Summary
- Annuity sales increased by 24 per cent in 2024, driven largely by rising annuity rates.
- Sales of joint and escalating annuities have also risen, up 93 per cent and 113 per cent since 2022.
- The increase is primarily driven by the advised market.
- A complete turnaround in annuity sales is unlikely as consumers continue to underestimate life expectancy and prefer flexible income.
- New retirement solutions, mixing annuities with drawdown could offer the best of both worlds.

At a turning point?

Ten years after pension freedoms, annuity sales are finally showing signs of a limited revival as retirees take advantage of increased annuity rates, finds Alice Guy

After years of stagnation, there is finally good news for annuities. Recent data from the ABI reveals that in 2024, annuity sales reached their highest level for 10 years, with a 24 per cent increase in contracts since 2023. Meanwhile, the total value of annuity sales reached £7 billion last year, representing a striking 34 per cent rise compared to 2023.

ABI head of long-term savings policy, Rob Yuille, says: "Higher interest rates are the main driver of the current demand we are seeing for annuities. Additionally, recent entrants to the wider retirement market mean there is an increase in competition."

He adds: "The rocketing sales have largely come via independent financial advisers," rather than retirees buying annuities directly.

Increase driven by higher rates

The surge in annuity sales comes as rates hit their highest level since 2009, prompting more consumers to opt for the certainty of an annuity income.

Soaring rates mean that a 65 year old can currently buy £7,639 worth of income for £100,000, compared with just £4,843 in summer 2022, based on single, level-annuity data from Sharing Pensions.

Hargreaves Lansdown head of retirement analysis, Helen Morrissey, says: "These increased rates have prompted retirees to take a closer look at whether annuities have a role to play in their retirement income strategy. They can be used to secure a level of guaranteed income, especially as fewer people now have final salary pensions. Annuities can be used in isolation or alongside income drawdown."

However, Ignition House owner and director, Janette Weir, adds a note of caution. "The uptick in annuities hasn't been massive," she says. "We're nowhere near back to where we were pre-pension freedoms and I don't think we ever will be. This increase may simply be temporary as people who were going to buy an annuity anyway have pulled forward that decision because they have read that interest rates are high and likely to fall."

Other annuity trends

Along with an increase in overall sales, the proportion of annuities sold with additional benefits like a survivor benefit and inflation-adjusted features is also rising.

According to ABI annuity data, the number of joint annuities sold between 2022 and 2024 increased by 93 per cent, while sales of escalating annuities more than doubled in the past two years, rising 113 per cent.

Yuille explains that financial advisers have been steering retirees towards annuities with additional benefits. "This increase in personal recommendations very likely has a number of knock-on effects on the options people choose, such as more escalating annuity sales that keep pace with inflation; more joint-life annuities that provide for dependents;

more enhanced – medically underwritten – annuities; more annuities bought using the open market option."

Royal London head of technical and marketing compliance, Clare Moffatt, says it is particularly encouraging to see the increase in joint-life annuities and escalating annuities. "If you purchased an annuity in 2021, escalating by either CPI or RPI, you will have seen growth in income thanks to high rates of inflation. If you didn't choose escalation, you'd be in a very different position as the purchasing power of your income will be reducing significantly. Although this means a lower income at outset, in times of high inflation, they have been invaluable."

Turnaround for annuities?

However, despite the rise in annuity sales, a complete turnaround seems unlikely. Many retirees remain cautious about purchasing annuities, often underestimating their life expectancy and preferring the flexibility of drawdown.

"There is a consistent theme, and I haven't seen that change, and it's about annuities being seen as a gamble," says Weir. "It's a very different view to the industry. Because you give the annuity provider your money, and you have no idea how long you're going to live for. It's the longevity risk issue. The thought they have in their mind is they could die the next day and have nothing to pass onto their family."

She believes that the inflexibility of annuities is a big issue for consumers. The cost-of-living crisis has highlighted how much costs can soar, and people want to know they can draw extra income when they need it.

Weir adds: "You can't get over the issue that if people haven't got very big pots, they're not going to get very much income out of it, and I think that's going to be the big challenge with these products."

Guiide founder and director, Kevin Hollister, agrees that understanding life expectancy is a big issue for consumers. "Many people underestimate their life expectancy, and that makes annuities seem like poor value. They're understandably worried about what happens if they buy an annuity and then die within five years."

The challenge for advisers and regulators

Looking ahead, the growing significance of the advised market in driving annuity sales has important implications for both financial planners and policymakers.

"These increased *[annuity]* rates have prompted retirees to take a closer look at whether annuities have a role to play in their retirement income strategy"

Aderdeen senior financial planner, Hollee Vivian, says: "Given that most financial planners have probably only advised on a handful of annuities over the past decade due to the poor rates, it is imperative that advisers are fully aware of all of the different add-ons that can be purchased using annuities and that they can explain these clearly to clients."

She adds: "Planners should also be using cashflow modelling in all scenarios to show the pros and cons of purchasing an annuity."

Additionally, the increase in advised annuity sales raises a flag for policymakers, as it underscores the contrast between the advised and non-advised market. Consumers who don't get advice may miss out on buying an annuity, even if it could be the best option.

"This has important implications for policy," warns Yuille, "as it shows that people without a financial adviser need more help to make retirement decisions tailored to them. The FCA is developing a Targeted Support framework to help consumers achieve better outcomes throughout retirement by enabling firms to more effectively utilise customer data. At the same time, DWP is introducing guided retirement solutions for occupational pensions – the 'guided' element of this is critical, because a one-size-fits-all default won't work for everyone."

A combined approach?

With challenges remaining for annuities, achieving the best outcomes in a post-pension freedoms world may require a combination of approaches beyond annuities alone.

Hollister comments that using a mix of options in retirement could be great news for pension savers, allowing flexibility while still mitigating longevity risk. This is often done by securing a tranche of guaranteed income and leaving the rest in drawdown. Another route may be to put aside money, which is expected to be used for later-life payments, into higher expected returning assets such as illiquid funds.

Whilst not eradicating all risk, this 'flex first, fix later' approach fundamentally shifts the problem from 'I need to make my whole pot last for life' to 'I need to make my liquid pot last until a set age'.

Phoenix Group head of annuity distribution at Standard Life, Jon Scannell, says that "approaches such as taking an annuity later in retirement, or annuitising in stages, can allow for a more flexible approach in combination with drawdown, while also letting people benefit from higher rates, which improve with age".

He adds: "The nature of retirement is evolving and with it, we're seeing more innovation to support people to take more nuanced retirement journeys."

Written by Alice Guy, a freelance journalist