Lexis®PSL **Pensions**

Does the annuities market need stricter rules to protect consumers?

03/01/2014

Financial Services analysis: Consumers often forego seeking professional advice on annuities in order to save money which can lead to bad investments. Jennie Kreser, partner in the pensions department at Silverman Sherliker LLP, says insurers should make their clients aware that they can research other quotes in the insurance market.

Original news

Press Release: Annuities—time for regulatory change, LNB News 10/12/2013 37

The Financial Services Consumer Panel (FSCP) has published the findings of its research into the consumer experience of purchasing an annuity, which shows that the market does not work well for the majority of consumers. The FSCP recommends urgent regulatory and government-led structural reform in order to prevent millions of pensioners from losing out.

What are the issues raised by the FSCP in relation to annuities?

The FSCP has raised several issues, but in particular it is concerned about the poor value that some annuity providers represent and that the consumer is not being given enough information to make a proper assessment as to their annuity options. It comes down to information and knowledge. For example, most people, if they have a personal pension, are told by their pension provider when their pension comes to mature that they will get a pension of a certain amount based on the value of their pension pot and what it will produce as an income stream in retirement. They don't think to ask what that annuity is, if it's a single life annuity, whether it includes spouses, whether the conversion rate is actually good value, do they have some sort of medical condition which might mean that since their life is 'impaired' they can ask for a better deal. The list goes on. Consumers are not necessarily aware that they can go out into the marketplace and maybe get a better deal with another provider if they transfer their cash. Sometimes people are losing out to the tune of thousands because they actually pick the wrong annuity.

What specific problems are raised by the so-called 'non-advised' market?

It comes back, to some extent, to making an informed decision. A lot of people are unaware that financial advisers can help them with their annuity options, and even if they do, the cost of getting independent advice can sometimes be off-putting (with the Retail Distribution Review (RDR) now in force, any financial advice is fee-based and not based on commission). The concern is that people are still being sold annuities without being given proper independent financial advice. The reality is that if you actually sit down and do the sums, it can work out far cheaper for the consumer to pay for the advice than facing the risk of taking on a poor annuity. Once you have bought an annuity, it's extremely difficult to reverse it. In fact it's practically impossible. It's a 'one-shot hit'.

What changes would the FSCP like to see to the way annuities are sold?

The FSCP has recommended that the Financial Conduct Authority (FCA) should:

- implement the equivalent of a code of conduct for the non-advice market to promote high standards, transparency of charges, and the risks involved in taking advice from unregulated financial advisers

- address the issues posed by the fast-growing 'non-advised' annuities market (see question above)

- undertake a market study to examine possible exploitative pricing of annuities sold by insurance companies to their defined-contribution customers who have saved with them for a pension

It has also called on the government to help members of workplace schemes by establishing 'a non-advice service' for those considering their retirement options.

Are there any barriers to change being implemented in the market?

To some extent, there is a lack of acknowledgment on the part of insurers that there's a problem at all. Until they recognise there is an issue, they cannot begin to deal with it. From the insurers' point of view, they will be reluctant for anything to change because, put frankly, they have the winning hand—they price the annuities in such a way because, generally-speaking, they know how long the customer is going to live. The actuaries who price these products have years of research to call on and construct various tools including mortality tables that allow them to estimate the value of annuities down to a fine art. Some people will inevitably 'outlive' the value, but most will not. That means that on the whole, the insurers make money on the deal.

As much as I resist the idea of more pension legislation in principle, I think there probably also needs to be something written into law to force insurers to offer an open market option. For example, when advising a consumer that their pension pot is maturing, the insurer should be required to research the marketplace and outline to the client what the various options are. Obviously, the insurer will not want to overtly advertise a rival's annuity rate, but there should be an onus on the provider to make it clear that their customers have the right to go into the annuities marketplace and find other quotes. A lot of attention has been paid in the past to the so called 'accumulation' phase—building up the pot of money in a pension. Now we need to turn our attention to the decumulation phase—how we deal with the pension in actual retirement.

Interviewed by Duncan Wood.

The views expressed by our Legal Analysis interviewees are not necessarily those of the proprietor.

LexisNexis

- About LexisNexis Terms & Conditions Privacy & Cookies Policy (Updated)
- Copyright © 2014 LexisNexis. All rights reserved.