Case Study

Title: Overseas Annuities

Source: Moneywise http://www.moneywise.co.uk/

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How do the annuity rates in other countries compare with those offered in the UK?

Annuity rates between countries can differ for a number of reasons, with the largest three reasons being:

- Investment return
- Longevity expectations
- The range of annuitisation options

Investment return is the assumed growth that the annuity provider expects to get having received the capital given in exchange for the annuity. In the UK this is relatively low because it is aligned with the 10 year government bond yield. Countries like South Africa have higher interest rates and higher inflation expectations. When one buys an annuity in the UK, the calculations may therefore be less than South Africa.

In terms of longevity, the differences between countries can be significant. The UK's high level of public health care provision increases longevity across the population, although this type of system is not always available in other countries. For example, in America and emerging markets like India, differences in health care access amongst citizens are wide. In countries like Japan, the life expectancy at retirement age would worsen the value of any annuity purchased due to their larger anticipated longevity.

In a country that has compulsory annuitisation, and no access to draw-down type products, the longevity expectation will be close to that of the population average. When people are able to purchase income drawdown, sick lives may avoid purchasing whole of life annuities because they see them as bad value (and would rather leave their pension savings to their dependents). The introduction of enhanced/underwritten annuities has led to a divergence in the rates offered to those buying enhanced/underwritten annuities and standard annuities written with no underwriting or enhancement. Since these 'standard annuities' used to be priced assuming a mix of healthy and unhealthy lives, but now are priced assuming all lives are healthy (and likely to have above average longevity), they have become worse value for money for those who are unable to qualify for the enhanced annuity.