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## ANNUITY RATES UNDER SCRUTINY

### EU AT THE GATES OF ANNUITY RATES

It is a well known fact that statistically, women live longer than men. The actuaries at life companies will factor this into their assumptions when setting annuity rates and as a result of this, rates available to men can be as much as 10% higher than those for women. This is simply because by not living as long, it is expected that they will draw fewer payments over their lifetime.

This sensible approach to rate setting could be set to change next month because the European Court of Justice is due to rule on whether the use of gender to calculate insurance premiums (which includes annuities), is in breach of sex discrimination laws.

If the court rules that gender discrimination is illegal for annuity pricing then it is likely that unisex rates will, overnight, replace gender based rates. The upshot of this is that men could see their annuity rates cut by between 5% and 10%.

We will have to wait until 1st March 2011 before we know what the outcome of the ruling is but it is baffling that the Court is even entertaining such an idea.

For those with large enough pension pots, perhaps the use of Unsecured Income will be a more attractive alternative to annuity purchase. In any event, men planning to buy an annuity in the next few months might want to bring forward their date of purchase if they wish to avoid a potential drop in rates.

Meanwhile, the EU is also adding more pressure to annuity rates from another angle. New solvency rules expected to be introduced in January 2013 will mean that insurance companies will only be able to purchase low yielding government bonds to back annuities. Up until now insurers have been permitted to use corporate bonds as part of their investment structure to back annuities. As these investments pay a higher yield, albeit at a higher risk, it means better annuity rates can be offered to individuals.

These new rules are designed to protect annuitants against a backdrop of financial crisis, since the risk that insurers can take to meet their obligations is reduced and thus the chance of them going bust. Ultimately the cost of this ruling will be borne by the eventual annuitant, who will find annuity rates may not look quite so attractive when it is enforced.

### CONTACTS

For more information on this or other legislative changes, please contact Lucas Fettes & Partners on **0845 357 8910** or by email at [employeebenefits@lucasfettes.co.uk](mailto:employeebenefits@lucasfettes.co.uk)

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