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HM Treasury and Department for Work and Pensions consultation on 'Creating a secondary annuity market'

- GMB Submission -

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GMB SUBMISSION TO HM TREASURY AND DEPARTMENT FOR WORK AND PENSIONS CONSULTATION ON CREATING A SECONDARY ANNUITY MARKET

INTRODUCTION

1. GMB is the UK's third largest union representing 630,000 members. Our members work in both public and private sectors and are covered by the full range of occupational pension arrangements.

2. GMB's members dictate the union's policy through our annual member led Congress. It is our policy on pensions that has guided this response.

Creating a Secondary Annuity Market.

1. **In what Circumstances do you think it would be appropriate to assign one's right to their annuity income?** We believe it is only appropriate to relinquish one's rights to an annuity income after receiving independent financial advice and if there is reasonable value in it for the annuity holder. For us this proposal is more based around the market and opening up new income streams to legitimate and non-legitimate enterprises than it is in providing choice and value to the annuity holder.
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?** The more corporate entities that are allowed in to this process, the more rogue behaviour that will occur. Regulation of the financial market is already under-resourced and does not deliver the desired results, we do not believe opening up another 'quick-buck' market without tight restrictions will do anything positive for annuity holders, it will just endeavour to remove their hard-earned retirement savings at a faster rate. We believe that only buy-back with controls will keep the market regulated and offer a fair return for those who have purchased 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?** Chapter 2 is damning for those who envisioned the

document as it is more concerned with the Insurer's assets and in providing larger markets for those wanting to profit from the retired than those retirees themselves. This apparent concern was not visible when Defined Benefit schemes (apart from the unfunded) were brought in to the Freedom and Choice agenda. 'Buy Back' should be the only permitted option to stop rogues from entering the market place. 'Buy Back' would allow annuity providers to de-risk from longevity risks and if there was a floor in the value that the annuity provider could offer this would protect the consumer. For example, in very simplistic terms, if you had taken £100,000 to an annuity provider and they had offered a £5,000 flat rate annuity due to a life expectancy of 20 years after retirement. A floor of 80% of the remaining value could be introduced. If this person has claimed 5 years' worth of annuity (£25,000) before looking to sell back their annuity, the remaining annuity assumption is to pay out £75,000. However, the annuity provider could release as little as £60,000.

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?** With 'buy back' the only option enforced there would be no death notification resolution required, therefore resolving the issue. We believe that annuity providers will be wary of trusting those buying annuities from pensioners to inform them. We do not believe that this is something that again should be laid at the consumer's door as their responsibility. Again it is opening up of a market to profit from retirees without the market taking any responsibility.
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 we would agree that the FCA has a role to play in monitoring fees and charges. However, we would fear that a lack of timely action would be the result. If the FCA has to monitor participants in the secondary annuity market, this will lead to great strain on their resources. It will be higher up on the list of priorities to remove financial rogues from this area than to monitor fees and charges. As we have seen in the DC Pension world that it has taken many years to bring charges under control. It also is abundantly clear that interfering within the market is on the agenda when it comes to helping to free up pensioners annuities for exploitation but not to protect them.
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 agree with this.
7. **Are there any other types of products to which it would be appropriate for the government to extend these reforms?** We do not believe there are any other products that need to be considered under these potential reforms.

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 do not believe parity will be achieved without strong controls over the profit that participants other than the person who bought the annuity are allowed to make. One of the better arguments for freedoms was because of the profit margin annuity providers were making from their customers, the plans outlined in the document will carry on allowing this while adding another vulture in to the enclosure to feast off retirement savings.
9. **How should government strike an appropriate balance between countering tax avoidance and allowing a market to develop?** This is a disgraceful question to be asked by the government. If you allow a market to be created with an acknowledged amount of tax evasion how will it ever be controlled and tax avoidance eradicated? No tax avoidance should be permissible or countenanced.

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 are strongly of the opinion that guidance is not strong enough and this has been our position through all of the recent pension liberation reforms. We believe that if any reforms are to be successful in providing benefits to those they are directly aimed at that, then strong protections must be in place to protect consumers from the vultures of the market. We don't think it matters about the amount of money a customer has when it comes to them being ripped off, as any potential for scamming or miss-selling needs to be nullified and the size of annuity is all relative to the person's overall wealth.
11. **What is the best way to implement these safeguards? Should the safeguards include expansion of the remit of Pension Wise?** At this stage it is unclear whether Pension Wise has been able to cope in its current format with the demand created by the 2014 Pension liberalisations. Therefore I think safeguards have to be designed around the actual need of annuity holders to make sure that they are properly protected. How this is then implemented will need to be worked out but the design should not be curtailed by cost implications.
12. **Should the costs of any advice be borne by the annuity holder (mirroring the arrangements for conversion from a defined benefit scheme)? If not, what arrangements are appropriate?** We feel it is should not be borne by the annuity holder. Any charges for advice should be borne by the company wishing to buy the

annuity and charges should be heavily restricted to ensure they are eating to profit margins and not the price received by the annuity holder.

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?**
We have described earlier that we feel the best way for annuity holder to get a good outcome is for the annuity holder to sell the annuity back to the annuity provider with a floor value of what is left of the annuity, please refer to previous answers. This is why believe that extra quotes are not necessary because we believe the only true value for the annuity holder is to sell back to the annuity provider for a regulated percentage of the value left in the annuity.

14. **Does the government's approach sufficiently protect the rights of dependents upon assignment? If not, what further steps should the government take?**
    - **Should the government or FCA issue guidance to annuity providers about protection for dependents?**
    - **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?**

The government needs to legislate that those named in annuity policies have rights under the law to that annuity and therefore have to give their written permission for that annuity to be sold. Alongside this then that person needs to have had sufficient advice equivalent to that of the 'main' annuity holder. At the stage of being given written permission for that annuity to be sold then a fair proportion has to be agreed to go to the secondary annuity holder.

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?**
We believe this position should be available for when principal annuity holders and dependents cannot agree to sell or on proportions of lump sum from the sale.

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?** It is important that before any exchange of annuity takes place that the DWP inform the holder of the annuity what effect this will have on their benefits and that this is part of the agreement that has to be signed. We feel that if an annuity holder already receives some form of means-tested benefit releasing the capital of their annuity will only put a small pause in the amount of benefit they receive before ultimately vastly

increasing it once the capital is spent. This leaves the only winner being the company who made the profit from the sale neither the annuity holder of the wider community will see any real benefit. We also fully expect that those with an annuity should never feel pressured in to selling it instead of receiving welfare benefits they have paid tax towards all of their working lives.

17. **Should those on means-tested benefits be able to assign their annuity income?** See Above. Also, we do not feel that those on means-tested benefits should be treated any differently than those without. Although it is important that the exact impact is clearly outlined and that the annuity holder signs that they fully understand.
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**. We feel that the kind of secondary annuity market being proposed in this consultation document will be a predatory one with light touch regulation. We have proposed a different one through the answers to your questions. However, the likely impacts of your model is that the most vulnerable in society will be targeted by the insidious and aggressive elements of the marketplace, of which we believe there will be many. Therefore anyone who is slightly more vulnerable in society we believe will be negatively affected by the proposals.