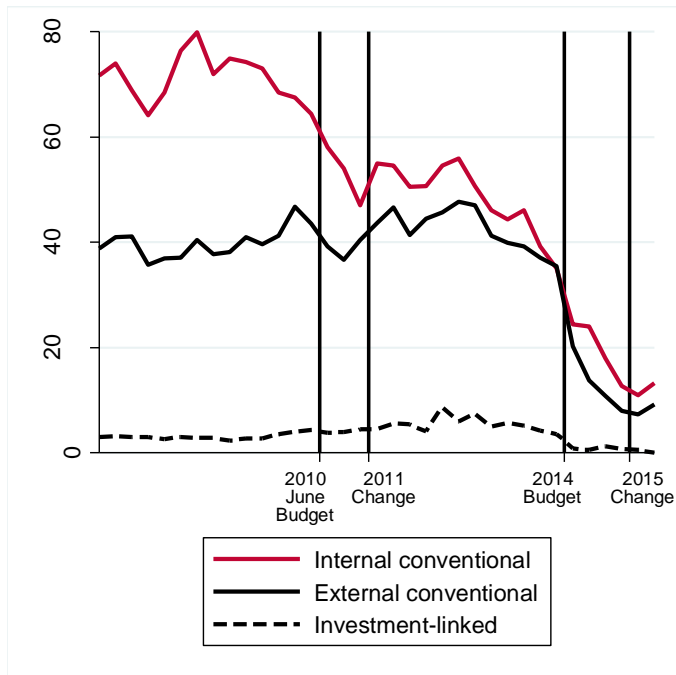
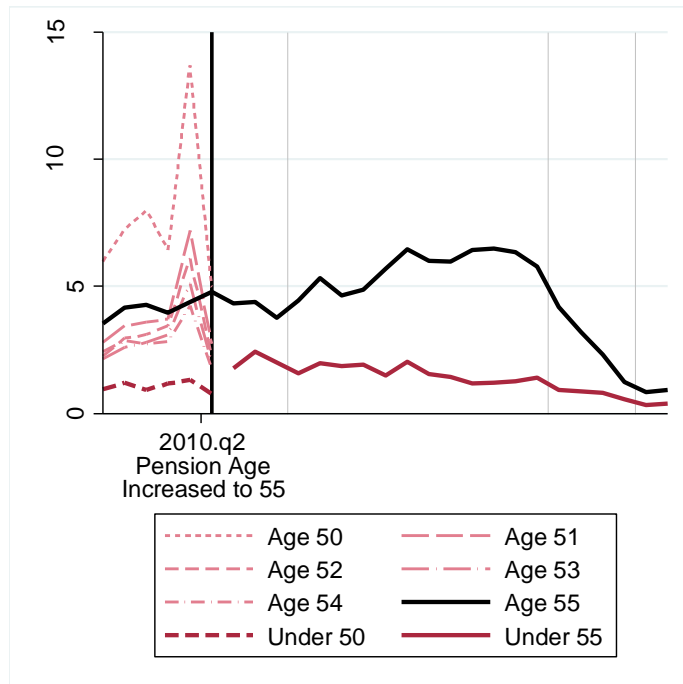


Figure A4 shows the number of annuity purchases for conventional and investment-linked annuities, and whether sold internally (by the pension provider) or externally. The investment-linked includes both unit-linked and with-profits schemes both internal and external. The investment-linked market has always been small, and it looks as if the 2014 change has diminished it further. If consumers want exposure to the stock market, they can now remain invested in a pension, and make withdrawals; other products are now available that offer both guaranteed income as well as potential for growth.

Figure A5: Effect of raising minimum age to 55 on annuitisation



As discussed in the main paper, in April 2010 there was an increase in the minimum pension age from 50 to 55. Figure A5 shows the number of annuity contract purchased by age. The spike in annuity purchases by those annuitants aged between 50 and 54, just prior to 2010 suggests that annuitants anticipated the raising of this minimum pension age. Data from QPA Survey.

Figure A6: Proportions of annuitants & drawdown recipients using financial advice

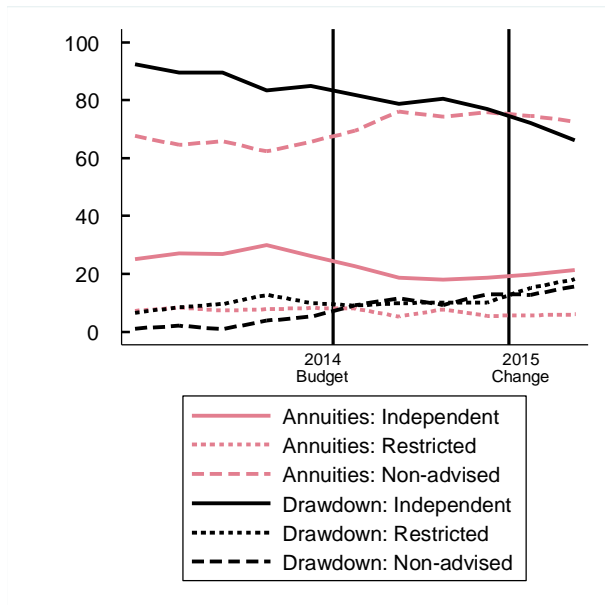


Figure A6 shows the proportions of annuitants purchasing annuities with independent financial advice; with no financial advice or with restricted financial advice (these proportions sum to unity). Similarly for drawdown. Data are from the QLB survey and are only available from 2013.

Figure A7: Proportion of the annuity market which is enhanced.

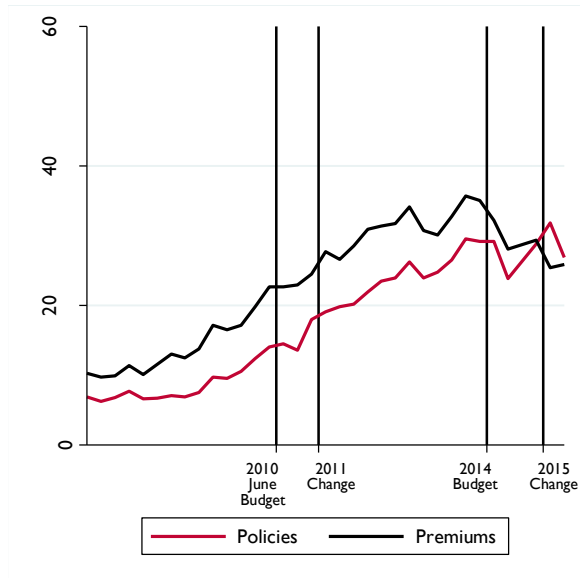


Figure A7 shows the percentage of the total annuity market in enhanced annuities (whether purchased internally or externally): i.e. annuities paying higher rates to individuals with lower life expectancy due to a health condition or because they are smokers. From this graph it can be seen that the proportion of the market which was enhanced was growing until 2014, but thereafter the proportion of premiums in the enhanced market started to fall. However, it should be noted that the boundaries between enhanced and standard annuities have become blurred over time as life assurers have started to price annuities on other observable factors, particularly on postcode, which are correlated with life expectancy. Data are from the QLB survey: before 2012 enhanced annuities were referred to as “non-standard annuities” in the ABI data, but the definition was the same.