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partnership
seeing retirement differently

**STRICTLY CONFIDENTIAL**

**Creating a secondary annuity market**
**Submission from Partnership Assurance Group plc (Partnership)**

**About Partnership**

Partnership is a long established UK insurer specialising in the design and manufacture of financial products for people whose health and lifestyle means that their life expectancy is likely to be reduced. Partnership aims to offer higher retirement incomes than traditional providers through undertaking a detailed assessment of people's health and lifestyle conditions. It is a leading provider of enhanced annuities; typically, our average customer will receive approximately 18% extra income for life, compared to a standard annuity provider, and for those with more serious conditions, potentially much more. We estimate that over 50% of people at retirement could qualify for one of our annuities.

Medically underwritten annuities allow insurers to take into account a person's lifestyle and medical history to determine the probability of them living through each future year and therefore the rate at which they can be provided with their retirement income when they buy an annuity. An enhanced annuity can potentially offer consumers significantly higher levels of guaranteed income in retirement.

**Introduction**

Partnership welcomes the opportunity to respond to this consultation and we would welcome the opportunity to meet with officials to discuss this submission in more detail.

We believe that a well-designed secondary annuity market, with the right consumer protections could be an important addition to the UK retirement market. Partnership is supportive of the development of a secondary annuity market, and would be interested in participating in such a market if the challenges highlighted in the consultation paper are addressed, and the conditions are right.

We believe that for a market to develop and work for consumers, medical underwriting of 'sellers' in essential. Without it a potential purchaser would have to price in the risk that many 'sellers' are in significantly worse health than average, and for this reason wish to exchange their income stream for a lump sum. This in turn would lead to poor value for the market as a whole, and in particular for those selling for other reasons. We also believe that it is essential that customer expectations are managed so that they understand that the sale of their annuity and the price that is offered reflects the state of their health and the time that the annuity has been in progress. It is vital that there is a clear understanding that they will not receive their original premium, or the original sum less income payments already paid.

In addition to this, the market should be designed to work for small pots where high frictional transaction costs and high quality, high cost advice is unlikely to be feasible. We believe that a blind bidding system along with a strongly regulated market, backed-up by guidance services, such as Pension Wise, would allow the system to work for those with small pots.

Consumer protection must be a central part of the development of the market. It is for this reason that each stage of the process should have robust safeguards built-in, including where appropriate qualified financial advice, to ensure good outcomes and ongoing confidence in the market.

It is our belief that the treatment of these assets (a secondary annuity) on an insurer's balance sheet is vital to the success of the secondary annuity market, to ensure that customers are not charged twice for the same capital. We also believe that these assets should be Solvency II matching adjustment compliant to ensure the best price for customers.

**Q1. In what circumstances do you think it would be appropriate to assign one's right to their annuity income?**

It is our belief that the market for secondary annuities may be relatively small, but may initially experience a short-term bulge in demand by those people who would have taken advantage of the pension reforms prior to their announcement.

For the majority of people who have purchased an annuity, the decision to continue receiving a guaranteed income for life will remain the right choice. However, there are pockets of people for whom selling their annuity may be appropriate – for these people a change in circumstances would be the most likely catalyst. Examples of which include, an individual inheriting a significant amount of money; an urgent need to pay off debt or meet an unforeseen but important financial liability or commitment with a lump sum; getting divorced; or remarrying in later life.

For those with smaller pots, while the thought of a lump sum for their annuity may sound appealing, administration costs and any possible advice fees may mean that this would not be a practical decision.

However, it is essential that people looking to sell their annuity understand how prices will be calculated, particularly if they are selling it due to ill health, which will inevitably mean that they price that they are offered will be significantly lower due to underwriting. It will therefore be vital to avoid raising consumers' hopes.

**Q2. 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?**

Partnership agrees with the government's proposed approach as we believe that there needs to a vibrant market in order for a secondary annuity market to work in practice. However, we strongly believe that there needs to be some form of regulation to ensure that a secure market grows. It is our belief that buyers should be regulated by the FCA and/or TPR to ensure that the market is able to develop with confidence and security.

**Q3. 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?**

It is our understanding that current legislation does not prevent providers buying back small annuities with values under the small pot limits, and we do not think that they should be prevented from doing so in the future. However, we believe that in order for a provider to buy back their own annuity they should have to 'bid' for it through an open market process whereby the annuitant receives a number of quotes to ensure that they receive the best deal possible. It is for this reason that we would support the concept of a blind bidding system or bureau in order to guarantee the best consumer outcomes. We also believe that medical underwriting should be a key part of such a system.

**Q4. 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?**

It is our belief that the best solution to the death notification issue would be to make a change to death certificates so that they include National Insurance numbers. This would greatly benefit the process as NI numbers are the only unique identification record.

However, providers currently rely on their own tracing systems which are reasonably successful, and therefore if only regulated companies are allowed to partake in this market then there should be few problems in the future.

**Q5. Do you agree with the proposed approach of the government working with the FCA regarding the fees and charges imposed by annuity providers?**

Partnership believes that there should be a cap on charge fees imposed by annuity providers and we would therefore welcome the government working with the FCA to address this issue ahead of any policy implementation. However, both the government and the regulator should be realistic about the costs involved in obtaining individually underwritten quotes, along with other possible administration fees.

**Q6. 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?**

In order to further compliment the Government's freedom and choice agenda, we believe that occupational schemes should be included in the scope of this policy measure. The key challenge that has been raised is that some schemes have been brought in the member's name while others in the name of the trustee which therefore creates legal differences. By drawing a line between the two, it would inevitably penalise many consumers who have in all other respects brought exactly the same retirement annuity. While we understand that allowing all DC scheme annuities to be sold may make the system more complex, denying some people the opportunity would go against the freedom and choice philosophy and would lead to many people in such schemes becoming disgruntled.

We believe that consumer's electing to convert their occupational pension scheme into an annuity should receive regulated financial advice irrespective of the size of that scheme.

**Q7. Are there any other types of products to which it would it be appropriate for the government to extend these reforms?**

Partnership does not believe that the government should extend these reforms to other types of products at this stage. However, in the long-term, we believe that in theory the system could be rolled out to those who have DB schemes.

**Q10. 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?**

We believe that at this stage to ensure that appropriate safeguards are in place, advice should be given before making such a significant decision as to sell an annuity. However, we do acknowledge that for those with small annuity pots, paying for regulated financial advice could prevent them from going through this process, and we therefore envisage that these people would not require advice, but instead guidance through the Pension Wise service would be sufficient.

In the long term, we would like to see more work carried out to develop simplified advice so that those with smaller pots would be offered appropriate safeguards while at the same time being accessible in terms of its cost.

**Q11. What is the best way to implement these safeguards? Should the safeguards include expansion of the remit of Pension Wise?**

As outlined in our response to question 10, Partnership believes that regulated financial advice should be an essential part of the secondary annuities market. However, for those with smaller pots guidance delivered through Pension Wise should be acceptable. In the long-term we would like to see the development of a simplified advice market to ensure that those with small pots who wish to sell their annuities are provided with the appropriate safeguards.

The calculations which will need to be made to provide individual quotes for the sale of an annuity will inevitably be complex. We believe it will be crucial that the individual is fully aware of what factors, costs and charges are involved and their impact on the final quote. This is essential for the development of a robust regulated market.

**Q12. 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?**

It is our belief that any cost for advice should be met by the policyholder.

**Q13. 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?**

Partnership strongly believes that before an individual sells their annuity they must obtain a number of quotes, as we believe that this would not only stimulate a vibrant secondary annuities market, but would more importantly ensure that the consumer received the best possible outcome. In order to help make such an open market possible, we would support the idea of a blind bidding bureau whereby people are able to receive individually underwritten quotes from various third parties.

**Q14. 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?**

Underpinning the pension freedoms is the concept of individual responsibility for the decisions of how to fund your retirement. However, there is a risk that people might do so to the detriment of dependants if there are no safeguards in place. This highlights the importance of financial advice and a full discussion around the complexities of such a decision. We believe that it would be helpful for the FCA to issue guidance around which categories of dependents should be taken into account.

We would urge the government to introduce measures that would require the named dependant to sign the relevant paperwork along with the individual wishing to sell the annuity; we would also argue that the dependant should also go through the advice process before making such a decision. However, we also feel that such a system would need to avoid being overly complex. As part of a blind bidding system, the potential buyers should be happy that the individual has gone through the advice process and so too have their dependant.

With regards to equality impacts that should be considered, we would argue that it would be important that gender be taken into account to ensure that each individually underwritten quote is fair. For example, a female who purchased an annuity prior to the introduction of the EU Gender Directive who now wishes to sell it, would no longer be able to be underwritten along the same lines. This could raise issues around fairness around the price offered.

**Q15. 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?**

We believe that this should be the case. However, the dependant must have received provider permission, and they should also have to go through the advice process prior to making such a decision.

**Q16. 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?**

It is our belief that individuals should have to go through regulated financial advice before making a decision to sell their annuity, and that during the advice session it should be made clear that such a decision could mean that means-testing will change, or that they may no longer be eligible in the future. For those with small pots they should be required to obtain a certificate from the Pension Wise service which shows that they have received guidance and that the implications of selling their annuity on means testing has been explained.

**Q17. Should those on means-tested benefits be able to assign their annuity income?**

It is our belief that those on means tested benefits should not be able to assign their annuity income without first seeking financial advice or taking guidance through the Pension Wise service. For those with small pots they should be required to obtain a certificate from the Pension Wise service which shows that they have received guidance on such an issue. This would ensure that the implications on removing a cash lump sum on those benefits are fully understood.

**Further information:**

If you would like further information regarding this submission, please contact: