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pension

provided by B&CE

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# Secondary annuities market

## B&CE's response

### Key points

- We support the principle of greater flexibility for current annuity holders, but believe that substantial practical hurdles need to be addressed and are worried that consumers could be ripped off if there are not appropriate protections.
- The need for advice is clear, but for those with smaller value annuities onerous requirements would not be proportionate.
- Pension Wise has huge potential to help people understand these changes and the risks they face.
- These proposals highlight the need for a better data infrastructure within the pensions industry.

### About us

B&CE is the not-for-profit provider of The People's Pension, the UK's largest private sector master trust. In total, we manage assets of £2.3 billion, with 2.8 million members and provides financial benefits to over 1,000,000 active individuals on behalf of over 14,000 corporate accounts.

In 2011, B&CE launched The People's Pension, and opened its doors to employers from any sector. It now has 1.2 million members. The People's Pension is a trust-based multi-employer scheme and was the first master trust to obtain independent audit assurance in line with the ICAEW's framework.



## Introduction

B&CE provided annuities to its members for a number of years, though we no longer do so and have sold our business on to another insurer. That business comprised some 18,000 annuities, of which 48% had a purchase value of less than £1,000. Just 15% had a purchase value above £10,000.

However, we do not believe that our duty of care towards these individuals has wholly finished and are concerned about the new options that they may face. As one of the largest pension providers in the private sector, we have a keen interest in ensuring that the pensions market works in the interests of consumers.

We agree with the broad principle of the Government's proposals, but note that there are significant issues with implementation. With members of DB and DC schemes being given more freedoms it seems appropriate to consider those who have made decisions that may not be optimal. There is much evidence that consumers support the idea of greater flexibility in their retirement finances, and that they feel more positive about retirement saving as a result, as evidenced by the Pension Policy Institute's recent *Transitions to Retirement* reports.

The inflexibility, irreversibility and lack of clarity in the existing annuity market has added to the popular idea that annuities offer poor value. The appearance of steadily reducing rates, caused by a number of factors, also undermines annuity products. Yet in many cases, annuities are well suited to the needs of retirees. They provide a guaranteed income with protection against longevity risk. The recent retirement reforms offer the opportunity to rethink the way in which annuities are used and when they are purchased.

At the point of retirement, savers are sometimes understandably wary of making an irreversible decision that will have huge implications for the rest of their lives. Injecting greater flexibility into this market could help to reassure customers that it's not impossible to make changes in the future. In the majority of cases, reassignment of an annuity is unlikely to be appropriate, or come to fruition. However, a perception of flexibility would help to restore consumer confidence in the annuity market.

However, this is a very complex area. It may seem like a simple change, but the devil will be in the implementation. For example, the Government will need to think about annuities held by the Trustee of a DC scheme in the name of their member. The Government should also consider whether these reforms have consequences for the treatment of annuities in case of bankruptcy.

Furthermore, there is a real potential for consumers to get ripped off, given the asymmetries of information between consumers and the industry and low levels of consumer engagement. Appropriate safeguards are necessary to protect consumers.

## Advice

With the complexity of the issues that savers have to consider, it is essential for the Government to consider how it can best equip savers to make an appropriate decision and ensure that they do not get ripped off.

For people with substantial annuities, there should be a requirement to obtain independent financial advice.

However, many of our members, both today and in the past, reach retirement with only small pension pots. For example, from April 2014 when the triviality limit was raised to £10,000, half of our savers who have purchased an annuity have done so with a pot of less than £10,000. Over three quarters did so with a pot of less than £30,000. It is unlikely that these members are wholly reliant on these annuities to support their retirements. There are situations in which exchanging a modest



stream of income for a cash sum may be particularly useful for this group. We would therefore not like to see members discouraged from reassigning an annuity as a result of excessive regulation, or because the cost of advice outweighs any benefit from the exchange.

Therefore, we recommend that those with lower value annuities should be exempt from a requirement to obtain independent financial advice. In this situation a series of risk warnings, with strong signposting towards Pension Wise seems appropriate. Furthermore the creation of a fully transparent market place will help ensure that people obtain the best value they can at any particular time.

The Government should consider how Pension Wise can help consumers understand the options available to them. We believe that Pension Wise has huge potential to help people make better decisions about their retirement finances. We would like to see Pension Wise help people understand and explore their options in the secondary annuities market also. It is clear that for a secondary annuity market to function effectively there is a need for tools to ensure that the necessary data is available to all parties in that marketplace. We would like to see the development of a simple price comparison website for the secondary annuities market, in the same way as those that already exist for other insurance products. This would help to give savers a financial indication of whether further progress towards the exchange of an annuity income is worthwhile.

### **Market data**

With greater flexibility in the annuities market, there also needs to be a better infrastructure for data sharing across the pensions industry. The secondary annuity market casts light on yet another aspect of this problem. One of the key features of the new market is that it should be possible for buyers to be automatically informed when the original annuitant has died.

More importantly, the families of those recently deceased would undoubtedly value a simple and easy process for informing all relevant parties. This is the same principle adopted by the Government's 'tell us once' service. A central register of deaths would reduce hassle and cost for all involved. Its use would not simply be confined to the secondary annuity market as it would prove invaluable to all pension schemes in dealing with their deferred and pensioner members.

We strongly support the creation of a Pensions Dashboard; an online hub where people can see all of their pension savings and entitlements in once place. The idea would be popular too. Our research found that 77 per cent of current pension savers would support the idea. It is clear that once such an infrastructure is in place further integration with Government identity services is a natural step to providing all parties in the marketplace with the holistic information that they require.

### **Contact details**

For further information on this response, or the work of B&CE and The People's Pension, please contact:



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