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Dear Sirs

Creating a secondary annuity market: call for evidence

JLT Employee Benefits is one of the UK's leading employee benefit providers offering a wide range of benefit and pension services, including administration, actuarial and pension consultancy, investment, Self Invested Personal Pensions (SIPPs) and Small Self Administered Schemes (SSASs) administration, flexible benefits, healthcare, benefit communication and financial education. We also have a dedicated wealth management division for the provision of regulated advice to individuals.

JLT Employee Benefits employs over 2,200 professionals, has revenues of over £175m in UK & Ireland and incorporates HSBC Actuaries and Consultants Limited, Alexander Forbes Consultants & Actuaries and the administration business of Ensign Pensions. We are one of the 'big four' employee benefit consultancies in the UK.

Pensions and employee benefits companies within the JLT Employee Benefits group of companies include: JLT Benefit Solutions Ltd, Profund Solutions Limited, JLT Wealth Management Limited, JLT Investment Management Limited and Independent Trustee Services Limited. JLT Employee Benefits is part of Jardine Lloyd Thompson Group plc.

We are grateful for the opportunity to submit our views on this important call for evidence and, after beginning with some general observations, we focus on those questions where we have strong views.

General observations

- We are supportive of the proposal in the call for evidence and consider it to be a sensible and natural extension of the freedom and choice reforms. We believe it is reasonable and consistent to extend the flexibility introduced on 6 April 2015.
- However, with that freedom comes responsibility and it is imperative that annuitants are able to make informed decisions and that there are safeguards to avoid headlines about consumer detriment.

- Guidance/advice will be a corner stone of understanding, and needs to be robust and focused on the individual. In this regard, we are not convinced that, in is present form, Pension Wise will be sufficient. To deliver the guidance required for the proposed extension of freedom and choice there needs to be considerable expansion of their remit and costs. Consequently, we believe that quality commercial guidance solutions must be allowed to fill the gap - supported by clear regulations and consistent guidance from the FCA.

- Commercial solutions will ensure higher quality and competitive pricing. Guidance should cover risks, including scams, dependant risk, vulnerability testing, tax and impact on means tested benefits, helping the customer safely engage in the process.

- To encourage policyholder engagement with guidance and advice, government may wish to consider, at least in the early stages, an allowance for individuals to cover the basic costs of guidance (on the rationale that there would be a cost to extend Pension Wise). Policyholders would be free to "spend" this with a regulated guider, as part of the overall cost of guidance or advice. This would help demonstrate the importance of guidance in terms of informed decision-making.

- Transparency of charges (from the outset) will be essential for the market to be credible and successful.

- The original policy provider should not be responsible for testing the appropriateness of the policyholder's decision to accept cash or an alternative annuity product in exchange for his existing annuity, but the organisation offering the cash/annuity should be required to explain the risks to the policyholder. This could be by a standard risk warnings leaflet or letter.

- The original policy providers should also be able to refuse to reassign a policy.

- All that said, if too many barriers are put in place, a vibrant and competitive market will not emerge, to the detriment of member choice. In particular, see our response to Question 3.

- Expertise will be needed to arrange and execute deals and the market should be open to bundling annuity trades. A single bidding platform is not necessary as commercial processes should be permitted to emerge to encourage competition. Marketing should be by properly regulated firms.

RESPONSES TO THE CONSULTATION QUESTIONS

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

Paragraph 2.4 of the consultation document adequately summarises the circumstances in which assignment might be appropriate. As emphasised above, what really matters is that decisions are informed ones.

Question 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?

There will be new players attracted to this market, including DB pension schemes, UK and overseas, as well as institutional investors. We believe that any buyers who wish to enter this market should be reputable and properly regulated to ensure an orderly market emerges. The market must be able to attract brokers and investors to allow new approaches to develop.

Question 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? If you think "buy back" should be permitted, how should the risks set out in chapter 2 be managed?

Government may want to reconsider this aspect of its proposals. Buy back may be appropriate in some limited circumstances, but should be part of an overall bid process. Also, from a practical perspective, if annuities are bought in bulk, it might be difficult for annuity providers to avoid inadvertently buying back some of their own annuities as part of a bundle.

Question 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?

'Paying pensions to people who have died is already a major issue and pension funds reportedly pay out over £200 million per year to pensioners who have passed away. A central death register would help not only in the context of a secondary annuity market but also in avoiding the perennial problem of pension overpayments.

Question 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.

It may also be helpful to develop a standard set of principles for valuing annuities. Individuals could then benefit from a "ready reckoner", to give a fair estimate of the resale value of a policy.

This avoids unnecessary advice costs where re-assignment is either not possible or not appropriate, but needs to be sufficiently robust to avoid big surprises when the policyholder pursues the option further.

Question 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 can see the rational for this, but it could lead to inconsistency in terms of policy intention. Where annuities have been bought from DC savings in trustees' names, members should have the option of having their policy assigned to them as a precursor to being in scope of this measure.

Question 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?

Regulated advice will be appropriate for some annuitants and would suggest that, to ensure proportionality of cost, thresholds are introduced to reflect levels of risk. The threshold for advice, consistent with the other parts of the freedom and choice regime, may be value of £30,000, above which advice would be made mandatory.

Such advice, as with most DB to DC transfers, should be paid for by the policyholder, who should be able to evidence that he has taken advice. However, we believe that the policyholder should also be able to demonstrate that he is acting in line with this advice (to avoid insistent customers). Only properly authorised advisers should be able to give such advice.

The point here is that we should try to have consistency with the freedoms already in place.

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

As stated in our general observations, above, Pension Wise will not be adequate and, in our view, commercial solutions are the answer.

Consideration does though need to be given to market capacity; an issue that has already been highlighted in connection with capacity in respect of DB to DC transfer advice.

Question 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?

The costs of advice or guidance should be borne by the annuity holder.

However, to encourage more support and education in the workplace, consideration should be given to better promotion of the exemption from tax charge for pension advice provided by employers (SI 2002/205). The £150 threshold for this exemption also needs to be reviewed; it should be at least £250 per employee.

Question 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?

Ostensibly this makes sense, but how would it be monitored? Using an adviser would naturally provide a market view. Acquirers of the annuity should be free to offer their price only?

There should be a cooling off period of at least 14 days.

It should be clear to policyholders how they complain should the need arise.

Question 14: Does the government's approach sufficiently protect the rights of dependants upon assignment? If not what further steps should the government take?

As mentioned above, guidance should include dependant risk.

Also, a requirement for spouse/civil partner consent to cashing in an annuity would be sensible.

Question 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?

Separating out the rights of primary policyholder and dependants is likely to be costly and difficult contractually. Our preference is stated in our response to question 14.

Question 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?

This issue already applies to the freedom and choice regime in force since April.

Comprehensive guidance is the solution covering all risks, including means tested benefits and leaving the consumer feeling empowered and confident in his or her ability to make a decision that they will not come to regret.

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

This is a public policy decision. If the current annuity is being taken into account then it would seem sensible that assignment should not alter the individual's entitlement to means-tested benefits.

Question18: What are the likely impacts of the government's proposals on groups with protected characteristics?

There must be robust protection for vulnerable customers and regulated practitioners, acting in line with industry codes of good practice, already have processes in this regard.

Yours faithfully,