

“Abolition” of compulsory annuitisation is a “red herring” affecting only 2% of retirees

**Retirees at 75 have a range of options, beyond annuities
Just Retirement would like to see a wider debate on retirement income**

David Cooper, Marketing and Distribution Director of Just Retirement commented:

“Given the Conservatives’ opposition to so-called compulsory annuitisation at 75, it is likely to be abolished by the new Government. However, the “compulsion” was illusory and is only likely to affect 2% of retirees. We at Just Retirement welcome any government focus on retirement income provision, especially on the provision of long term care, greater clarity on means testing and wider public education about the options facing everyone as they plan for their retirement.”

There have been many discussions following the Government’s recent announcement that the “compulsion to purchase an annuity at age 75” will be abolished, but the background to this statement and the resulting implications are less clear, especially as annuity purchase has actually not been compulsory since April 2006.

The situation so far;

Current rules simply require that pensions start paying an income from the age of 75.

On retirement, many individuals will use their pension fund to purchase an annuity, to give them a regular income for the remaining years of the life.

An annuity is not the only option though, even at age 75. The alternatives are Alternatively Secured Pensions (ASP) or, in some situations, Scheme Pensions.

What the future could hold;

Although no date was given for the change and no further details have been given in the recently issued Coalition Programme, if the 75 year age limit were to be removed the future could hold a number of options.

For example, at one extreme it could mean the complete removal of the requirement to draw income at any age, or it could mean simply an increase to the age from which pension income must be drawn. Treatment of funds on death will also have to be reviewed. Whatever the implementation, it’s likely to have tax implications for the individuals concerned.

However, as the vast majority of retirees purchase an annuity well before the age of 75, usually timing it to begin with the start of their State Pension, it is likely to affect fewer than 2% of individuals so any suggestions as to the death of annuities would be premature to say the least.

The full details remain undisclosed, and with other Government issues taking priority it may be a while before the industry sees any movement on this matter.

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Notes to Editors

Just Retirement (Holdings) plc was founded in 2004 and listed on the Alternative Investment Market (AIM) in December 2006. In November 2009, Just Retirement was acquired for £228m by Avalon Acquisitions Limited, a company backed by funds advised by Permira. The Group provides two products to those at or in retirement; enhanced annuities and equity release mortgages.

Enhanced Annuities

Annuities are contracts offered by the Group to people at retirement (annuitants) under which the Group undertakes to make a series of payments in the future in return for the immediate payment of a lump sum to the Group by the annuitant. This lump sum is provided by the annuitant's pension fund. The level of future payments is set according to the rates of return available within the capital markets and the expected longevity of the annuitant. In 2009, the total value of the annuity market in the UK was £10.8bn (source: Association of British Insurers "ABI").

Enhanced annuities are offered to people at retirement that may not live as long as average due to lifestyle (smoking, for example) or illness. Given the impact of these factors on longevity, it is possible for providers such as Just Retirement to offer "enhanced" annuity rates to those qualifying. In 2009, the total annual value of the enhanced annuity market in the UK was £1.8bn.

Just Retirement does not provide pension fund management. As such, it can only offer annuity contracts to those utilising the Open Market Option (OMO). OMO allows pension fund holders to "shop around" for an annuity rather than take that provided by the incumbent pension fund provider. At the end of 2009, the total value of annuities bought during the year using the OMO was £5.4bn.(source: Association of British Insurers "ABI")

Equity Release Mortgages

Equity release mortgages are advances made to homeowners in or at retirement. They fall into two main types: lifetime and reversion. Just Retirement only offers lifetime mortgages. This allows the homeowner to borrow a certain amount of capital against the value of their house. Although this advance carries a rate of interest, this is capitalised over the life of the mortgage. The loan, together with the accumulated interest, is repaid at the end of the mortgage.

The equity release market is monitored by the industry body, Safe Home Income Plans (SHIP) and advice within the market is regulated by the FSA. SHIP recently announced that the total value of the UK equity release market in 2009 was approximately £950m.