HM Treasury

Department for Work & Pensions

Creating a secondary annuity market:

response to the call for evidence

December 2015

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Foreword

On 6 April this year, the wide-ranging pension changes the government announced last year came into effect. We have removed the restrictions on hard-working individuals who have saved responsibly throughout their adult lives, giving them the freedom to make choices that are right for themselves and their families. These changes amount to the most fundamental reforms to how people access their pensions in nearly a century, and already hundreds of thousands of people have taken the opportunity to access their pension flexibly.

This year also saw the successful launch of Pension Wise, the free and impartial guidance service which is helping people to understand the new pension freedoms and find the option which best fits their circumstances and goals. And we announced at Autumn Statement 2015 that the "triple lock" on State Pension will be maintained, as well as setting the full rate for our new single tier State Pension for new pensioners from April next year, at £155.65. The government's approach will continue to protect those who have paid into the system throughout their working lives, while trusting them to save or spend their money as they see fit.

We want as many people as possible to be able to access their pension flexibly, but those who bought a pension annuity before April this year are still effectively barred from doing so. We believe that there is no good reason for this. The government welcomes the support of the many stakeholders who agree with our view. So with effect from April 2017, we will remove the pension tax restrictions on people seeking to sell their right to future income streams for an upfront cash sum, whether they purchased their annuity before 6 April this year or since then.

This will open up new freedoms to around 5 million people who currently have an annuity, as well as all future annuity holders. Individuals will be free to use the proceeds they receive from assigning their income stream how and when they want, taxed only at their marginal rate.

With more choice for retirees, it is right that there should be appropriate support. So the government is expanding Pension Wise to cover all those who hold annuities. For those with an annuity above a certain value, the government will put in place a financial advice requirement to make sure they have the support to make the right decision. The government will work closely with the Financial Conduct Authority (FCA) to consider how this will work in practice. The FCA will also consult on other measures that are designed to both protect consumers and promote competition during 2016.

These changes mean more freedom, but also more guidance and support to help people make the decision which is right for them. We are confident that with the support of insurers, intermediaries and purchasers, the secondary market for annuities will develop in a way that best suits the interests of retirees.

We would like to take this opportunity to thank all those who engaged with the government during this consultation period, and for the positive feedback and contributions that have helped to inform the expansion of pension freedoms.

George Osborne
Chancellor of the Exchequer
December 2015

Baroness Ros Altmann
Minister for Pensions
December 2015

1 Introduction

Creating a secondary market for annuities

1.1 In April this year, the government introduced reforms to increase radically the choices and flexibilities available to individuals when they come to access their defined contribution pension pot. This was a significant departure from the past 90 years, when individuals had limited choice in how and when to access their pensions.

1.2 While those retiring since April have been able to access these pension freedoms, those who retired before then were largely limited to buying an annuity with funds from their pension scheme. In the March 2015 Budget, the government announced its plan to change the tax rules to allow people who are already receiving income from an annuity to sell that income to a third party, subject to agreement from their annuity provider.

1.3 For most people, retaining an annuity will still be the best choice – it provides a regular, guaranteed income for life and consequently many people will continue to value the security annuities provide. However, the government believes that individuals should be free to make their own choices about what to do with their annuity incomes. That is why we are committed to creating the conditions for a secondary market for annuities by April 2017. This document considers the themes that ran through the responses to the consultation and sets out the government's plans for the new market.

The consultation

1.4 In March 2015, the government launched a consultation document that invited interested parties to comment on the policy detail associated with creating a secondary market for annuities.

1.5 The government invited views on 18 questions, which covered the scope of annuities eligible for sale, changes to tax legislation, how to encourage an effective market and consumer protection.

1.6 During the consultation period we engaged extensively with stakeholders and received a total of 87 responses to the consultation from a range of firms in the financial service industry, consumer groups and individuals (see annex B for a list of organisations that responded).

Structure of this document

1.7 A brief outline of the issues covered by each chapter is provided below.

- chapter 2 sets out the considerations around the types of annuities in scope and the measures government will undertake to enable a secondary market for annuities
- chapter 3 outlines changes that the government proposes to make to create greater consistency with the tax treatment for existing pension freedoms, including the broad approach for buyers of secondary annuities
- chapter 4 outlines the government's approach to consumer protection for the secondary market for annuities, including how this will fit with wider work being done in this area
- chapter 5 highlights some of the key impacts of the proposals set out in this document
- chapter 6 sets out the next steps for implementing the secondary market for annuities and plans for passing legislation

- annex A summarises the responses received to the consultation
- annex B provides a list of the organisations that responded to the consultation

2 Creating a new secondary market for annuities

2.1 The government is creating the conditions for the establishment of a secondary market for annuities. While the market itself will be developed by annuity providers, purchasers, intermediaries and annuity holders, there are a number of decisions government can make to help shape it and create the conditions for it to succeed.

2.2 The main points coming out of responses to the consultation on creating the new market are:

- there was broad agreement with the government's view that the right decision for most people is to retain their annuity. Most responses agreed with the range of examples given in the consultation for when it might be appropriate for someone to sell
- most responses argued in favour of allowing providers to buy back their own annuities – but only indirectly or after a competitive price had been determined, for example through an intermediary bidding platform
- there was a mixed response with regards to how annuity providers could be notified to cease payments upon the death of the original annuitant. Some respondents noted that existing data services could be used, while others argued for a government solution
- most responses acknowledged the need for a wide range of purchasers to create an effective market but also argued that they should be restricted to FCA authorised entities to ensure stronger consumer protection and help deter tax avoidance
- most responses agreed that the scope of annuities within the market should include any individual annuities held in an individual's own name, although a significant proportion thought annuities held by occupational pension schemes should also be in scope
- most responses also agreed that it was appropriate for the FCA to monitor fees charged by providers which cover the administrative costs they incur in allowing an assignment, with a number of responses emphasising the importance of transparency. A small number of responses argued for a formal fees cap

2.3 The consultation document proposed that the secondary market for annuities would be introduced from April 2016. At Summer Budget 2015, the government announced that it would delay implementation of the market until 2017 to allow time to work with firms and the FCA to develop an effective package of measures to protect consumers. The government is confident that a robust consumer protection framework will be in place by April 2017, and is committed to implementing the market by that date.

Consumer demand

2.4 In the consultation document, we noted estimates that up to 5 million individuals are in receipt of annuities payments totalling approximately £13.3 billion a year.

2.5 The government expects that for most annuity holders, continuing to hold the annuity income will be the right decision, given the lifetime certainty and security that annuities provide.

But this might not be the case for everyone. In the consultation document we set out some circumstances in which people might want to assign their annuities. These were to:

- free up the value from one of a number of retirement income streams, where the other income is sufficient to cover daily needs
- provide a lump sum for relatives or dependants
- meet a particular financial need or goal, such as paying down debt
- respond to a change in circumstances
- purchase a more flexible pension income product

2.6 Many responses to the consultation agreed with the circumstances set out above and noted a range of additional circumstances under which individuals would sell their annuities, for example, they may wish to reconfigure their annuity from single to joint upon marriage, or vice versa in divorce.

2.7 While there might be high levels of consumer interest, the number of people who sell their annuity income streams will depend in part on the price that purchasers are willing to pay. The price individuals will be able to obtain will reflect various factors, including the level of the annuity payments, the customer's health and age, buyer profit margin and buyer costs.

2.8 All responses agreed with the importance of providing support to individuals to ensure they can make an informed choice. The government agrees with this and its proposed approach is set out in chapter 4.

Investor demand

2.9 In the consultation document, the government outlined the potential for annuity income streams to be attractive for a wide range of investors from within the insurance sector and beyond. At the same time, the uncertainty around original policy holders' life expectancy clearly makes annuities an unsuitable asset for investors who do not have the underwriting capacity to price the complex mortality risk. The government therefore proposed to allow a wide range of corporate entities to purchase annuity incomes, while restricting retail investment due to the complexity of the product.

2.10 There was broad support in the consultation responses for the government's proposed approach, particularly the need to prevent retail investors from purchasing annuities on the secondary market. Many respondents also suggested that eligible buyers should be further restricted to entities authorised by the FCA, to allow regulation of the market, to protect consumers. The government agrees that UK firms operating in the secondary market for annuities should be regulated by the FCA, and will legislate to ensure that purchasing rights under an annuity on the secondary market is a regulated activity. It is expected that the FCA will consult on its approach to authorising firms in its forthcoming consultation on the secondary market for annuities. In order to protect tax revenues, the government will also prevent related parties from purchasing annuity rights in the secondary market.

Purchases by the original annuity provider

2.11 The government proposed in the consultation document that annuity providers should be prohibited from buying back or commuting (winding up) their own annuity contracts. The main reasons outlined in the consultation were:

- consumer protection. There is a significant risk that many consumers will be unlikely to shop around when seeking to sell their annuity income and may accept the price offered to them by their current insurer

- **fund solvency.** There is a risk that if public pressure is great enough, providers could consider themselves compelled to buy back annuities. A large volume of buy backs over a short period could force the rapid sell-off of illiquid assets supporting a provider's annuities, risking the solvency and value of the underlying funds. It could also undermine the capital treatment for annuity funds under the Solvency II directive as the funds would no longer qualify for a favourable matching adjustment

2.12 As the consultation noted, there are also potential benefits from allowing annuity providers to buy back:

- annuity providers already have a transactional relationship with their annuity holders, as well as access to key information, which could reduce some of the transaction costs relative to those that third party buyers would incur. This saving could be passed on to the annuity holder through a higher lump sum

- some providers could find buy back helpful for the purpose of managing their capital – they could reduce cost (and risk) by winding up the annuity contract, rather than continuing to pay it for the lifetime of the original annuity holder. This would result in a reduction of the provider's liability rather than an asset to be set against the liability. It would also avoid the risk of overpayment beyond the lifetime of the annuity holder

2.13 There was strong support for buy back in the consultation responses from many providers and a number of consumer groups, on the basis that this could offer consumers the best price, particularly for those with smaller annuities.

2.14 However, most responses, including from the insurance industry and consumer groups, also recognised the risks associated with buy back. Many responses proposed mitigating these risks by only permitting buy back through an intermediary. Respondents suggested that annuity providers would only be permitted to bid for their own annuities through an intermediary such as a blind bidding platform (where purchasers would be anonymous to the annuitant until late in the process), or a broker who would shop around on behalf of the consumer. An Independent Financial Advisor (IFA) could also act as the intermediary. This would help to mitigate risks as:

- in effect, it would enforce an open market option, reducing the risk of "consumer capture"

- providers would be under less pressure from their policy holders to purchase their own annuities as they would be "just another bidder". A small number of annuity providers' responses opposed permitting buy back for solvency reasons, although they tended to agree that the proposed approach would reduce the risk

2.15 While the government recognises the benefits both to annuity holders and the industry of permitting this "indirect buy back" through brokers, financial advisors or other intermediaries, it acknowledges that an extra layer of cost would be imposed in comparison to direct buy back. In addition, buy back would only be possible if platforms or brokers enter the market. Overall, considering the benefits and risks associated with allowing buy back, the government agrees that it should be allowed indirectly.

2.16 The government plans to legislate to create a further regulated activity for buying back an annuity. Annuity providers will need to hold this permission in order to buy back their annuities through a regulated intermediary. The government expects that the FCA will consult on its approach to authorising firms for this permission, together with any related FCA rule changes.

2.17 A number of responses have recommended greater flexibility for low value annuities. The government agrees and intends that insurers should be able to directly buy back low value annuities from the annuity holders. The government will be consulting on the details of low value annuity buyback, including how to determine the level and form of any threshold, when it consults ahead of introducing secondary legislation in 2016. The government will also ask the FCA to consider what consumer protection should be introduced in cases where a provider is directly buying back low value annuities.

Purchases by retail investors

2.18 UK retail investors may in theory currently purchase annuities provided they are not operating by way of business, as they do not need to be FCA regulated. However, the government considers that annuities offered on the secondary market are not suitable for retail investors, given the complex pricing and liquidity features of these products. Therefore, the government intends to remove this ability through secondary legislation and will ask the FCA to consider what further steps are necessary to protect UK retail investors, for example with regards to onward sale in the "tertiary" market.

Intermediaries

2.19 The government recognises the important role that intermediaries will play in the new secondary market for annuities. Intermediaries may include platforms, brokers and IFAs. The government proposes to maintain FCA regulation of intermediaries under the Financial Services and Markets Act (FSMA). The government proposes to consult on any secondary legislation considered necessary to achieve this in the first half of 2016.

Onward sale of annuities

2.20 The government has been considering whether to permit annuities assigned on the secondary market being re-assigned to another investor (in effect creating a "tertiary" market). This might happen, for example, if an investor wishes to sell annuity income to another party in order to rebalance their portfolio.

2.21 Some potential investors have indicated that they might seek to securitise annuities or place them in funds in order to make them available to other investors. However, the ability to reassign the annuity income directly will provide greater confidence in purchasing. The government's view is that in order to promote liquidity in the secondary market, it should not place restrictions on buyers' ability to reassign annuities once purchased.

2.22 In conjunction with the proposed regulation of the secondary market, this onward sale of annuities poses fewer consumer protection and tax avoidance risks. The government does not propose to restrict any entities from purchasing on the tertiary market, but will be considering with the FCA whether to prevent UK retail investors from purchasing rights under annuities that are re-assigned on the "tertiary" market, in order to protect them from a complex financial product. The government will consider whether any further secondary legislation is required in order to allow the "tertiary" market to function.

Partial assignments and partial surrender

2.23 The government has considered the potential benefits and challenges of allowing consumers to assign parts of their annuities to a third party, or surrender part of their annuities to their provider. This could offer consumers more flexibility and allow them to raise a lump sum without having to give up their entire annuity income. Many respondents, however, advised that partial assignment/buy back of annuity rights would be highly complex and create additional costs (which would be passed on to consumers).

2.24 The government needs to strike a balance between the degree of flexibility designed into the system and subsequent complexity. As an alternative to taking a taxable lump sum, the proposed tax framework would allow the proceeds from the assignment or surrender of an annuity to be paid into a flexi-access drawdown fund or be used to buy a flexible annuity. Both of these options offer scope for individuals to withdraw some amounts from the new drawdown fund or annuity, subject to Income Tax, and also to receive regular income.

2.25 Therefore, the government intends to maintain the current "unauthorised payment" tax charges where a consumer seeks to partially assign or partially surrender their annuity. The government will, however, monitor the development of the new market and may decide in future to facilitate partial assignment by removing the relevant tax charges. The government does not envisage putting in place restrictions to prevent the splitting of annuity income through onward sale (on the "tertiary" market).

Operational considerations

2.26 **Ceasing payments.** The government's consultation noted the risk to the annuity provider of not knowing when to stop payments after assignment, given there will be no incentive on the original annuity holder's estate to notify the annuity provider. The consultation suggested a number of alternative approaches that could be taken by market participants to resolve this issue, including requiring, as a condition of assignment:

- that annuity holders put in place arrangements for the annuity provider to be notified of the original holder's death
- the annuity provider and purchaser agreeing to a maximum age beyond which payments would cease, unless the life of the original annuity holder could be demonstrated
- providers continuing to pay a nominal amount to the original annuity holder so that some of the triggers that currently exist to determine the death of an annuitant can continue

2.27 The document also raised the option of allowing annuity providers and third party buyers to access a central "death register" operated by government. The consultation asked respondents to consider whether this issue is best resolved by market participants and whether there are ways government could support industry in finding a solution.

2.28 This question drew a range of responses, with respondents split on whether this matter could be resolved by market participants alone. Responses from industry in particular favoured a government-led solution, such as access to a central "death register". Several responses, however, accepted that this would come at a financial cost, and that there is a risk of this intervention being disproportionate in what is likely to be a relatively small market. Others noted that there were broader benefits to industry from having access to a central register.

2.29 The government will continue to engage with industry to explore whether there are proportionate measures government can take to support industry in resolving the death notification issue.

2.30 **Annuity provider costs.** Most respondents agreed that providers should be able to recover reasonable costs. The government will ask the FCA to consider putting in rules in place to ensure that any costs charged are reasonable.

Types of annuities in scope

2.31 The consultation document suggested that only pension annuities held outside an occupational pension scheme, in the name of the individual, should be in scope of these new freedoms. It suggested annuities that are general pension scheme assets and not in the name of the individual should be out of scope.

2.32 There were a number of key messages that ran through responses to the consultation:

- there were mixed views about whether the scope should be limited to annuities held outside an occupational pension scheme, in the name of the individual, as set out in the consultation document
- most respondents agreed with the scope suggested, as annuities in the name of the pension scheme are scheme assets and the member does not own the annuity
- there was also clear support for allowing annuities purchased using safeguarded benefits which are held outside of an occupational scheme, in the name of the individual, to be in scope. The view was that scheme members and potential annuity purchasers would not make any distinction between these annuities and those purchased using flexible benefits
- there were a number of suggestions that further consideration should be given to opening up the reforms to all existing annuitants
- other respondents thought that excluding annuities within an occupational pension could be seen as arbitrary, would lead to a divergence of opportunity and inequality, and would not allow the largest possible number of consumers to participate

2.33 The government wants the secondary market for annuities to be fair and simple to understand, cost effective and operationally deliverable. Further engagement with the industry has confirmed the government's view that allowing annuities which are general scheme assets and not in the name of the individual to be in scope could potentially damage the economic health of a scheme, which might jeopardise other scheme members. This is because the purchaser would be seeking a guaranteed income from the scheme or sponsoring employer and would most likely continue to enforce that obligation if, for example, the employer went insolvent. Schemes would have the option to reduce payments to remaining scheme members in order to protect the economic health of the scheme.

2.34 As such, annuities that are general scheme assets and not in the name of the individual will be out of scope.

2.35 However, the government recognises that scheme members with an annuity that remains a scheme asset would usually assume that the annuity is in their name. An example of this might be when an annuity has been purchased in the scheme name for particular members, but the pension provider pays the member directly, rather than the payment coming from the scheme. The government understands that trustees have the ability to permit annuity holders to assign their income on the secondary market should annuity holders wish to do so, and has no plans to legislate either to prohibit or underpin this process.

2.36 The government will continue to engage with industry on how to effectively communicate the types of annuities that will be assignable before the market opens, and how to help consumers understand whether they will be able to sell their income once it does. The government has no plans to extend the scope to defined benefit scheme annuities which remain within an occupational scheme.

2.37 The government has also considered whether or not a number of specific types of annuities should be in scope:

- annuities purchased using safeguarded benefits that are held outside of an occupational scheme, in the name of the individual, i.e. not scheme benefits, will be in scope, as allowing assignment of these annuities would not impact on a scheme or other scheme members. Furthermore, a member wishing to assign an annuity on the secondary market, along with potential annuity purchasers, are not likely to be aware that an annuity was purchased using safeguarded or flexible benefits. Evidence from industry also suggests that, operationally, it would be difficult to separate these out

- **other types of annuities that a scheme has assigned to individuals**, for example deferred annuities and annuities purchased by a scheme following a scheme wind-up will also be in scope. These annuities are also outside an occupational scheme and similar to those annuities held outside such a scheme in the name of the individual

- **annuities purchased before 6 April 2006,** the government intends that annuities purchased in respect of both Registered Pension Schemes and predecessor tax advantaged pension schemes, will be in scope

2.38 In addition, those annuities purchased following the introduction of the new pension freedoms in April 2015 will be in scope, subject to the same considerations as above. This will create flexibility for those who have purchased an annuity after April 2015 and then see a change in their personal circumstances, which could mean that an annuity is no longer right for them.

3 Tax changes

3.1 As set out in the consultation document, there are a number of legislative barriers which will need to be removed to enable the creation of a secondary market for annuities. The current tax rules are designed to deter individuals from assigning their annuity income to a third party or surrendering it back to their insurer. A new tax framework is therefore required to allow the creation of the secondary market for annuities.

3.2 The main points raised in responses to the consultation on tax changes are:

- most responses agree that the tax framework proposed in the consultation for individuals selling their annuities is appropriate
- there were a range of responses on technical points including the application of Pay As You Earn (PAYE),"re-profiling" of annuities, and tax compliance and avoidance risks. These responses have helped to inform the government's thinking on developing an appropriate tax framework
- there was broad support for the proposed tax treatment for buyers which was outlined in the consultation document
- a number of responses identified possible tax compliance and avoidance risks, with a variety of views on ways to address these risks

3.3 In the design of this framework, the government is guided by the following key principles. The new system should:

- achieve parity between those who are able to access their pension savings flexibly in light of the Freedom and Choice reforms announced at Budget 2014 and those with existing annuities, as far as possible
- minimise any risk to the Exchequer through tax avoidance, evasion or leakage
- minimise burdens on issuing insurers and buyers in order to support the development of a successful market

Individuals selling annuities

3.4 In the consultation, the government proposed three options for individuals – to receive a taxable lump sum for the assignment of their annuity, or for the proceeds to be paid by the buyer into a flexi-access drawdown fund, or for the buyer to purchase a flexible annuity on behalf of the individual.

3.5 The consultation also proposed that, following the assignment of their annuity, individuals would be subject to the £10,000 Money Purchase annual allowance, and outlined the tax treatment on the death of an individual who had assigned their annuity.

3.6 Many of the responses touched on questions around the design of the wider policy, which will in turn affect the construction of the detailed tax framework. There was broad agreement that the tax framework proposed in the consultation will achieve reasonable parity between flexible access to pensions and annuities.

3.7 Together with a number of detailed technical points, some responses have:

- flagged the need for the government to consider carefully how PAYE should be applied to taxable proceeds, and in particular what PAYE code should be applied
- recommended that individuals should be able to "re-profile" their annuities – assigning or surrendering one annuity in return for another slightly different annuity, perhaps introducing contingent rights for new dependants
- identified possible tax compliance and avoidance risks, with a variety of views on ways to address these risks

3.8 The government will continue to engage with stakeholders and will consult on the detailed tax framework in spring 2016], to ensure that the proposed changes will be effective and that they will protect against the risk of tax avoidance.

Buyers

3.9 In the consultation document, the government proposed that once sold, the annuity payments will no longer be treated as pension income in the hands of a buyer. Instead, these payments are likely to be treated as trading income or other types of income for tax purposes, depending on the nature and business activities of the recipient.

3.10 Consequently, companies that are in business for the purpose of buying and selling annuities will be charged corporation tax on their trading profits, as calculated in accordance with generally accepted accounting practice. This allows the purchase of the annuity to be treated as a trading expense and amounts received while owning or subsequently selling the annuity to be treated as trading income.

3.11 Buyers that acquire annuities on the secondary market as investments may face different tax treatments, depending on the nature of the entity. For example:

- companies (including insurers) acquiring an annuity on the secondary market as an investment – will be charged corporation tax on the profits that they receive over the life of the annuity, as determined through the loan relationships regime. Relief will be provided for the purchase of the investment, so companies will be taxed on the aggregate profits from holding the investment over the investment's lifetime
- registered pension schemes – the income and gains from most investments made by registered pension schemes are not taxable, and annuities purchased on the secondary market are likely to fall into this category

3.12 However, it is possible that a wider range of entities will be able to participate in the market. The government will continue to engage with stakeholders, and will consider the detail of the tax framework in the forthcoming tax consultation.

Avoidance

3.13 The government will continue to explore the tax risks in the development of the detailed tax framework.

4 Consumer protection

4.1 The government wants to ensure consumers are empowered and equipped to make the most of their assets, and to make decisions that best suit their personal circumstances and risk appetite for the duration of their retirement.

4.2 A core theme throughout the responses was that consumer protection is essential – both in terms of providing access to adequate information and ensuring that consumers understand the value of their annuities. There was a wide range of views in consultation responses around what this would look like in practice:

- there was broad support for the extension of Pension Wise to the secondary market for annuities, although there were different views about what the service should look like
- there was less agreement on whether guidance was sufficient or whether advice should be required but almost all respondents thought that the cost of advice should be borne by the annuity holder
- there were mixed views on whether consumers should be required to find a minimum number of quotes, and there were a number of suggestions for a bidding platform that allows consumers to enter their details once and receive a number of 'bids' for their annuity
- of those who had a view, most thought that providers should be required to gain consent from dependants and beneficiaries before assigning an annuity that contained a contingent right for dependants or beneficiaries
- most respondents thought that to allow the principal annuity holder's income to be assigned while dependants retain their own income would be complex for providers to administer and some thought it might add extra cost and confusion for consumers
- most thought that the potential impact on means-tested entitlements should be clearly flagged in both advice and guidance
- there were a number of concerns that it would not be possible to implement an adequate consumer protection package by April 2016

Helping annuity holders understand their choices

4.3 As set out in the consultation, there is a balance to be struck between ensuring that consumers are adequately protected and creating the right conditions for a viable secondary market in annuities to develop. The consultation document set out a number of potential options for ensuring that annuity holders fully understand their available choices:

- regulated financial advice
- free and impartial tailored guidance
- risk warnings

4.4 The consultation suggested that while there is a strong case for requiring annuity holders to take financial advice from an Independent Financial Advisor, it can be expensive and, as such, it might be more appropriate to require advice when an annuity is above a certain value. Some respondents thought that all consumers should be required to take independent advice, while others felt that voluntary or mandatory guidance would be sufficient. Most respondents, however, thought that it was appropriate to mandate advice above a certain value as higher value annuities are more likely to represent the main or significant portion of an individual's retirement income.

4.5 The government has recently launched a consultation around the Financial Advice Market Review (FAMR). The review will consider how financial advice could work better for consumers in the UK and is due to report in March 2016. The government's view is that any advice requirements for the secondary market for annuities should reflect wider advice measures which emerge following the recommendations from this review. However, it is unlikely that the recommendations from FAMR will be fully implemented by April 2017.

4.6 In the meantime, the government believes that individuals who want to sell an annuity income stream above a certain value should be required to seek advice before proceeding with the sale, and will legislate for this. This will ensure that individuals receive help tailored to their circumstances, a recommendation on whether assigning their annuity would be in their best interests and, potentially, assistance in the sales process. The government will set out in secondary legislation who will be required to take financial advice. The government is further considering whether the threshold should also take into account the individual's wider circumstances.

4.7 Support will also be in place for those who are not required to take advice. The consultation document put forward that free and impartial tailored guidance might be an important universal offer to complement other safeguards and asked whether legislation should be introduced to extend the remit of Pension Wise to fulfil this role. The vast majority of respondents agreed that Pension Wise has a role to play. Fewer respondents had a view on whether guidance should be offered through the annuity provider but where they did, they tended to argue that this would not be impartial enough. As such, the government is legislating to extend the remit of Pension Wise to cover the secondary market for annuities through the Bank of England and Financial Services Bill.

4.8 In addition to this, the government will also ask the FCA to consider what risk warnings might be appropriate as a "second line of defence" for those who wish to sell their annuity income streams. These risk warnings could include, for instance, warnings around means-tested benefits and social care support.

Preventing aggressive practices

4.9 As set out in the consultation document, the government thinks it is important that any material developed by industry to encourage consumers to consider selling their annuity income is clear, fair and not misleading, and that people do not feel forced into a decision. Most financial firms must already be FCA regulated for the purpose of purchasing rights under annuities – and annuity holders also have limited protection in relation to marketing from unauthorised entities under the Consumer Protection from Unfair Trading Regulations 2008.

4.10 As set out in chapter 2, the government intends to create new regulated activities so that all UK purchasers of annuity rights on the secondary market will have to be FCA regulated. Therefore, all UK purchasers will be subject to FCA rules and enforcement powers. The FCA intends to consult in 2016 over its proposed rule changes for the new regulated activities.

4.11 The government is considering with the FCA how best to ensure consumers are protected where the annuity provider, the intermediary or the purchaser is based outside the UK – and therefore outside of the FCA's regulatory remit. The government recognises the benefits of permitting overseas investors in the secondary market and the need to take a proportionate approach to access by overseas parties. The government has to balance this obligation against the need to ensure that consumers are protected appropriately and that tax revenue is also protected.

4.12 The government is minded to require at least one party in every transaction within the secondary market for annuities to be authorised by the FCA. This would allow the FCA to apply consumer protection rules. As a further measure to protect revenue, it is proposed that parties connected to the annuity holder would be prohibited from purchasing rights under annuities on the secondary market.

4.13 Annuity holders selling to overseas purchasers would also be protected by the legislation on financial promotions. This requires overseas purchasers to have marketing approved by an FCA regulated entity, unless an exemption applies,[1] to the effect that the material is true, fair and not misleading. The FCA has enforcement powers against the FCA regulated entity.

4.14 The government is working with the FCA to consider whether the option set out in 4.12 is workable and proposes to publish a consultation on any secondary legislation considered necessary to give effect to the government's approach to overseas entities in the first half of 2016.

Ensuring a competitive price

4.15 Understanding the value of an annuity can be challenging for a number of reasons, including the difficulty of accurately calculating the discounted value of future payments and consistent underestimation of life expectancy. It is important that individuals get the best price for their annuities. As accurate calculation of an annuity's value is complex, individuals are likely to find it difficult to determine what a fair value might be, leaving them vulnerable to giving up their income for an unfairly low price. It is also possible that consumers will have unrealistic expectations about the value they expect to receive, which could restrict market take-up.

4.16 The consultation set out two key ways of helping individuals to determine a fair value for their annuity:

- requiring annuity providers to offer a benchmark "selling price"
- requiring individuals to obtain a number of quotes

4.17 Broadly, responses to the consultation suggested that placing a requirement on annuity providers to offer a benchmark price would not be appropriate. In particular, industry felt this would place a burden on providers and add costs that would be passed through to prices which purchasers would be able to offer consumers. This would also potentially impose reputational risk on the annuity provider if their benchmark proved too low.

4.18 Responses to the suggestion that individuals should be required to obtain a number of quotes were more varied. Some thought that this would be a good way to ensure that annuity holders find a fair value for their annuity as it would effectively require individuals to shop around. Others disagreed, suggesting that this would be administratively burdensome and could result in extra costs for the consumer because extensive medical underwriting would be required to support each quote to ensure they are realistic. Other suggestions included requiring individuals to go through a comparison site or similar intermediary where they would only have to put their details in and go through medical underwriting once, or for the government to provide benchmarks.

[1] For example, where an annuity buyer operated entirely via email or the internet from another EEA state, in which case the E-commerce directive prevents requirements from being imposed on the buyer.

4.19 The government agrees that there would be significant practical difficulties associated with these options, some of which could lead to extra costs for the consumer. Accordingly, the government will not be taking these options forward.

4.20 However, on the whole, responses were supportive of some method or tool to help individuals determine a fair value for their annuity. As such, the government will work with the FCA to develop an online tool whereby annuity holders can enter their details and receive an estimated range around what they might expect to receive for their annuity income in the secondary market.

Protecting dependants and beneficiaries

4.21 Some annuity contracts provide for an income stream to be paid to a beneficiary or dependant upon the annuity holder's death. These are generally referred to as joint life annuities. The government understands that these joint life annuity contracts are usually held in the sole name of the primary annuity holder, and understands that some contracts opt out of statutory third party contractual rights that dependants and beneficiaries would ordinarily enjoy. As such there is a risk that dependants or beneficiaries might lose out on potential future income if the annuity is assigned without their knowledge or consent.

4.22 The government recognises the importance of providing appropriate protection for dependants and beneficiaries, particularly as it is likely that they will be older and potentially vulnerable. They might also be relying on the income to support them upon the death of the primary annuity holder. As noted in paragraph 5.12 this issue might also disproportionately impact upon women and those with physical/mental illness or disability.

4.23 Broadly, responses to the consultation suggested that annuitants should not be able to assign their annuity unless consent had been received from the dependant or beneficiary. While a number of responses suggested that in practice annuity providers are likely to be reluctant to permit joint annuities to be assigned without consent of dependants or beneficiaries, others expressed concern that the decision around treatment of dependants and beneficiaries would be solely left to annuity providers. The government will ask the FCA to consider whether a requirement could be placed on the annuity provider or other relevant parties to ensure that the dependant or beneficiary of an annuity has consented to its assignment, enforced through FCA rules.

4.24 The government will ask the FCA to consider how FCA rules could take in to account challenges including:

- obtaining consent where dependants or beneficiaries are unnamed (for example if the beneficiary is "any spouse" of the annuitant) or where they are particularly vulnerable (for example if they are mentally impaired or a minor)
- ensuring that appropriate protections are in place for income streams which are payable to former spouses or civil partners of an annuity holder, as a result of pension sharing or attachment agreements made upon dissolution

4.25 One option considered in the consultation document is whether the government should prescribe that only the rights of the primary annuity holder, and not those of any dependant or beneficiary, may be assigned. The potential income stream for the dependant or beneficiary would be separated from the primary annuity income, and would continue to be payable upon the death of the primary annuity holder. However, many respondents to the consultation stated that partial assignment/buy back of annuity rights would be too complex and create additional costs (which would be passed on to consumers). The buyer would also attain fewer legal rights from partial assignment and the transaction may create complexities from a tax perspective.

4.26 The government will also ask the FCA to consider the potential for putting in place further rules protecting consumers (including dependants and beneficiaries) who show vulnerable characteristics.

Protecting social care and welfare claimants and the taxpayer

4.27 The consultation document highlighted the potential interaction between selling annuity income and entitlement to means tested benefits or provision of local authority support for social care. It noted that:

- means-tested benefits. Income and capital are taken into account in the assessment of entitlement to means-tested benefits such as Pension Credit, Housing Benefit and Universal Credit. A transaction such as assigning annuity income in exchange for a capital lump sum may alter the level of support an individual is entitled to. This can have implications for both the individual and the taxpayer, so the consultation document asked how the proposed consumer protection regime for the assignment of annuities can ensure that any impact on means-tested entitlement is understood by those deciding whether to assign their annuity income, and whether those on means-tested benefit should be able to assign
- social care. People have always been asked to contribute what they can afford towards the cost of their care. Help with the financial cost is based on a means-test which takes account of a person's capital and income, including any income they might have from an annuity. Depending on the choice people make about their annuity they could increase or decrease the amount of support they receive or ultimately remove any support they are entitled to from their local authority

4.28 Responses to the consultation tended to agree that providing clear information on the impact that assigning annuity income could have on entitlement to means-tested benefits or social care support would be essential. Although a number of respondents highlighted the difficulties associated with ensuring individuals have understood all the information available to them, given the disproportionate costs involved, only a limited number suggested it would be appropriate to require people on means-tested benefits to seek independent financial advice. Generally, respondents suggested that information could be provided through Pension Wise and risk warnings. A small number of respondents suggested that signed declarations would be appropriate. Some also stated that DWP should provide information on the potential impact on means-tested benefit entitlement.

4.29 The government agrees that people who are considering assigning their annuity should be in a position to understand the interaction with means-tested benefits and social care. Information and guidance will need to cover both the individual's immediate and longer term circumstances as well as their aspirations about how they wish to fund later life. As part of the FCA's wider package being developed for consumer protection and guidance provision, the government will ask the FCA to consider how warnings can be given to consumers on these issues.

4.30 Respondents were generally in favour of allowing people in receipt of means-tested benefits or support towards the cost of their social care to assign their annuity, primarily because this would be consistent with the existing freedoms. At the same time, respondents broadly accepted that this should not be at the expense of the taxpayer.

4.31 The government agrees that people in receipt of means-tested benefits or who are in social care will not be prevented from assigning their annuity– individuals should be free to make their own choice about what to do with their annuity rights, regardless of whether they are in receipt of means-tested benefits or not.

4.32 The government also maintains that there should be protection for taxpayers. It would not be appropriate for annuity income to be automatically replaced by benefit income or additional support for care costs. Existing legislation provides that a household may be treated as possessing income or capital they no longer have if they have been found to have deliberately deprived themselves of that income or capital in order to gain additional support or benefits. Ensuring that people understand these rules and the implications for current or future means-tested benefits and social care support will be a key aspect of the consumer protection regime.

4.33 Changes to the relevant guidance will likely be needed to make clear how existing rules might apply in relation to people taking advantage of the new secondary market for annuities.

4.34 The government will keep these rules under review to ensure that the protections are operating effectively.

5 Impact

5.1 The introduction of a secondary market for annuities and the related tax, consumer protection and pension measures will have an impact on a range of corporate entities and individuals. These impacts vary between different entities and include both benefits and costs, depending on the role they might play in the market. An assessment of the impacts of the tax changes will be included in a Tax Information and Impact Note to be published in due course.

Business

5.2 **Annuity Providers** will be under no obligation to permit assignment of annuity payments. If they agree to do so they are likely to incur costs associated with the assignment of annuity income streams to purchasers. These costs could include the administrative costs of redirecting payments to a third party and potentially implementing consumer protection measures. It is reasonable that annuity providers would want to recover these costs. The government will ask the FCA to consider how the costs insurers recover are appropriate.

5.3 Knowing when to cease payments to purchasers of an annuity income stream upon the death of an annuity holder is an ongoing challenge for providers, which the government expects to continue in the secondary market for annuities. Tracing former annuitants will likely come with costs, and there are further challenges associated with recovering overpayments from third parties both administratively and in providing proof of the death of annuitants. This could be particularly true if annuity streams are then sold on to other purchasers or securitised as, depending upon the arrangement, the annuity provider may not be readily aware of who the holder of the annuity is. A variety of views were expressed through consultation on what, if any, difficulties could be created by onward sale of annuities.

5.4 Providers may benefit from the opportunity to buy back annuity income streams from some annuity holders as this would enable them to reduce their ongoing liabilities to some customers. There are also likely to be administrative savings from winding up contracts, which could be particularly attractive for smaller annuities. These administrative savings include reduced costs involved in checking when to cease payments, and fewer costs associated with pursuing overpayments made beyond the lifetime of the annuity holder.

5.5 Providers will also be able to operate as purchasers of annuities with other providers, with similar costs and benefits as for other purchasers.

5.6 **Advisors** are expected to benefit from an increased demand for their services because of the financial advice requirement for some annuity holders. However, there may be a requirement for advisors to take part in additional training or earn new qualifications to work with customers looking to sell their annuity.

5.7 **Purchasers** will need to comply with any existing FCA rules and any relevant additional rules which the FCA decides to implement. The secondary market for annuities is likely to provide a variety of investors, including pension funds, insurance providers and investment funds with a new commercial opportunity, which could potentially increase profits. This investment opportunity could provide a partial hedge against longevity risks for institutional investors, or provide a trading product for onward sale, possibly packaged with other annuities. Annuity providers may require purchasers of annuities to provide proof of life for the original annuitant, which could incur additional costs.

5.8 **Intermediaries** are likely to have new opportunities in this market including facilitating purchase of annuities and providing a range of services for the consumer. These new opportunities are likely to improve the profitability of firms.

5.9 Administrative costs will be incurred in ensuring individuals with annuities have, where necessary, taken financial advice. Depending upon FCA rules, these costs will be incurred by annuity providers, purchasers or intermediaries.

Individuals

5.10 **Consumers** will benefit from increased choice in their retirement by being able to sell annuities if they prefer to hold a lump sum or another retirement product. This will give existing pensioners the opportunity to make financial decisions tailored to their own circumstances and aspirations. Along with their dependents and beneficiaries, annuitants will be able to access free and impartial guidance through Pension Wise to assist them in their decision. There will also be costs associated with the requirement for some individuals to take financial advice and for indirect assignment in the case of buy back, as brokers fees will need to be paid.

Equality impact

5.11 Under the Equality Act 2010, when exercising its functions, the government has an ongoing legal duty to pay "due regard" to the need to:

- eliminate unlawful discrimination, harassment and victimisation and other prohibited conduct under the Equality Act 2010
- advance equality of opportunity between different groups of persons who share a protected characteristic and those who do not
- foster good relations between different groups

5.12 The payment of "due regard" needs to be considered in light of the protected characteristics such as age, gender and disability. As highlighted in the consultation document, the likely age and demographics of consumers in these transactions, and the fact that dependants of those selling the annuity products are disproportionately likely to be women, means that this policy has the potential to impact those with protected characteristics. The likely demographics of annuities consumers or their dependants may also include those with physical disabilities or those suffering from mental illness.

5.13 The consultation question 18 specifically addressed these considerations. Responses to the consultation indicated that the policy would primarily impact on older people. A number of respondents also noted that issues around joint annuities are likely to disproportionately impact on women as they are more often dependants or beneficiaries than men.

5.14 The government intends to ensure effective consumer protection measures are in place, and suitable guidance is available, to mitigate potentially adverse impacts on protected groups. The following aspects of the policy in particular are designed with equality considerations in mind, and with a view to mitigating adverse impacts on those with protected characteristics:

- the government will ask the FCA to consider whether a requirement could be placed on the annuity provider or other relevant parties to ensure that the dependant or beneficiary of an annuity has consented to its assignment, enforced through FCA rules
- the requirement for those with annuities of a particular type to seek independent advice prior to assigning their rights under an annuity, to ensure that they are fully

aware of the advantages and disadvantages of doing so, based upon their particular circumstance

- the expansion of the Pension Wise guidance service to annuity holders and dependants or beneficiaries, as part of the consumer protection package, so that these consumers have access to information and guidance about the transaction

5.15 The equality implications of the government's policy options and decisions continue to be kept under review.

6 Next steps and legislation

Legislation

6.1 Tax The government will continue to engage with interested parties and will consult on the detail of the tax framework in spring 2016.

6.2 Regulation. In order to ensure that only qualifying categories of entities are permitted to participate in the secondary market for annuities, appropriate amendments will be made to secondary legislation under the Financial Services and Markets Act (FSMA) to create a new specific regulated activity for purchasing rights under an annuity on the secondary market (purchasing rights under an annuity on the secondary market already falls within existing general FSMA regulated activities). The government is also considering whether separate regulated activities are appropriate for annuity providers buying back an annuity and for parties acting as an intermediary in the secondary market for annuities.

6.3 Pension legislation. At present, the Occupational Pension Schemes (Discharge of Liability) Regulations 1997 (S.I. 784/1997) generally prevent annuities from being assigned, but for very limited circumstances. The government intends to amend the Regulations to remove this general prohibition so that annuities can be assigned for the purpose of the secondary market.

6.4 With the removal of tax deterrents, it is anticipated that the parties to an existing annuity contract will, in many cases, be able to agree to vary the contract to remove any assignment restrictions. The government is considering whether a permissive statutory override that would permit the variation of annuity contracts and scheme rules when both parties agree is also necessary.

6.5 Welfare. The government will continue to investigate whether it would be possible and appropriate to amend the existing deprivation rules to provide greater protection for public expenditure and more certainty over the treatment of these cases in means-tested benefits.

6.6 Pension Wise. The government is expanding the definition of "pensions guidance" in the Financial Services and Markets Act 2000 through the Bank of England and Financial Services Bill. This will permit annuity holders and their dependants or beneficiaries to access the government's Pension Wise guidance service in relation to the decision to assign an annuity income stream.

6.7 Advice requirement. The government is also legislating to introduce an advice requirement through the Bank of England and Financial Services Bill. This will require relevant annuity holders to take regulated advice. The Bill provides a power for government to define who will have to take advice and what constitutes "appropriate advice" through secondary legislation. It also requires the FCA to set rules around who should check that advice has been taken and what those checks should be.

Financial Conduct Authority (FCA) consultation

6.8 The FCA intends to consult during 2016 on draft rules designed to promote FCA statutory objectives in relation to the secondary market for annuities.

A Summary of responses

A.1 The *Creating a secondary annuity market* consultation welcomed responses to a number of issues relating to creating a secondary market for annuities. The government sought answers to 18 questions and invited responses over the full 12-week consultation period, which ended 18 June.

A.2 The government received 87 responses, including from individuals, representatives from the insurance industry and consumer groups.

Question 1: In what circumstances do you think it would be appropriate to assign one's rights to their annuity income?

A.3 On the whole, respondents agreed with the government view that for most people the right decision will be to keep their annuity but that there are some circumstances in which it is appropriate to assign an annuity. One of the main circumstances cited was when an individual has sufficient income from other sources to cover their daily needs. Many respondents also agreed with the other circumstances set out in the consultation document:

- provide a lump sum for relatives or dependants
- meet a particular financial need or goal, such as paying down debt
- respond to a change in circumstances or
- purchase a more flexible pension income product instead

A.4 Some respondents thought that appropriate circumstances would depend entirely on an individual's circumstances and that it was not appropriate to speculate on what those might be.

Question 2: Do you agree with the government's proposed approach of allowing a wide range of corporate entities to purchase annuity income in order to allow a wide market to develop, whilst restricting retail investment due to the complexity of the product? What entities should be permitted and not permitted to purchase annuity income and why?

A.5 While most responses agreed that allowing a wide range of corporate entities to purchase annuity income would enable a wide market to develop, the vast majority suggested that this should be limited to FCA regulated entities (some suggested that PRA and TPR regulated entities should also be allowed). There was broad agreement that retail investment should be restricted, although some suggested that this should be allowed through indirect routes, for example though investing in funds, which hold annuity income streams.

Question 3: Do you agree that the government should not allow annuity holders to access the value of their annuity by agreeing to terminate their annuity contract with their existing annuity provider ("buy back")? If you think "buy back" should be permitted, how should the risks set out in chapter 2 be managed?

A.6 Generally respondents agreed with the consumer protection and solvency risks associated with "buy back" that were outlined in the consultation document. While some thought that this should mean "buy back" should not be permitted, others thought that there were also benefits of buy back and so it should not be ruled out entirely.

A.7 A high number of respondents thought that rather than prohibiting buy back, it could be possible to develop a model that allowed buy back while mitigating the risks involved. One popular model was to have a blind bidding system where the annuity holder can input their details and potential purchasers can bid for their annuity.

Question 4: Do you agree that the solution to the death notification issue is best resolved by market participants? Is there more the government should be doing to help address this issue?

A.8 There were mixed responses to this question. Responses from industry in particular tended to suggest that a government-led solution, such as creation of a central "death register", would be the most effective way of dealing with death notification. A smaller number of responses noted existing methods used by insurers and suggested that these could continue to be used for the secondary market. A small number of responses suggested that the responsibility to notify of death should lie with the buyer of the annuity. Other groups tended to be more ambivalent on this point, but a number were keen to ensure that the onus was not placed on individuals' families or executors.

Question 5: Do you agree with the proposed approach of the government working with the FCA regarding the fees and charges imposed by annuity providers?

A.9 Respondents tended to agree with the proposed approach of the government working with the FCA regarding fees and charges imposed by annuity providers. A small number of respondents suggested there should be a cap. Others suggested that costs could potentially be quite high and that should be taken into consideration when monitoring fees. It was also noted by some that different providers will have different levels of costs.

Question 6: Do you agree that the scope of this measure should be annuities in the name of the annuity holder and held outside an occupational pension scheme?

A.10 There was a range of views on the scope of changes. While most agreed that the scope should include annuities in the name of the annuity holder and held outside an occupational scheme, a significant proportion also thought that annuities held in occupational schemes should be in scope. Of those who thought this, some said that they did not see a rationale for excluding occupational schemes, while others were concerned that consumers wouldn't necessarily know which type of annuity they had.

A.11 Of those who agreed that annuities within an occupational pension scheme should not be in scope, some noted that assigning these annuities could have an impact on the economic health of the pension scheme. In addition, this position is in line with individuals who receive benefits from an occupational scheme where the payment is not backed by a scheme purchased annuity.

Question 7: Are there any other types of products to which it would it be appropriate for the government to extend these reforms?

A.12 As outlined above, a significant number of people thought that annuities held in occupational schemes should be in scope. Other than that, respondents were generally content that no further extensions were required, with a small number of exceptions.

Question 8: Do you agree that the design of the system outlined in Chapter 3 achieves parity between those who will be able to access their pension flexibly and those who will be able to access their annuity flexibly? Are there any other tax rules which the government would need to apply to individuals who had assigned their annuity income?

A.13 Most respondents felt that the design of the system was appropriate and that it achieves parity between those who will be able to access their pension flexibly and those who will be able to access their annuity flexibly. There were a small number of requests for further clarification on a number of issues, including the tax treatment of the annuity once in the hands of the purchaser.

Question 9: How should the government strike an appropriate balance between countering tax avoidance and allowing a market to develop?

A.14 A significant proportion of respondents chose not to comment on this question. Of those who did, most agreed with the comments made in the consultation document around applying the reduced money purchase annual allowance to provide a consistent approach, and maintaining an unauthorised payment charge for assignment between connected persons or. There were also suggestions that ensuring that entities are regulated would help to limit tax avoidance.

Question 10: What consumer safeguards are appropriate – is guidance sufficient or is a requirement to seek advice necessary? Should the safeguards vary depending on the value of the annuity?

A.15 A core theme through the responses was that consumer protection is essential – both in terms of access to adequate information and ensuring that consumers understand the value of their annuities. There was a wide range of views in consultation responses around what this would look like in practice. Some respondents thought that all should be required to take independent advice, while others felt that voluntary or mandatory guidance would be sufficient. However, most respondents thought that it was appropriate to mandate advice above a certain value.

Question 11: What is the best way to implement these safeguards? Should the safeguards include expansion of the remit of Pension Wise?

A.16 The vast majority of respondents agreed that Pension Wise has a role to play, although there were some differences as to what the service should look like. Fewer respondents had a view on whether guidance should be offered through the annuity provider but where they did, they tended to argue that this would not be impartial enough.

Question 12: Should the costs of any advice or guidance be borne by the annuity holder (mirroring the arrangements for conversion from a defined benefit scheme)? If not, what arrangements are appropriate?

A.17 Almost all those who responded to this question thought that the cost of advice should be borne by the annuity holder. There were a small number of exceptions, including the suggestion that government should provide vouchers.

A.18 Generally it was agreed that guidance through Pension Wise should remain free at the point of use.

Question 13: Do you agree that the government should introduce a requirement on individuals to obtain a number of quotes? How else should the government best promote effective competition to ensure consumers obtain a competitive price?

A.19 Responses to the suggestion that individuals should be required to obtain a number of quotes were more varied. Some thought that this would be a good way to ensure that annuity holders find a fair value for their annuity as it would ensure people shop around. Others disagreed, suggesting that this would be administratively burdensome and could result in extra costs for the consumer because extensive medical underwriting would be required to receive each quote.

A.20 There were a number of suggestions for a bidding platform that allows consumers to enter their details once and receive a number of bids for their annuity.

Question 14: Does the government's approach sufficiently protect the rights of dependants upon assignment? If not, what further steps should the government take?

- **Should the government or FCA issue guidance to annuity providers about protection for dependants?**
- **Are there particular classes of beneficiary which require special consideration, for example minors or following a divorce or dissolution of a civil partnership?**
- **Are there specific equality impacts that should be considered in this context?**

A.21 Broadly, responses to the consultation suggested that annuitants should not be able to assign their annuity unless consent had been received from the dependant or beneficiary. While a number of responses suggested that in practice annuity providers are likely to be reluctant to permit joint annuities to be assigned without consent of dependants or beneficiaries, others expressed concern that the decision around treatment of dependants and beneficiaries would be solely left to annuity providers.

Question 15: Should the government permit the principal annuity holder's income to be assigned while dependants retain their own income stream? Should the decision on whether to do so be left to the discretion of the parties to the transaction?

A.22 Most respondents thought that allowing the principal annuity holder's income to be assigned while dependants retain their own income would be complex for providers to implement and administratively burdensome. Some were concerned that this would add further costs for consumers and also make the decision making and valuation process more complex to understand. Those who thought that it should be permitted generally thought that whether to do so should be left to the discretion of the parties to the transaction.

Question 16: How can the proposed consumer protections for the assignment of annuities ensure that any impact on means-tested entitlement is understood by those deciding whether to assign their annuity income?

A.23 A significant proportion of respondents who answered this question thought that to ensure any impact on means-tested entitlement is understood, it should be clearly flagged in both advice and guidance. The inclusion of this issue in risk warnings was also widely supported. It was suggested by some that there should be clear guidance from DWP on the issue.

Question 17: Should those on means-tested benefits be able to assign their annuity income?

A.24 Almost all those who answered question 17 thought that those on means-tested benefits should be able to assign their annuity income and a significant proportion of these added the proviso that there should be adequate information about the consequences of doing so. Some of the core rationales cited were consistency with the existing pension freedoms and consistency with the principle of freedom of choice.

Question 18: What are the likely impacts of the government's proposals on groups with protected characteristics? Please provide any examples, case studies, research or other types of evidence to support your views.

A.25 A significant proportion of respondents chose not to answer this question. Of those who did, a high number noted that this measure would primarily impact on older people. A number of respondents also noted that issues around joint annuities are likely to disproportionately impact on women as they are more often dependants or beneficiaries than men.

B List of responses

Aegon

Age UK

AJ Bell

Annuity Trading Exchange Ltd

Aon Hewitt

aquilaheywood

Association of Accounting Technicians

Association of British Insurers

Association of Consulting Actuaries

Association of Professional Financial Advisers

Association of Professional Pension Trustees

Aviva

B&CE

Canada Life

Capita Insurance and Benefits Services

Charlton Frank

Citizens Advice

Coventry Capital Ltd

Deloitte

Department for Education

European Life Settlement Association

Eversheds LLP

EY

Financial Services Consumer Panel

GMB

Hargreaves Lansdown

Hymans Robertson LLP

Independent Age

Institute and Faculty of Actuaries

Investment and Life Assurance Group

JLT Benefit Solutions Limited

Just Retirement

Legal & General

Low Incomes Tax Reform Group (of the Chartered Institute of Taxation)

LV=

MBE International

Morgan Ash

National Association of Pension Funds

OpenRetirementClub

Partnership

Pension Income Choice Association

Pension Protection Fund

Personal Finance Society

Phoenix Group

Prudential UK & Europe

Punter Southall Group

Quantum Advisory

Retirement Advantage

Royal London

Scottish Widows

SL Investment Management

Society of Later Life Advisers

Standard Life

Tax Incentivised Savings Association

Tenet

The Association of Policy Market Makers

The Guardian Financial Services Group

The Law Society of Scotland

The Money Advice Service

The Money Charity

The Pension Advisory Service

The Pensions Management Institute

The Reinsurance Group of America

The Society of Pension Professionals

Towers Watson

TUC

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