

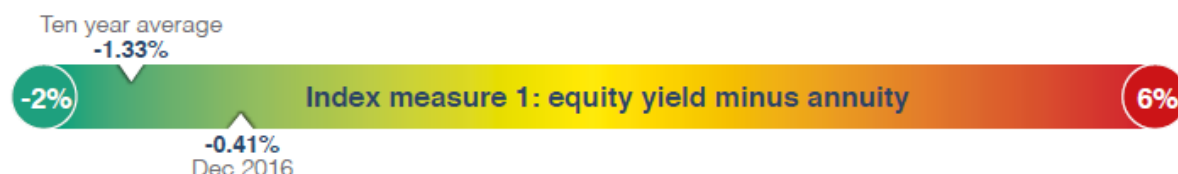
IRESS launches new index revealing relative performance of annuity yields

IRESS, the leading supplier of technology for wealth management, financial markets and the mortgage industry, has launched a brand new index which compares the relative performance of annuity yields against cash and equity yields over the last ten years, and also against a fair sustainable withdrawal rate, as part of its latest Retirement Report.

The **IRESS Relative Annuity Yield Index** compares the income yield of annuities to cash ISA rates, an example of a UK Equity Income fund and a sustainable withdrawal rate.

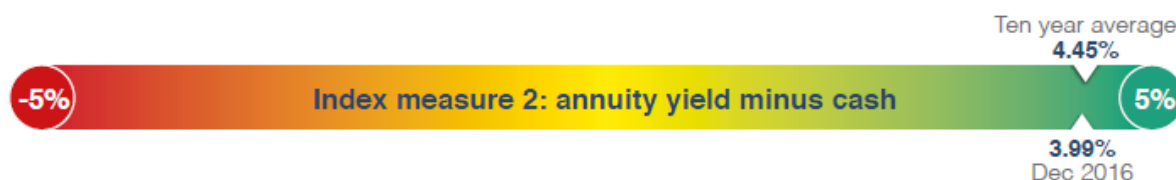
Annuity vs. Equity yield

The comparison between annuity yields and UK Equity Income was calculated based on the average 12-month yield for the UK Equity Income Fund less the average annuity rate for that year (a number around zero or less indicates that annuities have outperformed). As the index below illustrates, annuity yields have consistently outperformed the UK Equity Income Fund:



Annuity yield vs. cash ISA rate

This measure is calculated by taking the annuity yield, minus the average cash ISA rate for the 12-month period. Contrary to equity yields, it's the higher number here which indicates that annuities have outperformed cash more decisively:



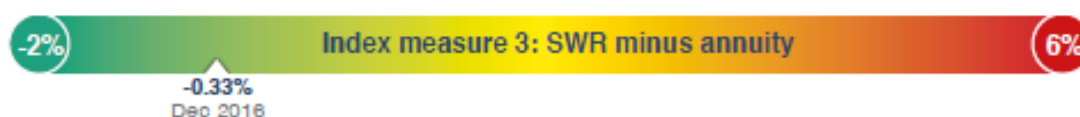
Of course, these comparisons don't account for the fact that an annuity requires you to give up your capital (outside of any guarantee options you may choose to take) and so you would expect annuities to compare favourably on a pure yield basis.

Annuity yield vs. sustainable withdrawal rate

For the third measure in the index, IRESS required a representative portfolio that someone retiring might reasonably hold – 40% invested in equities, with the rest in bonds and cash. It also required a withdrawal or income rate which offers a reasonable chance of success in terms of it lasting 25 years, which is a realistic expectation for someone retiring in their mid-60s (remembering of course that enhanced annuities can offer far better rates than standard ones).

For its index, IRESS has chosen Morningstar's estimated 4.5% as the sustainable withdrawal rate that fits the required 40% exposure to equities with a 50/50 chance of success, taken over 25 years.

This sustainable withdrawal rate is only slightly below the current annuity rate of 4.83%. But with a probability of success at 50%, this means there is as good a chance of failure (ie the 'income' runs out before death) as success (ie having some of the fund left after 25 years).



The comparison of annuities against a fair sustainable withdrawal rate provides important additional context. This measure illustrates that the trade-off between certainty of a predictable income for life and a portfolio that has as good a chance of failure as success (over 25 years) is actually quite small.

Commenting on the initial results of the IRESS Relative Annuity Yield Index, **IRESS – UK managing director Simon Badley, said:** “The yield performance of annuities, especially against an independently calculated sustainable withdrawal rate, serves as an important reminder that they continue to offer a valuable option for investors looking for absolute certainty in retirement.

“It’s true that the negative commentary and falling rates over the years may have made annuities appear less attractive in comparison to other options for retirement income, but industry opinion suggests a plateau has now been reached. It now appears that the retirement market is readjusting to a new normal following the dramatic swings in the wake of the pension freedoms. The relative value of annuities assessed against other retirement income options deserves a fair hearing and we hope the IRESS Relative Annuity Yield Index helps deliver a new context for comparison.”

This plateau is reflected in data from IRESS’ own online comparison quote and transaction portal, The Exchange which shows that while annuity key fact illustrations (KFIs) fell by 36% between March and April 2014 in the wake of the pension freedoms Budget announcement, the average annuity fund actually

increased by 9% to £84,096 at this time. It appears that the initial impact of the changes had played out by the time the freedoms came into effect, as both total and average KFI amount increased between March and April 2015 (by 15% to £303.5m and 33% to £124,807 respectively).

With Government focus seemingly set on the UK's retirement planning for the foreseeable future, further evolution in the market seems inevitable. Against this backdrop of change, **the IRESS Relative Annuity Yield Index** is the first in a series which will be published every six months as part of its Retirement Reports, to track the progress of annuity yields against this wider market context and chart the continuing shift in the UK retirement landscape.

Ends

*Notes to Editors

The index has been limited to three main types of retirement financial products (annuity, cash and equities), which were compared for their performance over the last ten years.

To look at each of these options in more detail, IRESS then had to thin out the equity options so the average yield of a single UK equity income fund has been used. A carefully chosen, diverse equity portfolio will likely outperform annuities in most cases. Instead the UK Equity Income Fund used in the index is designed as an example to demonstrate a baseline of equity performance.

By comparing equity performance with average annuity rate and then average cash ISA rate with annuity rate, the index provides an indication of the relative yield annuities provide in this context.

In a pure sense, comparing these is problematic. Each comes with its own 'signature' of characteristics which resist direct comparison. For example:

- Annuities generally return a higher rate in terms of pure income than other products but do so at the cost of using up the whole fund i.e. the income is part yield, part return of capital.
- Cash products generally lose value over time compared to inflation
- Equity income funds are volatile in nature, so produce a volatile income. Charges are often taken from capital rather than income, so unless the fund also achieves capital growth as well as a high yield, the original capital can decrease in value.

One of the most important differences is that only one of our cohort of products will not return any capital (unless specific guarantees are put in place) – annuities.

We have therefore included another contextual index measure which compares an annuity to a sustainable withdrawal rate from a portfolio that has reasonable equity exposure and a 50/50 chance of success over a 25 year period.

It is important to note that we are not assessing all equities here. A carefully chosen, diverse portfolio will likely outperform annuities in most cases. It is an example to demonstrate a baseline of equity performance.

The index is built upon one set of comparisons and is not intended to be definitive by any means. IRESS is aware that any number of investment options can be analysed in any number of ways. In order to bring simplicity to a complex topic, we have taken a focused, specific view of the market that we hope will provide some context and clarity.

It's also very important to stress again that the index is only comparing yield in this measure. Cash aims to preserve capital and other equity based investments aim to return income and capital. Annuities do neither of these things.

IRESS FS Limited,
1 Kingmaker Court,
Gallows Hill,
Warwick, Warwickshire,
CV34 6DY

T +44 (0)345 068 1000
F +44 (0)345 068 2000
enquiries@iress.com
www.iress.com

Offices in:
Australia, Canada, Hong
Kong, New Zealand,
Singapore, South Africa,
United Kingdom.

Journalists, for further details, please contact:

Debra Knott

IRESS

Telephone: +44 (0) 1926 621 410

Mobile : +44 (0) 7796 271 584

debra.knott@iress.co.uk

Mark Locke / Jenette Greenwood

the lang cat

Telephone: +44 (0) 131 202 5994

iress@langcatfinancial.com

About IRESS

IRESS is a leading supplier of technology solutions to clients in the financial markets, wealth management, and mortgage sectors. IRESS is listed on the Australian Securities Exchange (ASX.IRE) with operations in Australia, New Zealand, the United Kingdom, South Africa, Canada, and Asia.

www.iress.com / @iressUK

IRESS FS Limited,
1 Kingmaker Court,
Gallows Hill,
Warwick, Warwickshire,
CV34 6DY

T +44 (0)345 068 1000
F +44 (0)345 068 2000
enquiries@iress.com
www.iress.com

Offices in:
Australia, Canada, Hong
Kong, New Zealand,
Singapore, South Africa,
United Kingdom.