LONDON & COLONIAL
INNOVATION IN PENSIONS

Press Release

Adam Wrench, Head of Product & Business Development, London & Colonial, calls for greater transparency in the annuities market as a Daily Mail investigation reveals insurers can pocket almost a third of retirement savings in profits.

"Longer life expectancy and increases in the cost of living means there is more pressure than ever to make adequate provisions for your retirement. However, scams, scandals and the Daily Mail's recent revelation that insurers appear to be taking what could easily be considered more than their fair share of people's hard-earned savings, could act as a deterrent when it comes to encouraging people to invest more into their pension.

One way to ensure that as much value as possible is obtained from your retirement pot of 'hard earned cash' is to ensure that you are fully aware of all of the different options available to you, with the most obvious being to make sure you shop around when it's time to take out an annuity.

Choosing an annuity is not a decision that should be entered into lightly and as an industry we have a moral duty to ensure that not only are savers made aware of the best rates available to them, but that a far greater transparency and clarity also exists around the differing options available.

Whilst we applaud the introduction of the ABI's Code Of Conduct earlier this year which now requires all insurers to disclose the Open Market Option (OMO) to their customers - in an attempt to discourage their blind acceptance of whatever potentially low rate is currently being offered - we feel that this doesn't go far enough; as by simply exercising their right to the 'OMO' certainly isn't the most effective way in which to ensure that it is in fact they who receive the 'lion's share' of their pension fund rather than their chosen insurer."

Adam's comments came in response to an investigation by the Daily Mail which found that insurers, through their employment of extreme caution in order to keep profits high and payouts low, can end up taking up to £29,000 in profit for turning £100,000 of savings into a retirement income.

"For the vast majority of people, even if they do fully exercise their rights under the OMO, it still remains unlikely that they will be getting the very best value possible from their pension fund; and with this in mind we would urge people to explore all of the options that are open to them, and especially to avoid the 'locking-in' to any fixed-rate deal."

Adam continues:

"Although a fixed rate deal may look as if it is providing an attractive rate at a specific moment in time, once accepted it's irreversible, and by remaining fixed throughout the reminder of their retirement will be unable to adapt to any changes in circumstances that may be experienced further down the line.

Furthermore, with a conventional annuity, upon the annuitant's death it is usual for any residual fund value that remains to revert back into the coffers of the insurer, increasing still further the overall percentage of their fund that ends up in the insurer's pocket.

Whereas were the annuitant to have opted for a reviewable annuity, any residual value remaining upon death could have been used to provide a lump sum payment for a spouse, civil partner or dependant, and in the absence of any of these be passed on to benefit a charity of their choice.

Both financial advisers and pension investors alike should always give serious consideration to the merits of reviewable, flexible annuities, which can be reassessed on a regular basis to enable the annuitant to benefit from any age or rate related increases, or future health issues.

By failing to do so not only will clients miss out on benefiting from these age related increases or any future health issues, both of which could translate into substantially higher levels of retirement income over time, but in the long term their insurer will still continue to pocket the 'lion's share' of the pension fund for which they have worked so hard."

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Notes to Editors

About London & Colonial
London & Colonial specialises in self-invested products for both UK residents and persons resident overseas.

The London & Colonial Group includes

(1) London & Colonial Holdings Limited – UK parent company
(2) London & Colonial Services Limited which is regulated by the UK Financial Services Authority and operates SIPPs and SSASs
(3) London & Colonial Assurance PLC which is regulated by the Gibraltar Financial Services Commission (matching UK standards) and which offers Open Annuities, QROP Annuities and Open Offshore Bonds
(4) L&C (Administration Services 2) Limited and London & Colonial (Trustee Services) Limited which are both based in Gibraltar and offer the EU SIPP.

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