LONDON & COLONIAL
INNOVATION IN PENSIONS

Press Release

London & Colonial Calls For At-Retirement Adviser Register To Boost OMO.

Although a quarter of a century has passed since it was first introduced, the Open Market Option is still failing consumers when it comes to providing them with sufficient choice.

Navigating the pensions market can be a daunting prospect. After many years spent working hard, and having hopefully accumulated enough of a pension pot to see us through our autumnal years, when it comes to investing that pot to provide a retirement income, how do we tell which product is best?

Longer life expectancy and consistent increases in the cost of living, together with reducing state benefits, means there is now more pressure than ever to make adequate provision for retirement, and so any final choice of product is certainly one which should never be entered into lightly.

Despite the current retirement market having continued to grow, and adapting to retirees' ever-changing needs through new and innovative retirement solutions, the conventional annuity still remains the most popular choice for many.

Whilst its appeal lies in its simplicity, in addition to its offer of a guaranteed income stream in exchange for an upfront lump sum, any rate offered no matter how attractive will be fixed, as will the corresponding income (although possibly with regular index linking) for the duration of the annuitant's retirement – with the result being the inability to adapt to any future changes in circumstances.

By far the best way to ensure that maximum value is extracted from any retirement pot is to make sure that retirees are fully aware of all of the options available.

The Association of British Insurers (ABI)'s new Code of Conduct on Retirement Choices, first introduced in March, requires all insurers to make clearer their disclosure of the Open Market Option (OMO), and in so doing discourage the default assumption by the consumer that the annuity rate they have just been offered is the best available.

The introduction of this new Code was prompted by a recent thematic review into the annuities market which revealed, worryingly, that many consumers are still totally unaware of the Open Market Option.

Undoubtedly the promotion of the OMO should be applauded; however it is the practical implementation of how an individual should access the most appropriate retirement option for them that is of more concern.

The emphasis (perhaps understandably) is all geared towards choosing the highest rate. Whether through using comparison sites or using a common quotation form, the first assumption still seems to be "shop around for the best rate". Advisers and clients alike are both calling for more innovation in the at-retirement market, however it is also important to remember that it is the process of choosing the right option that is just as important as selecting the highest rate.

The FCA has recently issued a consultancy paper on Annuity transparency which seems to ask a number of questions including the distribution, pricing and the provision of advice relating to annuities.

The Pension Income Choice Association (PICA) has been stating for a number of years now that the OMO should stand for "Offer more options" rather than simply focusing on rate, and they have suggested a 2 stage process with the first stage being that of selecting the right at-retirement product. There are currently only approximately 7 different types of at-retirement product types in the form of:-

1. Conventional annuities
2. Drawdown
3. Phased retirement
4. Variable annuities
5. Fixed term annuity
6. Reviewable annuities (Unit linked, with profits, investment linked)
7. Enhanced annuities

Stage 2 would be a comparison of the associated rates or charges within the product category chosen.
The idea of an IFA register, listing those advisers who are willing and able to transact smaller pension pots, has also been put forward.

However, it is the advice surrounding these products that will determine whether or not all of these options are actually considered in practice. We would like to propose an adviser register for all IFA's that are actually able to advise at-retirement clients on a whole-of-market basis. This would negate those IFA firms that panel their at-retirement products based on minimum "marketing expenses" paid for by the product providers, and whilst this is obviously not the topic for this article hopefully the FCA annuity transparency consultation will pick up on this going forward.

The great news is that all the time there are only 7 categories of product, and with less than 30 annuity providers, it should be very easy for advisers to demonstrate they are whole of market. For example, Enhanced annuities have been a great boost for the annuity market, and while the initial income is higher than conventional annuities the client would still be locked in for life.

Our own experience suggests that a considerable number of advisers are unaware that Reviewable annuities allow clients to review their annuity every 3 years, based on the enhanced rates available at that time. Health conditions normally deteriorate with age therefore the ability for clients to obtain potentially increasing enhanced rates using the common quotation form every 3 years, without a "lifetime lock in", should not be underestimated.

Conventional annuity rates have come under fire of late, with record low rates and lack of price transparency dominating the headlines; and while low rates and longer life expectancy are sadly out of our control, it further emphasises the importance of ensuring that all of the available options have been considered. With the exception of conventional or enhanced annuities at least the other options come with an exit strategy. It is the "lifetime lock-in" nature of conventional or enhanced annuity contracts that will continue to be of concern until we get to a stage where clients can be safe in the knowledge that their advisers have considered the "whole of the at-retirement" market before any advice is given.

Concentrating purely on initial annuity rates will not only fail to take into account any potential changes in circumstance, such as deteriorating health or their marital position, but any consequences arising from the decision to 'lock in' to a traditional annuity could not only affect them for the rest of their life, but could impact upon their spouse also.

So what's the solution?

Well, what is clear is that we need a far more encompassing and ambitious strategy going forwards. One that encourages people to shop around across the entire at-retirement market so that they can be certain that the retirement income option that they finally choose is the right one for them, and that the benefits of reviewable annuities as well as some of the other less commonly know at-retirement options are more fully explained and commonly explored.

The FCA has made it its mission to increase transparency and consumer protection in the pensions market which I believe can never be truly achieved until there is greater focus on the at-retirement market as a whole.

It is the practical implementation of the OMO that is key to achieving the objectives for which it was intended. A national IFA register, specifically for whole-of-market at-retirement advisers, would present the adviser community with the ideal opportunity to really illustrate their worth, especially now that post-RDR the ability to transparently demonstrate the value that they add has now become a requirement.

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Notes to Editors

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