



EU decision on Gender

by David O'Connor

Introduction

The decision by the European Court of Justice on 1st March 2011 to ban sex discrimination in financial transactions seems a poorly thought out decision that will have unintended consequences.

This decision means that insurers will no longer be able to use gender to calculate risk, which will have ramifications in 3 main areas of financial services:

- Motor Insurance
- Life Insurance
- Pension Annuities

Impact

- 1. Motor Insurance:** Insurers will no longer be able to charge females lower motor insurance premiums despite them being a lower risk, according to accident statistics. The Association of British Insurers (ABI) says that females under the age of 25 may face a 25% increase in premiums, whilst males might only see a reduction of less than 10%. Press speculation has focused on the under 25s, however rates for females will only stabilise with males after the age of about 35, after which male and female rates are currently equal.
- 2. Life Insurance:** We are all aware that statistically females have a longer life expectancy than males, and thus lower life insurance premiums generally apply to females. However this ruling means that gender can no longer be taken into consideration when calculating premiums for life insurance. The ABI says that women may pay 20% more for life cover, whilst men might only see a reduction of less than 10%.
- 3. Pension Annuities:** At retirement, the usual option for most people is to buy an annuity with their pension fund to provide a regular income for the rest of their life. Historically, as men have a lower life expectancy than women, they receive a higher pension annuity as the fund is expected to provide an income for a shorter period of time. The equalisation of male and female annuity rates is expected to penalise men more than it benefits women. The ABI estimates that men may see an 8% reduction in annuity rates, while women will only see a 6% rise. The change will be particularly negative for men as currently four out of five annuities are purchased by men.

When do the changes come into force?



The ruling comes into force on 21st December 2012, however there are indications that some insurers may start to change their pricing earlier.

Consequences

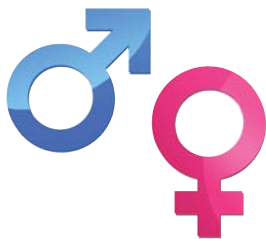
Ignoring all the political rhetoric and newspaper headlines, we must now examine what these changes could mean to existing and future clients.

Apart from the irritation about car insurance premiums increasing for women, I suggest that the changes to life assurance and annuity rates are of greater significance in the longer term.



Life Cover

If rates become cheaper for men whilst becoming more expensive for women, one would imagine that a great many life insurance policies already in force will need to be re-visited. In other words everyone will need to review their protection policies to ascertain whether their current policies meet their needs and to determine that the price they are paying is acceptable, and whether the changes are likely to reduce or increase their premiums. Considering that most of the population are thought to be under-insured already, this may be an opportunity for people to ensure they have adequate and appropriate life cover in place at the best possible premium.



Retirement Planning

Most people are aware that there is a 'savings gap' issue with the majority of people making insufficient provision for their retirement. The Government is continually repeating the message that everyone should plan for their own financial security in retirement and not rely on the State pension.

To now state that all annuities bought by men will be reduced by 8% is a devastating blow for those who are actually attempting to plan for their retirement. For those who have not yet started this process this may be yet another reason they can cite for doing nothing, because in their words 'it is not worth it because they are always changing the rules'. Although I can understand this sentiment I do not agree because if we all took this view then most of us would face a retirement in poverty.

Today's average personal pension fund amounts to £40,000 at retirement, which at current annuity rates will produce an income of approximately £2,000 a year. To believe that this could provide sufficient lifetime income to enjoy a comfortable retirement is living in a dream world, especially as most of the population are living longer and are in better health than at any time in history. On average a saver would need a £300,000 pension fund to ensure annual income of £15,000.

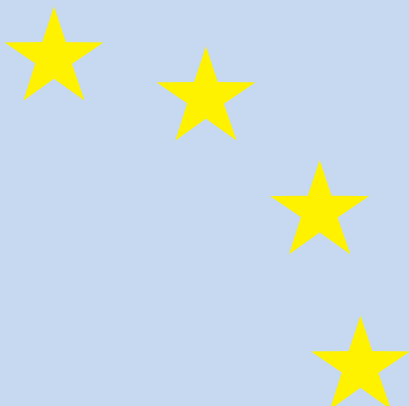
The solution, whilst obvious, is nevertheless daunting for the vast majority of the population, and only a continuous programme of education by the Government and Schools could change the perception of the public to that of saving for retirement is a worthwhile exercise.

Conclusion

Whenever there is change in legislation, be it from our own Government or the EU, the result always seems to be that our clients need more advice rather than less.

These changes are no different, virtually everyone needs to review their Life Cover needs and costs as well as their pension planning, to ensure that their affairs are in order and to provide financial security both now and in the future.

We always recommend that professional advice is sought before entering into a life cover or pension contract.



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