



Press release

20 January 2016

## Pension sales inspection reveals significant variations in annuity rates

- **Firms could be more transparent in explaining the Open Market Option to consumers.**
- **In some cases, firms were unable to evidence that all post retirement options were fully explored.**
- **Consumers can increase their income by over €350 a year by comparing rates from annuity providers.**
- **Consumers could also significantly increase their income by choosing an enhanced annuity over a standard annuity, if they qualify.**

A themed inspection by the Central Bank has shown that consumers can significantly increase their income in retirement by comparing annuity rates across pension providers. As at 6 January 2016, consumers could increase their income by up to €29.57 per month, over €350 a year, by choosing the provider with the best rate.

The themed inspection consisted of a desk-based review and onsite inspection at a number of firms and included an examination of the sales process and documentation provided to consumers. Some of the key findings were as follows:

- The Central Bank found a small number of instances where firms were unable to evidence that all of post retirement options were fully explored and in this regard, the Bank is engaging with the industry on a firm-specific basis;
- While all firms informed customers of their right to purchase an annuity from any annuity provider, the literature provided to consumers did not always clearly explain this option to consumers; and
- Although firms did explain “guaranteed payment periods” to consumers; firms did not always discuss the various guaranteed payment periods on offer.

Director of Consumer Protection, Bernard Sheridan, said: “We recognise that the purchase of annuities is a significant and complex transaction for most consumers. This is a once-off purchase that can have a major impact on a consumer’s income in retirement. We therefore expect firms to act in a clear and transparent manner, and to make this process as straightforward as possible for consumers. This applies to their literature and to their interactions with consumers during the sales process.

Consumers have the right to purchase an annuity from any provider. As we’ve seen during this inspection, consumers can significantly increase their income in retirement by comparing rates across providers so consumers should seek out quotations from a number of annuity providers. There are also other options available, which consumers should consider, and which could make a difference to their income or the length of time they are guaranteed payment. As these are complex, long term products, we would encourage consumers to consider seeking financial advice to help them figure out the best product to suit their needs.”

The Central Bank is engaging directly with those firms where issues have arisen, to address the deficiencies identified and will take appropriate supervisory action.

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## **Notes to editors**

The Central Bank identified the sale of long-term products as a priority theme for 2015-2018. Within that overall priority theme, pension annuities were identified as an initial area for examination in 2015. In selecting annuity sales, we recognised that the purchase of pension benefits represents a significant and complex transaction for most consumers and that the purchase of a pension annuity is a once off purchase, which can have a major impact on a consumer's income in retirement.

## **About annuities**

- An annuity is a contract, with a life insurance company, that will pay a guaranteed regular pension income for life in return for a capital sum. The capital sum generally comes from the policyholder's retirement fund.
- Enhanced' or impaired' annuities are a relatively recent addition to the Irish market and offer consumers a higher rate than a standard annuity. To assess qualification for an enhanced / impaired annuity, the policyholder's health or medical history and the implications for life expectancy are considered.
- S786 of the Taxes Consolidation Act (TCA) provides that, for Personal Pension Plans (PPPs) approved on or after 6 April 1999, the PPPs must contain a transfer option between other PPPs. This is commonly referred to (within the industry and by consumers) as an Open Market Option (OMO). The OMO refers to the full transfer right of an individual's pension, so that if someone wants to take a 25% lump sum and buy an annuity with another provider, they have to transfer the full PPP from their original insurance company to a PPP with another insurance company and then mature their PPP with the second insurance company.
- Guarantee Periods – Various product providers offer guaranteed minimum payment periods, up to 10 years. This means that in the event the policyholder dies, the Annuity will be paid out for at least the guaranteed number of years' worth of income to the estate or next of kin. On death, the income may continue to be paid for the rest of the guarantee period, or it may be paid as a lump sum to the policyholder's estate.
- This review looked at sales of annuities to personal consumers as defined under the Consumer Protection Code. Based on data provided to the Central Bank by insurers, 92,476 annuities were held by personal consumers as at 30<sup>th</sup> June 2015.

## **About the inspection**

The themed inspection consisted of a desk-based review of annuity sales documentation (brochures etc.) and copies of the notification issued to customers to inform them of their post retirement options in advance of their normal retirement age. The six largest annuity providers in the Irish market were included in this phase. The desk based review was followed up by onsite inspections in four firms consisting of a review of the annuity process, how firms ensure consumers are aware of the open market option and a review of the sale of a sample of annuity files. The scope of the



inspection focused on direct annuity sales and therefore excluded sales through broker channels, annuities purchased by occupational pension schemes and ARF and AMRF sales.<sup>1</sup>

Where the Central Bank has identified risks to consumers, due to the issues outlined above the Central Bank is directly engaging with the relevant firms. The Central Bank has also sent an industry letter to all annuity providers, detailing the findings of this inspection together with recommendations to enhance their compliance arrangements and to deliver positive customer outcomes.

## Key findings

### Open Market Annuity Rates

Open Market Option providers are expected to provide customers with up to date annuity rates upon request, so as to facilitate regular comparisons across providers.

The inspection found that annuity rates offered across the different annuity providers varied. The below table highlights the difference in income a customer may receive, as at 6 January 2016, by comparing annuity rates regularly across the providers:

	Highest	Lowest	Difference
Single Life Standard –No Guarantee	€187.58p.m	€162.03p.m	€25.55p.m
Single Life Standard –5 Year Guarantee	€186.77p.m	€161.30p.m	€25.47p.m
Single Life Standard –10 Year Guarantee	€183.91p.m	€158.83p.m	€25.08p.m
Joint Life Standard – No Guarantee	€162.05p.m	€132.48p.m	€29.57p.m
Joint Life Standard – 5 Year Guarantee	€161.63p.m	€132.47p.m	€29.16p.m
Joint Life Standard – 10 Year Guarantee	€160.38p.m	€132.34p.m	€28.04p.m
Single Life Enhanced –No Guarantee	€231.43p.m	€218.03p.m	€13.40p.m

<sup>1</sup> An ARF is a personal retirement fund where individuals can keep their money invested after retirement, as a lump sum. They can withdraw from it regularly to give themselves an income, on which they pay income tax, PRSI and Universal Social Charge (USC). Any money left in the fund after their death can be left to their next of kin. An AMRF is a personal retirement fund where an individual must invest a minimum €63,500 as a lump sum to qualify. Only the investment growth can be accessed or drawn down before the age of 75



Single Life Enhanced –5 Year Guarantee	€229.10p.m	€216.37p.m	€12.73p.m
Single Life Enhanced 10 Year Guarantee	€221.73p.m	€210.66p.m	€11.07p.m

#### Details:

Male - date of birth 01/01/50

Purchase Amount/ Pension Fund €50,000

Level term (i.e. no escalation)

Commission rate 2%

Commencement date 06/01/16

Enhanced annuity assumes an individual with poor health e.g. smoker, history of heart disease and type 2 diabetes

#### Open Market Option

The inspection found that, although firms' literature referred to the open market option, it did not always clearly explain what this is.

#### Guaranteed Payment Periods

In the context of suitability and the consumer's best interests, financial advisers should discuss all options and provide comprehensive information including the benefits of each option and the difference, in pension income, between the 5 and 10 year guarantee periods.

The inspection identified that where customers chose an annuity guaranteed payment period, a high proportion of individuals (approximately 60%) chose a 5 year 'guaranteed payment period'.

Although firms offer a guaranteed period of up to 10 years it was not evident that firms discussed this option with all customers.

#### Enhanced or impaired annuities

For customers with a history of ill health or qualifying lifestyle characteristics, financial advisers should make customers aware that enhanced annuity options are available in the market and that this may result in a higher annuity rate being available and consequently a higher pension income may be achievable.

Product producers must assist their advisers/intermediaries, as part of their product oversight and governance arrangements by:

- providing sufficient and regular training in relation to new products/services and their underlying features/benefits,
- providing additional assistance where necessary for brokers who may struggle with understanding the product and ultimately being able to actively promote it to their clients,
- holding regular discussions with brokers to gain an understanding if there are any barriers to selling the product and can these barriers be removed easily.



The inspection found that more could be done by the insurance industry to promote awareness of Enhanced Annuities when advising consumers. To note, at present there are only two firms in the Irish market offering Enhanced Annuities.

#### Disclosure of all relevant information in a manner which seeks to inform consumers

Firms make full disclosure of material information in a manner which seeks to inform customers. Firms should make it clear to consumers that they can purchase an annuity from any provider.

The inspection found that, although firms provide information in brochures and “wake up packs”, there was a marked difference between firms in relation to the level and adequacy of detail to facilitate the customer in making an informed decision.

#### Assessing Suitability

Under Code requirements, where a firm offers a selection of product options to the consumer, the product options contained in the selection must represent the most suitable from the range available from the firm. In the event a firm recommends a product to the consumer, the recommended product must be the most suitable product for the consumer.

In a number of instances, there was no evidence on file that all the consumers post retirement options were fully explored.