Secondary annuity market

The Economic Secretary to the Treasury announced on the 15 December 2015 that more than five million people will be able to sell their annuity from 6 April 2017, as the government outlines plans to extend its landmark pension freedoms and create a new secondary annuity market.

The government confirmed that from 6 April 2017 tax restrictions for people looking to sell their annuity will be removed, giving five million people with an existing annuity, and anyone who purchases an annuity in the future, the freedom to sell their right to future income streams for an upfront cash sum.

The proposal

From the 6 April 2017, upon agreement with their annuity provider, individuals will have the opportunity to assign their annuity to a third party buyer in return for a capital lump sum. The provider would then continue to hold the underlying assets and pay the annuity income to the third party for the lifetime of the annuity holder. To facilitate this change, the Government will lift the pension tax restrictions on assigning annuities and also remove the "unauthorised payment" tax charge of 55% (or more), except where there is a partial assignment or surrender, which will remain subject to these charges.

Individuals will be able to assign an annuity purchased either before or after 6 April 2015, as well as one purchased in the future.

Individuals will be free to use the proceeds they receive from assigning their income stream how and when they want. They will be able to take the capital lump sum as cash, or transfer it to an alternative retirement income product (eg to a flexi-access drawdown fund or a flexible annuity, ie one which may increase or decrease) to allow the individual to draw income over a number of years. In each case, payments will be subject to taxation at the individual's marginal rate.

In the light of this:

- the Pension Wise service will be expanded to cover all those who hold annuities
- as announced on 9 December 2015, a financial advice requirement will be put in place for individuals with an annuity above a certain value, to make sure they have the support to make the right decision
- the Government will work closely with the FCA to consider how consumer protection will work in practice, and what further steps are required
- a new specific regulated activity for purchasing rights under an annuity on the secondary market will be created under FSMA
- the Government and the FCA will develop an online tool to help annuity holders understand the potential value of their annuities.

Achieving the secondary market in practice

The Government has decided that DC annuities held as general scheme assets (and not in the name of an individual) will be out of scope. DB scheme annuities which are within an occupational scheme remain outside the scope. However, scheme trustees will able to permit assignment, should they and the member wish to do so.

The response acknowledges that, for most people, retaining an annuity will be the right decision. However, the circumstances in which it might be appropriate for someone to assign their annuity include where an individual:

- wishes to purchase a more flexible pension product
- wants to provide a lump sum for relatives or dependants
- has a change in circumstances, including divorce or marriage, in which situation a member may want to reconfigure an annuity from joint to single, or vice versa

Finally, the FCA will monitor fees charged by providers to cover the administrative costs incurred in allowing an assignment, and will be asked to consider putting rules in place to ensure that any costs charged are reasonable.

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