
'Toxic' annuity market exists in UK: Report

By Editor Test Tue, Feb 7, 2012

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In Britain, the National Association of Pension Funds said the U.K. government must reform the annuity market or see retirement savers "short-changed by a toxic system," IPE.com reported.

Under the current system, many new retirees from employer-sponsored plans fail to shop around for the best income annuity and are at risk of losing significant amounts of potential income over their lifetimes.

A report by NAPF and the Pensions Institute (PI) of London's Cass Business School predicted that the loss in annuity income could triple to £3bn (\$4.75bn) over the next decade if changes were not introduced.

The report charged that plan sponsors and service providers don't offer enough information to participants. "Often they get nothing more than a leaflet pointing them to a website with a postcode-based search engine," it said. The report recommended that pension funds should have an in-built open-market option.

If this did not achieve certain goals set out by the government, the report said, then a national annuity support and brokerage system should be introduced.

The report pointed to a "severe lack" of transparency in the U.K. annuity market. Advisors were quoted as claiming that "insurers pushed rates down when they saw a group of retirees approaching, as they expected the incoming pensioners would not shop around."

The director of PI, David Blake, called the report a "wake-up call" to the pensions industry. NAPF chief executive Joanne Segars said "People are saving throughout their working lives only to end up short-changed by a toxic system. Every year, a billion pounds that could have been paid out in pensions instead disappears down the plughole of a murky annuity market." Lower and middle-income earners are affected most, she added.

Referring to the imminent introduction of auto-enrollment in the U.K., she said: "There is no point in encouraging people to save if we do not help them get the most out of their savings." She also called for more transparency in pricing and structure.

"If the annuity system is not radically overhauled, employees in defined contribution schemes in the private sector will continue to suffer massive detriment, and the government's new auto enrolment regime will fail the very people it aims to help secure financial independence in retirement," David Blake added.