# IOPS experience in supervising annuities and other forms of pension pay-out

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# Outline of the presentation

- Main supervisory challenges in decumulation phase identified by IOPS*
- Possible remedies
- Conclusions

*IOPS (2014), *Supervising the distribution of annuities and other forms of pension pay-out*, Working Paper 21,
http://www.iopsweb.org/WP_21_Supervising-Distribution-Annuities-Pension%20Pay-out%20.pdf

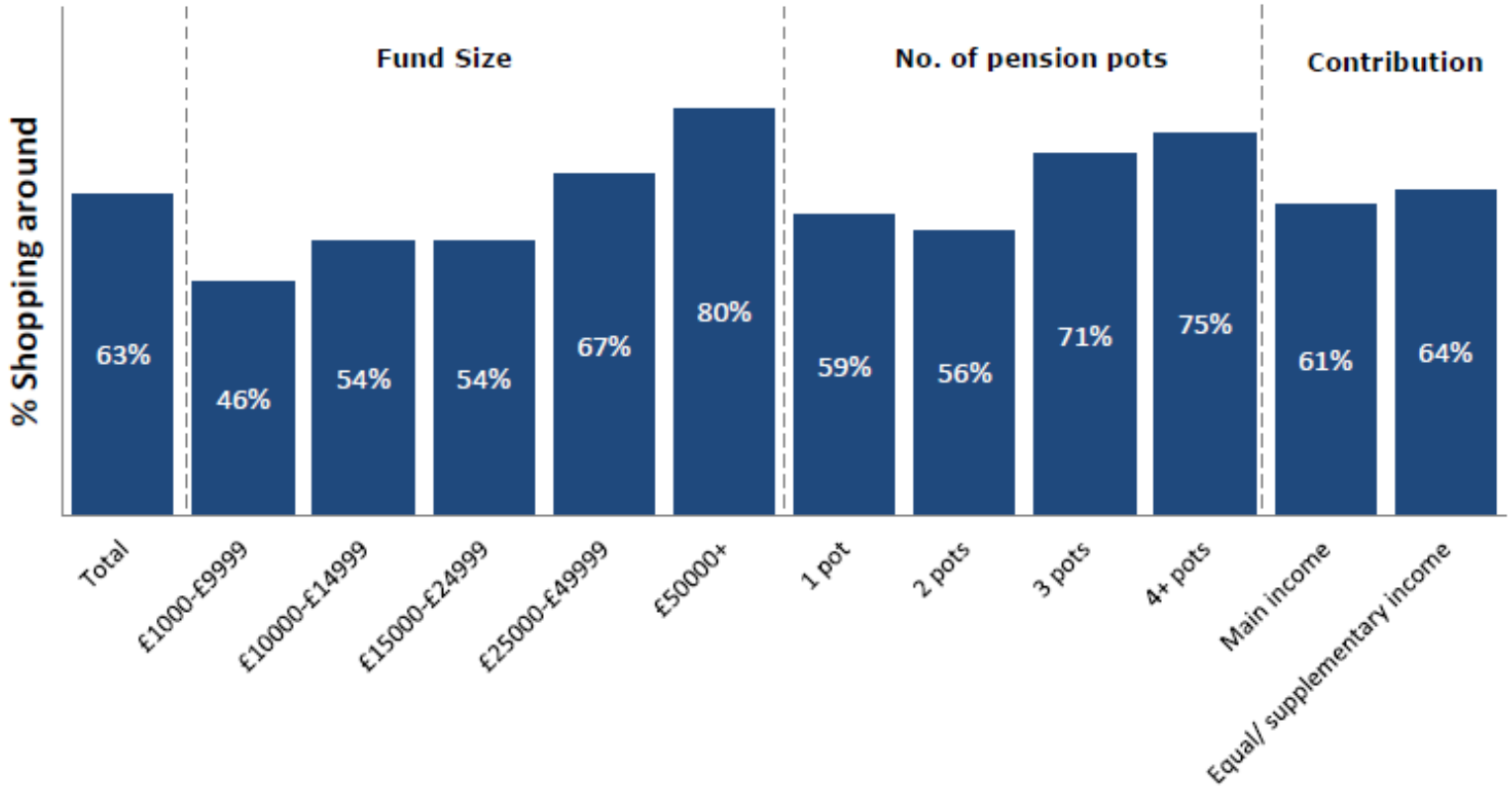
# IOPS: Challenges (1)

1) Low level of financial literacy of pension scheme members:

- members dependent on third parties
- pension products difficult to comprehend, complexity of pension-related decisions
- behavioural problems (perception of short life span on retirement, passiveness etc.)

# IOPS: Challenges (1)

## Shopping around - example of UK (2013)




**Note:** Sample = All annuity purchasers (1000). Bases will vary by sub-group. Shopping around based on customers' own reporting of whether they shopped around, as outlined previously.

# IOPS: Challenges (2)

2) Inadequate information

- not (easily) available/disclosed to members
- low quality (misleading) and/or difficult to comprehend (jargon, size)
- poor perception of life annuity

# IOPS: Challenges (3)

3) Low quality and integrity of intermediation

- low level of skills and knowledge of sales forces
- business conduct (misselling, “own product” bias or unintended effects of commission incentives)

# IOPS: Challenges (4) & (5)

4) Undesired effects of other government policies

- entitlements to social security benefits or different taxation of pay-out products can potentially lead to suboptimal consumer choices

5) Pay out markets still very young/non-existent

- lack of supervisory experience
- high entry costs (esp. for annuity providers)

# IOPS: Possible remedies (1)

*Low level of financial literacy of pension scheme members*

- campaigns, school curriculum
- mandating or defaulting "*appropriate*" products

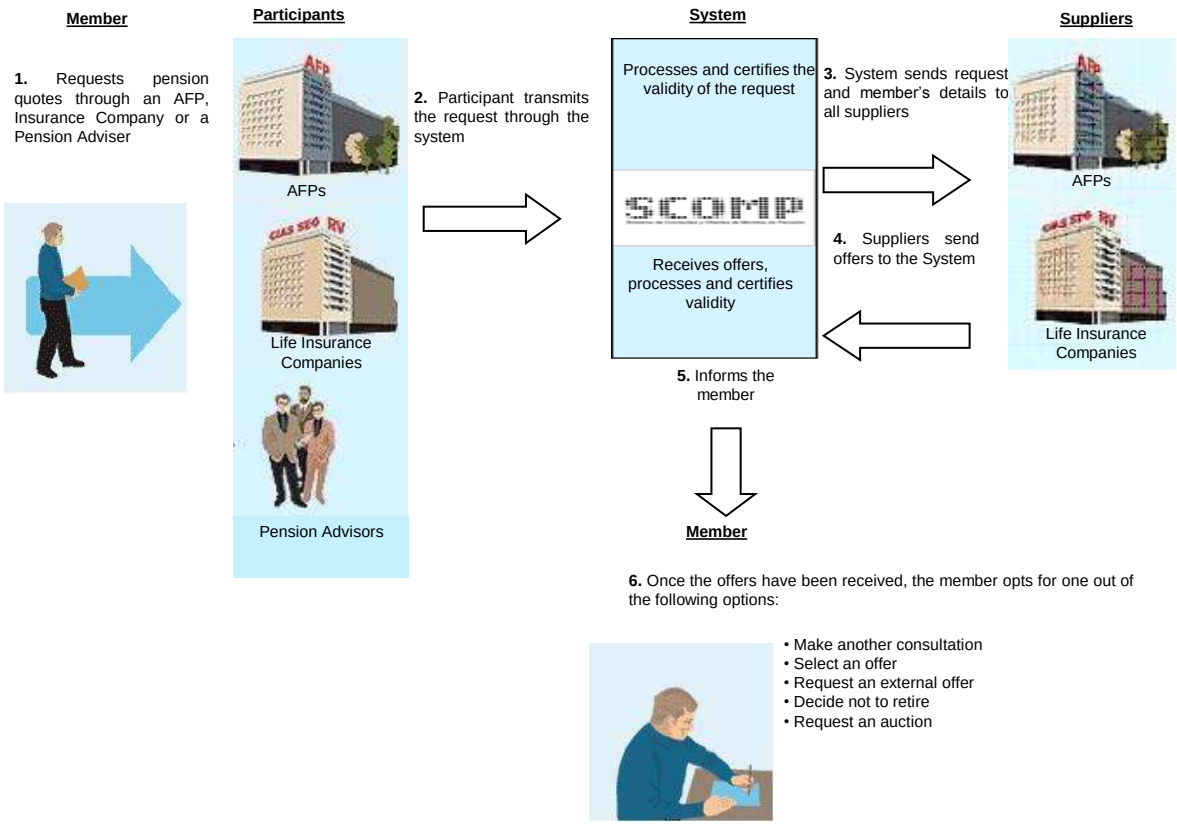
| Product | Mandatory | Default |
|---|---|---|
| **Lump sum** | **Hong Kong** (Mandatory Provident Fund); **Mauritius** (National Savings Fund) | **Thailand** (provident fund) |
| **Programmed withdrawals** | **Bulgaria** (mand. professional funds) | **Dominican Rep., Kenya, Macedonia, Nigeria** |
| **Life annuity** | **Armenia** (vol.), **Austria** (vol.), **Bulgaria** (mand. personal), **Iceland** (mand. occup.), **Israel** (mand. person.), **Mauritius** (National Pension Funds DB), **Netherlands**, **Poland** (mand.) | **Czech Rep**. (suppl.personal vol. pension insurance), **Hungary** (mandatory), **India** (National Pensions Fund), **Jamaica** (vol.), **Mauritius** (vol.), **Portugal** (vol.), UK |
| **Other** | --- | *permanent rent:* **Costa Rica** (mand.) |

- comparison and transaction websites

# IOPS: Possible remedies (1)

*Low level of financial literacy of pension scheme members*

## Comparison and transaction platform in Chile – life annuities
**SCOMP** (Sistema de Consultas y Ofertas de Montos de Pensión)



# IOPS: Possible remedies (1)

*Low level of financial literacy of pension scheme members*

**Comparison and transaction platform in UK – life annuities**
**The Money Advice Service**

Compare annuities

**Before using our tables**
Before you use these tables, please read our guide below which explains new rules about how you can use your pension pot to provide a retirement income. In most cases, choosing an annuity is a decision that will determine your income for the rest of your life, so it's vital that you understand all of your options under the new rules and get advice before deciding whether an annuity is right for you.

>> New rules about pensions from 27th March 2014

**Using our tables**
Please note that our tables do not cover all providers in the annuity market.

In addition, providers are unable to supply quotes online if your planned retirement age is 75 or older. If this applies to you, please seek advice from a financial adviser or specialist annuity broker.

Please answer the questions below. We will then provide a list of annuity rates showing what you are likely to receive in cash terms every month or year for the rest of your life, based on certain assumptions.

>> View the assumptions on which your results are based.

– Your Pension Options

Total pension fund : £ 100000 *
Before any tax free lump sum

Would you like a tax free lump sum? Yes No 25% (£25000) *

Guaranteed payment period None 5 Years 10 Years *

Lifestyle questions Yes No *
Choose yes to answer a few additional lifestyle and health questions which may result in a higher pension income.

Next

Compare annuities

Pension Type : Individual Personal Pension
Payment Frequency : Monthly
Guaranteed Payment Period : 5 Years
Pension Fund : £100,000.00
Payment In Arrears: Yes
Pension for Spouse/Dependant : 0%

Change Details
Print Results

Tax Free Sum : The rates below assume the tax free lump sum shown will be paid to you by your existing pension provider

| Company | Monthly Pension | Annual Pension | Tax Free Cash | Apply |
|---|---|---|---|---|
| Canada Life 0845 300 3199 | £298.20 per month | £3,578.40 per year | £25,000.00 paid by existing provider | Go To Provider |
| LIFETIME 0800 731 4876 | £292.88 per month | £3,514.53 per year | £25,000.00 paid by existing provider | Go To Provider |
| Legal & General 0800 072 9344 | £288.36 per month | £3,460.32 per year | £25,000.00 paid by existing provider | Go To Provider |
| Saga 0800 046 2871 | £286.92 per month | £3,443.04 per year | £25,000.00 paid by existing provider | Go To Provider |
| AVIVA 0800 404 7211 | £278.39 per month | £3,340.68 per year | £25,000.00 paid by existing provider | Go To Provider |
| Standard Life 0845 279 8897 | £260.40 per month | £3,124.80 per year | £25,000.00 paid by existing provider | Go To Provider |
| PRUDENTIAL 0800 012 1175 | £259.47 per month | £3,113.64 per year | £25,000.00 paid by existing provider | Go To Provider |

Disclaimer: The above rates are for information and should only be used as a guide. Annuity rates can change regularly and may go up or down in the future.

# IOPS: Possible remedies (2)

*Inadequate information*

- simpler disclosure contents
- legal requirements to provide accurate, timely, abridged and clear information
- comparative sites (info + transaction)
- workshops with industry to prevent misinformation and misselling
- mandated or default retirement products

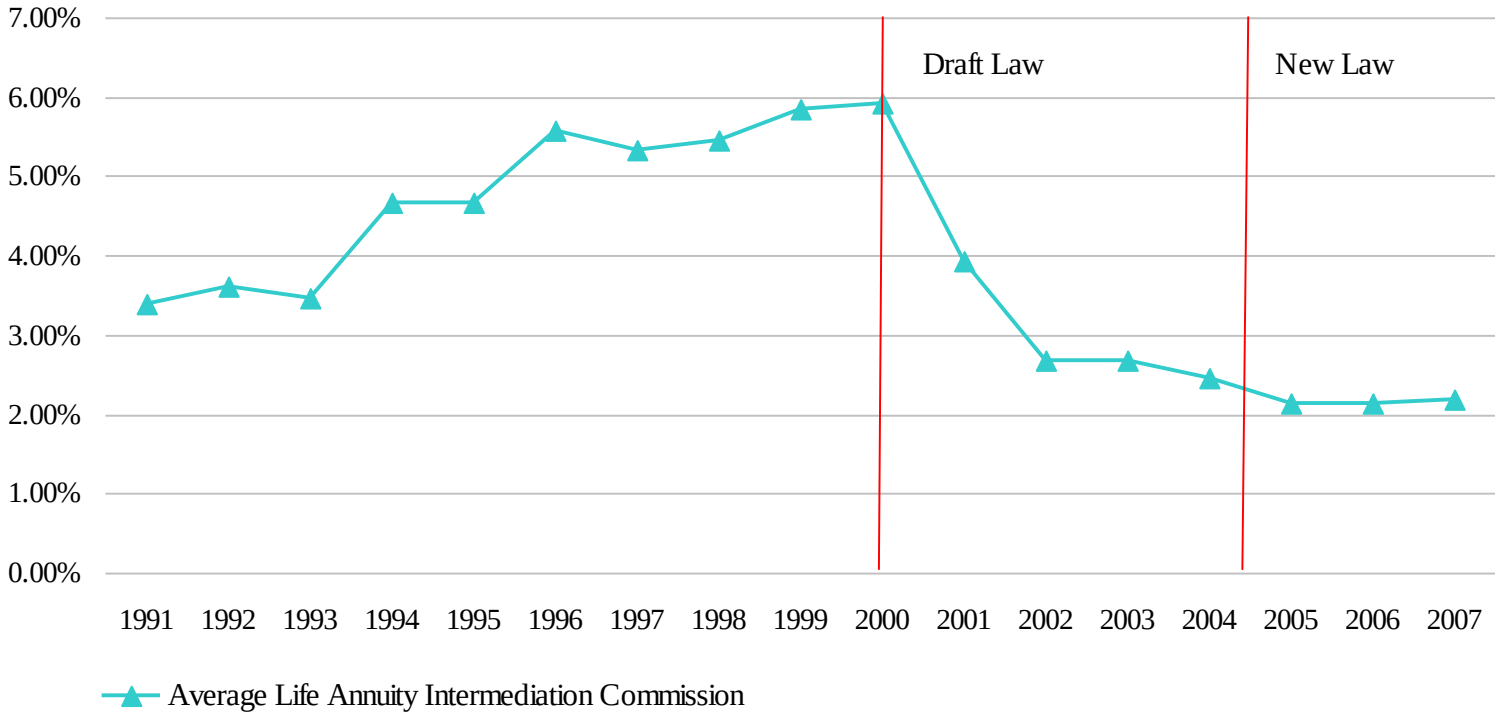
# IOPS: Possible remedies (3)

*Low quality and integrity of intermediation*

- licencing, training, periodic evaluation
- monitoring of conduct business quality (mystery shopping, market conduct authorities, ombudsman, disclosure of complaints and supervisors' actions to public)
- efficient complaints and redress mechanisms (e.g. compensation from miss-seller)
- regulations to cap fees or to re-align incentives (e.g. Australia's new model of independent advice and fees for service)

# IOPS: Possible remedies (3)

## Chile: Evolution of the average intermediation fee



# IOPS: Possible remedies (4) & (5)

*Undesired effects of other government policies*

- analysis of policy (side-)effects
- use of good practices etc. (e.g. OECD Road Map for the Good Design of DC Pension Plans)

*Pay-out markets still very young/non-existent*

- research, exchange of information, use of behavioural economics and consumer protection tools (e.g. effective approaches in the G20/OECD High Level Principles of Financial Consumer Protection)
- set-up of state-based markets/institutions?

# Lessons learnt

- The main problems noticed by IOPS supervisory authorities relate to low financial literacy of consumers, inadequate information and low quality of intermediaries' business conduct
- Supervisors have an important role in fostering financial literacy but there is also a need for well designed mandated or defaulted products.
- Creating consumer awareness of ability to "shop around" is essential. This may be helped with the use of comparative / transactional websites.

# Lessons learnt

- Electronic platforms
  - can help to access information, induce more active behaviour, reduce transactional costs, and likelihood of inclining to an improper advice.
  - do not solve all decision-making problems faced by consumer (e.g. which product is appropriate or when to purchase an annuity).
- Key issue is to assure appropriate quality of information disclosed and professionalism and integrity of intermediaries.
- Monitoring the business conduct and proper claims and redress mechanisms are essential.