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Annuity Consultation
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HM TREASURY CALL FOR EVIDENCE: CREATING A SECONDARY ANNUITY MARKET

ABOUT JUST RETIREMENT

Since its founding 10 years ago, Just Retirement has developed into the market leader in the provision of individually underwritten Guaranteed Income for Life solutions and is a leading provider of equity release lifetime mortgages. Our business philosophy from the outset has been to develop innovative and better value products and services for customers who are approaching or in-retirement.

Just Retirement has positively disrupted markets and has introduced innovation where better choice, service and products were long overdue and would produce better outcomes for people. As a specialist provider of products for retirement, our success is predicated upon people reaching the open market where we can show that our products offer best value and provide a fair and just option for people.

Just Retirement helped invigorate the whole enhanced annuity market when we launched in 2004, offering thousands of people the chance to select an income based on information about their own personal health conditions and lifestyle factors, and tailored to their individual needs. At that time, many people simply did not know that if they answered a few medical and lifestyle questions, they could get a higher income from their pension fund.

Just Retirement has a proven track record as a product provider and distribution firm and we are proud of our reputation and record in "treating customers fairly". We have campaigned for a decade to introduce market-wide reforms to help many hundreds of thousands of people in later life to get the best possible guaranteed lifetime income. Our market leading position is a result of our

commitment to providing solutions individually tailored to the specific needs of our customers. This commitment is reflected in our close relationship with well-respected consumer brands such as Saga and Age UK.

Just Retirement became a FTSE listed company in November 2013. Within the Group, Just Retirement Limited, the Group's life insurance company, provides individually underwritten Guaranteed Income for Life solutions, capped drawdown products, long term care plans, defined benefit de-risking solutions and equity release lifetime mortgages. Just Retirement Solutions Limited provides regulated investment advice and specialist equity release advice to customers. TOMAS, a Just Retirement Group company, is a leading provider of software and outsourcing services to pension scheme trustees, financial intermediaries and life insurers for product purchasing solutions.

INTRODUCTION

Just Retirement believes it is appropriate to extend the government's freedom and choice policy to those customers who have previously secured a guaranteed income for life. Just Retirement will participate in a secondary market if the necessary conditions are established to ensure: (i) customers are protected; (ii) that there is a transparent and competitive marketplace ; and (iii) the accounting treatment of the future income in the hands of the purchasing insurer is capital efficient.

RESPONSES TO SPECIFIC QUESTIONS RAISED IN THE CONSULTATION

A2.1 *In what circumstances do you think it would be appropriate to assign one's rights to their annuity income?*

Determining value for a retiree is not a simple mathematical formulae because value will vary for the individual – it may be pure economical value, peace-of-mind for a spouse or preserving value for the next generation. Our analysis has identified a number of customer segments where accessing a secondary market could provide a solution to a customer need:

- (i) *People wanting to reconfigure their benefit structures:* e.g. those who purchased single life annuities may now wish to add protection for a spouse, people who have guaranteed income may wish to convert to flex-access drawdown to provide access to irregular fund withdrawals
- (ii) *People with eligibility to guaranteed annuity rates:* defined contribution pension savers approaching retirement who have a need for a lump sum may create more value by accepting the annuity and trading this in the secondary market rather than taking the cash value of the accumulated pension savings
- (iii) *People wanting to preserve value for the next generation:* people who did not add value protection to their annuity benefit structure may wish to transfer the secondary market value into a new retirement product to enable the savings to be passed to the next generation
- (iv) *People who have a need for a lump sum:* people who have sufficient income from other sources to satisfy their regular outgoings may wish to generate a lump sum from an existing annuity arrangement

- (v) *People with very small annuity income:* some people may have previously had no choice other than to convert a very small pension fund into an annuity. The income stream may not be material and would benefit from converting the value into a lump sum.

A2.2 *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?*

Just Retirement believes the government should encourage sufficient institutional purchasers to participate such that a competitive market is created. We believe the government should ensure purchasers are regulated businesses by the Financial Conduct Authority, Prudential Regulation Authority or international equivalents. Having businesses with these credentials would provide greater confidence that the necessary conditions to protect consumers and to ensure strong industry protocols are adhered to in the operational aspects of administering the market.

It is unclear whether a safe market could be created to enable retail investors to access this style of asset. It may be possible for asset management companies to create collective investment funds and for them to be structured to enable retail investors to participate. A packaging bureau (see comments on bureau in question A4.13) may be required to facilitate this opportunity for an asset manager.

A2.3 *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?*

Just Retirement believes insurance companies should be allowed, but not required, to participate in 'buy back' under specific conditions to ensure the customer has access to the best value (existing providers may be best placed to offer best value for very small pension annuities).

People should only be enabled to trade their annuity income on the open market, through authorised bureaux (see comments on bureau in question A4.13). To avoid the risk identified in chapter 2, the existing annuity company should only be permitted to offer a price via the bureau but not directly to the customer. The bureau would adopt a blind bid system when presenting a value to the customer which would further mitigate the risks.

There should be no marketing allowed by existing companies to their own customers and there is an argument that customers who are eligible for commutation should be required to use an authorised bureau to ensure they achieve the best price.

A2.4 *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?*

Just Retirement believes if the market participants are all regulated businesses (see answer to A2.2) then an effective set of protocols could be created by market participants. It may be helpful for the government to appoint a chairperson to lead the development of these protocols with representatives from the various industry trade bodies.

If the government determines non-regulated entities will be eligible to participate then it would be appropriate for government to enable companies involved in the market to access a central

government administered database. Currently, relatives are required by law to register deaths and we would expect that the 'Tell Us Once' system already in operation to assist with the cessation of state pension payments on death could play a role. Therefore, an expansion of and extension to insurers' access to this database would negate the death notification issue quickly and with minimal cost. If not, whilst a central death register may incur some initial costs, we believe that such a system will have added use outside this specific market.

A2.5 *Do you agree with the proposed approach of the government working with the FCA regarding the fees and charges imposed by annuity providers?*

Just Retirement believes this is an effective approach to explore how the consumer protection measures should be developed and incorporated within the existing infrastructure such as COBS, Pension Wise and where appropriate mirrored in non-FCA regulated businesses.

A2.6 *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?*

That is a pragmatic response however this may create behaviours amongst pension scheme trustees that were not intended. We believe whilst not compulsory, trustees should have the option to enable their members to trade their future income. This may offer a solution to trustees of unfunded defined benefit schemes who would have wished to extend freedom and choice to their members.

A2.7 *Are there any other types of products to which it would be appropriate for the government to extend these reforms?*

See answer to A2.6.

A3.8 *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?*

Just Retirement agrees with the approach proposed and has not identified any additional tax rules.

A3.9 *How should the government strike an appropriate balance between countering tax avoidance and allowing a market to develop?*

If the government allows international companies to participate in the market they may need to consider applying a limited extension to the reporting requirements by the annuity provider to combat a potential PAYE gap. Alternatively international buyers may be offered a service by authorised bureaux to undertake the PAYE activity for a fee.

A4.10 *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?*

The standards recently defined for operation in the defined benefit market for those seeking transfers would be an appropriate solution to mirror. An additional consumer protection measure is to create a consistent presentation of the assignment offer.

A4.11 *What is the best way to implement these safeguards? Should the safeguards include expansion of the remit of Pension Wise?*

Pension Wise should also be equipped to answer questions and support customers considering accessing the secondary market.

Delivering the service through authorised bureaux would benefit customers by enabling scale to be established quickly and robust standards to be implemented into a scalable model (see comments on bureau in question A4.13)

A4.12 *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?*

Just Retirement agrees that the cost should be borne by the annuity holder after the customer has reached a certain point in the customer journey. We do believe that customers should be able to access the secondary market and to receive an estimated valuation (this may be within a +/- 20 per cent range) without incurring fees or charges.

A4.13 *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?*

Just Retirement believes the government should introduce a requirement that customers should only have access to the secondary market via authorised bureaux. The bureaux would be established to create a transparent open market with access to valuations from all participants.

A bureau model would enable existing annuity companies to participate in buy-backs and mitigate the risks identified in chapter 2 by operating a blind bidding system, where the customer is not presented with the brand of the winning bidder until later stages in the customer journey.

A bureau model would enable scale to be established relatively quickly and standards to be defined that would deliver confidence to the industry regulators. Bureaux could operate competitively within the market and offer a range of additional services that would enable them to differentiate their offer in the market whilst maintaining a minimum set of operating standards.

A4.14 *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?

Potential market participants will, as the consultation states, want to ensure that the contractual rights of dependants and beneficiaries are protected. Where a dependent or beneficiary has contractual rights in the event of an assignment of an annuity it seems sensible and simple that providers request written proof that the dependent or beneficiary has consented to the assignment before authorising it or not.

There are scenarios though, especially with beneficiaries, where protection and a permissions regime may be more complex, minors being a good example as well as individuals who may be termed “vulnerable”, for example the elderly or those with illnesses or reduced mental capacity. For ex-spouses and civil partners, permission of a court may be required to vary an existing order. In addition, some joint-life annuities are written on an “any spouse” basis. To ensure clarity and good consumer outcomes around how permission to assign can be gathered from dependents and beneficiaries, FCA guidance would be helpful. Its focus should likely be on providing different dependant and beneficiary circumstances and case studies on what constitutes an appropriate permission.

A4.15 *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 would be comfortable with this being allowed, but as the consultation paper highlights, contractual changes to enable this and the administrative cost of partially assigning an annuity could be complex and expensive, and may also give rise to further tax considerations. We agree that the decision whether to do so should be left to the discretion of the parties to the transaction. An alternative approach is to require the purchasing entity to be required to offer a contingent annuity for the spouse commencing on the death of the principal annuitant.

A4.16 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?

Just Retirement believes guidance or advice should make consumers aware as to how trading their annuity for a lump sum could impact on their eligibility for certain benefits, as well as wider implications, such as the impact on tax. We would therefore support the use of retirement risk warnings to address this as a contribution to the effort to safeguard consumers.

A4.17 *Should those on means-tested benefits be able to assign their annuity income?*

With the appropriate safeguards highlighted in the consultation Just Retirement believes people on means-tested benefits should be able to assign their income. It would be wrong to prevent people exercising their choice, in the way that people are allowed to exercise their choice in how to use their defined contribution assets under the freedom and choice policy.

A4.18 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.

Any regulated company process should automatically have to take account of access to groups with protected characteristics. Age and disability would stand out as most likely groups in scope. The information supply, enquiry, calculation and fulfilment processes should support multiple media forms – web, web and print and print only. Guidelines should be followed for plain speaking standards, accessibility, braille, audio descriptive and large type variants of all communications. Protection based on understanding and capacity to understand this will be triggered in an advised process. Decisions being driven by a third party (not power of attorney) will need to be identified and would be a common flag within a traditional advised process. If Web enabled advice processes are implemented there will need to be a number of logical break points to a phone based or face to

face advice and can be restricted to information and offer only with fulfilment requiring an adviser visit.

ADDITIONAL AREAS WHERE CLARITY WOULD BE HELPFUL

Customers will need clarity that their annuity is eligible to trade in the secondary market. The existing annuity company will need to provide a definitive answer and provide confirmation to the customer if requested. Assistance from HMT/FCA in clearly describing which annuities are eligible will be helpful.

Some annuity policies may only be assigned in accordance with the rules of the retirement benefits scheme from which the fund value was received, and applicable law and regulations. It will be helpful to understand if HMT plans to introduce any legislation to deliver new measures or permissions enabling the annuity company to assign an annuity without having to check the ceding scheme rules.

HMT to clarify whether the purchase of an annuity is considered to be an insurance transaction.

HMT to clarify whether the purchaser of an annuity may use gender as a factor to determine price.

HMT to clarify that 100 per cent FSCS protection will be made available to the purchaser.

For further information please contact:



[justretirementgroup.com](https://www.justretirementgroup.com)