



Professional Connections

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ABG communication to its professional partners

Pension income changes...more European illogicality! But.....good news for women resulting from improved income drawdown and annuity rates from 21 December 2012

The European Court of Justice ruled last year that with effect from 21 December 2012 gender could not be used as a factor in determining insurance rates, including annuity rates. ***The Court did not deny that there were genuine differences in life expectancy between men and women;*** they simply ruled that these differences could not be built into annuity rates. Or, to put it another way, the Court has decided that the principle of equal treatment for men and women now trumps the actuarial approach of reflecting different life expectancies for men and women in annuity rates.

Whilst we wait to see how insurers will deal with all this, HMRC has recently announced how the so-called 'GAD annuity rates' that apply to income drawdown will be modified to accommodate the Court's ruling. With effect from 21 December 2012 the separate GAD annuity rates for women will cease to apply and, instead, the GAD annuity rates for men will be used for both men and women.

This is a delightfully simple way of dealing with the issue but it may be a temporary solution since HMRC has stated that this approach will apply 'until it becomes clearer how annuity providers will apply the judgement in practice'. Hopefully, HMRC will conduct a full-scale review of GAD annuity rates since it is clear that they are not currently fit for purpose in the light of current low gilt yields and extremely low GAD annuity rates.

Some examples of the impact of the change (based on an assumed yield of 3% pa on 15 year gilts) are shown below.

GAD annuity rates (per £1,000)

Age	Men	Women	% improvement for women
55	£48	£46	4.3%
60	£53	£50	6.0%
65	£59	£56	5.4%
70	£69	£64	7.8%
75	£83	£76	9.2%

The crazy thing is that whilst this particular aspect benefits females, their life insurance rates will go up as previously the lower female mortality rates (yes, I know 100% of people die) or to you and me, greater longevity, mean that their premiums were less expensive, but now, thanks to the European Court, who appear to know everything about everything, they will be more expensive which will have a negative effect on 'group' rates as well. So, despite acknowledging (see bold italics above) the illogicality of their position the obsession with political correctness has driven this through. As our American friends say....." go figure"