somewhat different

Deferred annuities at retirement

Increasing need for flexible retirement solutions

When it comes to financial retirement planning, it seems that the elderly need to choose between security and flexibility: On the one hand, lifetime annuities provide a lifetime of financial security. On the other hand, the purchase of a lifetime annuity is a one-time decision, which cannot be reversed once the payments have started.

However, senior citizens are increasingly requiring flexible retirement solutions. They therefore tend towards products with drawdown solutions, which may leave them high and dry in late old age.

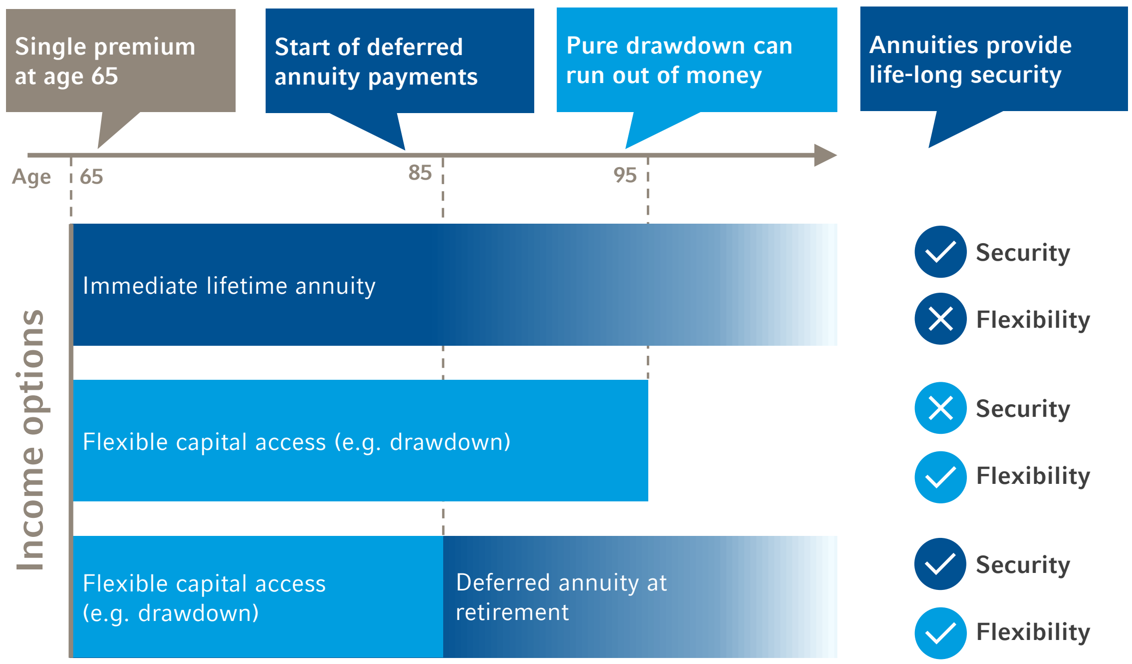
In order to remain competitive, lifetime annuity providers have to address the needs of their customers.

Product concept

The idea behind deferred annuities at retirement is simple but efficient and addresses the need for security and flexibility equally. Just as for immediate lifetime annuities, the annuitant pays a single premium at retirement. However, the life-long annuity payments do not commence before a pre-defined deferral period, which is typically between 10 to 25 years. During the deferral period, the annuitants can flexibly manage a large portion of their savings. However, they have the security that if they live beyond the deferral period, they will be provided with a guaranteed life-long income stream.

Just like immediate lifetime annuities, a variety of options are available in combination with deferred annuities at retirement, such as joint lives, escalations, guarantee periods, or death benefits. The product can also be combined with flexible capital access options for the deferral period, such as drawdown solutions.

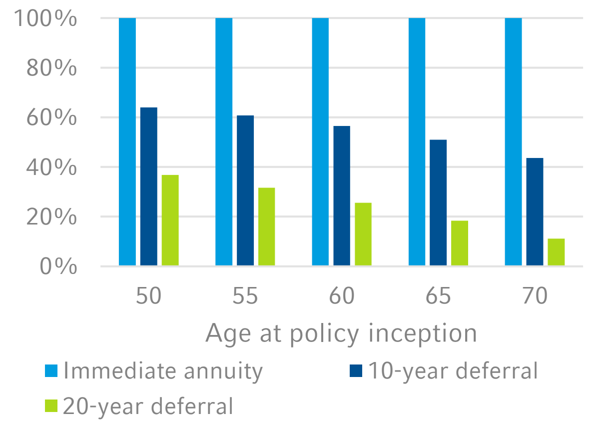
Income options



Single premium comparison

In contrast to an immediate lifetime annuity, the regular payments of a deferred annuity at retirement only commence after several years, if at all. This lowers the purchase price – often substantially. This is illustrated in the chart below.

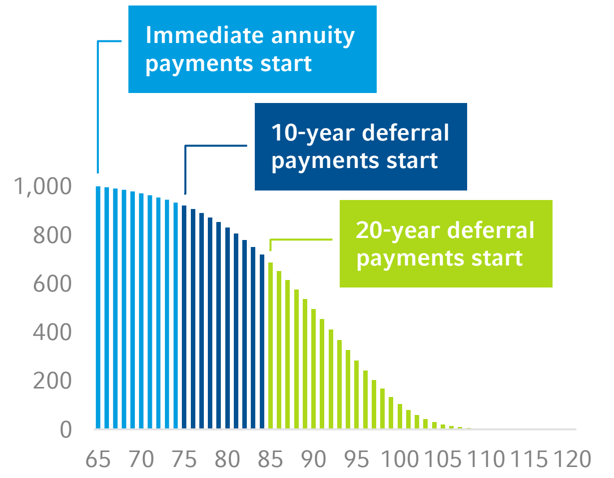
Single premium for deferred annuities at retirement compared to immediate lifetime annuities



Note: The numbers provided are for illustrative purposes only, and refer to a British healthy male annuitant in 2021, at an interest rate of 2.5%, no expenses included.

Below, an illustrative expected annuity payout pattern for a 65-year old male:

Expected annuity cash flows



Benefits for providers

Access to a new target group for whom immediate lifetime annuities are too inflexible or too expensive.

Increased product offering, thus enhancing image as an innovative insurer with the ability to provide retirement solutions tailored to customers' needs.

Better marketing of deferred annuities at retirement as insurance rather than investment products as only the tail longevity risk is covered.

Joining forces with Hannover Re

Hannover Re's partners benefit from a cooperation in several ways:

- Biometric risk sharing and cash flow stabilisation through a reinsurance treaty
- Up-to-date risk-adequate setting of longevity assumptions developed by our data analytics team
- Support in product development, based on behavioural economics research

Regardless if you are a first mover in your market or aiming to enhance your product offering in an already developed market: As worldwide leaders in longevity reinsurance, we at Hannover Re are the ideal partner for your annuity business.

We look forward to teaming up with you to make your retirement solution offering a success story.