Final – 5 June 2015

Response to joint HMT/DWP Consultation on annuity sales

This response has been prepared by Annuity Trading Exchange Ltd a new firm established by a number of experienced insurance industry entrepreneurs and professionals with a proven track record in developing technology solutions to support new and developing insurance markets.

We strongly welcome these proposals and believe that they represent a significant step forward in enabling pensioners with annuities to make the most of their retirement savings.

By giving existing pensioners much more flexibility in how they both invest and subsequently realise their retirement savings, the proposals offer up the prospect of better meeting the needs of a large number of existing pensioners.

Although we are strongly supportive of these changes, we believe that it is important that safeguards are built in to the proposals, particularly to ensure that pensioners receive a competitive amount for their annuity and avoid poor value deals.

In order for these proposals to be effective we believe that it is important that they support the functioning of an effective market where customers have a high level of transparency over the deals that are on offer to them.

We are planning to develop a proposition for consumers and IFAs that will provide them with both support, to assist in making a decision as to whether to sell their annuity, and transparency so that pensioners can see the prices on offer from a number of firms in return for their annuity income. Using this information they will then make an informed choice safe in the knowledge that they have been offered a competitive price for their annuity.

We believe that this type of proposition, operated independently of the major annuity providers and purchasers, will be an important component of a fully effective market.

We would be delighted to clarify and elaborate on any part of this response.

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

We believe that there are a wide range of circumstances where it would be appropriate to assign rights over annuity income. These include where the pensioner has:

- immediate income needs that are more pressing than those over the long term - for example where there are debts to pay down or costs associated with an individual's lifestyle changes;

- a greater investment risk tolerance than is implicit in holding an annuity – for example where the fixed low risk nature of an annuity may not be appropriate for a recent retiree or for a pensioner with substantial savings elsewhere;

- a strong desire to pass on a proportion of their savings to their family.

In general the standard level or inflation linked annuity product does not provide an ideal match for pensioners income needs which can vary significantly over the duration of their retirement, with particular peaks soon after retirement and then potentially much later in life. These proposals will enable pensioners to better manage and plan these cash needs.

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?

We agree that it is appropriate for a wide range of corporate entities to purchase annuity income as the greater the number of participants and the wider the range of risk profiles the stronger and more competitive the market will be which in turn will lead to better value for pensioners who wish to sell their incomes.

We do not see any material reasons why any particular firms should be restricted from buying annuity income. Of course, there may be some circumstances where, for example in the case of regulated firms, annuity income may not be an appropriate asset given their risk profile. However, these cases are best dealt with (and in most cases already are) through effective regulation of the firms concerned and not through rules specific to annuity trading.

We agree that restrictions on individuals buying annuities from other individuals are appropriate - as this is unlikely to be appropriate for the large majority of purchasers. However, we believe that it would be appropriate to permit individuals to invest in institutionally managed collective vehicles that own annuities, as these vehicles could largely mitigate the risks (such as exposure to another individual's longevity risk) associated with purchase of a single or small group of annuities.

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 agree that there are very significant risks associated with allowing existing annuity providers to 'buy back' annuities from their existing customers. These include the risk that customers default to selling to their existing provider and as a result receive poor value. We are also concerned that if firms are permitted to 'buy back ' from existing annuitants then they may focus on their own annuitants rather than participating in the wider market and this may hold back the development of that market. We note too that there does not appear to have been extensive take up by firms of the existing rules that permit commutation of small annuities.

We agree that there are very strong arguments in favour of requiring that customers receive a number of quotations for their annuity from other providers so that they have a transparent view of the value of their annuity income in the wider market.

This approach would provide the best value for pensioners whilst ensuring that they are not tempted to accept a poor value 'default' option.

If their own annuity provider is permitted to approach and make an offer for the annuity then there will always be the danger that customers will assume that this is the appropriate option and will not seek quotes from the wider market.

It may be appropriate for firms to place bids for annuities they have issued through an online portal – we do not believe that this would necessarily discourage other bidders from taking part in the bidding process. However, in order to avoid potential bias favouring existing providers we believe that it would be better if name of the firm was not disclosed to the annuty seller during this process.

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?

We agree that death notification is best resolved by market participants.

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

We agree that there is a need for the government and the FCA to develop standards for the fees and charges imposed by existing annuity providers. Although there are clearly additional costs that will be incurred by providers in changing the target of the annuity income, and it is fair that providers recoup these costs, there is also the significant danger that providers attempt to make excessive profits on these charges. This will affect the price that purchasers are willing to pay and adversely affect pensioners selling (or thinking of selling) their annuity.

We believe that intervention by the government and the FCA could be effective in keeping charges levied by existing annuity providers at a reasonable level.

We understand the potential concerns that setting a ceiling for charges may lead to this value becoming the standard. However, we believe that as such a ceiling should be set a relatively low level – given the limited work that providers will need to do to implement these changes to the absolute size – we believe that the level of potential consumer detriment is small.

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?

We understand the need to distinguish between annuities that are held by individuals and those that are held by occupational pension schemes. We believe that the more significant issue, however, is limiting the scope of these proposals to exclude annuities / pensions payable by occupational pension schemes. Pensioners with pensions in occupational schemes are in a very similar position to those with annuities generated from other sources: they suffer from the same inflexibility over their pattern of income relative to their financial needs.

There is little impact on pension schemes as a result of reassigning the pension income stream to a third party, other than administrative costs which would be met by a reasonable charge as is proposed for insured annuities.

Should these proposals proceed as outlined in this consultation and occupational pension schemes are excluded, we believe that there is likely to be significant confusion on the part of members of occupational pension schemes, who may not understand the distinction between their pension and that provided by an insured annuitant. This is likely to lead, in due course, to pressure to extend these proposals to occupational schemes.

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

We are not aware of any other relevant products.

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?

We believe that the proposed tax changes are appropriate.

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

We believe that the proposals are appropriate in striking this balance.

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?

We believe that a blanket requirement to seek advice would significantly impair the effectiveness of these proposals: it would make selling smaller value annuities (which make up a large proportion of the market) uneconomic and thus negate a significant part of the potential benefit of these proposals.

In contrast with some other financial / investment decisions we believe that the basic transaction taking place here and the risks associated with it - the exchange of a known income for a cash lump sum - can be readily understood by consumers. There may be subsequent decisions that are more complex - for example investment in draw down - and so do require advice but these are already covered by existing regulatory safeguards.

For this reason we believe that a combination of approaches and sources of information would be appropriate. This could include a combination of advice, a guided decision process and the use of a service such as Pension Wise.

We agree that the safeguards should vary depending on the value of the annuity and that requiring advice for the higher value annuities would be appropriate. This is because the financial impact of selling the higher value annuities would be significant and the potential benefits of receiving advice would be commensurately greater.

For lower value annuities then relying on a form of guidance would be appropriate and cost effective. Should a consumer feel they need advice after receiving this guidance then it would be open to them to seek out that advice.

We believe that it is important to recognise that receiving advice does not guarantee that consumers will make the optimum decision. The challenge rather is to ensure that consumers understand the issues and we believe that this can be done cost effectively through guidance for lower value annuities.

A requirement to obtain a minimum number of sales quotations would also deal with one important issue – ensuring that customers receive an appropriately competitive value for their annuity.

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

We agree that the expansion of the remit of Pension Wise to include annuity sales would be appropriate on the grounds that the nature of issues to be considered by those considering selling their annuity are such that a service such as Pension Wise can provide information that is extremely relevant and helpful in a cost effective way.

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?

We agree that the costs of advice or guidance should be borne by the annuity holder as it is the annuity holder who will be making the decision as to what level / type of advice to seek and who will benefit from the advice.

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?

Yes, we believe strongly that individuals should be required to obtain a number of quotes. This requirement will have a number of very significant benefits:

- it should ensure that annuitants are protected against poor value deals as they can see that better value deals are on offer;

- it will promote the development of a liquid and transparent market for the benefit of all market participants;

- it will encourage new entrants into the market (as they have a better chance of getting their offer in front of customers) thus expanding the size of the market and improving the deals that are offered to pensioners.

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?

This is a complex area and we believe that further analysis is appropriate.

However, any final proposals should not make the treatment of more standard annuities more complex, to the potential detriment of the large majority of market participants.

Also see response to 15 below.

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?

We believe that splitting the income stream, with one component continuing, would be difficult and complex. Instead we believe that it would be better to require the consent of all potential beneficiaries, with the proceeds of the sale being split between the beneficiaries in proportion to the value of their respective interests.

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?

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

Response to 16 and 17: We believe that the introduction of restrictions to test if individuals are on means tested benefits and restrict their ability to assign their income if so, are inappropriate and risk making the process overly complex and expensive to the detriment of all annuitants.

Instead we believe that one reasonable solution would be a requirement for individuals to declare the level of income that they have given up through an annuity sale this could then be reflected in subsequent calculations of means tested benefits.

We believe that guidance could be constructed so as to ensure that those on means tested benefits are aware of the impact of their decision on their benefits.

In reality we believe that the number of individuals who will be in the position of potentially falling back on means tested benefits after an annuity sale is very small – in many cases it will be second pensions that are being sold for example – and so the risks associated with this are very limited.

It is also worth noting that there is a similar risk with the recent legislation that gives DC pension savers the ability to take cash from their annuity pot at the date of retirement. This risk was felt sufficiently small, however, not to need specific safeguards.

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 additional comments.