



ACA SAYS OPTION TO BUY ANNUITIES WHICH RETURN THE BALANCE OF A FUND ON DEATH IS 'PERFECTLY FEASIBLE'

London – 19 April 2002 – Responding to the Government consultation paper, *Modernising Annuities*, the Association of Consulting Actuaries (ACA) has said that it is perfectly feasible to allow much greater freedom whereby annuity providers should be able to offer 'underpinning value' annuities, where the balance of the fund held by the provider is paid out on death.

However, the ACA says that the lump sum balance paid out on death should be taxed at a rate which is not attractive and that recognises the tax relief received, as occurs with a refund of excess Additional Voluntary Contributions (AVCs) at present. "It has to be recognised by the public that there would also be a price, in terms of lower returns, for an annuity that gave this broader death benefit option. This would be because the funds withdrawn would not then be available to meet the costs of annuitants in the same pool who live well beyond average expectations," said Helen James, Chairman of the ACA Pension Schemes Committee.

The ACA added that the 'limited period annuities' proposed in the consultation paper were sensible, with some technical amendments, as these would offer a more straightforward alternative to income drawdown. However, the ACA opposes the 'transfer of annuities in payment' proposals made in the paper, as it is felt these would complicate annuities – by leading to medical underwriting on

surrender - and require providers to build in margins to protect themselves from risks associated with selection against the current provider.

The ACA added that the consultation paper seemed to be based on the premise that the annuity market is uncompetitive. In reality, this was not the case, although the ACA supports an increase in the total commutation limit to overcome the high cost of purchasing smaller annuities. Annuity prices should continue to be left to market forces.

The ACA response also stressed very strongly the need for more consumer education about annuities and clear product disclosure. Recommendations made by the ACA include a statement on all annuity quotations along the lines of: "This annuity may not be the best value for you. It may be in your interests to seek quotations from other providers". Additionally, the ACA says that, if compulsory pension annuities are to be retained, the way annuities work must be clearly explained to anyone who enters an arrangement which will eventually require an annuity to be purchased, including many occupational pension arrangements and Stakeholders.

The ACA favours the FSA taking a more pro-active general consumer education stance with regard to annuities supporting, for example, web based initiatives to make easy comparisons of annuity prices.

The ACA, whose members advise UK pension funds with assets in excess of £700 billion, is the largest national grouping of consulting actuaries in Europe.

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Note for Editors

Copies of the **ACA's full response to the Modernising Annuities consultation** paper are available from the ACA, call 020 7248 3163 or at 'policy statements' on the ACA's website at www.aca.org.uk

The Government consultation paper on *Modernising Annuities* is available at www.dwp.gov.uk/publications/2002/index.htm The consultation paper makes recommendations designed, says the Government, to 'provide more flexibility to innovate and to offer products that will meet the needs of the growing number of people who will need to purchase an annuity in the future'.