
No sex please, we're British

By Editor Test *Wed, Mar 9, 2011*

A high court in Britain has apparently barred U.K. insurers from using gender as a factor in calculating insurance rates, including payout rates for retail income annuities. One expert observer predicted "unintended consequences."

A European Court of Justice decision has apparently made it illegal for insurers to use gender as a factor in calculating premium rates for insurance policies, the *Financial Times* reported. But experts studying the judgment said it did not cover savers buying an annuity through an employer-sponsored retirement plan.

Their annual premiums of female drivers ages 17 to 25, who had been deemed a lower risk than young men, are expected to rise 25% when unisex rates are imposed in December 2012.

Men approaching retirement will also suffer, with their annuity rates brought down to match those for women, who are usually offered lower rates as they tend to live longer. Male pension income could fall by up to 8%, or £8,000-£10,000 over a 20-year period for a 65-year-old man with a £100,000 pension fund, according to some estimates.

"The directive clearly states that it should apply only to insurance and pensions that are private, voluntary and separate from the employment relationship," said Phil Carroll, financial planning specialist with Skandia, the investment group.

"Our initial interpretation is that this could potentially create a disparity between workplace schemes and private pension schemes which would be a poor outcome for pension savers."

Towers Watson, the consulting group, said: "The judgement itself appears to have direct effect only on the provision of goods and services... this includes individual private pension but not necessarily pensions provided in the employment arena."

There are currently 3.5 million people in defined contribution (or money purchase) plans in the UK, with the bulk of annuities purchased by men.

However, advisers say that any loophole is likely to be temporary. "You can see a situation where men will annuitize with the workplace scheme because the rates are better, while female colleagues go to the market for a better unisex rate," said Nigel Cooke at the accountancy firm Grant Thornton.

"Any loophole will be quickly closed because we are dealing with the law of unintended consequences."

© 2011 RIJ Publishing LLC. All rights reserved.