

# Adding Value to the Annuity Sale

Financial Adviser Expo 2008

Presented by Scott Storti, LV=



# First – some numbers

- £10 billion
- £30 billion
- 40%
- 10%
- 80%
- 20%
- 75

## ... and what they mean

- **£10 billion** – current size of the Annuity market
- **£30 billion** – Watson Wyatt projection for 2013
- **40%** - people eligible for some kind of ‘enhanced’ annuity
- **10%** - people who actually buy one
- **80%** - percentage of people ‘concerned about inflation’
- **20%** - percentage who have an escalating annuity
- **75** – current age by which an annuity needs to be purchased

# 'Pensioner Inflation'

## **Getting cheaper –**

- Clothes
- Cars
- Televisions
- Computers
- Mobile phones

## **Getting more expensive –**

- Car & Home Insurance
- Utilities
- Council Tax
- Holidays

2006 – MP3 players, Flat screen televisions and digital cameras added to 'basket of goods'

# Open Market Option

Still only 25% know what OMO is.

HM Treasury Report, 2006 – main reasons for apathy -

- Inertia
- Lack of awareness
- Complexity of forms
- Time-consuming transfer process
- Lots of small funds – Triviality Issue
- Loyalty to original provider

# Open Market Option

Compulsory since 2002

But still only 25% know what 'OMO' is

Some FSA figures: -

- One provider - £426 per month
- Another provider - £511 per month

*(Based on male aged 60, £100,000 fund, level annuity, 50% spouses)*

A 20% difference in rate.

# The importance of advice

An 'average' annuity client could have -

- Funds from different sources
- AVCs, FSAVCs, Money Purchase Benefits
- Final Salary Scheme Benefits
- All quoting varied retirement ages – 50 to 75

Consider complexity of CII exams (G60 etc)

Clients expected to understand that?

Immediate 'adding value'.

---

# The Annuity Market

# Overview

The current market - £10 billion

A growing market

Watson Wyatt projection - £30 billion by 2013

A competitive market

Making the correct decision

The potential cost of delay, but also the benefit

A Day implications – Death Benefits

# Areas to Consider

Conventional Annuity purchase

OMO – the value of advice

Decline of Final Salary schemes

Health issues – the 40/10 statistic

Investment alternatives

Defer annuity purchase - Drawdown

‘Third way’ products

# Getting the best deal

Best deal for the client

Annuity Rate – the bottom Line!

You can improve income by 20% by shopping around for the best standard annuity

You could improve income by a further 30% by considering enhanced annuities

But – a good rate now, might not be such a good rate when health declines later

It's a one off decision

# Making things easier

Online comparison tools – Portals, Adviser Sites, Comparison Sites

Provider websites – online comparisons

Real time quotes

Service as a differentiator

Flexible commission options

Underwriting flexibility – Impaired Market Improvements

Enhanced Annuity Market - Common Health Questionnaire



---

# Annuity options

# Standard Annuity

Single / Joint

Escalation – inflation and the 80/80 conundrum

80% of people say inflation is a worry, but 80% don't have an escalating annuity

Guarantee periods

Death Benefits - increased awareness of inheritance issues

# Smoker Annuities

Introduced 1995

Same example as earlier -

- One provider - £426 per month
- Another provider - £511 per month

*(Based on male aged 60, £100,000 fund, level annuity, 50% spouses)*

If he's a smoker with no other health issues

- **Smoker Annuity Rate - £566 per month**

# Enhanced Annuities

For more than 'just a smoker'

Impaired Rates and Enhanced Rates definition

The 'health' paradox

Honesty is the best policy – and it can pay!

A competitive market - currently ten providers

Watson Wyatt estimate 13 providers by 2009



# With Profits Annuity

- Active investment – prospect for an increasing income
- Equity v gilts issue
- Option to vary income in the future
- Value protection available
- Enhanced and smoker rates
- Protected rights funds now accepted

# Value Protection

Addresses concern over Annuity being poor value on early death

Pays lump sum on death, less 35% tax charge

Sum payable – initial purchase price less income paid to date

Full or partial VP options available

Only payable on death before age 75

# 'Third Way' products

Hybrid plans, combining security of annuity with flexibility of drawdown

Driven by consumer resistance to buying Annuity too early

Providers – Hartford, MetLife, Life Trust Insurance, Living Time

# Conclusion

Getting Professional expert advice is critical

Deciding the best contract for each client

Choosing the best provider

**Any questions?**



**This information is for use by UK financial advisers only. It must not be distributed to, or used with customers.**

LV= and Liverpool Victoria are trademarks of Liverpool Victoria Friendly Society Limited and LV= and LV= Liverpool Victoria are trading styles of the Liverpool Victoria group of companies.

Liverpool Victoria Life Company Limited registered in England No. 597740, authorised and regulated by the Financial Services Authority, entered on the Financial Services Authority Register, No. 110423.

Registered address: County Gates, Bournemouth BH1 2NF. Telephone: 01202 292333.

