PROFESSIONAL PENSIONS

Budget 2015: Osborne launches consultation on secondary annuity market

By: Stephanie Baxter 18 Mar 2015

Chancellor George Osborne has launched a consultation on extending pensions freedoms to pensioners who have already bought annuities.

The paper, published alongside the Budget today, sets out the government's plans to give more than 5 million people the chance to cash in their annuities.

It invites views on how a secondary annuity market could work in reality as well as how to ensure pensioners get the right guidance and advice.

Osborne said while an annuity is the right product for many people, for some it makes sense to access their annuity now.

The government proposes to allow individuals to sell their annuities for lump sum cash, flexi-access drawdown fund or a flexible annuity. Annuity holders that assign to a third party the right to their annuity payments will get the £10,000 annual allowance that applied to defined contribution from this April.

There are concerns from industry participants over how such a market will work in practice, however.

The government believes annuity providers, third party purchasers, and intermediaries will allow the development of a "strong market" for secondary annuities. This market will allow annuity holders to assign to a third party the right to their annuity payments. The Treasury also admitted that the market could fail to come to fruition if buyers were unable to price the risk of such purchases correctly.

The government said it will work with the Financial Conduct Authority to ensure there are safeguards to ensure people have the information needed to decide whether to sell. It is considering potential safeguards such as a requirement to take financial advice, an offer of guidance; and regulatory interventions such as risk warnings.

The move is one of four steps the government will undertake to create a savings revolution.
There are warnings that many people may expect an unrealistic price for their annuities on the secondary market. A survey by Portal Financial has found that two-thirds of people consider 90% to be the minimum percentage of an annuity's true value that they would accept if they chose to sell it.

Mercer principal Mark Rowlands questioned the value of the government's move as he believes it brings risks.

He said: "We may see people prioritising short term issues, such as, paying off a loan rather than securing their financial future. People typically underestimate their life expectancy by around 5 years, people risk trading their long term financial security for an immediate 1 off payment. No one knows how this market would function and what value the consumer will receive, it is hugely risky."

Managing Partners Limited chief executive officer Jeremy Leach said tax treatment will still need to be clarified. He said: "For example, how will the capital gain for annuitants be taxed and how will the income streams for the new beneficiaries be treated given it will be less than the price paid for some time? Regulators will also have to draft new rules to cover transferability rules."

As the Budget was announced today the government revealed it could save £835m in 2016-2017 from the pension changes.