A new Secondary Market for Annuities

The Society of Later Life Advisers is a not for profit organisation that links consumers with accredited financial advice. A new retirement advice standard has been developed and will be available later this year for those advisers who have the right qualifications and experience in the retirement advice market.

In principle we are supportive that the Government adds this element of flexibility in income planning in later life to the current pension freedoms. This is subject to the right levels of understandable and transparent information, support and advice being available to all consumers including safeguards and protections that is both.

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

There could be several circumstances that would be appropriate for example:

Where the annuitant has other sources of adequate income for themselves and dependents.

Where any tax implications outweigh the value of having a lump sum of cash now to help with matters such as debt repayment (which could potentially boost their income) or being able to help their relatives buy a property for example or pay off student debts, or gift money much earlier than planned.

Where the tax implications and risks are perceived to be outweighed by an alternative investment which would yield a higher return. (Whilst not always appropriate and potentially very risky, in some cases where someone has enough income that enables them to risk this part of their overall assets, they may prefer to buy an alternative investment such as property).

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?

Yes we agree that a wider range of entities could be involved. Retail type packaged products rather than direct purchase by individuals' maybe an option whereby the risk is pooled for example in unit trust type arrangements or certain retail investments funds. Most individuals would not buy second-hand annuities directly from those selling their annuity as they are unlikely to be equipped with the actuarial /longevity assessment tools nor know how to understand how to assess the value of the transaction.

No comment on part two other than all entities would need to be vetted to some extent as being fit and proper

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?

We can see the risks with 'Buy Back' and why they may be detrimental to consumers has been covered well in the document.

In addition consumers may well be gently coerced into a buy back arrangements with providers looking to cut their long term liabilities and effectively target those with the longest potential payment streams

However where there is evidence the sale is instigated by the annuitant and that the offer is better than could be got elsewhere (allowing for a fair charging approach) and the various consumer protocol's / checks applied then it could be allowed – the issue is in the cost of policing this and creating the right regulatory framework around this.

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?

Financial detriment will be to the party that stands to lose the most by not having the information which would be the annuity payer. The onus would naturally fall on them to find a way of acquiring the information – the government could not carry the liability by being in any way the provider of such information.

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

Yes, this would seem to be a reasonable approach

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?

Yes. Where the annuity is joint life then, as is currently the case, permission sought from the other party needs to be well documented as well as verified as many may not realise what they are signing away. This is especially true of those expecting an income after the death of the first annuitant. Splitting out the various payments so that some could remain in payment after the death of the annuitant would be both expensive and complex to administer and for simplicity's sake all payments could be commuted into the lump sum

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

Not that we are aware of. Life settlement investment schemes selling of second hand insurance policies had a market in US but not here in the UK. Traded endowments were a relatively popular option during the demise of the endowment backed mortgage when people were looking to cash in / sell a poor performing endowment. This was a sum assured on death rather than a stream of payments so quite different in outcome.

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? Yes

Are there any other tax rules which the Government would need to apply to individuals who had assigned their annuity income?

No comment on this

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

No comment on this

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?

Mandatory advice (Which often has to be paid for is not an easy concept when people want to access their cash quickly. A lot of annuities will be below the capital value currently used as a benchmark for needing advice when looking at pension freedoms. These annuitants maybe more likely to have lower incomes, some debt as well as potentially receiving means tested benefits. These are the consumers that this may have the most impact on and yet they may fall below any mandatory advice threshold.

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

Safeguards should be generic covering all advice aspects and then specific to the individual where appropriate

There is a slightly different skill set required so may need a different type of adviser who can confidently extend the conversation into the means tested and deprivation conversation so that there is no come back later by individuals saying that they were unaware of the complexity or implications of taking the capital in return for income and the impact on their future entitlements. This maybe the most challenging aspect of the proposed annuity freedoms.

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?

This has been the case for all financial advice transactional advice in the past and a % is taken from the capital proceeds or a fee. Again paying for advice involving smaller annuities may seem poor value especially if the advice is not to proceed at all as it has been many times with Defined Benefit conversion advice. Insistency from some individuals, despite safe guards and risk warnings will always be the case however there needs to be tighter protection for those that have given the advice regarding future claims. A generic clear checklist addressing all the potential pitfalls that is signed by all taking advantage of such freedoms would help to some extent.

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?

There is a model in place for this already under common quotation and schemes which give the best provider price by giving one set of information so the idea of shopping around should not be an issue as most advice firms would be looking to the whole of the market for the best price. Ideally the best price differential could as is the case now in advised cases, cover the advice cost.

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

Protecting dependents rights will be complex on assignment as commented on above

- should the government or FCA issue guidance to annuity providers about protection for dependents?

It would be difficult to split out these rights if contractually the annuity provider needs to cancel the contract so specific guidance would no doubt be welcome

- Are there particular classes of beneficiary which require special consideration, for example minors or following a divorce or dissolution of a civil partnership?

It may be too complex to treat different classes of beneficiary differently which is why specific guidance is needed

- Are there specific equality impacts that should be considered in this context?

Many dependents party to an annuity are presently likely to be older women so it will be important to ensure that there is some targeted information in the generic guidance about the issue of losing a dependents pension.

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

See comments above re complexity of doing this

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? In the generic information it should be stressed that any deprivation of future income streams would not be eligible to be topped up through the welfare system as well as impact immediately on taking a lump sum

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

Yes subject to understanding the implications (see above re checklist)

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.

No comment other than the above re older women and the fact that minors maybe potential beneficiaries under any death guarantees and the capacity of some annuitants / dependents to make the decision to do sell back their annuity.