How Might We Create a Secondary Annuity Market that Works for Pensioners?

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Biographical note

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About the True Potential Centre for the Public Understanding of Finance (PUFin)

The True Potential Centre for the Public Understanding of Finance is a pioneering centre of excellence for research and teaching related to personal finance capability. Based at the Open University Business School, PUFin is generously supported by True Potential LLP.

Introduction

In April 2015 the government's pension freedoms came into effect, removing the requirement for pensioners to turn their pension pot into an annuity in order to retain the tax benefits. Later last year they announced plans to extend these freedoms to pensioners who had already bought annuities from April 2017, by creating a secondary market and allowing pensioners to sell their annuities on it. The government's expressed aims were to "achieve parity between those who are able to access their pension savings flexibly… and those with existing annuities" by developing a secondary annuity market that "best suits the interests of pensioners" (HM Treasury, 2015b).

Creating a secondary annuities market that works well will be a difficult task. It is an unusual and complex market, with 'consumers' as the sellers, firms as the buyers, prices that are individual to each pensioner, legal complexities with the original annuity provider having to agree to any sale, and the product being one of the most important we ever purchase – an income for life. There is huge potential for it to go very wrong, with the details of government policy and regulatory action likely to play a big role in whether or not the market works for pensioners. To inform the debate, and help the government and regulator decide how best to intervene, we have conducted a study of the secondary annuity market: how one might function, what problems are likely to require addressing, and which policies appear most promising in doing so.

A secondary annuity market must function on two axes if it is to deliver good outcomes for pensioners:

- Competition must be effective in driving value-for-money
- Pensioners must be adequately protected from harm.

Neither of these axes is as simple as they may seem. The role and potential advantages of the original annuity provider in the secondary market may present a barrier to the emergence of competition, and the behaviour of pensioners and information difficulties may render it ineffective. Preventing harm to pensioners involves not just regulation to protect the most vulnerable, but also stopping ordinary people from making significant mistakes. Our analysis suggests there are fundamental problems that need addressing, which the government and regulators have underestimated when designing their proposals, including a real risk that there will be no functioning market at all when the laws come into force next year.

Normally a study such as this would analyse how the market is currently working and look for evidence of market failure, however this market does not yet exist. Instead we have focused on how the market *might* develop and the *potential* impacts policies may have on our two axes – effective competition and consumer protection – both of which there is considerable uncertainty about. We therefore caution against overconfidence in any particular option, and strongly recommend that the government and regulator review the market carefully once it has launched and reconsider what intervention is necessary and beneficial in light of that evidence.

Delivering value-for-money: effective competition

Effective competition is vital in creating a secondary annuity market that offers reasonable value-for-money to pensioners. This is not to argue that perfect competition in the strict economic sense is necessary or feasible. It isn't: no real market meets all the criteria and there are particular flaws inherent in any secondary annuity market that might be created.[1] However while it is clear that a perfectly competitive secondary annuity market is an impossibility, it is also clear that in the absence of competition there would be no credible way of stopping buyers abusing their market power and offering very low prices for annuities, to the detriment of pensioners. Effective competition is about there being pressure on and the ability for firms to offer pensioners a reasonable price – one that is as close to the underlying value of their annuity as possible. We can break this down into two questions: will competition emerge and will it be effective?

The essence of competition is having multiple firms compete to buy annuities. While the secondary annuities market will be unusual in that sellers will be individuals and buyers will be firms, because firms will act as price setters by bidding for annuities it is the existence of multiple competing firms that is crucial to generating a competitive market. Having bidders as price setters means the market will function like an auction: if only one firm wishes to buy a particular annuity they can offer an artificially low price knowing the seller can either accept it or not sell; if multiple firms bid they must offer a competitive price in order to win. A technical but important point is that firms don't actually have to enter to exert competitive pressure, if there are bidders willing and able to profitably enter the threat of entry can be enough to force monopsonists to offer better prices – a contestable market.[2] As such we can focus on creating conditions that would realistically allow multiple firms to enter the market rather than on pushing them to do so.

The existence of multiple bidders is not sufficient to deliver value-for-money as other problems in the market can render competition ineffective. Effective competition also requires that pensioners shop around for the best price and that bidders are able to collect the information necessary to prevent adverse selection. If pensioners don't shop around, for example if they surrender their annuity back to the provider who sold it to them, then there is no competitive pressure on the buyer to offer a good price. The primary annuity market demonstrates that pensioners who buy on the open market get a much better deal than those who accept the offer from their pension provider (Financial Conduct Authority, 2014). If information is difficult or costly to obtain, such that bidders cannot adequately assess which annuitants are better or worse risks, then adverse selection could become a problem: being unable to distinguish between pensioners with high and low life expectancy bidders must offer a low price to all, leaving healthy pensioners with particularly poor value-for-money. Adverse selection can be a particular problem in insurance markets as the appropriate price for a policy depends on the individual in question.

This section summarises our analysis as to whether competition is likely to emerge and be effective in the secondary annuity market, absent any additional regulation or government intervention. It then discusses the merits of various policy or regulatory options that might help effective competition develop, and hence provide reasonable value for money to pensioners.

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[1] Perfect information, zero transaction costs, no economies of scale, no government intervention and fully rational buyers are some of the conditions that appear impossible in any secondary annuity market.

[2] This is known as the theory of contestable markets (Baumol, Willig, & Panzar, 1982). In it's pure form it relies on strict assumptions which are rarely met in reality, such as costless entry and exit, although the general principle mentioned here can apply when these are not met.

Will competition emerge? The role of annuity providers

A key barrier to competition emerging for secondary annuities is if one bidder has significant market power, whether legal or through a large competitive advantage. Initial analysis suggests the original annuity provider – the firm that initially created and sold the policy – may have both. On the legal side the original provider can block any transfer or charge fees to administer it; their competitive advantage primarily stems from the reduced administration costs and release of capital provisions held against an annuity if they buy back and cancel a policy.[3] The question we must answer is whether these are a big enough barrier to stop other bidders being able to profitably enter the market. If so competition is unlikely to emerge and pensioners are unlikely to get a good deal.

Whether a buyer can profitably enter the secondary annuity market depends on whether they can expect to get assets worth more to them than the total cost of acquiring them. This in turn depends on the following factors:

- the value of annuities to them,
- the price they'd have to pay, and
- the costs they would incur by entering the market and bidding.

Breaking these factors down and considering the market as a whole gives us the key criterion in assessing whether multiple buyers could enter:

> *Is the natural variation between bidders enough to offset any inherent advantage one bidder has (in this case the original annuity provider) and any cost to enter the market?*[4]

If this is the case then it is likely some other bidders will have a realistic chance of outbidding the original provider, even taking into account their inherent advantage. This section attempts to consider whether this is likely to be the case, by estimating the inherent advantage an annuity provider is likely to enjoy when buying back policies they've written and comparing this to the scale of natural variation we might expect.

[3] There are other potential advantages, such as if the original provider has additional information about the annuitant, though we do not think these will be as important factors.

[4] This follows from splitting the inherent advantage out of the value, leaving a 'natural' value, and taking the price as the valuation of the next highest bidder (as would be expected in an auction). The natural value will vary between bidders based on their views on life expectancy and interest rates. If this variation is small compared to the inherent advantage then the advantaged bidder will almost certainly win – their advantage will outweigh any natural higher value another bidder might have – whereas if the variation is large then it is likely another bidder will outbid the advantaged party. For a formal mathematical derivation please contact the author.

How an overwhelming competitive advantage can harm consumers

While basic economic theory would suggest that if annuities are worth more to the original provider than other bidders then an efficient market would see the provider buy them back, an overwhelming advantage can stop other bidders entering the market as they stand little chance of being able to outbid the provider. If competitors cannot profitably enter then providers would be sheltered from competitive pressure, able to offer pensioners artificially low prices safe in the knowledge that their competitive advantage would let them chase out any challenger that attempted to enter. The effect is akin to predatory pricing but is legal because it stems from a cost advantage rather than short-term pricing at loss-making levels to drive competitors out of the market (e.g. Edlin, 2002; Lehman, 2005).

While most economic theories of predatory pricing rest on the assumption that the monopolist has detailed information on rivals' costs and designs a complex pricing strategy to take advantage of this, this argument does not. The nature of the secondary annuities market, particularly the ability to bid for individual policies, mean any firm with an overwhelming competitive advantage would not need to actively or intentionally push competitors out of the market as their normal competitive behaviour would do it for them: by offering whatever price was just enough to outbid any competitors they would prevent profitable entrance and maximise profits.

How big is the annuity providers' competitive advantage?

To assess how big any competitive advantage might be we held discussions with a number of firms and industry participants to estimate how the costs and value of an annuity might differ between potential bidders. We used these figures alongside James & Vittas (1999) methodology for estimating the expected discounted present value (EDPV) or "Money's Worth" (Cannon & Tonks, 2009) of an annuity to analyse how the value might differ between potential bidders, and to incorporate the impact of differing transaction or ongoing costs. The EDPV is often referred to as the 'fair value' of an annuity, and we use this as our baseline to enable us to compare the underlying values to different participants. This requires us to make assumptions about various factors, such as life expectancy and baseline costs. Making assumptions here should not be too problematic as we are only aiming to estimate the relative difference in underlying value between different types of bidder – how the realised value of the same secondary annuity might differ depending on the type of bidder. Views on mortality or risk will vary considerably between individual bidders and assumed values of these will have a significant impact on the absolute price or value of an annuity, but they should not affect the systemic, relative advantage we discuss here. Nevertheless we vary our assumptions widely and report the ranges this gives to ensure our results are robust to these assumptions.

The primary comparisons are between the original annuity provider, an investor with longevity-related liabilities (such as another annuity provider or a pension fund) and an ordinary investment fund. As we're assessing the inherent advantages between these groups we hold life expectancy and underwriting fixed, as most industry experts did not believe any bidder would have a significant inherent advantage here over all others.[5] This leaves us with two drivers of inherent advantage: transaction and administration costs, and the cost of funding an annuity purchase (i.e. the appropriate discount rate).

[5] It is possible that the annuity provider may have an information advantage that helps them better assess mortality, but most discussants suggested this would not be significant enough to present a competitive problem.

Estimates of **transaction and administration costs** for an ordinary investor ranged from 5% to 15% of the annuity value for most policies, potentially higher for very small policies.[6] This would not differ for an investor with longevity-related liabilities, but would be lower for the original provider, as by cancelling the policy there would be no ongoing administration and servicing costs to incorporate into the price. Industry experts suggested these costs might amount to 2-4% of the annuity value. If providers were able to buy back policies directly, in part as the likely first place pensioners wanting to sell their annuity would go, whereas other investors needed to use a platform or broker, providers might also save 1-3% in transaction costs. Again these could be significantly higher percentages for very small policies as some administration costs are fixed rather than varying with the size of the policy. These costs imply a 2-7% price advantage for the original annuity provider over other bidders for policies of a reasonable size.

The **cost of funding** an annuity purchase enters the EDPV through the discount rate applied to future payments. The annuity payments are a liability to the provider, so they could fund buy back by selling the assets they use to fund these payments and releasing the provisions held against the future liability. The release of provisions is because buying back and cancelling the annuity reduces their exposure to longevity and market risk – they've gone from holding a risky asset and liability to cancelling both out at a set price – so no longer need to hold capital against either risk. Providers could choose to fund buy back in other ways, and may decide not to cancel the policy (for example if there were tax benefits to not doing so), however as they have the option to fund it this way we can consider it an upper bound of their funding cost. In contrast an ordinary investor purchasing an annuity will be buying a risky asset and would need to hold capital against that risk, making the appropriate discount rate the weighted cost of capital this implies. An investor with longevity-related liabilities would also be buying a risky asset, but one that is correlated with their liabilities as both depend on longevity. Because of this purchasing an annuity would not increase their net risk by as much, and hence not require as much capital to be held against this risk if they are allowed to apply a corresponding matching adjustment.

	Cost of funding / discount rate
Annuity provider	Foregone return on assets - reduced cost of provisions
Ordinary investor	Weighted cost of capital
Longevity-related investor	Weighted cost of capital - matching adjustment

For the provider we use the return on 5-10 year A-grade corporate bonds (200 basis points over gilts) as the return on assets, because annuity providers tend to hold large amounts of these and they act as a rough midpoint of their investments in terms of risk and return, with a 100-300 bps range. Estimating the provisions released is trickier as it depends on each firm's internal model, matching adjustments, volatility, cost of capital, and various risk-based assumptions. Instead we use three different rules of thumb that build on suggestions from industry experts and academic literature and give a range of 25-250 bps.[7]

[6] Estimates from industry experts and previous literature (e.g. Cannon & Tonks, 2011)

[7] The three methods used are:

- 30-50% of the annuity's value is held as capital to back it at a cost of equity of 8-15%: 240-750 bps
- 25-67% of the spread on the assets backing the annuity above the risk free rate (100-300 bps (Coatesworth & Dimitriou, 2013)): 25-200 bps
- Assume a margin for costs and profit in the primary market (6-20%) and calculate the provisions implied by the best buy rates offered: 40-250 bps.

The last of these provides an upper bound, as if provisions were higher it would imply providers were making a loss on the primary markets at the rates they offer, even with low cost assumptions.

For other investors we assume a cost of debt of 4-6% and a cost of equity of 8-15%, which are the minimum and maximum suggested to us by industry participants. We also assume annuities bought attract a risk-weighted capital requirement of 0-40% (between gilts and equities under the Solvency II standard formula) and a matching adjustment of 0-30%. We do not allow the matching adjustment to outweigh the capital requirements as, while there is an argument that longevity risk matching may justify this, we do not believe the Prudential Regulation Authority (PRA) are likely to allow this.

These figures would imply the following underlying value to each investor, as a proportion of the 'fair value' baseline:[8]

	Range (% EDPV)	Expected (% EDPV)
Annuity provider	79-104%	93%
Ordinary investor	46-76%	65%
Longevity-related investor	57-80%	72%

Comparing like with like and adding the transaction and administration costs suggests the **inherent advantage of annuity providers over the next highest bidder would be around 11-42%, with our best estimate being 24%**. This would imply an annuity worth £20,000 to the original annuity provider may only be worth £11,000-17,000 to another investor.

It is important to note that if bidders with matching longevity liabilities are allowed to apply a significant matching adjustment then annuity providers' advantage is likely to be near the bottom of this range, whereas if capital requirements are too onerous it is more likely to be nearer the top. It is also important to remember that these figures assume annuity providers' get no competitive advantage from their role as administrators and ability to block any transfers.

How much natural variation in price would we expect to see between bidders?

Our key question above relates not just to how big an advantage the original annuity provider might have, but whether this is likely to outweigh the natural, idiosyncratic variation in offers amongst bidders. Is an 11-42% advantage likely to be large enough to swamp this variation, meaning no other bidder could reasonably expect to enter the market and be successful?

We can look at how much prices vary between participants in the primary annuity market as a proxy for the natural variation between different bidders in the secondary market. Currently a typical 70-year-old shopping around for a level annuity of £5000pa would find prices vary between the best and worst offer of around 11%.[9] The variance is much higher for enhanced annuities, however, being 20-50% for a similar annuity bought by someone who smokes, is overweight and has breathing problems, although most firms are grouped near the bottom end of the range with a couple of specialist providers accounting for much of the variance.[10] This reflects the larger uncertainty and risk about life expectancy for people in poorer health. While only snapshots, this variation gives an estimate of the natural variation we might expect in the secondary market absent any inherent advantages for some bidders over others.

[8] Authors' own figures derived from gilts yields from Bank of England (2014), primary annuity rates from Hargreaves Lansdown (2016), life expectancy from Office for National Statistics (2014), regulatory impact analysis from Thibeault & Wambeke (2014), and annuity provider investment allocation from Coatesworth & Dimitriou (2013), in addition to the data discussed in the text.

[9] Authors' own figures collected from example quotes, supported by data from industry experts.

[10] Ibid.

Comparing these figures to our estimate of the inherent competitive advantage the annuity provider is likely to enjoy suggest that in the pooled market, without the variation in underwriting, other investors are unlikely to be able to profitably enter the market even if the costs to enter were low. It would require a natural variation larger than the 11% we see in the primary market for another investor to be able to overcome the 11-42% advantage we expect the annuity provider to enjoy. This is possible, for example it may be trickier to price annuities in the secondary market leading to greater variation, however it appears to be a tall order.

Entry seems more plausible in the market for enhanced annuities, as individual underwriting adds additional variation in views between firms, and hence valuations. Even so an advantage of 11-42% will be difficult to overcome, and likely mean only a very limited number of firms enter the market, especially if there are any significant costs to enter.

How much will it cost to enter?

The final piece of our contestable market puzzle is how much a potential bidder will have to spend in order to enter the market and bid for annuities.

It is impossible to accurately estimate the cost of a bidder entering the secondary market at the moment as there is much uncertainty about how the market will work, how big it might be and how easy it will be for bidders to price and bid for annuities. What is clear, given the fine margins at best for challenger bidders being able to enter the market, is that any large costs in doing so could present a significant barrier to a contestable market. Regulation could be one key driver of costs here, and our analysis highlights why it is important that all costs be minimised.

Conclusion: will competition emerge?

While it is not clear at this stage how the market will develop, the advantages enjoyed by the original annuity provider appear strong enough to prevent a highly competitive market emerging across the board, in the absence of intervention to curb providers' actions or advantages.

In addition to the competitive advantage annuity providers have legal powers that may act as a barrier to competition. The government has made clear that annuity providers "will be under no obligation to permit assignment of annuity payments", giving them a veto over any transaction taking place (HM Treasury, 2015b). If annuity providers use this veto as a barrier to competitors or to cherry pick which policies are available on the secondary market, potentially even being able to stop pensioners selling their annuity to anyone except them, they could stop competition emerging without needing their competitive advantage. At this stage we do not know how significant an issue this will turn out to be, but there is a clear risk the government and regulator must be mindful of.

These issues do not rule out competition emerging entirely. For enhanced annuities it is entirely plausible that bidders enter with different views than the annuity provider and are able to compete. Moreover some annuity providers may choose not to enter the secondary market, perhaps having illiquid assets they wish to hold onto or simply not wishing to spend the time and effort required to do so. However the size of competitive advantage our analysis suggests annuity providers are likely to enjoy is such that we expect most to be tempted, and if they do enter to dominate the market for policies they sold. Even in the best case scenario – with low costs of entry, a large potential market, and annuity providers gaining no advantage from their role as administrator of a policy transfer – other bidders are likely to struggle to outbid the original provider in the pooled (non-enhanced) market, and will still face a considerable disadvantage for individually underwritten policies. As such

we believe there is a strong case for government or regulatory action to enable competition to emerge.

It is clear a perfectly competitive market, where competitors pressure annuity providers to offer fair prices in the secondary market but annuity providers end up as buyers of the vast majority of policies, is not feasible. In finding the best realistic solution, the government and regulators must find ways to:

- reduce the inherent competitive advantage of the original annuity provider with the minimum of costs;
- ensure annuity providers do not abuse their role as administrators to prevent competition or increase the barriers to competitors;
- set capital requirements that are appropriate but not overly cautious, especially for investors with matching liabilities.

Is competition likely to be effective? Information, inertia & the role of pensioners

For competition to be effective in driving value-for-money for pensioners, in addition to there being multiple buyers to choose from pensioners must shop around for the best price and buyers must be able to assess pensioners' health accurately and without incurring large costs.

If a pensioner doesn't shop around and accepts the first offer they are made, then the buyer is not having to compete with anyone. Only if pensioners consider multiple offers will there be any effective pressure on bidders to offer competitive prices. Pensioner behaviour in the primary annuity market, and consumer behaviour across insurance and financial services in general, suggests many will exhibit significant inertia. The primary annuity market demonstrates that pensioners who buy on the open market get a much better deal than those who accept the offer from their pension provider (Financial Conduct Authority, 2014), yet ABI data suggests between a third and half of pensioners fail to do this (Association of British Insurers, 2014). In order for competition to be effective, the market may need to be set up in a way that nudges or forces pensioners to shop around. This is a particularly acute need if the original annuity provider is able to directly buy back policies.

How big a problem is adverse selection?

Adverse selection can occur when it's difficult for buyers to assess the quality of something they're buying. It has the potential to be a particular problem in the secondary annuity market as the value of an annuity is closely tied to the health of the annuitant (Finkelstein & Poterba, 2002; 2004). Poor health enables a pensioner to get a better deal in the primary market, through an enhanced annuity, yet even with a strong incentive many pensioners don't disclose medical conditions and end up with a poor deal. In the secondary market poor health has the opposite effect, making annuities worth significantly less, giving an incentive for pensioners not to disclose if they have medical conditions. Even if this does not occur, in the primary market annuities tend to be priced on a pooled basis unless the pensioner can clearly demonstrate their eligibility for an enhanced annuity, and we would expect a similar principle to hold in the secondary market – all pensioners are assumed to be in somewhat impaired health and offered a low price unless they can demonstrate otherwise. This may prove a bigger problem in the secondary market as it is more difficult to demonstrate the good health required to get an increased price than to show a diagnosis that makes one eligible for an enhanced annuity in the primary market.

Making it easy for buyers to estimate an annuitant's life expectancy, or at least for annuitants in good health to be able to signal it, is crucial to limiting adverse selection and enabling pensioners who are in good health to get a decent price for their annuity. Medicals are one of the primary tools used in insurance to help alleviate adverse selection, but they are not perfect tools to assess pensioners' life expectancy, and as they can be costly they are only feasible for annuities large enough to warrant the additional expense – perhaps those traded for more than £10-20,000. Exclusions or other terms and conditions are also used in many insurance markets for the same reason, such as health insurance that doesn't cover for pre-existing conditions (OECD, 2004). In theory it would be feasible for secondary annuity buyers to do similar, such as paying part of the price immediately and part if the annuitant is still alive in a year or two, or including some claim on the pensioner's house if they pass away within a similar time period, however the Financial Conduct Authority (FCA) has ruled out contingent terms and conditions of this sort. While ruling this out could protect consumers from falling foul of complex deals or terms they do not understand, it may exacerbate the adverse selection problem and hence reduce the prices buyers are willing to offer, harming pensioners. Whether this is in consumers' best interests requires careful consideration.

Conclusion: is competition likely to be effective?

If there are strong nudges for pensioners to shop around, as suggested in the proposed requirements for pensioners to receive advice and sell through some form of portal or broker, it is possible for competition to be effective when it comes to selling large annuities. It is likely policies sold for more than around £20,000, and potentially less, could be individually underwritten using the pensioner's personal medical information, alleviating the adverse selection problem.[11] If information were shared between bidders, such that pensioners only need to incur the costs of medical assessment once, this could reduce the cost of information and further improve the prices buyers are able to offer.

The problem is much greater for small policies. Where full medical assessment is not cost effective pensioners are likely to receive pool value, with buyers having to assume their health is at least somewhat impaired. Regulations designed to protect consumers, such as banning partial annuities, split payments or more-complex terms and conditions, can be a double-edged sword: they may protect pensioners from some forms of harm but by ruling out some of the methods buyers could employ to alleviate adverse selection they may also reduce the value-for-money pensioners receive.

The problem is also likely to be greater if the market is smaller. A large secondary market would enable buyers to pool risks by buying multiple, diverse policies, and would increase the returns to buyers innovating and finding better and cheaper methods to price annuities.

To make competition as effective in driving value-for-money for pensioners, the government and regulator must find ways to:

- nudge pensioners to shop around;
- reduce adverse selection by improving the availability and cost of information to bidders.

[11] Unpublished estimate from industry participants, based on their experiences in the primary annuity market and other secondary life markets.

What are the most promising ways to enable effective competition?

Creating an effective secondary annuity market that delivers good value-for-money to pensioners is incredibly difficult, and there is a significant risk that competition will be ineffective or non-existent. Designing government policies and regulation that are most likely to enable effective competition, and limiting those likely to curtail it, is crucial if the market is to be successful. Our analysis above highlights the main issues and presents five tasks for the government and regulator to achieve:

- reduce the inherent competitive advantage of the annuity provider with minimum costs;
- ensure annuity providers do not abuse their role as administrators;
- set capital requirements that are appropriate but not overly cautious, especially for investors with matching liabilities;
- nudge pensioners to shop around;
- reduce adverse selection by improving the availability and cost of information to bidders.

We assess various ideas that have been proposed to meet these objectives and consider which are most likely to succeed. The following table summarises those we see as the most promising:

	Advantage of provider	Provider as administrator	Capital requirements	Shopping around	Adverse selection
Require platforms be double-blind	✓			✓	✓
Allow liability-matching capital adjustment	✓		✓		
Regulate provider's veto and fees	✓	✓			
Consider allowing split payments					✓

Require annuities to be sold through a double-blind platform or broker, and aid the market in developing it

Selling annuities through a platform or broker could enable effective competition by allowing annuity providers to bid while curtailing their overwhelming advantage, forcing pensioners to shop around, and enabling more-efficient information revelation and sharing. However to achieve this platforms must be blind to bidders as well as pensioners and the regulator may need to aid the industry in their development. Current government proposals do not address the significant risk that no competitive market will emerge.

The government has proposed that annuity providers be allowed to buy back policies they sold indirectly, via a platform or broker, in a process that would be blind for pensioners – bidders would "be anonymous until late in the process" – but where the seller's identity would be known (HM Treasury, 2015b). This would force pensioners to shop around, but it would do little to stop annuity providers dominating the market and pushing other bidders out as they would be able to see which policies were ones they previously sold. As discussed above there is a very real risk that the large competitive advantage the original annuity provider has would prevent any effective competition in

the absence of safeguards, and bidding through a platform which is blind only to pensioners is unlikely to achieve this.

One way to prevent annuity providers dominating the market would be to make the platform double-blind – brokers would be given or able to request information on the annuitant but neither bidder nor seller know the exact identity of other parties. Bidders could still require medical tests or ask for other information necessary to price an annuity, but annuity providers would not know whether it was a policy they had previously sold or not and hence would be in a similar position to other bidders. Large annuity providers may still have an advantage as every annuity they bought in the secondary market would have a chance of being one they'd written, with the associated cost and value benefits discussed above, but their advantage would be largely mitigated.

The government and FCA have also left it largely up to the market to design and implement any platform. Enabling intermediaries to innovate is a valuable tool but presents barriers to co-ordination, which could be particularly valuable here. For example if multiple bidders gather information about the pensioner separately then the costs involved will be multiplied, costs which will end up being passed onto the pensioner. Our analysis shows that lowering the cost of bidding would make it feasible for more bidders to enter the market, something incumbent bidders would have an incentive to avoid. In particular improving the availability and lowering the cost of information would reduce the cost of bidding and alleviate adverse selection. Information sharing is likely to be key here – having pensioners take one medical that is shared between bidders, for example, rather than going through the same questions and evidence for each one. A final platform issue that may be helped by greater regulatory involvement is coverage. If there are many platforms that each search a small section of the market, then pensioners who go to only one could get a poor deal. It may be that commercial platforms will be able to deliver this co-ordination, but it is not clear that this will happen or what the best policy approach is. We do not recommend that the regulator create a platform itself, but we do urge them to work closely with industry participants to aid the development of a platform which works for pensioners as well as for the industry.

The government has suggested that direct buy back, bypassing any platform, be allowed for low-value annuities. While it is true that transaction costs are a bigger issue for smaller policies, this proposal presumes the industry will not find ways to lower these costs and create a competitive market for small annuities. Innovation can be an incredibly powerful force and potential bidders have strong incentives to find ways of cheaply-but-accurately pricing small policies, as lower costs or more accurate pricing would give them a significant competitive advantage. It may even be some form of commodity-like exchange in low-value secondary annuities is possible, enabling bidders to buy small policies in bulk to diversify their risk.

In this context it's important to realise that the median annuity sold on the primary market is around £20,000 (Association of British Insurers, 2014), and these are likely to become significantly less valuable as the annuitant ages and the safest payments are made. It is entirely plausible that a significant chunk of the market, potentially even a majority, will be smaller policies. Let us not doom the many pensioners who may wish to sell these smaller policies to receiving poor, uncompetitive offers. We urge the government to require all policies to be sold via a platform initially and give innovation a chance to create a competitive market, then to revisit this question once the market has developed. If no solution has been found and transaction costs present a significant barrier to sales of small annuities then that is the time to give up on competition and allow direct buy back.

Give appropriate capital adjustments to buyers with longevity liabilities

If the PRA are too cautious in the matching capital adjustments they allow firms to make, where these can be appropriately justified, it could stop firms investing in secondary annuities that have the potential to lower the longevity risk they face and hence improving their solvency. This will also enable greater competition.

One of the biggest sources of competitive advantage for the original annuity provider is their ability to cancel the policy and release the provisions held against it. This reduces the longevity risk they hold, whereas to most investors buying an annuity on the secondary market exposes them to longevity risk. There are potential investors who have similar longevity-related liabilities, however, most notably pension funds and other annuity providers. To these investors it is entirely plausible that purchasing annuities could reduce the risk they are exposed to by providing a longevity hedge, something currently very difficult to hedge against.

Annuities present two types of longevity risk: that population mortality rates will differ from those expected, and that the policies they purchase do not exhibit average mortality rates. An annuity provider buying back a policy they sold removes both types, as buying the same asset you sold is trivially a perfect hedge. For other buyers with longevity liabilities buying an annuity will expose them to the latter idiosyncratic risk but will also reduce the former population mortality risk. To see this let us compare a pension fund with defined annuity liabilities and 'risk-free' assets (gilts). While their assets have no market risk, if there is a longevity shock that alters their liabilities this will not be matched by changes in their assets. As such they must hold provisions to ensure they remain solvent were life expectancy to move against them. If the fund were to sell some gilts and buy annuities on the secondary market, this would insulate them to some extent from a longevity shock – if life expectancy goes up, both their assets and liabilities become more valuable, and vice versa. However it would also expose them to the risk that their members live longer than the annuitants whose policies they purchased on the secondary market.

If there is a large, diverse market in secondary annuities, then an investor with longevity-related liabilities could purchase a significant number of diverse policies. This could dramatically reduce the risk that those policies do not, in aggregate, exhibit the same longevity movements as the population. In such a case the insulation from population longevity risk could outweigh this risk, meaning the fund is safer invested in annuities than if it were to remain in gilts. With gilts attracting 0% capital requirements, this suggests the appropriate risk-based capital requirements – including any matching adjustment – could be negative in certain situations.

The PRA must take a prudent stance, requiring firms who wish to use any matching adjustment to demonstrate that matching is appropriate and that capital provisions are sufficient to guard against solvency risk. However where firms can show that buying annuities reduces their net risk the PRA should allow capital requirements to fall, to the extent allowed by European legislation. While it may seem prudent to err on the side of caution and limit capital adjustments, the result will likely be that firms do not purchase annuities, leaving them with unhedged longevity risk.

Allowing appropriate matching adjustments increases the value of annuities to bidders with longevity-related liabilities. As these are likely to be the prime competitors to the original annuity provider, as our analysis above suggests bidders without matching liabilities are unlikely to be able to compete with providers, increasing the value of secondary annuities to them is likely to improve competition, delivering better value for pensioners.

It would incredibly difficult to work out what adjustments are appropriate. As one note of caution we stress the ability to diversify away the risk that policies bought do not appropriate match liabilities is crucial. If the market is small, homogeneous, or skewed – as is likely if adverse selection proves to be a significant problem – then this risk will remain (though it may still be outweighed by the population longevity risk reduction). How well the annuities bought match liabilities is something firms must be able to demonstrate, but as overly prudent requirements are likely to present a barrier to both competition and potential solvency-improving asset purchases, it is vital the PRA attempts to assess what adjustments are appropriate and allow those that appear to be so.

Effectively regulate annuity providers' role as administrators

While we do not know how significant an issue this will turn out to be, the veto power annuity providers have over any transfer present a clear risk to other bidders emerging. Removing this veto is infeasible for legal reasons, which means regulation is likely to be necessary to ensure it is not abused and enable a competitive market can develop. This is particularly true as annuity providers have consumer protection responsibilities towards the annuitant and any other beneficiaries.

Finding the appropriate balance between the rights and costs of annuity providers and the need to have a competitive market that offers value-for-money to pensioners will be tricky. One possibility would be to regulate annuity providers' use of the veto under the Treating Customers Fairly principle – is an annuity provider being fair to its customers if it arbitrary denied them from transferring their policy, especially if it did it selectively so as to decide which policies were offered a customer they cannot transfer to a third party but offer to buy it themselves, which could have a grave competition impact as well as seeming unfair to the customer in question? Another possibility would be to require annuity providers to justify using their veto and not withhold permission without reasonable cause. On top of the question of permission the FCA also needs to consider what costs are reasonable for annuity providers to charge to make the transfer and how they can recover this, as the government has indicated it will ask them to.

The ability of annuity providers to stifle competition is a significant source of concern. It is likely that some regulation will be needed if competition is to develop, but this requires more detailed analysis of the options and their impacts than is feasible in a general review such as this. We recommend the FCA consider the issue and potential regulatory options carefully, in particular the impact on competition, and discuss it with a range of industry and consumer representatives.

Reconsider the potential role of contingent terms

The government has proposed banning all contingent terms, such as paying part of the purchase price only if the annuitant is still alive after a period, citing their greater complexity and higher administration costs. However some aspects of these could help alleviate adverse selection and deliver better value-for-money to pensioners.

When discussing adverse selection we mentioned that exclusions and contingent payments are used in many insurance markets. For example life insurance that needs to be held for a year or two before it pays out can help an insurance company guard against extreme risks. Similar conditions could work in the secondary annuity market, with part of the purchase price being contingent or conditions added to protect the buyer. While these would clearly be to the advantage of the insurer, by enabling them to offer better rates because they're protected against that extreme risk it can also benefit the consumer.

The government is right to be wary of the increased complexity and higher administration costs these might entail, but these do not seem overwhelming problems that warrant a ban at this stage. If annuities are sold through an advised process – as the government has proposed – the complexity should not be too problematic, and if the higher administration costs outweigh the improved rates firms may offer then split and contingent terms would not make commercial sense. We discuss the difficult balance of consumer protection and freedom later, but in the context of increasing pension freedoms it does not seem clear that banning split payments is necessary or desirable from consumers' point of view. We recommend the government and regulator reconsider this carefully.

Alternative options we do not recommend

Stop providers cancelling annuities they buy back: while our calculations above are predicated on providers cancelling policies they buy back, the bulk of their advantages does not require that they do. If they payed themselves each month rather than cancelling they would incur some administration costs, but crucially they would still benefit from the same risk reduction as if they cancelled the policy. The need for provisions to be held against future payments, even those to themselves, may not disappear under the standard Solvency II formula, but we expect most providers to be using internal models to measure risk and provisions. As such banning the cancelation of annuities but not buy back is unlikely to be enough to enable effective competition.

Ban annuity providers buying back altogether: this would solve the problems stemming from annuity providers' competitive advantage, but if these can be mitigated such that the risk of no competition emerging is small there is no reason to completely ban buy back. Annuity providers are likely to be significant players adding competitive pressure onto other bidders, so we would not recommend banning buy back entirely except as a last resort.

Price regulation: when analysing competition it's worth bearing in mind whether price regulation could offer an alternative way of delivering value-for-money. Price regulation is imperfect as no regulators can have the perfect information and competitive pressure to price accurately, but it can offer a way of stopping extreme abuses in markets where the flaws to competition are insurmountable, as in cases of natural monopolies such as telephone lines or water pipelines. For secondary annuities price regulation seems impractical, as the underlying value of an annuity depends on the pensioners' personal circumstances, the level and price of longevity risk, the cost of funding the purchase, expectations of life expectancy and interest rates, and other investments in the market, views on all of which are likely to differ between different market participants and change significantly over time. For a regulator to take a view on all of these and price each individual annuity would add an extreme level of costs, and using any standardised model will give vastly different results depending on the assumptions used.

Protecting pensioners: effective regulation

While effective competition can deliver value-for-money for pensioners, a functioning market that delivers good outcomes also requires that consumers – pensioners in this case – be adequately protected from harm. This particularly applies to vulnerable pensioners who may be exploited by others but also applies to non-vulnerable pensioners who may simply make a bad decision, for example by underestimating their life expectancy. Annuities provide an income for life and any decision to sell this could have significant and far-reaching impacts on the quality of life for pensioners and their loved ones. Effective regulation is required to protect pensioners from harm.

The freedom to sell an annuity should be seen in the context of the government's general pension freedoms. The implicit aim appears to be to enable pensioners who were forced to buy an annuity or who did it automatically at retirement to reverse their decision. However it is not possible to achieve parity like this in practice. When someone takes out an annuity at retirement part of the price they pay is to cover the administration fees and transaction costs, with estimates usually ranging around 5-15%. When they sell on the secondary market there will also be transaction and administration costs, perhaps a little less though probably in a similar ballpark. So even if the market is efficient and competitive, buying an annuity then selling it is likely to leave a pensioner with 70-90% of the amount they started with. While many pensioners may prefer to purchase a drawdown pension at retirement, taking the risk that the money will run out if they live a long time in order to pass on some of the money to their family if they do not, it is extremely unlikely that many will be better off selling their annuity to purchase one, incurring a 10-30% loss compared to having taken the drawdown out at retirement.

For most people annuities are a wonderful product. By providing a stable income for life, however long that is, they offer cost-effective insurance against the risk of living a long time, preventing pensioners falling into poverty in extreme old age. This is particularly important for two reasons: firstly as the government has made it clear that pensioners who sell their annuity income would be treated as if they still had it for the purpose of means-tested benefits, under deprivation of income rules; and secondly because people systematically underestimate their life expectancy, especially their likelihood of living until a very old age, and how this changes as they age (Crawford & Tetlow, 2012). It is crucial that pensioners understand this, think carefully about how they will fund a potentially long retirement, and receive thorough advice, before selling an annuity income they rely on. Not doing so creates a real risk of pensioners falling into financial difficulties if they live much longer than they expect to.

This section considers what regulations are necessary and likely to be effective at protecting pensioners from harm without stopping those who are better off selling their annuities from doing so.

Requiring pensioners take advice before selling

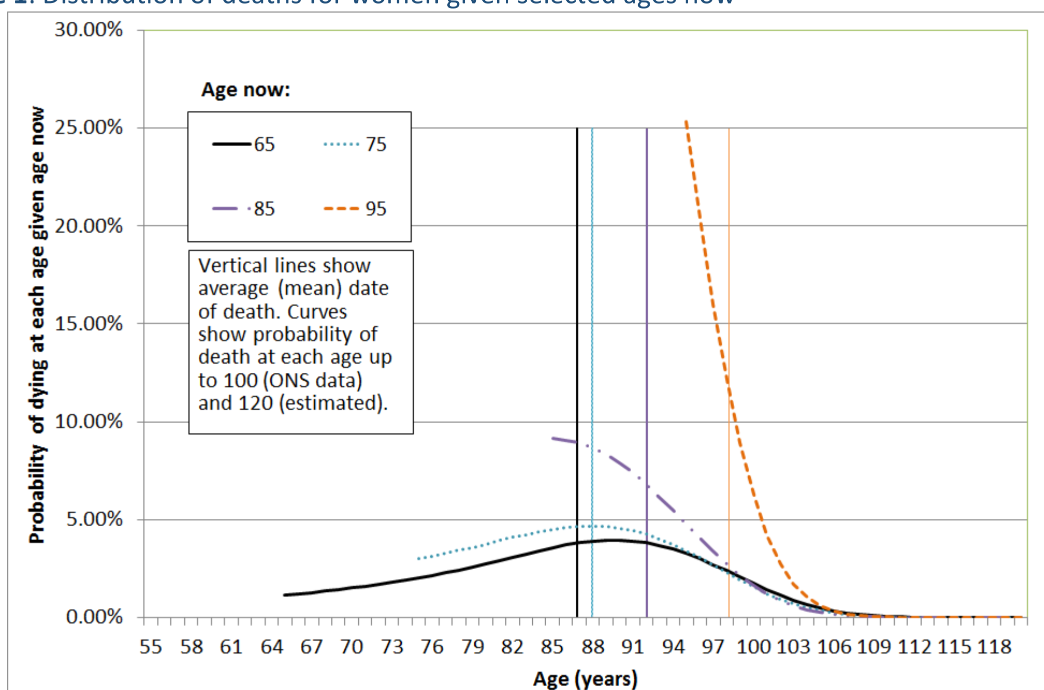
The government has proposed that all pensioners who wish to sell an annuity above a certain value must seek advice before selling. Given the importance of annuity income this seems sensible. Who it will apply to and what it will cover remain crucial unanswered questions.

Full regulated financial advice is a thorough way of helping pensioners make the best decision, but in requiring significant time and effort from a highly qualified expert it is necessarily expensive. While this may be appropriate for pensioners selling very large policies it is unlikely to be a feasible requirement for pensioners with moderate-sized annuities. In contrast tailored guidance, such as that offered by Pension Wise, is likely to be accessible to most pensioners but may not provide enough support for those considering selling an annuity income they rely on for their day-to-day living expenses. It may be a variable advice requirement would be appropriate, although the complexity

this would entail may make it difficult to apply. The government needs to give careful thought to how advice can be made available to pensioners with moderate-but-not-large annuities, as regulated advice is unlikely to be cost-effective for this group, but as they are likely to form a significant part of the pensioner's income tailored guidance may be insufficient to make an informed decision.

Industry and academic experts have suggested two necessary components for any advice relating to secondary annuity sales: longevity and framing as expenditure or consumption. The key risk for anyone selling their annuity is that they live longer than the money lasts for, and it is crucial that pensioners understand, accept, and have a plan to deal with this longevity risk before selling. This longevity planning needs to cover not just their life expectancy, but the likelihood of them living beyond that, as this is where we are most likely to have mistaken expectations (Crawford & Tetlow, 2012) and where the decision to sell an annuity presents the biggest financial issues (Aquilina, Baker, & Majer, 2014). Figure 1 shows an example of the longevity risk – the distribution of life span among UK women.

Figure 1: Distribution of deaths for women given selected ages now[12]



For the vast majority of pensioners, who are not wealthy enough to not need an income in retirement, the key question they face with regards to their pension is how best to use their pot to provide for themselves in retirement. For these pensioners annuities are a form of insurance against longevity risk, a way of drawing down a pension that provides an income for as long as it is necessary, and as such the decision to annuitise in the primary market or sell their annuity in the secondary market is best framed in terms of expenditure or consumption – how much money a pensioner has to spend – rather than as an investment. Advice should follow this framing and assess how a pensioner can fund their lifestyle, now and if they live a particularly long life, taking into account that necessary expenditure often rises as we get to an age where long-term care becomes a possible necessity. A study by the FCA found people are more likely to think about retirement this way and see the value of annuities in insuring against longevity risk when presented in a consumption frame (Financial Conduct Authority, 2014; Ignition House, 2014).

[12] Taken from Lowe, 2014. Figures based on predicted cohort probabilities derived from official period life tables for the population as a whole (ONS, 2014a).

We add a third component necessary for secondary annuity advice: deprivation of income rules. While these are complex, it is vital that any pensioner selling their annuity is made aware of how it will affect their eligibility for means-tested benefits, especially any contribution they would be expected to make towards long-term care.

Lastly there is a risk that many advisors will see secondary annuities as too risky to advise on, as happened with transferring safeguarded pensions benefits. Given the importance of an income in retirement to most pensioners the risks of selling an annuity will be large, presenting a significant concern to advisors that they will be held liable if it turns out to be a poor decision. If many advisors choose not to offer advice on selling annuities then any requirement for pensioners to receive advice before selling could be a significant barrier, stopping the market for developing. This is not a sufficient reason to allow non-advised sales, in our opinion, but makes it vital for the government or regulator to ensure advice is available for pensioners who may wish to sell their annuity.

Salient disclosure and risk warnings

The FCA has proposed a series of risk warnings, disclosures and rules on the presentation of offers to pensioners, designed to prevent pensioners from selling their annuity without being aware of the risks and help them shop around for a good deal. These can be useful tools, but research on consumer behaviour consistently shows that the detail, context, and salience of information presented makes a big difference in any impact they have.

The proposed risk warnings cover important points, but we doubt they jump out to an ordinary pensioner as being obviously salient or crucial to the decision they face. For example pensioners may be aware they risk running out of money if they sell their annuity, but as most people underestimate their life expectancy, especially their likelihood of living to a very old age, they will underestimate how likely they are to run out of money. Replacing this with a rule of thumb, such as “did you know you have a 10% chance of living to 100 years old?” may prove more effective in getting pensioners to appreciate the risks of selling their annuity.

There is also a risk that having multiple risk warnings (the FCA has proposed eight) could dilute their effect. While there are many things pensioners should be aware of before selling their annuity, it is not realistic to think a pensioner who hasn’t taken financial advice will appropriately take eight risk warnings into account. In our view the core warning pensioners need to be aware of is “there is a high risk you’ll run out of money if you sell your annuity”. FCA research assesses this likelihood under different drawdown assumptions, and with the additional costs a pensioner having bought and then sold an annuity first will have paid this risk will be substantially higher. Pensioners need to be comfortable about this before selling their annuity.

The proposed price comparator, requiring bidders to disclose how much the annuity would cost to buy on the primary market, could be a powerful tool to help pensioners see if they are being offered a reasonable price or not if it is feasible to provide an accurate comparator. Assessing the price of a replacement annuity may be difficult, however, if it requires some assessment of the pensioner’s health or is otherwise more variable or more complex to calculate.

Stopping pensioners selling annuities they rely on with an affordability or minimum income requirement

The core problem selling their annuity might cause a pensioner is that they run out of money and end up in financial difficulty if they live for longer than they expect. One way to avoid this is to allow

pensioners to only sell annuities that do not reduce their income below a set minimum income. Effectively this would enable pensioners to sell annuities that grant them 'extra' income but not those they rely on to survive. The minimum income level would not need to be set high to prevent the most harmful cases where pensioners could fall into serious financial distress.

A requirement such as this would run counter to the government's ethos of greater pension freedoms and personal responsibility, and would be difficult to implement. However as it is likely to be the only way to ensure no pensioner ends up in financial difficulty due to selling their annuity, especially given the government's position on means-tested benefits and deprivation of income rules, it is worth considering whether some affordability or minimum income requirement could be beneficial.

Safeguarding vulnerable pensioners: contingent beneficiaries, mental capacity and elder abuse

There is a delicate balance between protecting pensioners and allowing them to make use of these new freedoms, and this is particularly acute for vulnerable pensioners. It is very difficult to find ways of adequately protecting vulnerable pensioners without stopping them from selling their annuities entirely.

The common feature of vulnerable pensioners is their lack of power, making them susceptible to pressure. The government and FCA have proposed measures to stop firms using aggressive practices to prey on vulnerable pensioners, which are very much needed. However pressure on vulnerable pensioners can be more subtle, for example pressure from family members to leave an inheritance, or even perceived pressure that it is expected of them. Identifying vulnerable consumers and ensuring they are not being pressured into selling their annuity income is incredibly difficult, and requires the regulator to be vigilant, not just with how firms behave towards pensioners, but in how the market develops and the types of pensioners who end up selling. We urge the FCA to consult consumer bodies such as Age UK to consider how best to safeguard vulnerable pensioners.

The lack of power is particularly acute for pensioners who lack mental capacity and therefore whose financial decisions are made on their behalf by family members. As likely inheritors family members have a direct conflict of interest with pensioners when it comes to the any decision to sell an annuity income (which cannot be passed on) for a lump sum or drawdown (which can be passed on but can run out). While this is covered by the fiduciary duties and power of attorney laws, the potential for abuse is significant as the conflict of interest is so clear that additional restrictions may be warranted.

The one group that is easily identifiable are contingent beneficiaries. As pensioners who do not own the annuity but may be relying on the benefits it ascribes to them to fund their retirement they are in a vulnerable position. The FCA has proposed that contingent benefits can be sold, but that annuity providers "need to make reasonable efforts to obtain consent" from contingent beneficiaries before making the transfer (Financial Conduct Authority, 2016). We do not think this goes far enough in protecting contingent beneficiaries, as being in a vulnerable position it may be very difficult for them to say no to any sale, leaving them without an income they are relying on. On the other hand banning the sale of any policy that has contingent beneficiaries would limit the ability of the annuity owner to sell the income due to them. One possible solution, which the government has currently chosen to not allow, would be for pensioners to be free to sell the annuity income due to them but carve out payments due to any contingent beneficiaries, although this is not a perfect solution due to the additional costs a split would entail. One point that is clear is that it would be grossly unfair if contingent beneficiaries were penalised under deprivation of income rules because their spouse or other family member sold their annuity.

Could term assignment offer better value and protection for pensioners?

The government has proposed banning all forms of partial or split assignment due to the complexity and administration costs they present, yet they offer the potential to lower longevity risk to pensioners while improving value-for-money, especially term assignment.

Term assignment is where a pensioner sells their annuity payments for a set time, for example the next ten years, after which ownership would return to the pensioner. By selling a term assignment the pensioner can realise as significant chunk of the value of their annuity while still being covered against the risk they live far longer than they expect to – a risk pensioners systematically underestimate – as the payments would revert to them giving them the same income in the far future as if they hadn't sold the assignment. Term assignments are also lower risk for investors, as the chance of receiving payments become less certain the further you go into the future. While split assignments necessarily carry higher administration costs, some industry participants have argued that term assignments could have lower transaction costs because the lower risk makes them easier to price. Moreover the more manageable longevity risk and inability for annuity providers to cancel the policy if they buy back a term assignment could make them attractive to more investors, improving competition. It is therefore possible that pensioners could get better value-for-money by selling term assignments than selling the whole annuity and still be covered for longevity risk.

The government is right that partial assignments would be more complex and carry higher administration costs, but if sold through an advised process the complexity should not be too problematic, and whether the higher administration costs are worth it to the pensioner is something they are able to judge for themselves. Neither of these are insurmountable problems, and with the potential to offer pensioners better value and lower longevity risk we do not see why they should be sufficient to ban all partial assignments.

Conclusion

The government aims to extend pension freedoms to pensioners who already own an annuity, to achieve parity, by enabling a secondary market for annuities to develop. Our analysis suggests that effective competition will be necessary to achieve this in any plausible way that works for pensioners, yet fundamental flaws in the functioning of the market make such competition unlikely without strong intervention: the role and advantage of the original annuity provider over policies they've sold may prevent competition emerging, while adverse selection and pensioner behaviour may prevent it from being effective in driving value-for-money.

The government and regulators have proposed some interventions, but our analysis suggest they while many are along the right lines, they have underestimated the potential problems and need to go further if they are to create a market that works well for pensioners. In particular the requirement to sell annuities via a platform or broker is sensible, but unless annuity providers cannot see the precise identity of the seller – and hence whether it is a policy they originally sold – their inherent advantage is likely to prevent other bidders competing with them. By working closely with the industry in creating platforms that enable information sharing and cover most of the market the government or FCA could also improve the competition and reduce the costs in dealing with adverse selection. Innovation is a powerful force and could do much to enhance the value pensioners receive, but it is likely to need co-ordination and regulatory involvement to target it.

Similar tweaks are needed when it comes to protecting pensioners. Requiring pensioners get advice before selling could do much to avert the significant harm poor decisions could cause those who sell, but the detail matters and how to provide advice to those who need it is far from trivial. Full regulated financial advice is necessarily costly and likely to be out of reach for many pensioners, yet Pension-Wise and other forms of personalised guidance do not go far enough to ensure pensioners can make an informed decision.

The government's aim – creating a secondary annuity market that works for pensioners – is far from an easy task. We do not yet know how this market will develop and solving fundamental issues in a market that does not yet exist is fraught with difficulty. Our analysis is necessarily limited by this. As such one of our strongest recommendations is that the government or FCA analyse the market properly once it has come into being, consider if it is working well, and alter regulations if it is not.

It is possible that the problems could be so large that no effective secondary annuity market will emerge whatever policy makers do. What does seem clearer is that in the absence of careful intervention it is highly unlikely do so. For all its limitations we hope this study will help the government and regulators enact policies that give it the best chance of succeeding, and give pensioners the best chance of getting a good deal.

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