



advice and support for older age
**Independent
Age**

HM Treasury and DWP: Creating a Secondary Annuity Market Consultation Response

17 June 2015



About Independent Age

Independent Age is a growing charity helping thousands of older people across the UK to live more independent, fulfilling lives. Founded over 150 years ago, we are an established voice for older people and their families and carers. We offer free advice and information and provide services, such as befriending, to promote wellbeing and reduce loneliness. In addition to this, we use the knowledge and understanding gained from our frontline services to campaign on issues that affect older people like poverty, loneliness and carers' rights.

For more information, visit our website www.independentage.org

Introduction

Independent Age is determined to tackle three types of poverty in later life: poverty of income, poverty of information and poverty of social contact. We are responding to this [consultation](#) because we believe we still need to do more to tackle poor financial outcomes for people in later life. Many older people tell us they struggle with their finances. Crucially, they can also struggle to access impartial, trusted sources of information and advice on complex money matters.

We have backed the reforms extending freedom and choice to members of Defined Contributions Pensions schemes. We also welcome the reforms being consulted on here for current annuitants. The crucial test is whether the reforms will help boost older people's incomes. We believe provision of timely and comprehensive information and safeguards protecting older people from consumer detriment will be a key factor in determining whether they do in fact improve people's finances.

Section 4: Consumer Protection

We welcome the proposals by the government for a secondary annuity market, giving current annuitants similar flexibility to those who are accessing their pension pot for the first time. We also welcome the government's commitment to consumer protection in this new market.

Safeguards in the form of advice and information are essential in light of the wide range of factors that individuals will need to assess and take into account when deciding whether to assign their annuity to a third party. The new flexibility for annuity holders provides a positive opportunity to review an annuity and decide whether it is providing good value for money. However, people's ability to do so is clearly dependent on how well informed they are to make a good decision for their own immediate and longer term circumstances and aspirations. The success of the proposals will also depend on the choices people subsequently make about what to do with the capital that is released.

People typically underestimate how long they will live and prepare very little for the potential high care costs in later life. We therefore see good information and advice as essential in making sure that people do not make poor decisions about their money and how they will use it to fund their retirement.

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?

Given the risks that surround the decision to sell an annuity, we believe it is important that any advice or information people receive is provided from an independent and impartial source. This is vital for ensuring public trust in the system. We believe that anyone approaching their annuity provider about assigning their annuity to a third party should at the very least be i) signposted to free and impartial guidance and ii) provided with a 'risk warning' as a second line of defence against consumer detriment. Our view is that the remit of Pension Wise should be expanded to encompass free and impartial guidance.

The guidance on offer needs to be clear and relatively simple, while ensuring that it covers sufficient information for people to plan their future finances, including typical costs for later life and information about life expectancy. In advance of a free guidance session, people should be prompted to prepare for the meeting, and provided with tips on what information to bring with them to make the most of the session.

Our view is that the importance of this decision would usually make it appropriate to require people to seek independent financial advice. However, we recognise that where their pension fund is relatively small, the fee required for independent advice will probably be disproportionate for the amount of money that is at stake. It would therefore be appropriate to establish a monetary threshold below which people would not to be required to seek independent financial advice.

We believe that the provision of a 'risk warning' will be essential, regardless of whether people are required to seek independent financial advice. This will help people to understand the implications of a decision to assign their annuity, to consider key factors (such as health circumstances) and to be given a simple explanation of the impact on means-tested benefits, the income deprivation rules and capital limits (see below).

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

Guidance needs to be free and provided by an impartial, independent provider. We believe there are significant advantages to free guidance being delivered by the existing Pension Wise service, in order to promote

consumer trust, consistency and reliability of service. We believe there is an opportunity in the longer term to expand the group of providers to include a greater range of advice organisations from the voluntary sector. However, this would require investment in capacity-building and quality assurance systems.

Individuals considering selling their annuity should be provided with a choice of guidance provider via the Pension Wise service (TPAS or Citizens Advice) and a choice of face-to-face guidance as well as telephone and internet based guidance. There should be an opportunity to have more than one guidance session if required.

The FCA will have an important role in overseeing and monitoring the delivery of these safeguards and ensuring public trust in the system. We therefore recommend that the FCA undertake an audit of the scheme following its first year of operation. We also encourage the Treasury Select Committee to call for evidence on how the secondary annuity market is working a year after introduction and whether stronger safeguards are required.

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?

We believe that, as with the existing Pension Wise offer, guidance sessions should be offered without charge. We believe that it is right that the costs of regulated financial advice are paid for by the annuity holder. However, we welcome the government's work with the financial services industry to develop more simplified models of advice and hope that this will enable advice sessions to be less expensive for individuals seeking tailored advice. The use of 'risk warnings' will mean that there is a basic safeguard in place to make sure that individuals have an insight into the risks they face, at no cost to themselves.

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?

We agree with the proposal that there should be a requirement on an individual to obtain a number of quotes for the value of their annuity. This will put in place an important safeguard to help protect consumers and contribute to the fair operation of the secondary annuity market.

However, as part of the oversight arrangements monitoring how the scheme is working, the FCA should consider whether making it a requirement on individuals to obtain a number of quotes unfairly militates against individuals with lower value annuities being able to assign or sell their annuity. The reforms must not work to the disadvantage of these consumers.

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?

We welcome the consideration the government is giving to this very important issue. People need sufficient information and advice to understand their potential care needs and typical costs of care in order to plan their future finances. In particular, they need to understand how selling their annuity will affect their eligibility for state support in the form of means-tested benefits and local authority social care provision, immediately and in the future. We recommend the Department for Work and Pensions (DWP) work with the Department of Health (DH) to quickly clarify whether people who assign their annuity to a third party will be treated in terms of welfare benefits and social care funding as having notional income or capital to the value of their annuity.

We believe that the inclusion of these implications in the 'risk warning' will be essential to protect consumers from the situation where either a) they sell an annuity and are not able to have this income replaced by means-tested income from state benefits or b) the increase in their capital level changes their entitlement to government support for social care. Where people are likely to face this situation, the risk warning should strongly encourage people to seek guidance from Pension Wise. People receiving state support with home care will be particularly at risk if the sale of their annuity places their finances above the new capital limits (£27,000), so there is a strong case for including a statement about this in the initial 'risk warning'. We believe that the combination of a 'risk warning' and the universal offer of free independent guidance should be sufficient to protect consumers who are at risk of making poor decisions in relation to their annuity.

Consumers should be required to confirm that they have read the risk warning and understood the risk factors, including the implications for state support, if they assign their annuity to a third party. The risk warning should be provided in writing.

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

People who already claim means-tested benefits should be given the same flexibility to sell their annuity as is being granted to other annuity holders. While we recognise that this group may be particularly vulnerable, our view is that this is best addressed through strong safeguards in the form of high quality and appropriate information, and risk warnings, rather than restricting the level of choice they have over their finances.

We believe it is very important that people understand that the government approach is to not compensate individuals through welfare for any loss of income where individuals have assigned their annuity to a third party. This is the case for all annuity holders who are currently or may in the future be eligible for state support.

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