Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Our ref: Annuities

Dear Mr Deakin

Removing the requirement to annuitise by age 75

This is the Financial Services Consumer Panel's response to the H M Treasury Consultation Paper: Removing the requirement to annuitise by age 75.

The Panel is not in a position to respond to all of the questions within the Paper and we have focused on the issues raised in Chapter 4. Our detailed comments, which are mainly concerned with the need for consumers to have access to affordable advice and genuinely helpful information about annuities and the new alternatives, are set out below.

The Panel welcomes in principle the proposals to open up the market to retirement products other than annuities, which arguably do not always deliver value for money. There is clearly a consumer need for more competitive products that deliver good consumer outcomes. The Panel will consider further the impact of this wider market on consumers, particularly in terms of access to affordable advice, the suitability of different types of product and how to make best use of small pension pots. We will be happy to input our views at a later date.

The Panel has recently commissioned research into annuitisation and consumer detriment. This will be published on the Panel's website at www.fs-cp.org.uk in the autumn.

Chapter 4: The UK annuity market

The Government welcomes views on whether other legislative or regulatory barriers remain whose removal would enable industry to provide consumers with more attractive products without incurring fiscal or avoidance risks.

The Panel is not aware of specific legislative or regulatory barriers to providing better products, that could be removed without risk. The annuities market is however moderately concentrated and there may be wider competition issues that impact on the efficiency of the market as a whole.

The Government welcomes views on how the industry, Government and advice bodies such as CFEB can work to ensure that individuals make appropriate choices about what to do with their retirement savings in the absence of the requirement to purchase an annuity by age 75.

The Panel's recent unpublished research, which included analysis of market data, concluded that the majority of annuitants are getting the best annuity rate, either by switching, the trustees of their scheme selecting the best provider or from their existing provider. But there is evidence that around 25% of annuitants do not appear to make an informed choice and may be suffering detriment as a result. The extent of this detriment is difficult to assess, but research analysis suggests that individuals could be losing around £200 per annum, with the total level of detriment estimated to be between £8mn and £17mn per year. Many of those suffering detriment seem likely to be individuals with smaller pots for whom advice may be inaccessible, unaffordable or intimidating. This is an issue that needs to be addressed as the nature of the decision to be taken is a personal one, based on individual circumstances. So while we fully support a wider programme of information and education, ultimately there can be no substitute for suitable advice.

Organisations such as CFEB and advice agencies could, given sufficient resources and support from industry and Government, play a vital role in explaining in plain language the options that will be available to those approaching retirement and perhaps setting out the factors that individuals should be taking into account when considering what action to take. CFEB does of course produce a number of helpful leaflets for consumers already on the subject of pensions and retirement. This would also help to address some of the general lack of understanding amongst some consumers about annuities in general – although a greater understanding of annuities would not necessarily lead to greater take-up of these products. There should be a single integrated and focused public awareness/education strategy to deal with the new arrangements for retirement saving ahead of the introduction of the changes, with clear objectives that should be assessed to ensure that the programme delivers what is required.

There is scope too for this information to be included in the 'wake up' packs that are sent by firms to consumers approaching retirement, which already include Moneymadeclear information. No doubt the Government, FSA and the relevant trade associations will be taking steps to ensure that advisers are provided with the information they need about the new retirement options to advise consumers on the right product for them.

It will be important for consumer-focused information material to be clearly identifiable and separate from marketing material. In this respect the use of the Moneymadeclear brand would be helpful.

The Government welcomes views on whether the proposed reforms have unintended consequences that may affect the market's ability to supply annuities at attractive rates or prevent the annuity market being able to meet likely demand for annuities.

The paper makes clear that the Government is already aware of the potential detrimental impact of Solvency II on annuity markets and annuity rates. The Panel is not aware of any unintended consequences from the specific proposals contained within the Paper that could hinder the delivery of the right products to individual consumers.

Yours sincerely

Adam Phillips
Chair
Financial Services Consumer Panel