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RGA UK Services Limited

RGA®

Annuity Consultation
Insurance and UK Regulatory Authorities Team
HM Treasury
Horse Guards Road
London
SW1A 2HQ

Dear Sir

RE: Creating a secondary annuity market

The Reinsurance Group of America (RGA) welcomes the opportunity to comment on the UK Government proposal to create a secondary annuity market.

RGA is based in the US and is now the third largest life reinsurance company in the world with assets of over $30 billion.

RGA started writing life reinsurance in the UK in 1998. We have grown dramatically since then, now having over 100 employees based in the UK. We are primarily focused on life reinsurance, and in the UK we reinsure over 3 million life insurance policies and have an interest in over 1 million DB/DC annuities and 100,000 enhanced annuity polices. We provide the most sophisticated enhanced annuity underwriting tool in the UK market and are experts in annuity risk management and longevity calculation.

Our response is attached and is numbered in accordance with Annex A of the consultation document. It is offered on behalf of RGA and we would be happy to discuss any of our comments with you should you wish to do so.

Kind regards

16th Floor, 5 Aldermanbury Square, London, EC2V 7HR United Kingdom. Company No. 03086510
T +44 (0) 207 710 6700 F +44 (0) 207 710 6890 www.rgare.com

Response to creating a secondary annuity market consultation – Annex A

A new secondary market for annuities (Chapter 2)

A.2 The government welcomes views on how it envisages the secondary annuities market working, and its proposed approach on the scope of these reforms.

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

RGA response – We believe all consumers with pensions in payment should be given the right to a commuted value. Restricting proposals to defined contribution schemes does not seem equitable to those members of other pension arrangements.

We envisage five main groups of consumers who will seek to enter this market:

1. **Customers who are desperate for cash.** They will cash in their annuity irrespective of the value and irrespective of rational thought. This could be especially costly where there are low value annuities which still require administration and processing costs. The risk here for the industry is reputational.
2. **Customers who have purchased an annuity in the last few years** (in the low interest rate environment) and who will get a shock when they find the commuted values do not match their expectations. This has the potential to cause administration drag within the organisiation. The risk here for the industry is reputational.
3. **Customers who purchased their annuities in the past (5+ years ago)** when interest rates were higher and where values will be look healthy.
4. **Customers with large annuities who were forced to annuitise** and who have a stable and comfortable retirement income stream – effectively they are 'over annuitised'. These customers may now wish to bring a proportion of their cash back into their estate. This makes sense in the new inheritance tax regime and they may be able to cycle the money back through their estate and hand it on tax free to the next generation.
5. **Annuitants whose health has improved** may seek to sell their annuity. Imagine the situation where a cancer sufferer bought an enhanced annuity one year after being diagnosed. Five years later they come back to the market as a survivor with a survival curve which has returned to near normality. The annuitant would be able to trade off their current higher annuity rate guaranteed for life against an increased value of their commuted annuity.

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?

RGA response – We are comfortable with the proposals, this is a complex area and retail investors are not well equipped to understand the longevity risks.

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?

RGA response – We believe Life Companies are capable of prudently managing their own solvency and the situation described in 2.15 of your report is unlikely to occur. In addition we believe it is anti-competitive not to allow annuity holders to offer to 'buy back'. Imagine a scenario where traded annuities are being offered for sale on aggregator portals, the seller of the annuity completes their underwriting application and all of the prospective buyers offer their commuted value. The best price on offer happens to be from the sellers existing annuity provider but they are unable to take advantage of this offer. This feels damaging to the reputation of the industry.

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?

RGA response – We believe that the Government already has most of this solution through the DWP Tell Us Once service. We would welcome the Government putting pressure on local authorities to subscribe to this service to raising the participation levels to 100%. Pre-election, Tell Us Once had already indicated an openness to work with the Insurance Industry and we believe there is a strong possibility of a partnership here which could solve this issue.

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

RGA response - No comment

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?

RGA response – We believe occupational pension scheme members should be given the same rights as those in defined contribution schemes.

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

RGA response - No comment

Legislative changes (Chapter 3)

A.3 The government welcomes views on how it proposes to change the tax rules relating to the assignment of annuity payments.

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?

RGA response - No comment

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

RGA response - No comment

Consumer protection (Chapter 4)

A.4 The government welcomes views on how it proposes to ensure consumers are appropriately informed when making decisions relating to the assignment of their annuity income.

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?

RGA response – We are strongly supportive of the need and benefit of advice for consumers. We would welcome safeguards being developed especially where higher value transactions are sought.

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

RGA response – Pension Wise has an important place within the advice/guidance landscape and we believe it should have a role in helping to guide all potential consumers through their choices with respect to this potential product.

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?

RGA response - No comment

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?

RGA response – Yes, RGA strongly believe this is in the customer's best interest. We also want to reiterate that allowing firms to compete to buy back their annuities will lead to effective competition and will deliver customer value.

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?*

RGA response - No comment

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

RGA response - No comment

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

RGA response - No comment

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?

RGA response - No comment

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?

RGA response - No comment

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

RGA response - No comment

18. *What are the likely impacts of the government's proposals on groups with protected characteristics?*

RGA response - No comment

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