UK government cancels plans to create UK secondary annuity market.

In an announcement on 18th October 2016, the UK government made a surprise u-turn on their intention to create a UK secondary market in annuities.

The creation of the market, which had been set to launch in April 2017, would have provided an estimated five million UK pensioners with the choice to sell their existing annuity in a newly created open market; which ELSA estimates could have seen initial trading in excess of £500 million a year.

The UK government and regulatory authorities have engaged with the industry in extensive consultations since March 2015. Having already postponed the creation of the market by a year to allow the industry time to consult and prepare, the cancellation of the market will be disappointing news to those who have been working fervently to create a robust and competitive consumer offering – but, it will be a massive blow to UK pensioners who were looking to exercise their new pension freedoms from April 2017.

In its statement, the government statement said, "It has become clear that creating the conditions to allow a competitive market to emerge could not be balanced with sufficient consumer protections".

These were amongst concerns raised by the Open University in their Secondary Annuity Market report published in May 2016. Will Bramley, the author of the report said:

"… [the government] have underestimated the scale of the problem, especially the real risk that competition will simply not emerge, and that their proposals may not prove sufficient to create a market that works for pensioners."

Research by SL Investment Management (SL), one of ELSA's founding members, has been investigating consumer expectations in relation to the market. SL conducted the research via their consumer website - Sellingmyannuity.co.uk – looking into consumer expectations on sales process, pricing, proceeds of sale intentions, payment & retained benefits, etc.

The research clearly demonstrated that there was significant interest from UK Pensioners looking to sell their annuities, with over 250 voluntary respondents to the survey.

One of the key findings was that in selling their annuity, annuitants were most likely to be looking to restructure their finances; 32 per cent of respondents indicated they would use sales proceeds to bolster their cash savings, with 31 per cent intending to pay off debt.

Interestingly, less than 10 per cent of respondents indicated they would use the proceeds for a purchase such as a car or holiday; in contradiction to remarks from some market commentators.

The research also showed:

- A clear consumer preference for a simple and fast sales process, utilising the services of a regulated intermediary.
- Little interest from annuitants in receiving financial advice; only 11 per cent of respondents indicated that receiving financial advice would be an important aspect in reaching their sale decision.
- Younger pensioners were more likely to look to sell; the average age of an annuitant participating in the survey was 63 and had typically taken out their annuity within the last 6 years.
- Based upon UK population life expectancies, annuitant price expectations translated to secondary IRRs of around 5%. Although variances in price expectations were large - perhaps indicating a high degree of uncertainty amongst annuitants.

Alec Taylor, Chair of ELSA commented, “There will be many frustrated pensioners out there today who continue to be locked into unwanted annuity contracts. Whilst it is disappointing that the government have changed tack on creation of the market, the rationale behind their approach is understandable, and consumer protection concerns must be of paramount importance.”

It is unlikely that the UK government will review its decision in the near future; but should there be any future changes in its stance, an update will be provided by ELSA.

Alec Taylor (ELSA Chair) - December 2016