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Important changes to insurance premiums and annuity rates in the UK

We want to tell you about some important changes that will very likely result in women and men paying more for certain insurance products and receiving less favourable annuity rates.

From the 21st December 2012, insurance providers will no longer be able to take gender into account in the way that premiums are calculated for UK customers. This situation is as a result of a European Court of Justice (ECJ) ruling issued last year, commonly known as Test Achats.

At present, many healthy females will pay less than healthy males for insurance products such as life insurance and critical illness cover. Early predictions from The Actuarial Profession were that premiums for healthy females could rise by 11-15% on these products.

Conversely for Income Protection (which replaces a proportion of lost earnings should you be unable to work through illness or accident); many healthy males will pay less than healthy females for income protection cover. But this too will change.

To compound this situation, from 1st January 2013, personal protection insurance business in the UK is being removed from the I-E tax regime, as announced by the chancellor in the last budget. 'I-E' is short for investment Income and chargeable gains minus Expenses. It's a tax system that allows insurance providers to offset some of their tax liability on trading profits made from their protection (insurance) business against their investment business. However, from next year this will no longer be allowed.



The insurer LV= has made the following estimates:

Product type	Currently, on average...	Potential impact of Gender and I minus E changes***	
		Male	Female
<b>Income Protection</b>	Women pay 65% more than men	+20% ▲	-28% ▼
<b>Critical Illness (with Life)</b>	Men pay 10% more than women**	+6% ▲	+16% ▲
<b>Term (Life)</b>	Men pay 10% more than women	+3% ▲	+22% ▲
<b>Underwritten Whole of Life</b>	Men pay 20% more than women	-5% ▼	+15% ▲

\*\*In some cases, women pay more than men

\*\*\*Adding together the estimates provided by LV=, June 2012 and Actuarial Profession, March 2012. The changes to costs will vary by individual, product and provider.

The Actuarial Profession stated in March 2012 that removal of life and critical illness cover from the I-E tax regime *"is expected to increase the price for Term Life Insurance and Critical Illness policies by around 10%; which may create more market distortion than the move to gender neutral pricing."*

**Current premiums are unaffected by the change but the bottom line is that anyone who thinks they will or may need to review, amend or apply for personal protection insurance within the next few years should do so sooner rather than later and certainly in enough time to get the cover on-risk before the changes take place from 21 December .**

The gender-neutral pricing will affect more than just personal protection insurance because gender also affects the pricing of pension annuities and car insurance. According to DLPS; *"Male annuities could decrease by 13% per annum and younger female drivers could see their premiums increase by up to 25% per annum."*

Putting it another way, according to Alexander Forbes; *"Theoretically, for the purchase price of £100,000, the regulation change represents a £2,059 loss of average [whole] retirement income for a man and a £1,799 increase for a woman."*

Car insurance is an annual policy so there is little that can be done. **However, any male who is thinking of drawing an annuity from their pension in the next 4 or 5 years should seek advice as a matter of priority.**

If you think you may be affected by any of these pricing changes and would like to discuss your options please do not hesitate to get in contact.

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Sources:

HM Treasury (12/2011)

The Actuarial Profession, a professional body of mathematical advisers to the insurance, pensions and healthcare industry (03/2012).

LV.com/nomoreguesswork/impact (08/2012)

DLPS. Impact of the removal of gender based premium pricing. Budd (08/2012)

Citywire.co.uk/adviser. The end of the gender divide in annuities. Goodman. Alexander Forbes (07/2012)