

ANNUITIES AND INCOME DRAWDOWN – UK – 2023

A rejuvenated annuity market and digital developments enabling new innovative solutions make this an exciting time for providers of retirement income products.



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Annuities And Income Drawdown - UK - 2023

This report looks at the following areas:

- The impact of the cost of living on retirement income products.
- Analysis of the size of the annuities and income drawdown markets and forecasts for the next five years.
- Market share of major players, competitive strategies and launch activity.
- How pension savers have and plan to access pension funds in the future, including use of annuities and income drawdown.
- Consumers' concerns about retirement and retirement income choices, including the risk of using up too much of their pension fund too quickly.
- Interest in new and emerging retirement income solutions.



A rejuvenated annuity market and digital developments enabling new innovative solutions make this an exciting time for providers of retirement income products.

Overview

15% of pension savers aged 45+ have postponed their retirement plans as a result of the high cost of living. More generally, there is a growing trend for people to retire later and to do so gradually. The latter has boosted interest in fixed term products, which can be used to bridge any potential income gap.

Inflation remains the number one threat to the decumulation market. It limits people's ability to save and erodes the value of savings. 76% of pension savers aged 35+ are concerned about

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the impact of high inflation. Additionally, many have seen the value of their pensions fall or stagnate due to poor investment performance.

More and more people are taking a phased approach to retirement rather than retiring altogether. Providers are seeking to capitalise on this opportunity by developing flexible and integrated solutions linked to new technology, such as dashboards. These are of significant interest to consumers, especially pre-retirees.

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Report Content

- Overview

Key issues covered in this Report

EXECUTIVE SUMMARY

Opportunities for the retirement income market

- Hike in the base rate revives interest in annuities
- New regulation will shine a light on the importance of a guaranteed income in retirement
- Dashboards will create many new opportunities

Market dynamics and outlook

- The five-year outlook for the retirement income market
- Sales of pension annuities will continue to rise
- Income drawdown sales pick up steadily before rising more rapidly from 2025
- Leading annuity providers' recent performance
- Key market drivers
- Increasing digitisation of the retirement journey

What consumers want and why

- More than half of all pensions savers have a DC pension
- The market for retirement income products is potentially huge...
- ...and has yet to reach its full potential
- 27% of over-65s have yet to access their pension
 - Graph 1: proportion of over-55s who have accessed their pension, by method and age, 2023
- Scope to convince more people to consider all options
 - Graph 2: pension access options intending to use, by age, 2023
- Inflation impact is the number one concern...
- ...say three quarters of DC pension savers aged 35+
- Strong demand for digital tools

Innovation and marketing

- Technology is helping to re-energise the market

MARKET DYNAMICS

Market size

- Retirement income market offers further room for growth
 - Graph 3: number of new pension annuity and income drawdown sales (ABI members only), 2014-22
- Annuity sales buoyed by higher gilt yields
- Pension annuities experience strong growth in 2023
- Drawdown impacted by stock market volatility
- Modest increase in the volume of income drawdown sales
- Drawdown sales outnumber annuity sales 4:1
 - Graph 4: number of new drawdown sales – comparison of ABI and FCA data, 2018-22

Market forecast

- Pension annuity sales set to reach 95,000 by 2028
- Income drawdown sales are predicted to pick up more strongly from 2025
- Blended solutions will play an increasing role

Market segmentation

- Joint policies account for less than one in three annuity sales
 - Graph 5: breakdown of annuity sales – single versus joint, 2014-23
- Scope to reverse the downward trend in joint-annuity share
- Escalating annuities under increased demand
 - Graph 6: breakdown of annuity sales – level versus escalating, 2023
- Enhanced annuities account for just over two fifths of total sales
- SIPPs' share of drawdown sales fell in 2022

Market share

- A concentrated annuities market contrasts with the more diverse drawdown space
- Just five companies were active in the open market in 2021 and 2022
- Providers put in a mixed performance in 2022
- De-risking is big business
- Four of the five leading annuity providers are active in the equity release market

Distribution channels

- Increased competition is set to bolster external annuity sales
 - Graph 7: internal versus external annuity sales (ABI members only), 2020-22
- Over 80% of annuities are sold without advice
 - Graph 8: non-advised sales' share of volume sales (ABI members only), 2014-22
- Measures introduced to help protect non-advised customers are working as intended

Macro-economic factors

- Concerns over the cost of living have dented confidence, though sentiment is improving
 - Graph 9: the financial confidence index, 2016-23
- More people dip into their pensions as a result of the higher cost of living
- Over half of all pension pots accessed are fully withdrawn
- Just one in ten pots accessed were used to buy an annuity in 2021/22
- Many still fail to take guidance or advice before accessing their pension
 - Graph 10: use of advice and guidance by method of access, 2021/22
- Gilt yields are the highest they have been in 15 years
 - Graph 11: monthly 10-year gilt yield, 2008-23

Regulatory and legislative changes

- Market set for further expansion
- FCA launches thematic review into retirement advice market
- Consumer Duty will raise awareness of the importance of a guaranteed income in retirement
- Industry awaits the roll-out of pension dashboards

WHAT CONSUMERS WANT AND WHY

Pension ownership and participation

- 80% of UK adults have a pension
 - Graph 12: ownership of pensions, by type, 2023
- The market for retirement income products is huge
- 72% of adults aged 35-54 are contributing to a pension
 - Graph 13: proportion of adults who own a pension and proportion who are making contributions, by age, 2023
- Flexible phased retirement plans face growing demand
- Scope to increase participation among the self-employed
- Multiple pot ownership means more people are taking a staggered approach to retirement
 - Graph 14: segmentation of pension savers by number of pots owned, 2023

Pension access: past behaviour

- A third of pension-holders aged 55+ have arranged a retirement income product
 - Graph 15: proportion of over-55s who have accessed pension, by method, 2023
- Many over-55s have dipped into pension savings early
- 39% of over-65s have bought a pension annuity, while 15% have moved into drawdown
- Early cash withdrawals are a cause for concern
- 11% of pension savers aged 55-64 have accessed most or all of their pot(s)
 - Graph 16: amount of pension savings accessed (rebased on all over-55s), by age, 2023

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- One in six have no idea how much of their pension savings they've already accessed
 - Graph 17: amount of pension savings accessed, 2023

Pension access: future intentions

- 41% of under-55s are planning to buy a retirement income product
 - Graph 18: expected decumulation actions, by age, 2023
- The expectation to buy an annuity is less prevalent among over-55s who've yet to access their pension
- 45% of over-55s do not know what to do with their pension pot

Concerns about pensions and retirement choices

- Most pension savers are worried about inflation impact...
 - Graph 19: level of concern about inflation risk and other retirement-related issues, 2023
- ... followed by worried over saving enough and the cost of advice
- Low usage of advice and guidance feeds into a general sense of low confidence when it comes to retirement decision-making

Retirement plans and expectations among over-45s

- Around one in seven over-45s say they or their partner have dipped into their pension to help with spiralling living costs
 - Graph 20: impact of inflation on retirement plans and pension access, 2023
- Many over-45s are willing to defer retirement and release housing equity
 - Graph 21: retirement plans and intentions, 2023
- A significant minority intend to use pensions savings to pay off a mortgage or other debt
- 28% of over-45s think annuities offer good value
 - Graph 22: agreement with statement, "I think pension annuities offer good value for money", by age, 2023

Interest in new retirement product solutions and services

- Significant interest in digital tools and dashboards
 - Graph 23: retirement products and services wanted by pension savers, by age, 2023
- 42% of pension savers aged 35+ want their provider to offer pension dashboards
- Older age groups may need an extra incentive to get onboard
- The ease and simplicity of an all-in-one proposition is very attractive

INDUSTRY DEVELOPMENTS AND INNOVATION

Market developments

- Canada Life sees record annuity sales as more people seek the security of a guaranteed income
- Scottish Widows reports a doubling of customers buying an annuity
- Legal & General sees upsurge in fixed term annuity sales
- Aviva calls for pension savings support
- Just Group makes the case for stronger interventions

- Legal & General renews agreements with Aegon and Prudential

Launch activity and innovation

- Providers highlight the benefits of a blended approach
- Standard Life launches open-market annuity to capitalise on the growing interest in hybrid solutions
- Standard Life commits to delivering dashboards to its customers
- Royal London explores opportunities in the annuity market

APPENDIX

Supplementary data

- Appendix: pension ownership
- Appendix: pension access (past behaviour)
- Appendix: pension access (intentions)
- Market size: underlying data
- Volume annuity sales: segmentation by type
- Breakdown of sales: internal versus external
- Pension annuity sales by channel
- Income drawdown sales by channel

Market forecast data and methodology

- Market forecast: underlying data
- Annuities market forecast and prediction intervals (volume)
- Income drawdown market forecast and prediction intervals (volume)
- Forecast methodology

Report scope and definitions

- Report scope
- Product definitions: annuity and fixed term retirement plan
- Product definitions: pension drawdown and UFPLS
- Abbreviations and terms

Methodology

- Consumer research

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