Newsletter for the outplacement industry

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Insurance payouts add up to £3bn

New figures from the body that represents the UK's insurance industry have highlighted the importance of cover in helping individuals and families cope with the financial difficulties arising as a result of a death, serious illness or injury.

The Association of British Insurers (ABI) published figures on 27 May showing that in 2013, £3.1 billion was paid to 99,000 customers or families – an average of 270 a day – in life, critical illness and income protection insurance.

Helen White, the ABI's head of protection, said: "The insurance industry pays out £8.4 million every day in individual life, critical illness and income protection insurance claims, making a real difference to people's lives at some of the most difficult of times, with 97 per cent of all claims paid in 2013."

The ABI data also revealed:

- the average claim paid in 2013 for individual income protection policies was £11,500, paying out on average for 230 weeks – more than four years – to help those unable to work
- the average pay-out on a term life insurance policy was £51,500 with 98.4 per cent of claims paid. Total claim payments were £1.3 billion
- for whole of life insurance, the average claim payment was £10,300 with 99.9 per cent of claims paid. In total £449 million was paid out
- the average pay-out on a critical illness insurance policy was £60,400, with 91.8 per cent of claims paid.

In May, Scottish Widows revealed that it paid out an average of £4 million a week in life and critical illness claims in 2013.

It revealed that life claims paid totalled over £129 million or an average of almost £2.5 million each week in 2013. Critical illness claims paid over the same period totalled over £83 million, an average of almost £1.6 million each week.

Nearly half of life cover claims (46 per cent) in 2013 were as a result of cancer, followed by heart-related conditions (20 per cent).

For critical illness, the main three reasons for making a claim remained cancer (66 per cent), heart-related illness (15 per cent) and stroke (seven per cent).

Pension changes trigger new guidance

The Financial Conduct Authority (FCA) has published new guidance for firms following sweeping changes to the way savers can access defined contribution pension pots, announced in the March 2014 Budget.

The guidance, issued on 9 April, is designed to help firms working with customers making a retirement income decision in the coming year and clarify what the FCA expects from firms in the period between the Budget and April 2015, when many of the Budget changes come into force.

The FCA said it wanted to ensure that customers were making informed decisions about their retirement in light of the Budget changes. Its guidance highlights issues firms should consider in communicating with different customer groups, including customers currently considering retirement options and those approaching retirement.

In the Budget, Chancellor George Osborne announced that from April 2015, savers would be able to access defined contribution pension savings as they wish from the point of retirement, with no obligation to buy an annuity. He said: “Pensioners will have complete freedom to draw down as much, or as little, of their pension pot as they want, anytime they want.”

Tax rules will also be changed to reflect the new flexibility. Under the current tax system, after withdrawing 25 per cent of their pension fund tax-free, savers are charged 55 per cent if they choose to withdraw the rest of their defined contribution pension savings at the point of retirement. This makes the purchase of an annuity, providing a guaranteed income over the course of retirement, still the usual choice.

Mr Osborne said: “It will still be possible to take a quarter of your pension pot tax-free on retirement, as today. But instead of the punitive 55 per cent tax that exists now if you try to take the rest, anything else you take out of your pension will simply be taxed at normal marginal rates, as with any other income” – in other words, 20 per cent, 40 per cent or 45 per cent.

Alongside the changes next year, new rules were introduced that mean from 27 March 2014:

- the amount someone can take of their total pension savings as a lump sum will rise from £18,000 to £30,000
- the size of a small pension pot that can be taken as a lump sum, regardless of total pension wealth, will increase from £2,000 to £10,000
- the number of personal pension pots that can be taken as a lump sum, under the small pot rules, will rise from two to three
- under capped drawdown, the maximum amount that can be withdrawn from a pension each year has been capped at 120 per cent of an equivalent annuity. This figure will rise to 150 per cent
- with flexible drawdown, there’s no limit on the amount that can be withdrawn from a pension pot each year, but the saver must have a guaranteed annual income in retirement of £20,000. This will be reduced to £12,000 per year.

Don’t delay on auto-enrolment issues, employers urged

Employers struggling to comply with automatic enrolment requirements should notify the Pensions Regulator sooner rather than later, the organisation says.

The alert came as it published its first automatic enrolment report under section 89 of the Pensions Act 2004, designed to help employers avoid non-compliance.

The report, issued on 24 April, set out problems experienced by homewares and soft furnishings giant Dunelm. The company had an automatic enrolment staging date of 1 April 2013 and was due to complete registration, indicating that it had fully complied with its employer duties, by 31 July 2013.

When it failed to complete registration by the deadline, it was contacted by the regulator, with which it fully complied in correcting matters. An inspection found that:

- members of the four weekly payroll were automatically enrolled a month late
- members of the monthly payroll were automatically enrolled three months late
- as a result, the company failed to pay to its pension provider a significant level of contributions.

The Pensions Regulator said lessons to be learned from the case included:

- employers experiencing challenges in meeting automatic enrolment duties should contact the Pensions Regulator to discuss their situation
- payroll systems should be tested well in advance of the staging date to ensure they are able to fulfil the requirements of automatic enrolment.

The regulator’s executive director for automatic enrolment Charles Counsell said: “99.9 per cent of employers who have completed registration have done so without the need for us to use our powers. I would urge all employers to take heed from the lessons learned here so that they avoid the same pitfalls.”

At Birchwood Investment Management, our fully qualified team offers extensive experience in auto-enrolment and other occupational pension issues.

Our pensions experts can provide advice on a one-to-one basis, or through seminars, or we can provide more specialist assistance with reviewing and upgrading pension schemes or implementing new schemes. For more information, please contact us.

Annuities ‘still have part of play in retirement planning’

Pensions experts have given their backing to the greater pensions flexibility introduced in the 2014 Budget.

A survey by asset management specialists Schroders of defined contribution pension scheme trustees and consultants, revealed that 81 per cent thought the new pensions regime to be introduced in April 2015 was a positive step.

Respondents were also asked whether annuities would still have a part of play in retirement planning for defined contribution pension scheme members.

A total of 93 per cent said yes, with almost half of those (46 per cent) commenting that annuities would play a bigger part at a different, or later stage.

Participants cited annuities as a safe and predictable way to secure income and that some pensioners would think that security of income was worth paying for.

Commenting on the research results, issued on 28 May, Stephen Bowles, head of defined contribution at Schroders, said: “This is the first snapshot survey we have undertaken since the significant changes announced earlier this year. We are pleased that increased flexibility has been seen as a positive move.”

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