



LONDON &  
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INNOVATION IN PENSIONS

## Press Release

# Article for Investment Life & Pensions Moneyfacts - Is the traditional use and promotion of the Open Market Option the correct approach?

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Is the traditional use and promotion of the Open Market Option the correct approach? Irrespective of whether the best annuity rate is found and selected as a particular snapshot in time there is no way of getting around the “lifetime lock-in” nature of conventional or enhanced annuities. In an ideal world why should clients’ not be able to renew their annuity contract on a yearly basis as they are currently able to do with car insurance? If clients and advisers can find a better annuity rate a year later why should they not be allowed to take advantage of it?

A Lifetime annuity without a lifetime lock-in would potentially provide the ideal solution, and would be especially applicable for those clients who qualify for enhanced rates. Therefore a reviewable enhanced lifetime annuity, capable of taking advantage of any increase in annuity rates as clients get older and/or their health deteriorates, may very well prove to be a far better solution than a conventional Enhanced annuity with a Lifetime “lock-in”.

However, the preferred choice for many retirees still appears to be the conventional annuity, and while its appeal may lie in its simplicity, as well as its ability to offer a guaranteed income stream, it also needs to be remembered that any rate offered – no matter how attractive at the time – will be fixed for life. As this fixed level of income will not be flexible it will also be unable to cater fully for any future changes in circumstances, which is far from ideal for anyone about to enter their autumnal years.

So opting for a conventional annuity may not be the best way to go about securing your pension income after all, as with any fixed level of income consistently subjected to erosion by inflation, its buying power in real terms will become drastically reduced over time.

Research has shown also that those who do choose a conventional annuity would have to survive until the age of 82, on average, in order to stand any expected chance of getting their money back; and well into their 90s before they could possibly deem their annuity to have provided them with any real value at all. Little surprise then that Dr Roz Altmann, pension adviser to the Blair Government, has been previously quoted as saying that “buying an annuity could be the biggest gamble you ever take in your life.”

Unfortunately, many of those currently approaching retirement are still under the wrong impression that they have very little alternative, and are blissfully unaware of the availability of potentially more flexible options.

Now while we applaud and support the ABI’s Code of Conduct, as announced earlier this year, which requires all insurers to disclose the Open Market Option to their customers whilst encouraging them to shop around, and in doing so hopefully get a better rate, this still doesn’t necessarily guarantee them the best possible value from their pension fund in the long run.

We would always urge that, in addition to the OMO, all those approaching retirement should seriously consider the use of a reviewable annuity. By choosing this type of annuity, and one preferably with access to enhanced rates, not only are the problems normally associated with “locking-into” a conventional annuity avoided, but additional benefits also become available.

Whilst a rate obtained today may very well be the best available for now, this will not necessarily be the case going forward. It is therefore imperative that retirees do everything they can to ensure that any income received is not just the best possible at the time, but is enough to sustain them throughout the whole of their retirement, and the taking out of a flexible, or reviewable, annuity is one way to help achieve this.

Our own experience would suggest that there are still a considerable number of Advisers who are unaware that reviewable annuities allow clients to periodically review their annuity rate, and with it their income levels, based upon the best rates available within the market at the time. Some of the reason for this may be that the traditional annuity comparison sites do not cater for them.

Hopefully, even further innovation in the annuity market will follow shortly next year...

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## **Notes to Editors**

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