
End of forced annuitization creates product vacuum in UK

By Editorial Staff Thu, Jan 22, 2015

While some in the U.S. try to put annuities into defined contribution plans, Britain is slowly adapting to the removal of forced annuitization from its DC rules.

With only three months to go before annuitization becomes optional for retirees from British defined contribution (DC) plans, European asset managers are thinking a lot about affordable products that might help retirees tap their savings, according to Cerulli Associates' European Defined Contribution Markets 2014 report.

But they haven't gotten very far in developing those products. "Widely accessible drawdown or equity income strategies are still a 'work in progress' for Europe's investment managers," a Cerulli release said.

A 2013 ruling by the Chancellor of the Exchequer ended the UK's policy of requiring most DC participants to annuitize any unspent tax-deferred savings by age 75, effective this spring. Most people bought their annuities from the "preferred provider" chosen by their DC plan providers, rather than shop for more competitively priced contracts in annuity exchanges.

That ruling has triggered a big drop in the percentage of asset managers who say their plans will offer period-certain or life annuities from preferred providers in the future. Only 8.3% of managers surveyed intended to do so. About one in five managers said their plans offer those types of annuities today.

The Cerulli report covered the opinions of DC asset managers with combined pension assets of more than \$1.4 trillion. "Affordable drawdown products" was their biggest concern. Cerulli surveyed the managers in September 2014.

The end of forced annuitization doesn't mean that retirees will stop buying annuities entirely, said Cerulli's European research director, Barbara Wall. "This is a notable decline, but the annuity is far from dead," she said in the release.

"Many retirees in the United Kingdom and on the Continent will still want some certainty of income. For many that will make annuitization attractive. Swiss retirees do not have to annuitize, for example, but most still choose to do so."

Optional annuitization is also being discussed in the Netherlands. “Continental asset managers will be eyeing the whiteboards of their UK rivals when it comes to retirement phase products,” the Cerulli release said.

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