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Annuity Consultation  
Insurance and UK Regulatory Authorities Team  
HM Treasury  
Horse Guards Road  
London  
SW1A 2HQ

18 June 2015

Dear Sir / Madam

### **Creating a secondary annuity market**

The Association of Professional Pension Trustees is an organisation of over 120 individuals who act as professional independent trustees to UK occupational schemes, some as sole practitioners and some working in firms of such practitioners. Our members represent a large number of mainly larger pension funds with combined assets of several hundred billion pounds.

Our aims are to:

- encourage and promote the highest professional standards in those who practise as professional pension trustees
- promote the role of professional trustees

Our response to this consultation is based on a survey of APPT's members, the results of which are set out below.

## General questions

*Overall, what is your assessment of this proposal?*

An excellent idea with the potential to work well	13%
A good idea in theory, but one which will prove impractical to implement	75%
Not a good idea, but one which will not cause much damage	12%
A very bad idea which will cause significant long-term problems	0%

Comments included the following:

*The practical difficulties associated with the proposal far outweigh any potential benefits. The proposal is comparable to retrospective legislation.*

*Issues of pricing, members paying premiums at purchase and sale cannot be good value. Administration of tracing sold Policy members, policing unscrupulous advisers and targeting individuals who by age could be more vulnerable.*

*The Government's current view is that the assignment of an annuity should only be permitted with the provider's consent. Should annuitants' wishes be allowed to override this?*

Yes	63%
No	37%

Additional comments included the following:

*If it goes ahead it is difficult to see why an existing provider would want to consent, unless the proposal to prevent "buy back" was changed*

*How can it be freedom if you picked the wrong insurer, it does not work. Why would any insurer opt to do it if they did not have to?*

*Currently, Lifetime Annuities purchased by occupational pension schemes may be purchased either in the name of the trustees or the annuitant. Should there be a statutory override in support of the proposed policy which would initially assign all such annuities to the annuitant?*

Yes	12%
No	88%

Additional comments included the following:

*This would undermine some buy-in strategies, such as securing basic benefits but not discretionary increases. It would make reassignment of annuity payments to other members (for example to align maximum payouts linked to one member to their PPF benefits) impossible. That would severely limit the attractions of a buy-in.*

*Such an override would put beneficiaries with such an annuity at an advantage over those yet to achieve pension age. The diminution in security of the scheme assets could also result in the burden on the PPF being increased.*

*Issues on taxation of non trust death benefits would cause issues. It is much cleaner for Trustee purposes but a situation must be found that is not detrimental to the member.*

## Consultation questions

### Consultation question 1

*Q1: In what circumstances do you think it would be appropriate to assign one's rights to their annuity income?*

To free up one of a number of income streams	75%
To provide a lump sum for relatives or dependants	88%
To meet an immediate need, such as debts	100%
To respond to a change in personal circumstances such as ill-health or bereavement	88%
To purchase a more flexible form of retirement benefit	88%
Other	38%

Comments included the following:

*Given that the price paid on assignment is likely to be much worse than that underlying the original annuity purchase, assignment should really be seen as a step to be taken in an emergency only. A bit like payday loans - they may be useful to a small group of people in limited circumstances but you wouldn't recommend one to your mum!*

*To better cater for the member's personal needs rather than what might have been an arbitrary benefit mix*

*I don't know what it might be but the list is not exhaustive. If the proposal goes ahead it is difficult to see how anything other than unfettered access could be regulated*

## Consultation question 2

*Q2: 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?*

Yes	88%
No	12%

Comments included the following:

*It is difficult to see how an annuitant can be considered sufficiently knowledgeable to be permitted to sell his or her annuity income, but not sufficiently knowledgeable to buy a similar annuity income from a third party.*

*But I don't believe there will be sufficient scope or demand for such a market to develop. Experience of trivial commutation exercises demonstrates that existing pensioners are extremely reluctant to give up their pensions. The drop in demand for annuities referred to in the paper relates to new potential annuitants not existing, who represent a very different demographic.*

## Consultation question 2

*Q3: What of the following should be permitted and not permitted to purchase annuity income?*

	Should be permitted	Should not be permitted
Pension funds	100%	0%
Annuity providers	88%	12%
Retail investors (i.e. individuals)	57%	43%
Fund managers	88%	12%

Comments included the following:

*If assignment is to be possible, it is not clear why the range of buyers should be limited at law.*

*If it got off the ground specialist providers set up for the purpose.*

### Consultation question 3

*Q4: 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')?*

Yes	38%
No	62%

Comments included the following:

*There is a risk inherent in this, as identified in the consultation paper.*

*Their circumstances may have changed since the purchase of the annuity and they should be offered more flexibility on reasonable terms. There needs to be a process which ensures these are reasonable*

*Providing appropriate safeguards were in place that would be the simplest way for annuity holders to access funds. The idea that there will be a wide ranging market place verges on wishful thinking.*



### Consultation question 3

*Q5: If you think 'buy back' should be permitted, how should the risks set out in Chapter 2 be managed?*

By commuting the annuity (as an alternative to assignment)	80%
By allowing the annuity to be reshaped so that it better suits the annuitant's circumstances	60%
Other	20%

Comments included the following:

*Difficult to see how anything other than straightforward commutation could have a practical application.*

#### Consultation question 4

*Q6: Do you agree that the solution to the death notification issue is best resolved by market participants?*

Yes	75%
No	25%

Comments included the following:

*There needs to be a regulated process which ensures annuitants are treated fairly and not at the whims of the insurer*

## Consultation question 5

*Q7: Do you agree with the proposed approach of the government working with the FCA regarding the fees and charges imposed by annuity providers?*

Yes	88%
No	12%

Comments included the following:

*Any agreement reached will simply set a minimum threshold and be presented as the "government says", we've been here before with Personal Pensions.*

## Consultation questions 6 and 7

Q8: *Which type of annuities should / should not be included within the scope of a secondary annuity market?*

	Should be included	Should not be included
Lifetime annuities purchased with the funds from contract-based pension arrangements (BCE 4)	100%	0%
Lifetime annuities purchased with the funds from money purchase occupational pension schemes (BCE 4)	100%	0%
Lifetime annuities purchased with the funds from money purchase AVC arrangements (BCE 4)	100%	0%
Defined Benefit annuities purchased as a result of buy-out / buy-in	71%	29%
Annuities purchased to provide a (defined benefit) Scheme Pension (BCE 2)	71%	29%
With Profits annuities	100%	0%

Comments included the following:

*Buy-in (with the annuity owned by and often payable to the trustees of a scheme) is very different to buy-out (with the annuity owned by and payable directly to the annuitant). To me the key issue is that a member should not be entitled to assign an annuity owned by a third party such as a trustee, particularly where that arises from a DB scheme.*

*Again, it should be consistent. Either all or none, with a preference for none*

## Consultation question 8

Q9: *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?*

Yes	75%
No	25%

Comments included the following:

*If I understand the question correctly then no. Accessing an un-drawn pension entitlement via draw-down means avoiding buying an annuity, avoiding locking into "low" yields and avoiding paying for annuity company expenses and profit margins. When assigning an existing annuity to a third party, the member will have suffered all of these effects already and may suffer another set of costs and expenses. The value released will undoubtedly be based on still "low" yields plus a spread. It is difficult to call that "parity".*

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## **Consultation question 8**

*Q9: Are there any other tax rules which the Government would need to apply to individuals who had assigned their annuity income?*

Responses included the following:

*Similar to those for the current flexibility options for those yet to buy annuities*

## Consultation question 9

*Q11: How should the government strike an appropriate balance between countering tax avoidance and allowing a market to develop?*

Apply an unauthorised payment charge where the assignment is made between connected persons	29%
Apply an unauthorised payment charge where the assignment is made to a registered pension scheme with less than a certain number of members	0%
By ensuring that funds released through assignment are taxed at the recipient's marginal rate	57%
By ensuring that funds transferred to flexi-access drawdown are included within the member's Lifetime Allowance	0%
By ensuring that the £10,000 Annual Allowance applies when an annuity is assigned	0%
Require any third party annuity purchaser to be on a central register of approved purchasers	14%
Other	43%

Comments included the following:

*Apply an unauthorised payment charge where the assignment is made between connected persons*

*Apply an unauthorised payment charge where the assignment is made to a registered pension scheme with less than a certain number of members*

*By ensuring that funds released through assignment are taxed at the recipient's marginal rate*

*By ensuring that funds transferred to flexi-access drawdown are included within the member's Lifetime Allowance*

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*By ensuring that the £10,000 Annual Allowance applies when an annuity is assigned*

*Require any third party annuity purchaser to be on a central register of approved purchasers*

*This question goes to the heart of why its impractical. I'm sure there will be any number of "wizard wheezes" that tax professionals will come up with to game the system*



## Consultation question 10

*Q12: What safeguards are necessary to ensure annuitants are able to make an informed decision?*

Availability of free guidance	0%
Requirement to take formal regulated advice	71%
“Second line of defence” risk warnings from the original annuity provider	29%
No safeguards are necessary	0%

Comments included the following:

*This is a risky thing to do and the member's interests are not well aligned with either the original annuity provider or purchaser of an assigned annuity. The member must be protected from unscrupulous third parties.*

*Simple free guidance might be appropriate for some. However, if people are required to take regulated advice before transferring from DB to DC its a no brainer that the same should apply to annuitants.*

*Above a certain level, similar to transferring at present.*

## Consultation question 10

*Q13: Should the safeguards vary depending on the value of the annuity?*

Yes	86%
No	14%

Comments included the following:

*I can see an argument for a triviality limit as for full commutation.*

*The £30k limit should apply here.*

*Same trigger as apply to transfers.*

## Consultation question 10

*Q14: What would be a suitable threshold of an annuity value below which the safeguards do not need to be followed?*

No threshold need apply	86%
Up to £30,000	0%
£30,001 - £100,000	0%
£100,001 and over	14%

## Consultation question 11

*Q15: What is the best way to implement these safeguards?*

Expanding the remit of Pension Wise	29%
Requiring applicants to seek formal regulated advice, but not require evidence of any dependant's consent to assignment	14%
Requiring applicants to seek formal regulated advice and requiring evidence of any dependant's consent to assignment	57%

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## Consultation question 12

*Q16: Should the costs of any advice or guidance be borne by the annuity holder (mirroring the arrangements for conversion from a defined benefit scheme)?*

Yes	100%
No	0%

### Consultation question 13

*Q17: Do you agree that the government should introduce a requirement on individuals to obtain a number of quotes?*

Yes	14%
No	86%

Comments included the following:

*But they should be required to seek advice where the value exceeds £30k*

*If it goes ahead it would be impractical and the amount of nugatory work and resource would deter providers from entering the market. Another instance of impracticability*

### Consultation question 13

*Q18: Do you agree that the government should introduce generic tables so that potential customers could get a “ballpark” idea of what their annuity is worth?*

Yes	57%
No	43%

*How else should the government best promote effective competition to ensure consumers obtain a competitive price?*

Responses to this supplementary question included the following:

*Keep red tape to the minimum*

*TPAS, Citizens advice and national information campaigns. Most individuals now shop around for all services. If advice is needed then it would not be a huge issue.*

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## Consultation question 14

*Q19: Should the government or FCA issue guidance to annuity providers about protection for dependants?*

Yes	86%
No	14%



## Consultation question 14

*Q20: Which of the following types of beneficiary require special consideration?*

Children	57%
Spouses / civil partners / cohabitees	86%
Former spouses	57%
Other	43%

Responses included the following:

*If a party has a (contingent) right to an income from an annuity contract then their interests must be considered.*

*A dependant is a dependant. So if it's not a single life there should be no distinction.*

*All beneficiaries. Earmarking order for former spouses would be logistically difficult to manage.*

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## Consultation question 14

*Q21: Are there specific equality impacts that should be considered in this context?*

Yes	29%
No	71%

### Consultation question 15

*Q22: Should the government permit the principal annuity holder's income to be assigned while dependants retain their own income stream?*

Yes	71%
No	29%

## Consultation question 15

*Q23: When an annuity holder has dependants, should the decision to assign an annuity be left to the discretion of the parties to the transaction?*

Yes	71%
No	29%

## Consultation question 16

*Q16: 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?*

By ensuring that the topic is specifically addressed in guidance / advice	72%
By introducing a Minimum Income Requirement for anyone considering assignment	14%
Other	14%

## Consultation question 17

*Q25: Should those on means-tested benefits be able to assign their annuity income?*

Yes	71%
No	29%

Comments included the following:

*With advice*

*How could it be prevented? They need only cease claiming for a short period to do so. It's an abuse issue and there rules for dealing with that.*

## Consultation question 18

*Q26: What are the likely impacts of the government's proposals on groups with protected characteristics i.e.*

- *race*
- *sexual orientation*
- *marriage/civil partnership*
- *sex*
- *religion or belief*
- *gender reassignment*
- *disability*
- *age*
- *pregnancy/maternity*

*Please provide any examples, case studies, research or other types of evidence to support your views.*

Our members did not believe that there would be any significant impact made by these proposals.

Yours faithfully,



Nita Tinn  
Association of Professional Pension Trustees