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Dear Sirs

CONSULTATION – CREATING A SECONDARY ANNUITY MARKET

Please find set out below, Charlton Frank's response to the Consultation – Creating a secondary annuity market. We appreciate the opportunity to provide input into the Consultation. We have used the numbering from the consultation document for ease of reference.

I am responding in my capacity as Chief Executive Officer of Charlton Frank.

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

We do not consider it appropriate to assign one's rights to their annuity income in most circumstances. The small number of circumstances where such assignment might be appropriate is far outweighed by the costs and complexities that introducing such a facility will create. Consequently, we are not supportive of the proposal to introduce a facility to assign annuity income. Savers consciously enter into a voluntary arrangement to provide such income and should stand by their decisions. Such decisions have been voluntary since 1995.

- 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?*

No, we do not agree that retail investors should be excluded from this market, if it is established. We do agree that the product is complex but suggest that retail investors with a specified minimum level of expertise (e.g. qualified actuaries with at least five years' experience) and/or support (e.g. taking advice from an authorised advisor with relevant expertise) should be eligible to invest in it too.

We suggest that any entity be permitted to invest in order to try create as competitive a market as possible. However, we propose that these entities need to demonstrate relevant expertise before being permitted to invest. We propose that 'buy backs' are permitted too and address this in our response to 3 below.

- 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 disagree that annuity holders be prevented from entering into buy back transactions. Excluding the incumbent provider from the process reduces the level of competition in the market, potentially ruling out the party with the greatest interest in concluding a deal.

The risks identified in Chapter 2 (in bold) might be managed as follows:

- **Impact upon annuity providers and funds** – a condition of implementing this annuity proposal should be an agreement by all concerned that providers do not have to buy back their annuities nor should they become subject to such pressure. The provider should not even be compelled to provide a quote to buy back the annuity. Consequently, this risk would not be present; and
- **Consumer protection** – consumers should be required to demonstrate that they have received at least two quotes besides that from the original provider. The prospective purchasers should be required to

provide such quotes within a specified timeframe and hold the quotes for a further specified period. Ideally, the data submitted to prospective buyers would be in a standard form. Sellers who do not have a specified level of expertise/experience might be required to seek, but not necessarily follow, formal advice too.

- 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 disagree and consider that death notifications are best handled by Government through the General Register Office ("GRO"). Ideally, a system could be established whereby the GRO notifies specified parties, such as annuity providers, of the death of specified individuals (e.g. annuitants). The specified parties would register the identities of the specified individuals with the GRO, permission for such registration to be provided by the annuitant on sale of the annuity or on purchase of a new annuity, if this proposal is enacted. The GRO could charge a fee for this service, to cover the cost of development, implementation and maintenance.

- 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.

- 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?***

Limiting the measure to annuities held in the name of the annuity holder outside an occupational pension scheme creates an inequality between those, perhaps even the same person with two sources of benefit, receiving essentially the same benefit from two different sources. Consequently, if the measures are introduced, they should apply to income streams/annuities irrespective of source. We are, however, conscious of the potential negative impact of the proposals on occupational pension 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 supportive of these reforms for annuities, let alone any other products. However, if these reforms are implemented then why not roll these out across all savings products – i.e. buyers should be allowed to sell-on, but not cancel, any contract they enter into?

- 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?*

The proposed system appears to achieve parity between those who will be able to access their pension flexibly and those who will be able to access their annuity flexibly.

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

The initial anti-avoidance provisions should seek to address all known avoidance tactics at the point the provisions are enacted. These provisions might be updated thereafter to address emerging avoidance techniques. We do not support any approach that seeks to support the development of a market by permitting avoidance.

- 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?*

Consumers should be required to demonstrate that they have received at least two quotes besides that from the original provider. The providers should be required to provide such quotes within and specified timeframe and hold the quotes for a further specified period. Ideally, the data submitted to prospective buyers would be in a standard form. Sellers who do not have a specified level of expertise/experience might be required to seek, but not necessarily follow, formal advice too.

The safeguards should be independent of the value of the annuity as there is no way of knowing what proportion of the annuitant's the annuity represents. Consequently, the annuity should be treated as a valuable portion of the annuitant's assets. There is always a place, in our opinion, for robust and common-sense consumer protections.

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

The safeguards should be included in any regulations enabling/governing the reforms. The expansion of the remit of Pension Wise, to support these proposed reforms, would be supportive if the reforms are introduced.

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 guidance/advice should be borne by the annuity holder except if this guidance is provided by Pension Wise, as is the case for the existing freedoms.

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, the Government should require at least two quotes independent of the annuity provider. Government can also create a standardised process for quoting and transacting in order to support a competitive market.

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

No, the Government's approach does not sufficiently protect the rights of dependants upon assignment. Government should facilitate the separation of dependants' right upon assignment if this is what the dependant chooses.

The costs of such separation are likely to be marginal in the context of the overall costs of assignment.

- *Should the government or FCA issue guidance to annuity providers about protection for dependants?*

No, guidance is not required if rights can be separated. If there is no separation then explicit guidance/requirements are likely to be helpful.

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

Separation of rights diminishes the need for special considerations although protection of minors and those unable to make an informed decision themselves will be a concern.

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

Age and/or disability are two equality impacts that stand out.

- 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?***

Yes, separation of the principal annuity holder's income stream and that of dependants should be permitted by Government. The decision as to separation should be left to the parties to the transaction.

We have not responded to questions 16 – 18.

Please do not hesitate to contact us should you have any queries related to the above.

Yours faithfully