



Xafinity Paymaster response to HM Treasury consultation paper on removing the requirement to annuitise by age 75

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Background

Xafinity Paymaster supports an increasing number of insurance companies in the administration and payment of annuity benefits. Clients include Aviva, Sun Life Financial of Canada, Pensions Insurance Corporation, Windsor Life and many others.

Xafinity Paymaster works with well established insurers as well as new entrants to the UK annuity market.

A full range of existing annuity products is supported and at the current time more than 600,000 annuitants living throughout the world receive their annuity payment from Xafinity Paymaster.

Xafinity Paymaster does not provide advice to individuals or product providers and is accordingly focussed upon the servicing aspects of annuity portfolios and clearly has no insurer or product bias.

Xafinity Paymaster is the largest independent provider of annuity payment services in the UK.

Introduction

Xafinity Paymaster welcomes the opportunity to comment upon the HM Treasury Consultation paper on Removing the requirement to annuitise at age 75.

We have promoted change within the annuity market for many years and supported new entrants to that market as well as helping existing providers introduce a wider range of annuity products and services to the UK marketplace.

Xafinity Paymaster has consistently sought to remove administrative complexities in annuity processing and to promote a greater understanding of annuity issues for the benefit of both insurers and their policyholders.

With a combined annuitant and pensioner customer base of 2.2 million we believe that we are uniquely positioned to understand the views of those in retirement and to comment upon the Treasury proposals.

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Overall Summary of Views

- We welcome:
 - The increased flexibility these measures will introduce for people at retirement.
 - The commitment to making the rules simple allowing people to make the right choice.
 - The recognition that annuities remain an effective way of insuring against the risk of exhausting savings prematurely and are good value in comparison with other products.
 - The withdrawal of Alternatively Secured Pensions (ASP).
 - The commitment to the Pension Commencement Lump Sum (PCLS) which is an attractive option for many at retirement and boosts capital spending throughout the economy.
 - The simplicity and uniformity planned for calculating the tax recovery charge for death benefits and we welcome the intention that death benefits paid out for those who die before age 75.
- However, we do believe that the Government can go further in some of its reforms especially where they relate to the pensions tax framework. In particular we believe that there is scope to encourage value protection for annuities and accordingly to help overcome the greatest criticism of annuities. We would propose the provision of tax free death benefits up to capital protection levels (purchase price less payments made) and the subsequent taxation of any death benefits in excess of capital protection on a simple basis.
- In addition we would advocate the requirement of a “set aside” sum to overcome the potential risk of individuals opting for uncapped drawdown falling back upon the State.
- Our greatest concerns relate to the means for provision of the right level of advice to consumers. Deciding what shape and type of product to buy at retirement is a complex process. It requires specialist advice and the reality is that it is only the wealthiest consumers who are prepared to pay for it.
- Whilst acknowledging that buying an annuity will remain the right choice for the greatest majority of consumers, the slow growth in the take up of the OMO (Open Market Option) option, shows how consumers require real guidance and support at this crucial stage.
- Whilst we welcome the establishment of the National Financial Advice Service, this is unlikely to be able to provide the level of advice and support that retirees require.

- We believe that there are a number of practical steps that the Government can take to help overcome the retirement advice financial challenge.

These include:

- Compulsory provision of the three highest comparable annuity quotations for any retiree from their existing pensions accumulation vehicle (scheme or policy). These quotations could be drawn from a CPMA (Consumer Protection and Markets Authority) portal that interacts directly with an annuity provider's quotation systems. Trustees or insurers should be obliged to ensure that a member or policyholder is directed to take advice if uncertain what to do.
- Compulsory use across the Industry of a Common Annuity Questionnaire and Application Form
- Development of advisors, similar to Legal Aid advisors or CAB (Citizens Advice Bureau) to provide specific advice to individuals at retirement. These could form part of the National Financial Advice Service teams but be focussed on the Decumulation aspect of pensions savings. Historically this area of decumulation has not received sufficient focus.
- Granting retirees the right to two half days “off work” within six months of retirement to take up appointments with these Financial Advisers or their own IFA to discuss their retirement choices.

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Specific Answers to Questions

The Government welcomes views on

1. The level of an appropriate annual drawdown limit for capped drawdown.

The annual drawdown limit should be reviewed annually. We would suggest that whilst the risk of running out of funds can increase with age, the scope for increased investment returns is also increased. We would not support an artificial division at age 75 of USP (Unsecured Pension Arrangement) limits and would suggest that a consistent drawdown limit should apply throughout the entire retirement period. If the existing 120% limit is working successfully now then we see little reason to change this.

2. Its intended approach to reforming the pensions tax framework, in line with its commitment to end the effective requirement to purchase an annuity at age 75.

We support the changes which are proposed. These are progressive and appropriate steps. However, we would suggest that there are other steps which may be taken to also simplify the pensions tax framework and assist with improving consumer perception of annuities.

We suggest that the maximum age limit of 75 for tax relief to be available for pension contributions is an artificial anomaly and should be removed.

We suggest that tax free death benefits up to capital protection levels (annuity purchase price less payments made) should be provided. This will encourage the purchase of capital protection which will help with the consumer perception of annuity value.

3. What income should be considered "secure" for the purposes of the MIR and whether proposals for the life annuity income that can be considered for the MIR are practical and appropriate?

We suggest that the maximum age limit of 75 for tax relief to be available for pension contributions is an artificial anomaly and should be removed. This approach should be linked to the overall MIR approach which we advocate whereby a consumer can only undertake flexible drawdown they have "set aside" the appropriate level of funds into a contingency arrangement. This approach is akin to the Irish model. This approach would stop a consumer passing an MIR test at a single point in time and subsequently spending all excess funds and, as a result, becoming more liable to require State support at a future date. The set aside amount should effectively act as a buffer to this approach and could be age determined.

If the Irish model is not followed, "secure" pensions should include static pensions and annuities discounted at a value of say 2.5% for a period that reflects the age when flexible drawdown is taken and the consumers anticipated lifespan. The discount value should be regularly determined.

4. What an appropriate level for the MIR should be and how the MIR should be adjusted for different ages.

Figures should be determined by the ONS (Office for National Statistics), including housing costs and be declared annually at the same time as other benefits in line with changes in state pension levels, Lifetime Allowances etc. The determination of MIR by age adds an unnecessary complication.

If the "set aside" model is adopted then the "set aside" amount should also be declared at this point in time and be applicable for anyone wishing to drawdown during the next financial year.

5. Whether a different MIR should be set for individuals and couples.

Yes, as per the approach taken with State pension system. MIR rules should permit a couple to apply to be able to combine their pensions and or annuities for the purpose of assessment for MIR. This gives couples the choice.

6. How often the MIR should be reviewed.

Annually, as part of the annual Budget review.

7. How to minimise unnecessary burdens for individuals and industry in the assessment of the MIR.

The provider of the uncapped drawdown vehicle should be responsible for making appropriate checks before permitting the drawdown and providing any reporting to HMRC.

The MIR is a natural part of financial planning and advice and a Statement of Entitlement, similar to a P60 or LTA certificate can be provided by pension and annuity providers confirming the amount of benefit that can be included in MIR calculations.

8. 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.

There is a risk that uncapped drawdown is marketed and sold by the provision of negative publicity around lifetime annuities. Clearly there is a role for both in the retirement market. Regulators should ensure that marketing is appropriate.

We would suggest that the revisions we have proposed to the taxation treatment upon death as detailed in A2 above will assist in ensuring a balanced playing field exists between lifetime annuities and uncapped drawdown.

9. 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.

This is our greatest concern. Deciding the shape and type of product to buy at retirement is a complex process. It requires specialist advice and the reality is that it is only the wealthiest consumers who are prepared to pay for it.

Whilst acknowledging buying an annuity will remain the right choice for the greatest majority of consumers, the slow growth in the take up of the OMO option, shows how consumers require real guidance and support at this crucial stage.

Whilst we welcome the establishment of the National Financial Advice Service, this is unlikely to be able to provide the level of advice and support that retirees require.

We believe that there are a number of practical steps that the Government can take to help overcome the retirement advice financial challenge.

These include:

- Encouraging OMO by requiring any retiree from their existing pensions accumulation vehicle to be given comparable annuity quotations from the top three annuity providers. These should ideally be provided 6 months prior to retirement although we appreciate that, at times, retirement is "sudden" and may not be by choice. These quotations could be drawn from a CPMA portal which interacts directly with an annuity provider's quotation systems. Trustees or insurers should be obliged to ensure that a member or policyholder is directed to take advice if uncertain what to do and acknowledge that he has received alternative quotations if he chooses not to take up the OMO.
- The compulsory distribution of decision tree documents produced by CPMA to all retirees.
- Compulsory use across the Industry of a Common Annuity Questionnaire and Application Form.
- Development of advisors, similar to Legal Aid advisors or CAB to provide specific advice to individuals at retirement. These could form part of the National Financial Advice Service teams but be focussed on the decumulation aspect of pensions savings. Historically this area of decumulation has not received sufficient focus.
- Granting retirees the right to two half days "off work" within six months of retirement to take up appointments with these Financial Advisers or their own IFA to discuss their retirement choices.
- The encouragement of annuity providers to develop simple annuity products to support the small pension pots that arise. Many providers have minimum purchase prices that severely restrict a consumers ability to secure a competitive quotation for their small pension pots.

10. 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.

We do not believe the proposed reforms will negatively impact upon the UK annuity market's ability to supply annuities at attractive rates.

However as detailed in A8 and A9 there should not be a market bias towards uncapped drawdown and there must be encouragement for the industry to develop competitive products to support the small pensions savings pots.



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